Equities Research

First Edition - US Alert
Tuesday, April 25, 2023

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Credit Suisse Global Product Marketing

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CREDIT SUISSE

RATINGS CHANGES:

Industrial Conglomerates | Upgrade Rating

24 April 2023

Zebra Technologies Corp. [ZBRA.OQ]

Q1-23 Preview: Upgrading to Outperform, The Tail Wags the Dog, Europe to Drive Upside EPS and Solid Q2 Guide

Upgrade to OUTPERFORM

Rating	(from NEUTRAL)	OUTPERFORM
Price (21-Apr-23, US$)		287.90
Target price (US$)	(from 311.00)	326.00
52-week price range (US$)		388.94 - 226.88
Market cap(US$ m)		14,798
Enterprise value (US$ m)		16,257

Target price is for 12 months.

Research Analysts

Guy Hardwick

- **Key Takeaways: Upgrading to Outperform from Neutral, TP raised to $326.** ZBRA reports Q1-23 results on Tuesday, May 2nd. Driven by strength in the EMEA region, and better FX, we raise our FY23 EPS by 14c to $17.70 which is 1% ahead of Consensus. Our channel check suggests 1Q growth in the region to be MSD-HSD (EMEA 33% of sales). Furthermore, European distributors are not de-stocking, and our sense is sell-in is stronger than sell-out in the region, a positive for ZBRA. We raise Q1-23 adj. EPS 14c to $4.04 (guidance at $3.70-$4.00), +3% above $3.92 consensus, and flat organic growth (cons. -1%). We expect Q2 adj. EPS guidance of $4.10-4.40 ($4.25 mid-point), +2% above $4.17 cons. We expect ZBRA to raise its FY23 revenue guidance by 1.5% (+1pt FX, +0.5pt. organic).
- **What's Changed? EMEA Region Stronger-than-Expected.** EMEA accounts for 33% of revenues, based on our channel checks, we expect 1Q underlying growth (ex-Ukraine/ Russia) in the region to be MSD-HSD. European distributors are not de-stocking yet, and our sense is sell-in is stronger than sell-out in EMEA, a positive for ZBRA. U.S channel checks are mixed, while inventories are above normalized levels, some distributors have no plans to reduce them just yet. While we believe demand outside tier-1 logistics customers has been solid in Q1. We leave our NA estimates unchanged.
- **Catalysts & Risks:** FY23 revenue guidance could be raised on stronger EMEA and FX. Later in '23, the EBITDA margin guide (22%-23%) could be raised to the mid-point as guidance does not discount fully lower supply chain costs, due to FX hedging. Risks include U.S tightening credit conditions for SMBs, and exposure to retail and e-commerce.
- **Valuation:** Our $326 TP is based on 18.4x CS FY23e EPS, the multiple is derived from a P/E model for Growth firms. We raise our target multiple from 17.7x to 18.4x on lower 10YR yield (3.5%). 18.4x is 0.97 relative to SPX, compared to 10-yr. avg. of 0.98.

Full Report

Date of Production: 24-Apr-2023 18:54:38 UTC Date of Dissemination: 24-Apr-2023 20:10:30 UTC

CREDIT SUISSE

ESTIMATE / TARGET PRICE CHANGES:

Payments, Processors and FinTech | Decrease Target Price

25 April 2023

Block, Inc. [SQ.N]

Demystifying the SQ Model

OUTPERFORM

Rating	OUTPERFORM [V]
Price (24-Apr-23, US$)	64.50
Target price (US$)	(from 105.00) 100.00
52-week price range (US$)	106.79 - 51.51
Market cap(US$ m)	38,831
Enterprise value (US$ m)	36,444

Research Analysts

Timothy Chiodo, CFA

Nik Cremo

James Cordukes, CFA

Christopher Zhang, CFA

Dylan Wright

Jing Zhang

Patrick Ennis

Kyle Lindgren

- **Block ecosystem modeling primer:** This report serves as a reference guide to our approach to modeling Block's Square (Seller) and Cash App ecosystems, including an overview of product-level builds. It follows a series of reports related to our analysis of Block's two ecosystems (latest update). This report also includes descriptions and modeling frameworks for the various volume and revenue buckets (transaction-based and subscription & services revenue [S&S]) for each ecosystem, thoughts on Block's sales & marketing expense components, and a summary of various disclosures that we use to calibrate our product-level builds (Block's product segment charts used to hone model). Our updated Excel model and all builds are available by request.
- **Square (Seller) ecosystem modeling:** Our Square ecosystem modeling begins with GPV (including separate US and International components), which is the main driver for forecasting our net-transaction-based revenue estimates (~60% of Square revenue in 2022). We further breakdown Subscription & Services revenues on a product-level basis including Square Loans, Square business debit card, Instant Transfer, Hardware, Square Online Store, and Other S&S. Our product level revenues are directionally informed on a historical basis by certain charts which Block discloses in their investor presentations (we include more detail on these calibrations later in the report).
- **Cash App ecosystem modeling:** Our Cash App ecosystem model is driven by monthly active users (MAUs) and spend estimates for Cash Card users among those who use direct deposit (~3x the gross profit per user vs non direct deposit Cash Card users) and those who do not. We also make product-level (Borrow, Interest Income, Other Cash Card revenue, etc.) revenue estimates based on Block disclosures and our own assumptions. Additionally, we further refine our model in this report with Block's most recent gross profit disclosures among product categories to inform our product level gross margin estimates.
- **Valuation & estimates:** Model calibrated for recent disclosures and more conservative GPV growth in 2H 2023, with overall gross profit estimates moving slightly lower (2024E ~$9.0b vs. prior ~$9.1b). Our estimates do not include potential new/nascent products (Cash App Commerce, credit cards, B2B AP, additional lending offerings, etc.), with Block's track record of being able to launch and quickly scale new products supportive of the persistence of growth ahead, albeit with risks including macro (SMB health), competitive (particularly upmarket), and regulatory. Target to $100 (vs. prior $105), based on ~7x 2024E gross profit and supported by our illustrative DCF analysis.

Full Report

Date of Production: 25-Apr-2023 05:21:00 UTC Date of Dissemination: 25-Apr-2023 05:22:07 UTC

Accolade [ACCD.OQ]
Expectations Elevated into F4Q23

NEUTRAL

Rating	NEUTRAL [V]
Price (24-Apr-23, US$)	15.95
Target price (US$)	(from 11.00) 13.00
52-week price range (US$)	16.03 - 5.28
Market cap(US$ m)	1,161
Enterprise value (US$ m)	1,119

Research Analysts

Jonathan Yong

A.J. Rice

Anastasia Parafestas

- **Elevated Expectations into F4Q23:** ACCD is set to report F4Q23 earnings Thursday AMC. The stock has outperformed meaningfully since F3Q23 (+106% since) but we note expectations into the quarter may be quite elevated on the prospects of better-than-expected cost savings measures and possibly better utilization trends, with a view of closer to breakeven EBITDA or better than expected revenues (vs $410 mln guidance). On costs, recall the company announced the initiation of strategic steps to drive synergies and accelerate the path to profitability. At the time, the company noted they expect a meaningful improvement to FY24 EBITDA expectations (guidance implies ~$(21)-(29) mln EBITDA), but did not quantify the expected improvement but suggested HSD to LDD improvement would be in the materiality threshold. With that, we are assuming a $10 mln improvement to FY24 EBITDA relative to our estimates and as such we are raising our FY24/25 EBITDA estimates by ~$10 mln. As a reminder, the company added 480 employees (20%) from the acquisitions of PlushCare and 2nd.MD and the company would drive synergies through workforce reduction and closure of satellite offices. For F4Q23, we expect revenues of $100.4 mln and EBITDA of $1.6 mln (cons $99.4/1.3 mln). Net-net, while positive, we remain Neutral on valuation and possible macroeconomic headwinds.
- **T5 Contract:** On the T5 contract, the recent protest of the contract was recently completed with no change in the contract. This may provide an opportunity for ACCD to provide some commentary on the contract and possible contribution, although we would expect ACCD to decline commentary. As a reminder, the contract will bring ~4.5 mln lives to ACCD. The PMPM at this time is unknown. Further, the timing of lives added is expected to come on at a staggered basis (so not 4.5 mln all at once) and may likely be delayed to 1/1/25 (or later) from the 1/1/24 start date. Separately, the Select Navigator program ends at the end of April.
- **Raising TP/EBITDA Estimates:** We are raising our TP to $13 (was $11) based on 2x our 2024 revenue. We are raising our FY24/FY25 EBITDA to $(14.9)/$10.3 mln from $(24.9)/$0.3 mln. Risks to our rating and target price include macro-economic headwinds, competition, and lower than expected utilization.

Full Report

Date of Production: 24-Apr-2023 21:24:10 UTC Date of Dissemination: 25-Apr-2023 04:00:51 UTC

Canadian Forest Products
Dealing with the Declines and Delayed Demand

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Awaiting the Re-Rating:** At times, the Forest Products sector showed signs of promise, with mixed data points across the major driving force for performance: the US housing market. For US housing market views, we rely, in part, on the work of Credit Suisse's US Homebuilding Team's survey (*Monthly Survey of Real Estate Agents: March 2023*) which underscores mixed trends. In this context, we note Forest product stocks are notoriously cyclical and often with rather accentuated moves – in both directions – and the "perfect timing" is typically elusive. Part of the underlying business performance and volatility profiles are highlighted by a year-to-date indexed performance chart.
- **Selected Stocks:** Our rather limited threesome of coverage in this sector does provide an array of options for exposure that includes: **(a) Acadian Timber (ADN)** offers relative defensive appeal in a generally volatile sector along with underlying optionality on carbon value – that could be significant in the future; **(b) Mercer International (MERC)** will look to face several headwinds on realizations in the core business, however, some of the effort on diversifying the business continues for longer-term positive positioning; and, **(c) West Fraser Timber Co. Ltd. (WFG)** offers underlying value and significant potential upon the "normalization" of housing market dynamics, in our view. **WFG** is our lone **Outperform**-rated stock in this sub-sector of coverage.

Full Report

Date of Production: 24-Apr-2023 22:04:20 UTC Date of Dissemination: 25-Apr-2023 04:01:47 UTC

P&C Insurance
Personal Lines 1Q23 Review

Research Analysts
Andrew Kligerman
Joel Hurwitz, CFA
Michael Domiano
Alfred Miller

- For companies in our personal lines coverage, our **focus for 1Q23 will be on updated loss cost inflation trajectories, earned rate versus loss cost trends, and reserve adequacy.** In tandem with this review, we will be **hosting a conference call** with **Dale Porfilio**, Chief Insurance Officer of Triple-I and **Eric Kappler**, President of Bristol West, a Farmers Insurance Company, on **Wednesday, April 26**.

- **For most personal auto insurers, rising loss cost severity has driven poor underwriting results for much longer than anticipated.** Many insurers are continuing to raise rates in pursuit of offsetting rising loss cost severity. Carriers that are ahead of the curve in terms of rate adequacy will likely continue to build on their existing competitive advantages and capture market share as other carriers struggle with profitability.

- **We expect loss severity inflation to continue in 1H23, further pressuring combined ratios (C/R) for most personal auto carriers.** In 1Q23, auto repair rose 1.9% and auto parts declined (0.1)% q/q. Our concern is that while the BLS retail used car index indicates a (5.5)% q/q decline, the Manheim wholesale index (a lead indicator) rose 8.6%.

- **1Q23 also appears to have been a historically high catastrophe (cat) loss quarter which could further pressure personal line carriers' C/Rs and capital levels.** On April 20, ALL announced cat losses in 1Q23 totaled $1.69B, which significantly exceeded street expectations and the company's historical 1Q averages.

- **HIG's preliminary 1Q23 results and PGR's March 2023 results, both released on April 13, also raise the likelihood we see further reserve developments (PYDs) in 1Q23** due to higher-than-expected auto physical damage severity and a higher claim incidence in Florida relating to the passing of comprehensive tort reform. On the other hand, ALL announced that it recorded unfavorable PYD of only $27M in 1Q23, which represents only a ~20-bps impact to ALL's consolidated C/R in the quarter.

- **We remain optimistic that ALL can turn its auto underwriting around after disappointing results in 2022.** On April 20, ALL announced it implemented Allstate brand auto rate increases of 1.7% in 1Q23, below our estimate of 2.25%. However, ALL recently received approval for a 6.9% rate increase in California. It is expected to go into effect in June 2023 and impact ~74% of its personal auto premiums in the state, or ~9% of its countrywide personal auto book, based on 2022 statutory data.

- **On April 19, TRV posted 1Q23 EPS of $4.11** (vs. CS/consensus' $3.70/$3.56), including solid underlying underwriting results in Business and Personal Insurance. On the earnings call, Michael Klein, President of Personal Insurance, said that while the loss environment has become "incrementally more challenging," TRV is accordingly adjusting pricing and still expects to get to or "very close to" rate adequacy in states representing most of its premium by mid-2023.

- **We revise our LMND 2023/2024 EPS estimates to $(4.29)/$(3.79) from $(4.36)/$(4.01)** and introduce a 2025 EPS estimate of $(3.31). Our 1Q23 estimates include a gross loss ratio of 91% and adjusted EBITDA of $(60) million, both worse compared to 4Q22 due to higher expected loss severity inflation and catastrophe losses.

- Our company updates include ALL, TRV, KMPR, PGR, LMND, ROOT, MAX, and MMC.

Full Report

Date of Production: 25-Apr-2023 02:30:47 UTC Date of Dissemination: 25-Apr-2023 02:31:48 UTC

Sunnova Energy International [NOVA.N]
Q1 Preview and Model Update

OUTPERFORM

Rating	OUTPERFORM [V]
Price (24-Apr-23, US$)	18.59
Target price (US$)	(from 43.00) 45.00
52-week price range (US$)	29.78 - 12.69
Market cap(US$ m)	2,139
Enterprise value (US$ m)	8,511

Research Analysts

Maheep Mandloi

Chandni Chellappa

David J. Benjamin

- **Q1 seasonality:** We reduce our Q1 EBITDA to reflect Q1 seasonality, and principal+interest to reflect lower principal payments. We forecast adj EBITDA of ~$23m, vs consensus $20m and <10% of annual guidance $235-255m. We forecast interest and principal income of ~$31m, >10% of annual guidance $260-310m. We expect adj. EBITDA + Interest/Principal to grow linearly through the quarters as % of annual guidance.
- **Customer growth due to market share and DOE loan guarantee:** We estimate customer adds to grow to 122k in 2023 year, up from prior 117k, at guidance high end 115-125k. Growth is driven by market share growth away from other loan providers, and access to lower-cost and government secured loans. The latest solar lease ABS priced A-tranche at 300bps spread, however, future issuances should come in at lower spreads (~125 bps lower than market) due to $3B loan guarantee from the DOE. We estimate the DOE loan guarantee can fund ~120-130k customers, or loan needs in 2023+24 assuming loans are ~50% of new customers.
- **Comparing asset values:** We compare Sunrun and Sunnova across three different metrics – P/NCCV, P/NEA, and P/TBV. NOVA trades at discount to Sunrun's P/NEA or P/NCCV multiples, though the discount has bottomed YTD likely driven by NOVA's ability to capture higher market share or long tail and DOE loan guarantee (though still above prior bottoms in 2020/21). However, both trade at a similar P/TBV ~2x.

Net contracted customer value (NCCV) in line with Sunnova's asset value method, incl PV6 asset value less net debt plus cash in construction and inventory. Net earnings assets (NEA) in line with Sunrun's asset value method, incl PV6 contracted value less net debt. Tangible book value (TBV), book value net of intangibles and NCI (tax equity).

Valuation and model changes: We increase our DCF based TP by $2 to $45 due to higher customer growth, favorable pricing, and lower interest rate. Reiterate Outperform. We increase our 2024/25 EPS to $1.25/$1.51 from $1.15/$1.47. **Risks:** Growth execution, rising interest rates, policy changes, component shortages.

Full Report

Date of Production: 24-Apr-2023 21:16:31 UTC Date of Dissemination: 24-Apr-2023 22:00:16 UTC

Canadian National [CNI.N]
CN continues to execute well despite recession concerns; taking steps to counter CPKC should blunt volume loss but risks fight for share

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	124.40
Target price (US$) (from 126.00)	133.00
52-week price range (C$)	174.30 - 144.78
Market cap(US$ m)	83,929

Target price is for 12 months.

Research Analysts

Ariel Rosa

Ben Mohr

Daniel Lai

- **Rev, OR, EPS beat on strong execution, fuel benefit, Canadian grain pull-forward:** CN reported 1Q EPS of C$1.82, up +38% y-y, beating our C$1.70 and Street's C$1.72 estimates. Revenue was up +16% y-y to C$4.31 bil., C$76 mil. above our target, continuing CN's run of strong volume and pricing gains. Volume (as measured by revenue ton miles) was up +6.0% y-y, above our +5.1% estimate, led by a +27.5% y-y increase in Grain volume, as CN acknowledged that it pulled forward some grain shipments into 1Q, setting up lower grain shipments in 2Q. Pricing was also strong, with revenue per RTM up +10.3% y-y, marking CN's sixth consecutive quarter with double-digit gains in yields. CN noted that pricing continues to outpace inflation, but cautioned that challenging y-y comps would slow the rate of improvement through the remainder of the year. Its 61.5% operating ratio was 130bps better than expected, and a 510bps improvement y-y, reflecting milder winter conditions that cleared earlier than usual. **CN raised its full-year outlook** based on its strong start to the year, saying it now expects mid-single digit EPS growth, up from low-single digit growth. **Alternatively, the Street was already pricing in +5% EPS growth** for '23 (based on consensus of $7.84), and given the 1Q beat skeptics might point to the fact that this implies earnings in-line to slightly below expectations through the remainder of the year. To this point, CN continued to caution that it expects a recession to weigh on volumes in 2Q and 3Q, with April volumes down -9% on carloads and -5% on RTMs.

- **Investor day to focus on growth potential, UP-CN-GMXT pact counters CPKC risk:** Next week, CN will host its first Investor Day under CEO Tracy Robinson. The company has been reinvigorated, with strong execution which appears well received by investors as CN's valuation continues to stretch near the upper-end of its historical trading range of 16x-21x forward-year earnings. In conjunction with its earnings release, CN announced a new partnership between Union Pacific and Grupo Mexico (Ferromex) to provide intermodal service between Canada, the US, and Mexico. Given repeated concerns that the newly formed CP-KC would take share from others, we see this move as continued evidence that the rails intend to counter this risk, which we believe should limit volume loss.

- **We remain Neutral and raise our Price Target to $133** (from $126), based on a 23x target PE on our '23e EPS. We adjust our '23 and '24 EPS estimates to C$7.80 and C$8.65 from C$7.75 and C$8.75, respectively. Downside risks include a weak macro and strong competition. Upside risks include share gains and further PSR cost-savings.

Full Report

Date of Production: 25-Apr-2023 03:51:31 UTC Date of Dissemination: 25-Apr-2023 03:52:42 UTC

Amazon com Inc. [AMZN.OQ]
Accounting for Greater Capital Intensity for AWS

OUTPERFORM

Rating	OUTPERFORM [V]
Price (21-Apr-23, US$)	106.96
Target price (US$)	(from 150.00) 140.00
52-week price range (US$)	146.07 - 81.82
Market cap(US$ m)	1,097,196
Enterprise value (US$ m)	1,085,543

Research Analysts

Stephen Ju

Tyler Seidman

- **Event**: We preview Amazon's 1Q23 results, which it will report on April 27. We once again roll through a number of updates to our model, based primarily on the more granular annual disclosure for CapEx as well as ad/promo costs in the Sales and Marketing line and the latest steps to reduce headcount. Our target price decreases from $150 to $140 and AMZN shares remain our top pick. Our FY23/24 pro forma EPS estimates are now $3.26/$4.17 (vs $3.45/$4.98 prior).

- **Investment Case:** We have modestly lowered our AWS growth expectation for 2023 in view of the ongoing cyclical headwinds – it now stands at ~9% with a deceleration trajectory from ~13.3% for 1Q23 to 9.7% for 2Q23, 7% for 3Q23, and 6% for 4Q23. In line with what we have projected for AMZN's e-commerce business, we have assumed a cyclical recovery in 1Q24, marking what should be a gradual reacceleration of revenue growth. With that in mind, we note that our nominal dollars of revenue growth for 2023/2024 at $7.1b/$8.2b, respectively, effectively assume a linear recovery. We believe the optionality remains for nonlinear growth/recovery as absent the cyclical pressures, we believe Cloud adoption has entered a steeper part of the S-curve of adoption (as part of our 2023 themes) – we also note that in the recently-filed shareholder letter, Amazon's CEO Andy Jassy has highlighted that ~90% of Global IT spending being still on-premise, which also points toward the significant white space ahead for AWS. We maintain our Outperform rating, with the thesis based on the following: 1) e-commerce segment operating margin expansion as it grows into its larger infrastructure, 2) optionality for faster-than-expected FCF growth vis-à-vis its advertising segment, and 3) upward bias to AWS revenue forecasts and likely more moderate deceleration path.

- **Valuation**: Our DCF-based target price on a 10.5% WACC and 3% terminal growth is $140 (vs prior $150). Higher-than-expected capital intensity for either e-commerce or AWS and/or slower margin expansion are risks to our target price and estimates.

Full Report

Date of Production: 24-Apr-2023 19:28:02 UTC Date of Dissemination: 25-Apr-2023 01:00:50 UTC

eBay Inc. [EBAY.OQ]

GMV Growth More or Less In-Line, Waiting for Product Rollouts to Exert Greater Impact

OUTPERFORM

Rating	OUTPERFORM
Price (21-Apr-23, US$)	43.11
Target price (US$)	(from 55.00) 56.00
52-week price range (US$)	54.42 - 36.81
Market cap(US$ m)	23,145
Enterprise value (US$ m)	28,882

Target price is for 12 months.

Research Analysts

Stephen Ju

Tyler Seidman

- **Event:** eBay will be reporting 1Q23 on Apr 26 AMC. We have made modest adjustments to estimates, for Int'l Shipping/EIS as well as marking to market its various equity stakes and incorporating FX. Our 2023/2024 Adj. EPS are now at $4.23/$4.33 vs prior $4.14/$4.26, respectively. Our target price increases modestly from $55 to $56.

- **Investment Case:** We believe eBay is tracking to an in-line GMV result vs our -4% FXN YOY growth for 1Q23, and we have otherwise left our estimates unchanged at -3.3% for the year. The changes to our estimates mainly reflect our layering in of its new International Shipping (EIS) rollout, which moves shipping revenue recognition from net to gross. Optically this has the impact of increasing the aggregate take rate and decreasing the gross/op margins as shipping costs are now booked in Cost of Revenue. As EIS is designed to bring sellers greater global demand, it has the potential to accelerate sold unit growth so we are happy to make the tradeoff between margin percentage points in favor of increased OP/FCF dollars. The investment thesis remains unchanged – we continue to leave out of our estimates the potential benefits of execution factors within the mgm't team's control, namely: 1) 1P Advertising – with the potential to double the advertising business by 2025, and 2) Payments – to achieve ~$300mm of revenue regardless of TPV by 2024. Further, as we continue to project annual declines in GMV – implicitly assuming that none of the current projects to revitalize growth will take hold – we believe any of the aforementioned monetization benefits and/or incremental signs of growth stabilization should drive a positive rerating of EBAY shares. We maintain our Outperform rating on the following: 1) continued roll-out of PLA to increase marketplace take rate; 2) ongoing product development along its updated strategic direction to defend core, become seller platform of choice, and convert buyers into sellers/ramp C2C, and 3) optionality for GMV growth stabilization vs pre-pandemic YOY decline trajectory.

- **Valuation:** Our DCF-derived target price which uses an 11% WACC and 0% terminal growth rate stands at $56 (vs prior $55). Risks to our estimates include lack of traction with payments and/or product listing ads.

Full Report

Date of Production: 24-Apr-2023 16:54:57 UTC Date of Dissemination: 25-Apr-2023 01:02:26 UTC

Independent Power Producers & Energy Traders | Pre Results Comment

25 April 2023

SunPower [SPWR.OQ]
Q1 Preview and Model Update

NEUTRAL

- **Q1 likely impacted by seasonality and opex:** We estimate Q1 EBITDA ~$4m, below Bloomberg consensus $16m, and prior management guidance of ~25% of annual guidance in Q1+Q2. The weak EBITDA is driven by stronger seasonality in Q1 especially due to weather related delays in CA, and Q1 loaded platform investments. Recall that on Q4 earnings call management noted stronger platform investments in Q1 to prepare for NEM 3.0 sales efforts. CA NEM data shows interconnections grew by 42% y/y in January, but slowed down to 6% y/y growth in February. This impacts SPWR more given faster revenue recognition (vs peers who have to wait for installation or interconnection), and higher CA exposure vs peers.
- **2023 unchanged, CA demand rush in rest of the year:** We don't expect management to change annual guidance given strong CA demand rush in Q2 and likely through Q4. Checks with the industry suggest NEM 2.0 demand rush could drive backlog of ~2 quarters. However, expect NEM 2.0 interconnections through 4Q23 as installers prioritize any NEM 3.0 installations who might not want to wait until next year. NEM 2.0 backlog has a two year install window, and moreover NEM 2.0 customers are likely to wait until later this year or next year as they would otherwise risk losing their NEM 2.0 grandfathering. Nevertheless, we estimate a slowdown in total MWs for SPWR in Q4 and grow ~12% y/y below annual average ~18% y/y.
- **Valuation and estimate changes:** Our TP $15 is unchanged and is based on 12x our 2024 EBITDA estimate. Our EPS estimates are unchanged as well. . Risks: rising interest rates, CA demand decline, competition, module price decline, renewable policy changes.
- **Key questions for Q1 earnings:** Ability to increase prices, CA NEM 2.0 demand rush, Initial market feedback on NEM 3.0 (channel checks suggest sharp drop in originations after mid-April), Ability to compete with peers who have access to lower-cost capital through loan guarantee, Platform investment cadence in the year, EBITDA/customer target.

Rating	NEUTRAL [V]
Price (24-Apr-23, US$)	14.21
Target price (US$)	15.00
52-week price range (US$)	28.13 - 12.20
Market cap(US$ m)	2,485
Enterprise value (US$ m)	2,286

Research Analysts

Maheep Mandloi

Chandni Chellappa

David J. Benjamin

Full Report

Date of Production: 24-Apr-2023 23:51:34 UTC Date of Dissemination: 25-Apr-2023 08:00:03 UTC

Navient Corporation [NAVI.OQ]
2023-A ABS – NIM declines to near zero, more undergrad borrowers

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	16.30
Target price (US$)	16.50
52-week price range (US$)	19.27 - 12.63
Market cap(US$ m)	2,068
Enterprise value (US$ m)	2,068

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

- **Takeaways from NAVI's latest refi ABS issuance:** NIM decreased to ~0.03% after reaching ~0.25% in the 2022-B transaction (2Q 2022). Equity/assets increased to ~11.3% vs a 2022 average of ~7.9%, 2021's ~2.4%, and 2020's ~3.0%. Credit characteristics reflect continued migration towards undergrad borrowers.

- **NIM drops in 2023-A:** Our estimated NIM on the transaction is ~0.03% vs 2022-B's ~0.25%, 2022-A's ~1.5%, 2021-G's ~2.0%, 2021-F's ~2.6%, 2021-E's ~2.6%. 2023-A's ~0.03% compares with Navient's 4Q22 private loan NIM of 2.87% and spread of 3.01%. The average cost of 2023-A's debt was ~5.3% vs 2022's ~3.2% and 2021's ~1.2%. 2023-A's average fixed rate loan yield, before ACH discount, was 5.01% vs 2022's 4.05%, 2021's ~4.0%, 2020's ~4.8%, and 2019's ~5.3%. This highlights the difficult spread environment for refi loans.

- **Equity ratio climbs up:** 2023-A's equity ratio (equity/assets) was 11.3% vs an average of ~7.9% in 2022, ~2.4% in 2021, ~3.0% in 2020, ~4.1% in 2019, ~5.0% in 2018, 6.3% in 2017, and 6.3% in 2016. The equity ratio was likely higher to maintain a positive spread.

- **Grad, percentages lower, as undergrad loans have higher yields:** The mix of grad/undergrad/parent loans in 2023-A is 47%/50%/2% vs 2022's 53%/43%/3%, 2021's 57%/39%/2%, 2020's 63%/33%/3%, 2019's 61%/34%/4%, 2018's 67%/30%3%, 2017's 78%/22%/0% and 2016's 80%/20%/0%.

- **Credit metrics reflect more undergrad:** Avg borrower income/FICO/monthly average cash flow in the 2023-A issue were $125k/746/$4,396, vs 2022's $133k/761/$4,572, 2021's $139k/770/$4,676, 2020's $139k/768/$4,708, and 2019's $133k/760/$4,162. The lower borrower income and FICO are likely a result of more undergrad loans and fewer grad borrowers.

Figure 1: Navient Refi Loans Deal Comparison

Source: Morningstar

Full Report

Date of Production: 25-Apr-2023 03:49:55 UTC Date of Dissemination: 25-Apr-2023 08:00:47 UTC

CREDIT SUISSE

Ameriprise Financial [AMP.N]
1Q23 Results: EPS Beat, but Largely on Tax Rate; Cash Balances Declined More-Than-Expected in the Quarter

- **AMP reported adjusted operating EPS of $7.25, up 25% y/y and better vs. CS/cons' $7.02/$7.18**. The beat relative to our est. was largely on tax rate (i.e., 18.4% reported vs. our 20%). Pre-tax earnings were also modestly better. Net EPS was $3.79. Buybacks were $503M (vs. CS est. of $525M). Excess capital remained solid at $1.3B and AMP raised its quarterly dividend by $0.10 to $1.35 (in line with CS expectations).
- **Advice & Wealth Mgmt. (AWM) pre-tax adjusted op. earnings (p-t earnings) of $693M was up 58% y/y** compared to our $691M (and VisibleAlpha consensus of $699M). Margin was a record at 30.6% (vs. our 30.5%) and up 910 bps y/y. Wrap net flows were $6.2B (vs. our $6.5B estimate). Earnings on cash balances were modestly better than our projection despite lower total cash balances, due to higher cash balances at the bank (with $2.25B moved onto the bank balance sheet) and certificates company. **Cash balances were $44.3B (vs. our $46.3B) were down (6)% q/q, but still better than peer trends**, likely supported by the majority of AMP's cash is in working cash accounts. Transactional activity remained challenged but was modestly better than our expectation. G&A costs were up 6.5% y/y and better than our 9.5% growth estimate.
- **Asset Management p-t earnings of $165M was substantially lower y/y but slightly above our $162M on higher revenues, including better net investment income.** Adj. operating margin of 31.0% was at the low-end of the guided 31-35% range but better q/q. Net flows were $(2.5)B but better than CS est. of $(3.5)B. Retail net flows were $(4.6)B in-line with our $(4.5)B. Institutional net flows were $2.8B vs. our $1.0B.
- **Retirement & Protection Solutions p-t earnings were $194M, up 11% y/y but in line with our $194M**, despite higher expenses due to several one-time items. Per company representative run-rate is still ~$200M a quarter post LDTI adoption.
- C&O p-t losses (ex. long-term care (LTC) and fixed annuity (FA) results) were $(73)M compared to our $(70)M. LTC p-t gain of $8M was better than our break-even projection on high investment yields (company rep noted run-rate LTC earnings is now $5-10M a qtr).
- **Stock Rx:** Modestly underperform peers on 4/25 despite headline EPS beat (largely on tax rate). Underlying trends were solid, but the weaker-than-expected client cash balances in AWM will likely be the focus.
- **Conference Call Details:** April 25, at 9 a.m. ET, 929-201-6609 (ID 861 4004).

Full Report

Date of Production: 25-Apr-2023 02:47:39 UTC Date of Dissemination: 25-Apr-2023 02:50:48 UTC

OUTPERFORM

Rating	OUTPERFORM
Price (24-Apr-23, US$)	312.91
Target price (US$)	380.00
52-week price range (US$)	355.33 - 223.12
Market cap(US$ m)	32,902
Enterprise value (US$ m)	35,924

Target price is for 12 months.

Research Analysts

Andrew Kligerman

Joel Hurwitz, CFA

Michael Domiano

Alfred Miller

Activision Blizzard, Inc [ATVI.OQ]
Content Win Streak Set to Continue with Diablo

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	86.09
Target price (US$)	95.00
52-week price range (US$)	86.09 - 71.10
Market cap(US$ m)	67,518
Enterprise value (US$ m)	62,085

Target price is for 12 months.

Research Analysts

Stephen Ju

Tyler Seidman

- **Event:** We preview Activision Blizzard's 1Q23 earnings. We update our release slate assumptions, gross booking estimates, and our FY23/FY24 EPS are now $4.06/$4.79 vs prior $4.03/$4.87.
- **Investment Case:** Whereas just three years ago, investors were fearing for the deprecation of product quality at Blizzard due to personnel loss, as well as a *Call of Duty* that was not as successful as prior iterations, Activision management has since strung together a win streak of successful releases, starting with *Diablo Immortal* in mid-2022 to *Call of Duty: Modern Warfare 2*, as well as *Overwatch 2* transition to free to play. *Diablo IV* will hopefully maintain the momentum when it is released on June 6. It recently completed open beta testing in which it hit 61.5 million hours played and has also announced a second open beta test for another round of fine tuning prior to the launch date. We have otherwise maintained our unit volume estimates for the title at ~15.3 million units across console and PC for 2023 and 12-month sales of 17.4 million. We have moderated our mobile gross bookings expectations for 1Q23 and 2023 to $885 million and $3.9 billion, due primarily to non-KING titles. We have otherwise modified some of the expected release dates for various titles - most notably we now anticipate *Call of Duty: Warzone Mobile* to launch in 2Q23. We maintain our Neutral rating and our price target remains at $95.
- **Valuation:** Given the acquisition announcement, we set aside our traditional DCF-based approach and use the transaction price of $95. Potential for the transaction to break is a risk to our price target and in that event, ATVI shares could revert to pre-deal announcement levels.

Full Report

Date of Production: 24-Apr-2023 21:48:45 UTC Date of Dissemination: 25-Apr-2023 01:01:31 UTC

Whirlpool [WHR.N]
Share Gains in N.A. Help 1Q, But Maintaining Full-Year Estimates

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	140.70
Target price (US$)	150.00
52-week price range (US$)	198.19 - 126.09
Market cap(US$ m)	7,670
Enterprise value (US$ m)	13,475

Target price is for 12 months.

Research Analysts

Dan Oppenheim

Max Teplitz

- **1Q23 Adjusted EPS ahead of expectations on N.A. efforts.** WHR generated 1Q23 adjusted EPS of $2.66, above our $2.16 estimate and consensus of $2.15. However, we're maintaining our full-year estimate of $15.30 in 2023 and $16.30 in 2024. Our 2023 estimate remains modestly below the low end of management's guidance (EPS of $16.00-18.00) as we have a more cautious view of housing turnover – a key driver of appliance sales – through 2023.
- **Share and margins will likely be the key amidst challenging conditions.** WHR benefited from modest share gains (and InSinkErator) in 1Q23, muting the difficult demand environment. However, N.A. EBIT margins fell to 10.0%, down from 16.3% in 1Q22, although margins did improve sequentially from the supply chain-impacted results of 4Q22. We continue to think it will be challenging for WHR to capture greater share without sacrificing margin.
- **Capital allocation focused on business and dividends.** WHR's absence of share repurchase in 1Q23 and its mention of using capital to fund innovation and growth along with maintaining the dividend suggest that a return to repurchases is unlikely in 2023, especially if the sales environment remains depressed.
- **Valuation and Risks:** Our $150 target price is based on a 7x multiple of 2024E EV/EBITDA. Risks include (1) further stress for the consumer from inflation and/or a lack of confidence, and (2) challenges passing on higher costs.

Full Report

Date of Production: 24-Apr-2023 22:11:01 UTC Date of Dissemination: 24-Apr-2023 22:14:00 UTC

Alexandria Real Estate Equities, Inc. [ARE.N]
1Q23 Beat; 2023 Guidance Narrowed Amidst Headwinds in Leasing and Development

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	124.05
Target price (US$)	145.00
52-week price range (US$)	193.00 - 116.06
Market cap(US$ m)	21,462
Enterprise value (US$ m)	30,849

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: 1Q23 FFO/sh of $2.19 missed CS at $2.28 but beat consensus' $2.17. The miss vs CS was primarily driven by lower than expected occupancy, and higher operating expenses and G&A. ARE narrowed its 2023 FFO/sh guidance to $8.91-$9.01 (from $8.86-$9.06) while maintaining its $8.96 midpoint (CS/consensus at $8.96). That said, revisions to drivers of this guidance and mixed 1Q23 operating metrics are likely raise questions amongst investors. Specifically, we note 1) a 20 bps decline in YE23 occupancy guidance (newly 94.6%-95.6% vs 94.8%-95.8% prior); and 2) ARE also lowered FY23 guidance for acquisitions ($225M midpoint from $300M prior) and construction spending ($2.725B from $2.975B prior). Investors will likely question the ability of ARE to reach this lowered occupancy guidance as 1Q23 occupancy fell to 93.6% from 94.8% in 4Q22.
- **Adverse Developments on the Development Front**: 1) A Houston office-to-lab conversion project (8800 Technology Forest Place) in which construction on 1 building (~70k sq ft) was paused "until further lease-up of the 130,765 RSF building" currently under development; 2) Impairment of a ~510k sq ft office-to-lab conversion project in Boston's Route 128. ARE stated "the macroeconomic environment and demand for office space have deteriorated considerably" since their acquisition in 2020 resulting in a ~$139M write-down and the decision to sell the asset by mid-2023.
- **Mixed 1Q23 Operating Metrics**: Apart from the aforementioned occupancy decline in 1Q23, ARE also experienced: 1) Weak development leasing (~103k sq ft in 1Q23 from ~506k sq ft in 4Q22, ~567k in 3Q22, ~1.2M in 2Q22, and ~1.6M in 1Q22); and 2) SS NOI growth of 3.7% GAAP/9.0% cash in 1Q23 slowed vs 4.7% GAAP/10.9% cash YoY in 4Q22. This was partially offset by solid 1Q23 rental rate increases of 48.3% GAAP/24.2% cash and strong 1Q23 rent collection of ~99.7% (from ~99.4% prior).
- **Key Questions**: 1) Detailed insights on the general life science real estate demand outlook in 2023 (especially from small, pre-clinical tenants); 2) Color on expectations for volume and pricing of future dispositions/partial interest sales to meet 2023 guidance of ~$1.525B at the midpoint; 3) Thoughts on potential earnings risk if development leasing remains challenging especially given 1Q23 occupancy is 150 bps below YE23 guidance midpoint. Earnings Call April 25th, 3PM EST, 833-366-1125

Full Report

Date of Production: 25-Apr-2023 00:57:14 UTC Date of Dissemination: 25-Apr-2023 00:58:23 UTC

AGNC Investment Corp. [AGNC.OQ]
Book Value 2% Below Estimate

NEUTRAL

Rating	NEUTRAL
Price (24-Apr-23, US$)	10.05
Target price (US$)	10.50
52-week price range (US$)	12.80 - 7.37
Market cap(US$ m)	5,780
Enterprise value (US$ m)	5,780

Target price is for 12 months.

Research Analysts

Douglas Harter, CFA

William Nasta

AGNC reported 1Q EAD (inclusive of TBA income and excluding amortization catch-up cost) of $0.70, $0.04 lower than our estimate and $0.03 lower than the FactSet consensus. Higher than expected interest expense was the main driver for the miss vs. our estimate. Economic return for the quarter on tangible book was -0.7%.

- **Book value:** AGNC reported tangible book value of $9.41, down 4.4% for the quarter and 2.3% below CSe. AGNC did not provide a 2Q update on book value in the earnings release (as usual); on the earnings call we expect them to say book value is down about 1-2% so far in April.
- **Investment portfolio:** AGNC's agency portfolio (end of period including TBAs) decreased by 4.5% in the quarter to $56.8 billion, which was 10.4% lower than our estimate. Average earning assets (inclusive of TBAs) was up 7.9% which was 3.4% higher than our estimate. AGNC's credit portfolio decreased by 10% in the quarter to $1.3 billion. All-in tangible leverage at 3/31 was down 0.2x (to 7.2x), 1.1x below CSe, while average leverage was down 0.1x to 7.7x during the quarter.
- **Net interest spread:** AGNC's net interest spread decreased by 19 bps in the quarter to 2.88%. Average asset yields (including TBA and excluding "catch-up" premium amortization) were up 22 bps in the quarter, while cost of funds increased by 61 bps.
- **Equity Issuance**: AGNC issued 17.1 million common shares through their ATM program at an average price of $9.95/share.

Full Report

Date of Production: 24-Apr-2023 22:03:01 UTC Date of Dissemination: 24-Apr-2023 22:04:20 UTC

Specialty Chemicals | Company Update

24 April 2023

Origin Materials Inc. [ORGN.OQ]
Extreme circularity: Back to the Origin

OUTPERFORM

Rating	OUTPERFORM [V]
Price (21-Apr-23, US$)	4.02
Target price (US$)	7.00
52-week price range (US$)	7.70 - 3.82
Market cap(US$ m)	575
Enterprise value (US$ m)	566,336

Research Analysts

John Roberts

Edlain Rodriguez

Matthew Skowronski

- **We recently hosted one of ORGN's co-CEOs at the Credit Suisse Negative Carbon Conference.** ORGN expects startup this quarter of its first small-scale plant to make PET plastic intermediate from wood residue (implied 2H23 annualized revenue of $25M), and to begin construction before year-end on the first world-scale plant ($475M annual revenue, 2025 startup targeted). The process is expected to be a platform for other chemicals over time.
- **Circles further back than recycled plastic.** ORGN goes all the way back to plant-based carbon, and plastic from its process can also be subsequently recycled. We recently reviewed the recycled plastic industry, where coincidentally Eastman Chem (EMN) this quarter is starting up the first world-scale plant to convert waste PET/polyester back to chemicals, which can be used to make new virgin specialty PET. Both the ORGN & EMN technologies can be used to make virgin-quality PET equivalent to current chemical-based PET. EMN will be at the CS Toronto mini-conference June 21 along with DD, CC & ENTG.
- **ORGN lowest carbon footprint & targeting competitive costs.** ORGN has near-zero or even negative carbon footprint depending on biomass source used. The wood residue cost for plants 1 & 2 is expected at 2-3 cents/lb - below hydrocarbon feedstocks or fermentation-based processes. ORGN has no direct competition and believes its biomass feedstock availability will exceed waste plastic availability for recycled plastic that is of high-enough quality for food contact uses.
- **Valuation & Risks:** The stock has declined post-deSPAC to ~$4.00 from a high of ~$14, reflecting the greater discounting of longer-term opportunities as interest rates rise. Our $7 target price is based on 17x 2026e EBITDA, the highest NTM multiple in our coverage universe. We use an undiscounted multiple given ORGN should still be high growth in 2026e. Key downside risks include delays in startup or inability to scale technology, competition from much larger incumbents, and potential shortfalls in customer interest in negative carbon products.

Full Report

Date of Production: 24-Apr-2023 18:34:38 UTC Date of Dissemination: 24-Apr-2023 20:00:14 UTC

INDUSTRY UPDATES:

Property & Casualty Insurance | Conference Call

24 April 2023

Expert Call: State of Personal Auto Panel

Research Analysts

Andrew Kligerman

Expert Call: State of Personal Auto Panel April 26, 2023 2:00 p.m. ET Featuring: Dale Porfilio, FCAS, MAAA, Chief Insurance Officer, Insurance Information Institute Eric Kappler, President of Bristol West, a Farmers Insurance Company Please contact your CS Sales rep or Andrew Kligerman for Zoom information.

Full Report

Date of Production: 25-Apr-2023 00:45:47 UTC Date of Dissemination: 25-Apr-2023 00:46:18 UTC