Equities Research

First Edition - US Alert
Friday, April 21, 2023

21 April 2023
Credit Suisse Global Product Marketing

Estimate / Target Price Changes:

Company Updates:

Industry Updates:

CREDIT SUISSE

ESTIMATE / TARGET PRICE CHANGES:

Asset Management & Custody Banks | Decrease Target Price

21 April 2023

Blackstone Inc. [BX.N]
Off The (1Q23) Call – A Soft Fundamental Update; FRE Multiple(s) Seem Out Of Sync

UNDERPERFORM

Rating	UNDERPERFORM [V]
Price (20-Apr-23, US$)	91.94
Target price (US$)	(from 74.00) 70.50
52-week price range (US$)	121.71 - 72.16
Market cap(US$ m)	112,544
Enterprise value (US$ m)	120,073

Research Analysts

Bill Katz

Michael Kelly

Cameron Phillips

- **Lower '23E-'24E Distributable Earnings (DE) –** To reflect lower comparable Fee-related Earnings (FRE), reduced net realization outlook and elongated capital raising prospects. We cut our '23E DE by 4% to $4.45 vs. $4.64prior while we reduce '24E to $5.61 vs. $5.72 prior.

- **Lower Comparable FRE –** Or FRE net of Equity-based Compensation (EBC). 2023E falls ~10% to $2.55 (vs. $2.84), while 2024E down by 4% to $3.13 (vs. $3.26). Within these changes, we reduce comparable FRE ex. FRPR, by 11% and ~6%, respectively. We also lower 2023E Fee-related Performance Revenues (FRPR) by ~8%, but we keep our 2024E FRPR roughly flat. Reduction mostly reflects higher EBC & management fees offset by lower costs, ex EBC. Ex. EBC, we model 57.2% pre-tax FRE margin for 2023E and 57.6% for 2024E, but incl. EBC these fall to 44.7% in 2023E and 47.3% in 2024E.

- **FRE Multiples Seem Disconnected** – To growth prospects and underlying quality, following flow/FRE misses in 1Q, still ramping EBC, sluggish FRE growth in 2023E overall (better into 2024 on fund management fees turning on), retail democratization net outlook, pro-cyclical nature of FRPR, notably for BREIT, which posted 2nd consecutive quarter with zero accruals, and not likely to generate performance fees (PFs) until 4Q23, we estimate. Using 4/20 closing prices and rolling our valuation models to 3/31/23, we calculate implied FRE multiple on 2024E at 23.8x, well ahead of FRE CAGR and elevated premium to peers, many of whom likely to generate faster FRE growth.

- **Lower SOTP Target to $70.50 vs. $74.00 prior** – Though we nudged up our target in concert with our 1Q23 sector preview, the reduction reflects $2.50 reduction related to lower comparable FRE, $1.50 reduction for 3/31 balance sheet, and $0.50 per share higher NPV of PFs to reflect updated MOICs. Our price target remains sharply below peers, and likely reflecting our bifurcated view on FRE drivers, with 1Q23 trends, dynamics, and discussion not supportive of such higher imputed multiples.

- **Risks Remain, We Believe** – Given the high degree of uncertainty in the macro environment, we see potential upside/downside to Alternative A/M earnings. To the upside: improving organic growth, expanding margins, and stronger markets for realizations. To the downside: weaker fundraising, contracting margins, and further weak markets.

Full Report

Date of Production: 21-Apr-2023 04:48:25 UTC Date of Dissemination: 21-Apr-2023 08:01:38 UTC

American International Group [AIG.N]
Demystifying the Path to 10%+ ROE

NEUTRAL

Rating	NEUTRAL
Price (20-Apr-23, US$)	52.34
Target price (US$)	60.00
52-week price range (US$)	64.55 - 47.16
Market cap(US$ m)	38,400
Enterprise value (US$ m)	38,400

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

- **We revise our model to include estimates for AIG's follow-on offerings of CRBG and usage of the proceeds.** Given recent market volatility, we expect the first follow-on offering to occur in 2Q23 after AIG reports 1Q23 results. Our other assumptions include: (1) AIG offers CRBG in 15% increments and is fully divested of CRBG by the end of 2024, (2) CRBG shares are offered at ~50% of book value (ex. AOCI), resulting in a loss on sale, and (3) all proceeds are used for AIG share repurchases in 2023 through 1H25.
- **We think AIG has a path to its targeted 10%+ ROE, which management has said it could deliver at some point after the deconsolidation of CRBG.** Using 4Q22 as a base, we view AIG as capable of achieving around a 9.5% ROE by executing on guided initiatives, including cost saves, loss ratio progress, and share buybacks, and incremental investment income from higher rates. AIG will likely need to further improve underwriting and costs and/or utilize excess capital for more buybacks or M&A to close the remaining ROE gap. We estimate 1% improvement in combined ratio boosts ROE by ~0.5%.
- **We revise our 2023/2024 estimates to $6.20/$7.11 from $6.38/$7.44 and introduce 2025 estimate of $7.16.** FactSet 2023/2024/2025 consensus estimates are $6.24/$7.35/$8.13. Our estimates are lower primarily due to the dilutive effect of the gradual sale of CRBG. In 2025, **our model, which produces a 9.5% ROE**, assumes AIG is fully divested of CRBG such that 100% of earnings are from General Insurance (GI). We also assume AIG returns ~70% of GI adjusted earnings via dividends and buybacks.
- **Our model includes improved GI underwriting results given the positive changes AIG has implemented in recent years.** Our estimates assume a 90.3% reported combined ratio in 2025 (vs. 91.9% in 2022) and GI adjusted pre-tax earnings to grow at a CAGR of 9.5% from 2022 to 2025. We also include higher net investment income.
- **We see potential for adverse development in AIG's professional lines business from 2016-2018,** which are not covered by the Adverse Development Cover with Berkshire Hathaway and may see delayed development due to its relatively higher limits at the time, high subsequent loss cost inflation, and courts reopening since 2021.
- **Valuation—Reiterate Neutral.** Our $60 target price is based on a P/E peer analysis based on our 2025 EPS estimate, discounted back a year. Risks include outsized cat losses and prior-year reserve developments, equity and rate sensitivity, and credit losses.

Full Report

Date of Production: 20-Apr-2023 22:58:38 UTC Date of Dissemination: 20-Apr-2023 22:59:40 UTC

Steel Dynamics, Inc. [STLD.OQ]
Fabrication Starting to Normalize but Sinton Ramp and Wider Sheet Spreads are Offsets

OUTPERFORM

Rating	OUTPERFORM [V]
Price (20-Apr-23, US$)	111.46
Target price (US$) (from 106.00)	115.00
52-week price range (US$)	136.06 - 64.41
Market cap(US$ m)	19,124
Enterprise value (US$ m)	19,005

Research Analysts

Curt Woodworth, CFA

Jitendra Pandey

Veronica Segall

The medium-term outlook for Steel Dynamics remains very strong as most parts of the business are operating well above mid-cycle margin levels. The flat rolled division for STLD should see substantial earnings improvement in 2Q and 3Q as volumes seasonally recover, metal spreads widen, high-cost pig iron inventory has cleared, and Sinton start-up costs pivot to profits (~$620mm total vs targeted EBITDA potential of ~$500mm). While Fabrication volumes appear more challenged in the near-term on project delays and some softness in the warehouse / distribution spending, backlogs still stretch into 4Q at price levels near 2022. Long product volumes were very strong in 1Q with record EBIT in structural beam.

- **Raising 2023 Estimates on Higher Metal Spread Views:** Hot rolled prices have exceed our forecasts YTD and we now see much better metal spreads versus prior model, partially offset by weaker long product spreads given upward pressure in scrap prices against more moderate gains in beam and bar. We now model 2023 EBITDA of $4.1bn (unchanged) which compares to Street view of $3.8bn. We trim 2024 EBITDA to $2.8bn (from $3.0bn) on Fab margins.
- **Fabrication a Mixed Bag:** Volumes were weaker than expected in the quarter, down 18% y/y to the lowest level since 2020 owing to project delays and supply chain issues. STLD noted that backlog extends into 4Q at price levels modestly below the 2022 avg. of ~$4960/st. We understand recent bidding activity has been in the $3000-3800/st zip code depending on the region and size of the project. The major driver of the market over the past two years for warehouse/distribution center spend is clearly slowing down (STLD has zero AMZN exposure) but manufacturing / infrastructure provides an offset. Backlog duration is back to more normal 6-month level (peak was 12 months) and bidding still solid.
- **Flat Rolled Looks Strong for 2023:** HRC metal spreads have widened out to ~$640/st vs the 2H-22 level of ~$360/st and 1Q-23 level of ~$440/st. Sinton volume leverage, lower energy costs, and removal of pig iron overhang further support margin trajectory. Long product prices remain firm despite some lumpiness in demand across the US.
- **Valuation & Risks:** STLD trades at 5.0x 2023 EV/EBITDA and 7.0x on 2024. STLD 10-year median multiple is 6.5x. Our new CS $115 (from $106) TP is based on blended 6.0x EV/EBITDA across 2023+24. Key risks include Fab pricing, sheet supply, and Sinton ramp execution.

Full Report

Date of Production: 21-Apr-2023 02:03:38 UTC Date of Dissemination: 21-Apr-2023 02:05:26 UTC

PPG Industries [PPG.N]
Strong 1H results; 2H slightly lower

UNDERPERFORM

Rating	UNDERPERFORM
Price (20-Apr-23, US$)	141.45
Target price (US$) (from 128.00)	133.00
52-week price range (US$)	141.61 - 108.41
Market cap(US$ m)	33,291
Enterprise value (US$ m)	38,246

Target price is for 12 months.

Research Analysts

John Roberts

Edlain Rodriguez

Matthew Skowronski

- **Guided remaining 9 months midpt EPS of $5.28 vs initial $5.43 CSe.** JunQ23 midpoint EPS guide of $2.10 vs $1.93/$1.96 CSe/Consensus; implied 2H23 midpt guide of $3.18 vs initial $3.49/$3.52 CSe/Consensus. (Conf call at 8am). MarQ Adj. EPS of $1.82 vs $1.57 CSe and positive pre-announcement of $1.52-$1.58. Margins benefited from additional pricing and lower raw materials. MarQ volume declined 3% Y/Y, and JunQ23 volume is expected to be flattish Y/Y. Raw materials are expected to be down low single % Y/Y in JunQ, reflecting increases over the past year and modest sequential decline. We expect overall price up modestly Q/Q in JunQ, which should be up high single % Y/Y.
- **Performance Coatings EBIT of $395M v $361M CSe.** Segment EBIT rose 24% Y/Y despite 3% lower volume, due to price/raws recovery & cost savings. Strength in US architectural (new business wins), Mexico, and Aerospace offset softness in Europe and Refinish. JunQ volume is expected to be up modestly Y/ Y in all segments, with Aerospace (ongoing recovery and a solid backlog) and Refinish to show the most strength. Incremental price increases to offset wage and benefit inflation.
- **Industrial Coatings EBIT of $240M v $218M CSe.** Segment EBIT rose 71% Y/Y despite 3% lower volume, due to price/raws recovery & cost savings. Strong volume growth in Auto OEM was offset by softness in Industrial and Packaging. JunQ volume is expected to be down modestly Y/Y as lower volume in general industrial (e.g. factory-applied coatings) and packaging offset uptick in Auto OEM.
- **Valuation & Risks**. We raise our 2023E EPS to $7.15 from $7.00. Our target price of $133 (from prior $128) represents ~11.5x NTM forward (end MarQ25: Q5-Q8E) EBITDA of $3.1B (from prior 11.5x 2024E EBITDA of $3.0B). Upside risks to our Underperform rating include stronger-than-anticipated residential paint market despite a rising interest rate environment; strong rebound in auto production; and a sharp decline in oil price leading raw materials lower.

Full Report

Date of Production: 20-Apr-2023 22:53:55 UTC Date of Dissemination: 20-Apr-2023 22:55:01 UTC

CREDIT SUISSE

CSX Corporation [CSX.OQ]

Solid quarter defies broader macro concerns; cautious outlook on volume, but still see upside for CSX given reasonable valuation

OUTPERFORM

Rating	OUTPERFORM
Price (20-Apr-23, US$)	30.81
Target price (US$)	37.00
52-week price range (US$)	35.50 - 26.51
Market cap(US$ m)	63,549
Enterprise value (US$ m)	81,021

Target price is for 12 months.

Research Analysts

Ariel Rosa

Ben Mohr

Daniel Lai

- **Strong quarter aided by one-time gain sets tone for 2023:** CSX reported 1Q23 EPS of $0.48, up +23% y-y, above our $0.44 and the Street's $0.43 estimates. Results included a $46 million one-time insurance recovery, without which EPS would have been a still-strong $0.46. CSX beat our estimates (which were above Street) on both revenue and costs, with top line growing +8.6% y-y to $3.71 billion, $85 million above our estimate. Intermodal weakness (carloads down -9.4% and yields up +4.5%, both worse than our estimate), was offset by strength in its higher-yielding, higher-margin Merchandise business, driving a mix tailwind and minimizing the impact of volume declines. Operating expenses of $2.24 billion increased +4.2% y-y and were $30 million below our estimate (but above our target adjusting for the insurance benefit). Its 60.5% operating ratio was 220bps better than our estimate, setting a strong precedent for 2023 margins, though we expect normal seasonal margin improvement to be somewhat limited off this level through the remainder of 2023 given macro pressures, inflationary costs, and fuel headwinds.
- **Outlook cautious on weak Intermodal, but strong execution gives CSX room to run**: Last week in our Transports Preview, **we called out CSX as our top pick going into 1Q earnings** given its strong service improvement. The company did not disappoint, with carload trip plan compliance at 86%, its best level in history, and Intermodal trip plan compliance at 96%, matching its best-ever result. The company noted this service is aiding pricing and allowing it to grow volume as it builds trust with customers. Despite its strong 1Q performance, CSX walked back its 2023 volume outlook, citing Intermodal headwinds. While we continue to have concerns about the macro, CSX's valuation at just 14.3x our 2023e EPS appears reasonable relative to history, and given its strong execution it may be less vulnerable to downward revisions versus peers. We continue to see Street estimates for negative 2023 EPS growth as conservative given the multiple levers CSX can flex to drive performance, as demonstrated in 1Q23.
- **We reiterate our Outperform and hold our TP at $37**, keeping our 19x target P/E on our '23e EPS, which we leave unchanged at $1.95. We lower our '24e EPS a touch to $2.15 (from $2.20, with Street consensus at $2.02), to reflect macro uncertainties and cost pressures, but we see the stock as attractive through the cycle. Key risks include continued macro weakness, coal headwinds, and inflationary cost pressures.

Full Report

Date of Production: 21-Apr-2023 02:45:49 UTC Date of Dissemination: 21-Apr-2023 02:49:19 UTC

Seagate Technology, Inc. [STX.OQ]
F3Q23 Review; Further Reducing Production, Recovery Pushed Out, Dividend A Concern

NEUTRAL

Rating	NEUTRAL
Price (20-Apr-23, US$)	57.08
Target price (US$)	(from 69.00) 54.00
52-week price range (US$)	88.17 - 48.49
Market cap(US$ m)	11,786
Enterprise value (US$ m)	16,092

Target price is for 12 months.

Research Analysts

Shannon Cross

Ashley Ellis

Seagate (STX, Neutral) reported weaker than expected F3Q23 results including revenue of $1.86B (3% and 6% below our and consensus estimates, respectively) and non-GAAP EPS of negative $0.28 (vs. our estimate of positive $0.21 and consensus of positive $0.25). The biggest concern we have now is liquidity as the company is looking at sale/leasebacks for manufacturing facilities in order to cover near term debt maturities (rather than draw on the $1.7B revolver). We also note Seagate has a ~$500M maturity due March 2024. If the market does not turn soon, we would expect the company to reduce/suspend the dividend until conditions improve. We note management stated they have several levers to pull for liquidity (including the asset sales) but we assume all would be negative for equity holders.

- **Earnings Under Pressure**: For F3Q23, revenue declined 34% y/y due to weak US cloud demand, China weakness and pricing pressure. Gross margin was 18.7% (384 bps below our estimate), reflecting: 1) lower revenue; 2) production cuts resulting in ~$75M of underutilization charges (expected to improve in F4Q23); and, 3) mix. Management pushed out expectations of a recovery and now expects the downcycle to last until the end of C2023 (our expectation of a rebound in EPS is essentially pushed out a year).
- **More Restructuring**: Seagate announced an additional restructuring program which is expected to realize annualized run rate savings of ~$200M starting in F1Q24. As part of the plan, Seagate is reassessing levels of production output (reduced production in beginning of F4Q23); reducing the number of drive configurations; and, prioritizing resources towards higher margin products.
- **Lowering Estimates**: We estimate F4Q23 revenue of $1.71B (down 18% from prior) and non-GAAP EPS of negative $0.24. We expect a return to y/y revenue growth in F2Q24 (up 2% y/y) and estimate F2024 revenue up 7% y/y to $8.01B and non-GAAP EPS of $1.46.
- **Reduce Our PT:** We reduce our target price to $54 from $69 based on 11x our new F2025 EPS estimate. Risks include liquidity, HAMR transition, strength of cloud demand and difficulties scaling HDD technology profitably.

Full Report

Date of Production: 20-Apr-2023 22:38:42 UTC Date of Dissemination: 20-Apr-2023 22:40:02 UTC

Credit Suisse

Financials | Decrease Target Price

20 April 2023

Truist Financial Corp. [TFC.N]

Circling back… reducing estimates on reduced revenue growth forecast; reduced free capital expectations takes our TP to $40

NEUTRAL

Rating	NEUTRAL
Price (20-Apr-23, US$)	33.48
Target price (US$)	(from 52.00) 40.00
52-week price range (US$)	52.01 - 30.56
Market cap(US$ m)	44,466
Enterprise value (US$ m)	44,466

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

This morning Truist reported 1Q23 GAAP earnings of $1.05 per share/adjusted eps of $1.09 ex. merger/restructuring charges. At the bottom line, this compares to our $1.16 GAAP / $1.18 operating eps and the FactSet consensus at $1.14. Relative to our forecast, the shortfall was driven by higher credit costs (largely a function of more loan loss reserve build); PPNR was essentially in line (lower NII offset by higher fees; operating expenses marginally above forecast). All in, results translated to an ROTCE of 24.1% on quarter-end CET1 of 9.1%. **Looking forward; reducing estimates to reflect a more conservative revenue outlook…** this recalibration should not be all that surprising at this point, with funding costs increasing more quickly and our view that capital markets will recover, albeit more slowly than previously forecast; with less net interest revenue growth, we expect the realization of positive operating leverage will prove more challenging (vs management's prior guide/target of 200bps+ of positive operating leverage). **Our estimate revisions…** factoring in our revised NII forecast--the biggest driver of our downward earnings revision (less loan growth/higher funding costs taking their toll); modestly higher credit costs and expenses, and no share buybacks we're reducing our 2023 GAAP estimate to $4.45 per share (prior: $4.85); our 2024 estimate is revised lower to $4.80 per share (prior: $5.25). Factoring in both our estimate revisions and the assumption of less free capital generation going forward (reflective of heightened regulatory risk), we're reducing our target price to $40 (from $52). **Risk (+/-) to the achievability of our estimates and target price** ties most closely to the macro and market backdrop (i.e., the level of interest rates, business and capital markets activity and credit quality migration), regulatory dynamics (CCAR, the outcome of the Fed's holistic capital review) and the intensity of competition.

- **For 1Q snapshot:** TFC: 1Q first thoughts; a few cents light and lowering the guide
- **Our revised $40 target price** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $56, a 50% weight on our revised DCF-derived base case scenario of $51, and a 40% weight on our grey sky scenario of $23; this target price translates to 9.0x our 2023 eps estimate and 1.9x forecast 2023 tangible book value per share.

Full Report

Date of Production: 21-Apr-2023 03:24:42 UTC Date of Dissemination: 21-Apr-2023 03:27:29 UTC

Discover Financial Services [DFS.N]
1Q23 Miss On Provision; Better Growth, NCO Guidance; Buyback Auth Slightly Below CSe

OUTPERFORM

Rating	OUTPERFORM
Price (19-Apr-23, US$)	105.76
Target price (US$)	120.00
52-week price range (US$)	120.58 - 89.53
Market cap(US$ m)	27,180
Enterprise value (US$ m)	27,180

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

Hoang Nguyen

- **DFS reported 1Q EPS of $3.58, (including a $18 mil net equity investment loss $0.05 per share), below CSe of $4.01 and consensus of $3.92.** The miss was due to higher-than-expected provision ($0.41 impact), all in reserve build (partly due to better growth) as losses were slightly lower-than-expected. Opex was also higher-than-expected ($0.08 impact). These were partly offset by higher revenue, including higher NII ($0.06 benefit) as a result of better loan growth (particularly personal loans due to strong demand), as NIM was in line. DFS raised loan growth guidance and slightly lowered charge-off guidance (DFS lowered its initial 2022 loss guidance several times), though new share repurchase (~10% of market cap) authorization implies modestly lower buyback than CSe.
- **Investment conclusion.** Post earnings, we adjust our 2023/2024 EPS estimate to $14.30/15.70 (old: $15.00/16.03), reflecting new guidance and trends. Our PT is $120, 8x our 2024 EPS estimate. Risks to our target price and estimates include slower-than-expected growth and higher-than-expected provision.
- **Positives. 1)** Revenue of $3.75 Bn came in better than CSe of $3.72 Bn, primarily due to higher NII and net discount revenue, as a result of stronger loan growth and sales volume (1 ppt above CSe), though sales have continued to decelerate on y/y basis. Personal loan growth was particularly strong due to strong demand. **2)** Improved guidance for loan growth and charge-offs.
- **Negatives. 1)** Provision of $1.1 Bn was higher than CSe of $962 mil, due to higher reserve build (partly due to better growth), though losses were 1% below CSe. **2)** Opex of $1.38 Bn came in higher than CSe of $1.35 Bn. **3)** DFS' board approved a new $2.7 Bn share repurchase program, spanning five quarters through 2Q24 and replacing the prior program. This is lower than CSe as we had expected DFS to compensate for the buyback suspension last year. That said, 1Q buyback was $200 mil higher than CSe.

Full Report

Date of Production: 20-Apr-2023 20:59:16 UTC Date of Dissemination: 20-Apr-2023 21:01:00 UTC

COMPANY UPDATES:

Health Care Technology | Acquisition

21 April 2023

AmerisourceBergen [ABC.N]
ABC Partners with TPG to Acquire OneOncology

OUTPERFORM

- **AmerisourceBergen and Texas Pacific Group to Acquire OneOncology**: ABC will contribute $685 mln cash and receive a 35% ownership interest in a joint venture to purchase OneOncology. The majority of the JV will be held by TPG, with part also held by OneOncology's affiliated practices, physicians, and management team. ABC will account for its interest in OneOncology under the equity method, and the company expects the acquisition to contribute a few cents to annual EPS in the twelve months after the expected September closing.
- **ABC Likely to Eventually Realize Majority Ownership of OneOncology**: The transaction is structured so that TPG has the right to put its ownership in OneOncology to ABC at a price equal to 19x LTM EBITDA between three and four years after the transaction closes. ABC has a right to call TPG's ownership at a price equal to 19x LTM EBITDA on the third anniversary of closing or between four and five years after the deal's completion.
- **OneOncology Overview**: OneOncology is a management services organization with a network of oncology practices. As of 2022, the company had 15 practices, over 550 physicians, and over 940 providers and was the fastest growing oncology MSO (compared to three practices and 150 physicians in 2018, the year the company was founded with $200 mln of funding from General Atlantic). OneOncology is roughly 40% of the size of MCK's US Oncology Network, which has over 1,400 physicians and over 2,300 providers. OneOncology has a presence in the southern US, California, the Northeast, and Michigan. ABC has highlighted benefits from the transaction including deepening relationships with a leading network of community oncology practices, expanding solutions for community oncology practices, and investing in a commercial and strategic strength (specialty).

Rating	OUTPERFORM
Price (20-Apr-23, US$)	165.96
Target price (US$)	197.00
52-week price range (US$)	173.99 - 135.33
Market cap(US$ m)	33,567
Enterprise value (US$ m)	34,637

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Enjia Cao

Anastasia Parafestas

Carlos Penikis, CFA

Joseph Overman

Full Report

Date of Production: 21-Apr-2023 02:04:48 UTC Date of Dissemination: 21-Apr-2023 04:01:33 UTC

AT&T [T.N]

1Q23 Wrap – Reasonable Start to Year, Trimming Estimates Slightly

NEUTRAL

Rating	NEUTRAL
Price (20-Apr-23, US$)	17.65
Target price (US$)	19.00
52-week price range (US$)	21.32 - 14.63
Market cap(US$ m)	125,809
Enterprise value (US$ m)	255,379

Target price is for 12 months.

Research Analysts

Douglas Mitchelson

Grant Joslin

Jane Feng

Chirac Ndetan

Forecast Update: Given modest 1Q shortfalls at Business Wireline, more clarity on the pace of fiber buildout (YE25 30m target for passings = ~28.75m served locations), and the new fiber preferred driving non-controlling interest back up in 2Q23 and beyond, we maintained 2023 EBITDA at $42.78B and trimmed EPS $0.04 to $2.40, while 2024 EBITDA is -$131M to $43.632B and EPS -$0.08 to $2.38. We maintained our $16B of 2023 Mgmt's Adj. FCF (or Cash FCF to s/h of ~$13B) – ~$3.5B from DirecTV and $12.5B from AT&T's operations.

Outlook: Mgmt reaffirmed all 2023 guides and indicated confidence operational trends were fully on track, while FCF seasonality being heavily 2H weighted is as they had expected (and to some extent previewed a quarter ago). The slowing fiber buildout and wireless market help cash generation, while it is certainly interesting whether mgmt needs to raise wireless pricing again this year. Still, an inline-to-below 1Q result and effectively no 1Q FCF produced ex-DirecTV certainly puts pressure on execution the rest of the year. Business Wireline consistently disappoints, and we lowered 2023 EBITDA to -11% Y/Y. Wireless revenue & EBITDA growth should decelerate going forward due to the market slowdown and soon lapping last June's price increases – we see 4Q23 exiting the year at 3% service revenue/EBITDA growth in Mobility on the way to 1%/2% in 2024. Consumer Wireline seems promising, but legacy declines hold back revenue and 1Q23's 22bp of margin expansion and our 90bp full year estimate are uninspiring. Capital allocation remains locked in debt paydown mode given debt leverage still at 3.2x EBITDA and only ~$5B of FCF after dividends with which to pay down debt each year (and another $2B of spectrum payments due in 4Q). Perhaps cost cuts remain an opportunity (though they have not manifested to date), but we do not see upcoming catalysts to improve optimism for 2024 at this point, and there seems less 2023 upside potential post 1Q results.

- **Valuation:** We maintain our $19 DCF target price (WACC 6.6%; no terminal growth). We show AT&T trading at 10x 2023e/2024e Cash FCF (about $3B lower than Mgmt Adj. FCF due to including pfd dividends, capitalized interest, and noncontrolling interest). While AT&T is quite cheap, with a fifth of FCF from low-multiple DirecTV, elevated debt leverage, decelerating growth looking forward and the maturity of wireless, the valuation is not compelling enough to recommend shares at this point. Risks: macro; competition (particularly convergence and competitor capital spending), capital spending, and cost management.

Full Report

Date of Production: 20-Apr-2023 23:49:03 UTC Date of Dissemination: 20-Apr-2023 23:50:24 UTC

CREDIT SUISSE

INDUSTRY UPDATES:

Construction & Engineering | Weekly Analysis

21 April 2023

What's Cookin' - Earning and Churning

Research Analysts

Jamie Cook, CFA

Chigusa Katoku

Anika Dholakia

This week, we published our Q1'23 Machinery/E&C earnings preview, highlighting our view heading into earnings next week. On the Machinery front, we expect earnings reports to be largely positive helped by improving supply chain, extended backlog/order books, positive pricing coupled with cost pressures easing. In our opinion, earnings prints are backward looking and book to bill is a better leading indicator of demand. We believe book to bill will still be positive this quarter and see greater risk to any negative inflections in the back half of the year. We expect some corporates to begin alluding to weakness in the macro in particular North America housing and non-residential spend. For E&C, we continue to like names like PWR and MTZ which have high exposure to stable public funding and secular tailwinds like Electric Grid, Renewables and Communications. While PWR has a solid history of execution, MTZ is still a show me story, but we think is turning the corner on execution. Infrastructure design names like J and ACM will likely benefit from federal stimulus like IIJA, IRA and CHIPS Act early given their involvement in front end engineering and design although significant impact will likely not be seen until the end of the calendar year and into 2024. Macro indicators continue to be mixed. Dodge construction starts in March were up 9% y/y with non-resi up 55% y/y while residential construction was down 26% y/y. The ABI score increased from 48.0 in February to 50.4 in March (any score above 50 indicates an increase in firm billings); however, AIA Chief Economist points out macro concerns remain. Equipment rental provider HRI reported Q1'23 and reiterated 2023 net capex guide of $1.0-1.2B highlighting solid 2023 outlook for industrial and non-residential end markets and accelerating opportunities from mega projects and federal infrastructure funding. Shifting to truck, HD truck manufacturer, TRATON GROUP reported strong preliminary Q1 results which exceeded market expectations. Order intake is expected to amount to around 68.5 k units, mainly as a result of continued restrictive order acceptance and a very large order book and despite continued strong market demand. However, March datapoints are more negative. ACT used class 8 average selling price declined y/y for the fifth consecutive month with decline accelerating to down 39% in March. ATA Truck tonnage also declined 5.4% which was the largest decline since April 2020. We also received Brazil Tractor retail shipment data for March which was up 4% y/y with HHP up 6.4% and combines up 57.8%. This follows Feb down 9.8% on easier comps and comps are easier in April.

Links to Notes:

U.S Machinery/E&C Q1'23 Earnings Preview

Full Report

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Mining Nuggets
This Week's Top Metals & Mining News

Research Analysts

Fahad Tariq, CPA, CA

Jessica Xu

Included in this weekly publication are top news stories – including commodity and company commentary – in addition to a chart pack with industry and company metrics.

- **Gold price action:** Despite some intraweek moves (as investors assess the Fed's potential interest rate trajectory), gold prices ended the week roughly flat w/w. At the time of this writing, gold is trading ~$2,003/oz, unchanged from the end of last week. The current 10Y U.S. TIPS yield (i.e., real rate) is 1.32%, vs. a recent low of 1.06% (April 6, 2023) and a recent high of 1.66% (March 8, 2023).

- **Royal Gold announces 2023 guidance:** On April 20, Royal Gold announced2023 GEO sales of 332.5koz (320-345koz), well below 419koz CSe using the company's price assumptions (only a single other estimate of 402koz). Therefore, 2023 production is expected to be flat y/y (2022 guidance was 315-340koz). 2023 gold production guidance is 242.5koz (235-250koz), well below 350koz consensus (298-383koz range) and 312koz CSe. Royal Gold highlighted lower grades at Andacollo and Penasquito (lower grade and harder ore at Chile Colorado pit), as well as timing of shipments at Mt. Milligan and Pueblo Viejo. See our note.

- **Lundin Mining's CEO talks M&A:** On April 17, Lundin Mining's CEO Peter Rockandel commented that the company's assets would presumably be attractive to prospective buyers as the sector enters a period of consolidation: "People are looking at every company — it's just natural…One of the key things we have is the majority of all of our assets, with the exception of one, are long life. And that's what people usually want when they do an acquisition."

- **Glencore open to sweetening bid for Teck:** On April 19, Glencore issued a press release stating it is willing to increase its bid for Teck, to win over shareholders and pressure Teck's board. Teck's shareholder vote to spin off its coal business is on April 26 and requires 2/3 approval from both Class A (Keevil family) and Class B shareholders. From Teck's most recent press release in response to Glencore: "Glencore's motivation is plain – they are seeking to opportunistically frustrate the vote and pre-empt a competitive future landscape, which is good for Glencore, and bad for Teck's shareholders." See our EMEA Metals & Mining team's note on the most recent Glencore offer here.

- **Q1-23 base metals preview:** On April 20, we published our base metals preview, in which we revised our target prices for Lundin Mining and Hudbay based on a revised commodity price deck. Our target price for Lundin Mining is revised to C$11.50 (from C$10.00) and our target price for Hudbay is revised to C$9.00 (from C$8.50). We continue to rate Lundin Neutral and Hudbay Outperform.

Full Report

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Electric Utilities | Sector Review

21 April 2023

Canadian Infrastructure
Infrastructure Action: Considerable Carbon Context from CS's Carbon Negative Conference

On May 16th and 17th, Credit Suisse will host the 2023 Renewables and Utilities Conference in New York with currently ~40 companies across the ecosystem for a variety of meetings and panel discussions. Please contact us or your sales representative for details along with seeing Credit Suisse Renewables & Utilities Conference.

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Key Thoughts:** We attended the **Credit Suisse/XPrize Carbon Removal Carbon Negative Conference** in San Francisco with an extensive list of attendees across a rapidly growing ecosystem. Lots of takeaways, but in the near term, we focus on Canadian carbon price escalation along with **Carbon Capture Storage (CCS)** as per past work (*Continuing the Carbon Capture Conversation*). Beyond that big event, two bellwethers kicked off the results season with **Blackstone (BX)** and **Kinder Morgan (KMI)** both printing results.

Highlights

The **World Bank** provided a framework for energy transition efforts in developing countries as per Scaling up to Phase Down: Financing Energy Transitions in the Power Sector.

Media reports cited the Canadian government will provide **Volkswagen's** planned Ontario battery C$13bn of subsidies (VW Press Release and Globe & Mail).

C.D. Howe Institute provided perspective on Canadian climate strategy in Game On: The Implications of the US Inflation Reduction Act for Canadian Competitiveness.

Full Report

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Life Sciences Tools & Services | Conference Call

20 April 2023

Dan's Doc Debates: Opportunities in Tumor Profiling, Minimal Residual Disease (MRD) Testing [Call Invite]

Dan's Doc Debates: Opportunities in Tumor Profiling, Minimal Residual Disease (MRD) Testing [Call Invite]

Research Analysts

Dan Leonard

Full Report

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Global Infrastructure Research
Infrastructure Insights: All About Across the Americas with Utilities and Transportation Talk

Research Analysts
Andrew M. Kuske
Mark Freshney
Regis Cardoso, CFA
Paul Butler
Ariel Rosa
Maheep Mandloi
Douglas Mitchelson
Jakob Bluestone, CFA
Wanda Serwinowska, CFA
Peter Wilson
Rafael Nagano

On May 16th and 17th, Credit Suisse will host the 2023 Renewables and Utilities Conference in New York. Please contact us or your sales representative for details along with seeing Credit Suisse Renewables & Utilities Conference.

With the Institutional Investor survey underway, we graciously ask for your support for our Europe & Emerging EMEA research team. As always, we remain thankful to be of part of your investment process. Visit this link to vote.

Looking at LatAm: Rafael Nagano and the **LatAm Utilities Team** highlighted several areas in focus from this week, including: **(a) Eletrobras (ELET6.SA)** announced the acquisition of stakes previously owned by Cemig in two hydro power plants located in Minas Gerais; **(b) Neoenergia (NEOE3.SA)** released its 1Q23 operational guidance. On the DisCo segment, total distributed energy was down 0.5% YoY. On the GenCo side, the renewable generation was helped by stronger wind output, and the commercial startup of the Oitis wind complex (566.5 MW) and Luzia solar farm (149MWp); and, **(c)** the Brazilian national operator ONS reported better figures for hydro inflows ([Full Note] (published April 16 2023)).

Transports Talk: Ariel Rosa and the **US Transport Team** published a 1Q23 preview that highlighted the belief that Transports investors should be leaning defensively with a strong 2H23 inflection seeming less likely and with elevated risk of a downside miss in 1Q23. Key points from the preview, included: **(a)** US Rails still look like good value with the highest 1Q23 conviction on **CSX Corp (CSX)**; **(b)** weak truck rates and soft intermodal volumes foretell challenging 1Q for carriers; and, **(c)** maintain **Fedex (FDX)** as top pick ([Full Note] (published April 11 2023)).

All About AQN and AEP: the Canadian Infrastructure Team wrote on **Algonquin Power & Utilities Corp (AQN)** and **American Electric Power (AEP)** mutually agreeing to terminate the Kentucky Power Deal in advance of the transaction agreement expiring later in the month. The clarity should be viewed as a clear positive for the shares and a critical step in the re-rating process, in their view ([Full Note] (published April 17 2023)).

Upgrades included: **(a) the Canadian Team** upgraded **TransAlta Corp (TA.TO)** to **Outperform** from **Neutral** and increased the target price from C$17 from the prior C$15 ([Full Note] (published April 12 2023)).

Full Report

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