Top 30 Global Ideas for 2023

Fourth-Quarter Update

EQUITY RESEARCH | October 2, 2023

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 38

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This report is priced as of market close on September 29, 2023, unless otherwise noted.

Introduction

Graeme Pearson – Global Head of Research

Mark Odendahl – Head of US Research

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Top 30 Global Ideas for 2023 — Changes This Quarter

Additions:
Americold Realty Trust (COLD US); Union Pacific (UNP US)

Deletions:
Canadian Pacific Kansas City (CP CN); Ventas (VTR US)

In this note, we present our *Top 30 Global Ideas* for Q4 2023. This list remains one of high-conviction, long-term ideas, with quarterly updates that enable dynamic changes into names where we see higher-conviction upside potential.

Globally, we share our US Equity Strategy team's view that the market will likely continue to be volatile through year-end, as overall, the backdrop for equities is characterized by conflicting crosscurrents amidst uncertainty regarding a transition in Fed policy and the onset of a challenging economy, a bumpy moderation in inflation, and a recovery in earnings sentiment since the start of the year. Our S&P 500 2023 price target of 4,250 reflects a fairly neutral view on the direction of the US equity market through year-end. The *Top 30* list is built around bottom-up best ideas that we also view as offering attractive positioning in the current environment.

In Q3/23, the *Top 30* list gave up some of its H1/23 outperformance, delivering a total return of -5.0% (USD terms) versus the MSCI World Index's -3.4%. During the quarter, the best-performing *Top 30* stock selections were Diamondback Energy (FANG US) +18.6%, Canadian Natural Resources (CNQ CN) +16.4%, and CrowdStrike Holdings (CRWD US) +14.0%. Year-to-date, the list has delivered a total return of +15.1%, above the benchmark's +11.2%, and since inception of our quarterly list at YE2019, the *Top 30* has delivered a total return of +41.8%, above the benchmark's +28.5%.

This quarter, in **Industrials** we add **Union Pacific (UNP US)**, replacing **Canadian Pacific Kansas City (CP CN)** as our top idea in Rail. We expect the recent appointment of Jim Vena as UNP's CEO to drive a marked turnaround in the company's operating performance and a mid-teens EPS CAGR to 2025 (with risk to the upside), which we believe is not fully reflected in the stock at current levels. In addition, we think that UNP's competitive dynamics—very attractive access to Mexico and the chemicals sector in the US Gulf Coast—provide favourable growth prospects relative to peers in the long run. In favour of UNP, we remove CP from the *Top 30* list while maintaining our Outperform rating and positive view of the long-term opportunity from KCS merger integration.

In **Real Estate**, we add **Americold Realty Trust (COLD US)**, replacing **Ventas (VTR US)**. In our view, Americold is now delivering an improved operating outlook and a more attractive investment outlook. Americold is an industrial REIT solely focused on owning and operating temperature-controlled warehouses. It is the largest public player in this niche space, and we believe its platform and strategic partnerships will yield unique development opportunities with dedicated demand drivers and high barriers to entry. We switch out of Ventas, as specific seniors housing operating portfolio challenges have driven near-term relative earnings weakness. That said, we maintain an Outperform rating, as we remain encouraged by the seniors housing outlook and still expect solid medium- and long-term growth.

This report contains a review of the *Top 30* portfolio's historical performance on page 6, and detail on our investment thesis for each *Top 30* name beginning on page 7. We encourage you to reach out to our team to continue the dialogue regarding their investment ideas.

We also highlight our flagship research products: RBC Elements™, RBC Imagine™, RBC Fusion™, and RBC ESG Stratify™. RBC Elements features proprietary insights generated with our internal data science team. RBC Imagine is a series of fundamental research focused on disruptive forces that we believe will transform the world. RBC Fusion offers peer-reviewed, unique reports on our highest-conviction, most-differentiated calls. RBC ESG Stratify separates the signal from the noise on ESG matters with precise, analytical research. Please click the icons below to link to our recent flagship research reports.

RBC Flagship Research Products

RBC Elements™

RBC Imagine™

RBC Fusion™

RBC ESG Stratify™

Top 30 Global Ideas for 2023 – Analyst Coverage and Pricing Data

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (09/29/2023)	Market Cap (MM)	Price Target	Div. Yield (%)	Implied All-in Return (%)
Albemarle Corporation	ALB US	Arun Viswanathan	Outperform	USD	170.04	20,030	260.00	0.9	53.9
Alimentation Couche-Tard Inc.	ATD CN	Irene Nattel	Outperform	CAD	68.98	67,692	87.00	0.8	26.9
Alnylam Pharmaceuticals, Inc.	ALNY US	Luca Issi	Outperform	USD	177.10	22,077	270.00	0.0	52.5
American International Group, Inc.	AIG US	Scott Heleniak	Outperform	USD	60.60	44,268	70.00	2.4	17.9
Americold Realty Trust, Inc.	COLD US	Michael Carroll	Outperform	USD	30.41	8,247	38.00	2.9	27.9
Anheuser-Busch InBev SA/NV	ABI BB	James Edwardes Jones	Outperform	EUR	52.51	105,703	70.00	1.9	35.2
Associated British Foods plc	ABF LN	Richard Chamberlain	Outperform	GBp	2,068.00	16,325	2,500.00	2.1	23.0
Boston Scientific Corporation	BSX US	Shagun Singh	Outperform	USD	52.80	76,887	61.00	0.0	15.5
Canadian Natural Resources Limited	CNQ CN	Greg Pardy	Outperform	CAD	87.84	95,944	90.00	4.1	6.6
Constellation Software Inc.	CSU CN	Paul Treiber	Outperform	CAD	2,804.07	59,423	3,300.00	0.2	17.9
CrowdStrike Holdings, Inc.	CRWD US	Matthew Hedberg	Outperform	USD	167.38	41,979	200.00	0.0	19.5
Diamondback Energy, Inc.	FANG US	Scott Hanold	Outperform	USD	154.88	27,695	170.00	5.8	15.6
Element Fleet Management Corp.	EFN CN	Geoffrey Kwan	Outperform	CAD	19.49	7,632	30.00	2.1	56.0
Ferrari N V	RACE IM	Tom Narayan	Outperform	EUR	279.70	51,185	335.00	0.3	20.1
HEICO Corporation	HEI US	Ken Herbert	Outperform	USD	161.93	22,339	200.00	0.0	23.5
Illumina, Inc.	ILMN US	Conor McNamara	Outperform	USD	137.28	21,690	318.00	0.0	131.6
London Stock Exchange Group plc	LSEG LN	Ben Bathurst	Outperform	GBp	8,234.00	45,863	10,000.00	1.5	22.9
Lonza Group AG	LONN SW	Charles Weston	Outperform	CHF	425.60	31,694	705.00	0.8	66.5
M&T Bank Corporation	MTB US	Gerard Cassidy	Outperform	USD	126.45	20,991	160.00	4.1	30.6
Mastercard Incorporated	MA US	Daniel R. Perlin	Outperform	USD	395.91	375,719	441.00	0.5	11.9
Meta Platforms, Inc.	META US	Brad Erickson	Outperform	USD	300.21	779,345	400.00	0.0	33.2
Palo Alto Networks, Inc.	PANW US	Matthew Hedberg	Outperform	USD	234.44	87,165	281.00	0.0	19.9
PG&E Corporation	PCG US	Shelby Tucker	Outperform	USD	16.13	32,192	21.00	0.0	30.2
Restaurant Brands International Inc.	QSR US	Christopher Carril	Outperform	USD	66.62	31,585	88.00	2.7	34.8
S&P Global Inc.	SPGI US	Ashish Sabadra	Outperform	USD	365.41	116,858	434.00	1.0	19.8
Siemens Aktiengesellschaft	SIE GR	Mark Fielding	Outperform	EUR	135.24	107,056	185.00	3.3	40.1
TELUS Corporation	T CN	Drew McReynolds	Outperform	CAD	22.18	32,094	31.00	6.5	46.3
Union Pacific Corporation	UNP US	Walter Spracklin	Outperform	USD	203.63	124,112	282.00	2.7	41.2
Veeva Systems Inc.	VEEV US	Rishi Jaluria	Outperform	USD	203.45	33,203	225.00	0.0	10.6
WESCO International, Inc.	WCC US	Deane Dray	Outperform	USD	143.82	7,536	189.00	1.0	32.5

Note:

Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

Source: Bloomberg and RBC Capital Markets estimates

Top 30 Global Ideas for 2023 – Changes This Quarter

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (09/29/2023)	Market Cap (MM)	Price Target	Div. Yield (%)	Implied All-in Return (%)
Additions this quarter:									
Americold Realty Trust, Inc.	COLD US	Michael Carroll	Outperform	USD	30.41	8,247	38.00	2.9	27.9
Union Pacific Corporation	UNP US	Walter Spracklin	Outperform	USD	203.63	124,112	282.00	2.7	41.2
Deletions this quarter:									
Canadian Pacific Kansas City Limited	CP CN	Walter Spracklin	Outperform	CAD	100.96	94,276	133.00	0.8	32.5
Ventas, Inc.	VTR US	Michael Carroll	Outperform	USD	42.13	17,080	53.00	4.3	30.1

Notes:

Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

Source: Bloomberg and RBC Capital Markets estimates

Top 30 Global Ideas – Performance Summary

Although the *Top 30* is not intended to be a relative product, having been created to capture RBC Capital Markets' best ideas on an absolute basis, we compare the performance of the *Top 30* to the MSCI Developed World Index and regional indices to provide context for its returns. See the performance tables below for Q3 2023, year-to-date, and since inception (December 2019).

Ticker	Company	Total Return Q3/2023 (in local currency)	Total Return Q3/2023 (in USD)
FANG US	**Diamondback Energy Inc.**	18.6%	18.6%
CNQ CN	**Canadian Natural Resources Ltd.**	19.2%	16.4%
CRWD US	**Crowdstrike Holdings Inc.**	14.0%	14.0%
AIG US	**American International Group Inc.**	5.9%	5.9%
META US	**Meta Platforms Inc.**	4.6%	4.6%
MTB US	**M&T Bank Corp.**	3.2%	3.2%
VEEV US	**Veeva Systems Inc.**	2.9%	2.9%
MA US	**Mastercard Inc.**	0.8%	0.8%
CSU CN	**Constellation Software Inc.**	2.2%	-0.2%
ABF LN	**Associated British Foods plc**	3.9%	-0.3%
ATD CN	**Alimentation Couche-Tard Inc.**	2.0%	-0.4%
ABI BB	**Anheuser-Busch InBev SA/NV**	1.3%	-1.8%
BSX US	**Boston Scientific Corp.**	-2.4%	-2.4%
LSEG LN	**London Stock Exchange Group plc**	-1.1%	-5.1%
EFN CN	**Element Fleet Management Corp.**	-2.9%	-5.2%
PCG US	**PG&E Corp.**	-6.7%	-6.7%
ALNY US	**Alnylam Pharmaceuticals Inc.**	-6.8%	-6.8%
CP CN	**Canadian Pacific Kansas City Ltd.**	-5.5%	-7.7%
PANW US	**Palo Alto Networks Inc.**	-8.2%	-8.2%
HEI US	**HEICO Corp.**	-8.5%	-8.5%
SPGI US	**S&P Global Inc.**	-8.6%	-8.6%
RACE IM	**Ferrari NV**	-6.6%	-9.5%
VTR US	**Ventas Inc.**	-9.9%	-9.9%
QSR US	**Restaurant Brands International Inc.**	-13.4%	-13.4%
SIE GR	**Siemens AG**	-11.5%	-14.3%
T CN	**TELUS Corp.**	-12.6%	-14.6%
WCC US	**WESCO International Inc.**	-19.5%	-19.5%
LONN SW	**Lonza Group AG**	-20.2%	-21.9%
ALB US	**Albemarle Corp.**	-23.6%	-23.6%
ILMN US	**Illumina Inc.**	-26.8%	-26.8%
	Average total return for RBC CM Top 30 Global Ideas in Q3 2023	***-3.9%***	***-5.0%***

Total Return (in local currency)

Indices		Q3/2023	2023 (YTD)	Since Inception (Not annualized)
AS51 Index	**S&P/ASX 200 Index**	-0.3%	5.0%	28.0%
SXXP Index	**STOXX Europe 600 Index**	-2.0%	9.2%	22.1%
SPTSX Index	**S&P/TSX Composite Index**	-2.2%	3.4%	28.8%
SPX Index	**S&P 500 Index**	-3.3%	13.1%	41.0%
NDDUWI Index	**MSCI World Net Total Return US**	-3.4%	11.2%	28.5%
	RBC CM Top 30 Global Ideas	**-3.9%**	**15.4%**	**44.5%**

Total Return (in USD)

Indices		Q3/2023	2023 (YTD)	Since Inception (Not annualized)
SPX Index	**S&P 500 Index**	-3.3%	13.1%	41.0%
NDDUWI Index	**MSCI World Net Total Return US**	-3.4%	11.2%	28.5%
AS51 Index	**S&P/ASX 200 Index**	-3.7%	-0.8%	17.4%
SPTSX Index	**S&P/TSX Composite Index**	-4.5%	3.3%	23.5%
	RBC CM Top 30 Global Ideas	**-5.0%**	**15.1%**	**41.8%**
SXXP Index	**STOXX Europe 600 Index**	-5.1%	7.9%	15.0%

Notes: Since inception performance calculated from YE2019. Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

Source: Bloomberg and RBC Capital Markets

Investment Thesis

Albemarle Corporation (NYSE: ALB)

RBC Capital Markets, LLC
Arun Viswanathan, CFA (Analyst) (212) 301-1611, arun.viswanathan@rbccm.com

Rating: Outperform | **Closing Price: USD 170.04**
Price Target: USD 260.00 | **Implied All-in Return (%): 53.9**

Investment summary

ALB is the No. 1 global producer of lithium and provides meaningful exposure to potential structural growth in energy storage. ALB accounts for ~30–35% of global output, and we believe that high barriers to entry, the difficulty of adding supply, and robust demand growth expectations will likely support balanced-to-tight markets, lithium prices, and ALB's ~35% Lithium EBITDA margins and earnings power.

Positives: ALB's market leadership, No. 1 resource position, and supply addition challenges. Only a few vertically integrated players currently control almost all of the battery-grade lithium market. To add brine or spodumene new supply requires resource development (mining expertise), concentration and conversion infrastructure (technology/know-how), and can take 10+ years. ALB is a low-cost producer of lithium given vertical integration (ability to reach more derivative markets than peers), asset location (strategically located conversion facilities near mines/brine pools to match demand), and scale.

Demand appears to be improving as more auto OEMs announce EV models. As more automakers offer EV models, we believe EV demand is showing firmer signs of demand recovery, partially helped by the pent-up auto demand. ALB now estimates that 2025 global lithium demand could reach ~1,140kT LCE at 19% EV adoption rate, implying a significant EV adoption ramp in 2023–25.

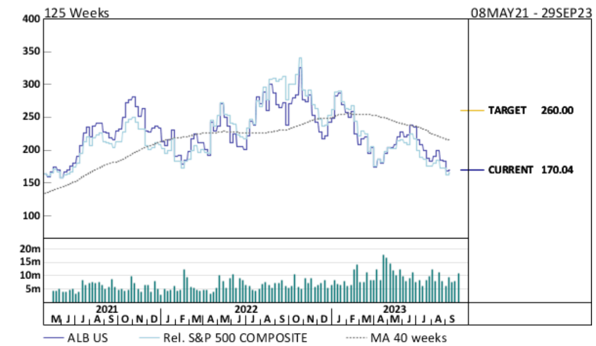
Valuation

In our base case scenario, we apply a 9x EV/EBITDA multiple to our 2024E EBITDA of $3,620M to generate a price target of $260. Our 9x valuation multiple represents lower lithium pricing in FY24 than in FY23 and is within ALB's historical range of 7–30x. Our price target supports our Outperform rating.

Risks to rating and price target

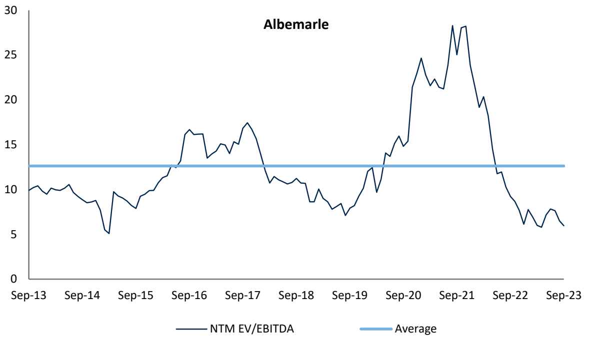
Risks to rating and price target include: 1) new supply announcements; 2) delayed EV production; 3) lower lithium prices; 4) lower oil prices; and 5) government drops EV subsidies.

Exhibit 1 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 2 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

Alimentation Couche-Tard Inc. (TSX: ATD)

RBC Dominion Securities Inc.
Irene Nattel (Analyst) (514) 878-7262, irene.nattel@rbccm.com

Rating: Outperform	**Closing Price: CAD 68.98**
Price Target: CAD 87.00	**Implied All-in Return (%): 26.9**

Investment summary

Despite challenging macro backdrop, multiple avenues for growth, underpinned by: (1) top-line momentum from a more-focused, data-driven approach to merchandising/promotional strategies; (2) well-defined initiatives and strategies to optimize procurement; (3) focus on localized merchandise pricing, promotions, and assortments; (4) innovative fuel initiatives, including rollout of Circle-K gas; (5) cost optimization; (6) network development; and (7) opportunistic acquisitions.

F23 EBITDA objective of $5.1B excluding merger and acquisition exceeded by ~$700 MM, new strat plan/financial targets to be disclosed at October 11 Investor Event. Solid underlying operating performance aided by focused execution of strategies outlined at mid-2021 investor event enabled ATD to deliver well above its "double again" objective.

Industry performance in North America through COVID and during prior downturns reinforces defensive sector attributes. Despite high gas prices/opex increases, sustained elevated gas margins should enable ATD to offset gallon weakness related to dislocations.

Real-world EV R&D lab in Norway. ATD is the only North American c-store player with a strong footprint in Norway, the global leader in EV sales. With the operation of charging stations on its sites in addition to home and office chargers, ATD is gaining valuable insight into consumer behaviour/revenue opportunities.

Strong B/S + FCF profile with forecast annual FCF well in excess of $2.5B to fund activity on NCIB (F24 renewed at 5% of shares outstanding), dividend growth, and acquisitions. Adjusted net debt/EBITDA ~1.8x pro forma known acquisitions (TotalEnergies, MAPCO) despite activity on NCIB, well below the post-SFR peak of 3.6x, with normalized estimated balance sheet capacity up to ~$15B depending on multiple paid.

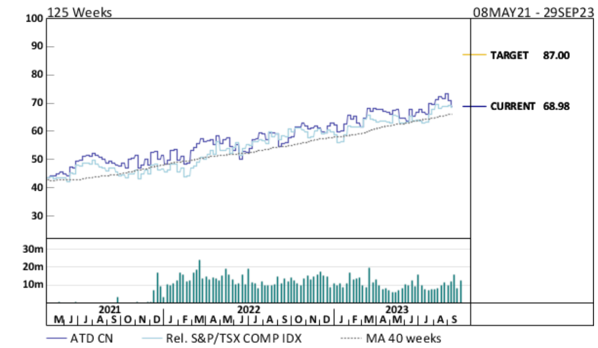
Valuation

Taking the midpoint of 18.5x TTM Q4/F25E (April C25E TTM) EPS and 11.5x EBITDA drives our price target of $87, which supports our Outperform rating. The EBITDA multiple is consistent with the average of the five-year range, reflecting overall sector valuation trends, and supported by ongoing strong normalized underlying performance, relatively recession-resistant business model, and benefits from prior-period merger and acquisition. We believe the multiples are also appropriate relative to our c-store coverage universe based on relative investment attributes.

Risks to rating and price target

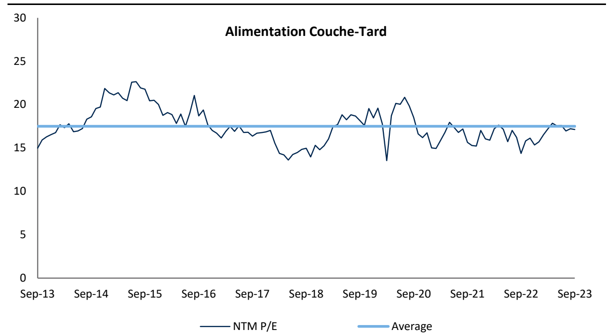
Normalization of gas margins without volume improvement would result in earnings below expectations. Substantial dislocation in inside-store volumes could reduce inside-store contribution. Although c-stores typically are relatively recession-resistant, ~50% of US c-store customers have incomes ≤$60k and could be hard-hit by a recession, particularly given inflation and interest rate backdrops. With ATD's diversified geographic footprint, the risk profile of forecasts includes multiple geographies and currencies, and economic and operating environments, each of which is being impacted at differing levels by current dislocation in Europe. Potential merger and acquisition not included in our forecasts could result in earnings/share price that differs from forecasts.

Exhibit 3 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 4 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Alnylam Pharmaceuticals, Inc. (NASDAQ: ALNY)

RBC Capital Markets, LLC
Luca Issi, Ph.D. (Analyst) (212) 266-4089, luca.issi@rbccm.com

Rating: Outperform | **Closing Price: USD 177.10**
Price Target: USD 270.00 | **Implied All-in Return (%): 52.5**

Investment summary

Despite Upcoming Adcom, We Think Patisiran Will Be Approved for TTR-CM. Overall, while we expect a heated debate at the AdCom given the relatively modest 6MWT benefit, we believe the drug will ultimately be approved, as the 6MWT benefit can be substantiated by statistically significant benefit for patient reported outcomes (KCCQ), a majority of secondary endpoints including biomarkers (proBNP, troponin I), imaging (PYP scintigraphy/echocardiographic parameters) and early look at mortality all trending in the right direction. In the context of a drug that is safe and has been on the market for close to half a decade now, we believe approval is likely.

Rich Calendar Ahead with Many Potential Catalysts. We see key upcoming catalysts (Adcom TBD, potential approval for patisiran in TTR-CM PDUFA 10/8/23) and a pipeline that is full steam ahead (HBV Phase II combo results late ’23, KARDIA-1 Phase II readout mid ’23, results from Phase I IKARIA—platform with potential for annual dosing—late ’23, top-line Phase I T2D results in late ’23). On hypertension, we continue to like AGT given clinical POC already in hand (>20mmHG reduction at six months), ability to potentially receive approval just on reduction in systolic blood pressure and a market that is 300x bigger than TTR-CM (250k vs. 77m with hypertension and high CV risk).

M&A Optionality Nice to Have, but Our Call Is Fundamental. Since there are few biotech companies with a commercially validated platform technology like ALNY (~$1b in revenue, five siRNA drugs approved in less than four years), M&A potential is a frequent topic of debate, especially given prior transactions in the space (DRNA and Sirna). However, we view M&A optionality as a “nice to have” (and we think boosted when the original CEO, who had never struck us as a seller, departed in 2021), but we are making a fundamental call on the stock. With the recent pull-back (-14% YTD), we see an attractive entry point ahead of key potential catalysts that could unlock value short term and a pipeline poised to deliver long-term upside.

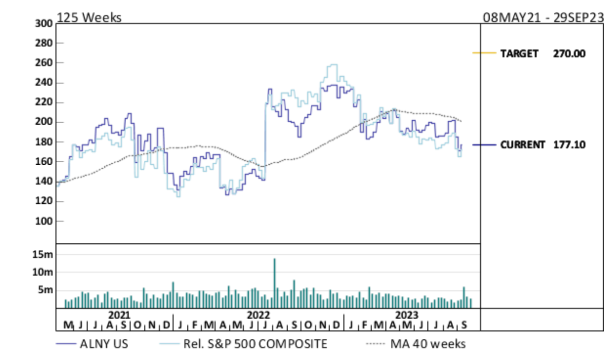
Valuation

Our base case assumes 100% PoS for lumasiran, 85% for inclisiran, 90% for TTR, 45% for zilebesiran, 15% for Alzheimer’s disease, 15% for T2D, and 65% for fitusiran. Our $270 price target is based on a DCF that assumes a 10% WACC (same for all stocks in our coverage) and a 1% terminal growth rate (with a 0–2% range applied to our coverage depending on the relative maturity of the platforms). Our price target supports our Outperform rating.

Risks to rating and price target

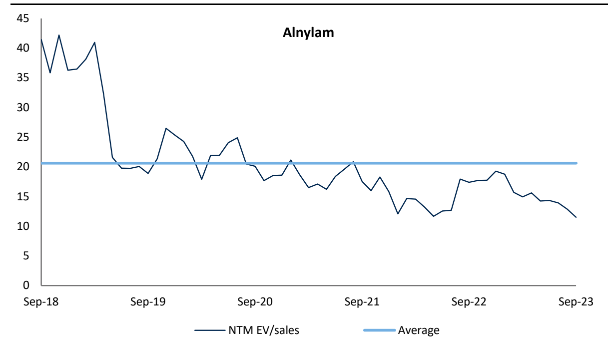
Risks to rating and price target include: (1) Onpattro fails to gain approval for TTR-CM; (2) current epidemiology for AHP and PH substantially underestimates opportunity; and (3) emergence of a safety signal in an ongoing clinical trial.

Exhibit 5 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 6 - Forward consensus EV/sales history



Source: FactSet

Most recent company note: link

American International Group, Inc. (NYSE: AIG)

RBC Capital Markets, LLC
Scott Heleniak (Analyst) (804) 782-4006, scott.heleniak@rbccm.com

Rating: Outperform	Closing Price: USD 60.60
Price Target: USD 70.00	Implied All-in Return (%): 17.9

Investment summary

We remain constructive on AIG and view the company as an attractive value idea in the insurance space at the current valuation. AIG's main focus is improving P&C insurance margins and repositioning the entire business for better ROEs with less earnings volatility and a more transparent business model. The company has made progress on improving core loss ratios, and we expect the trends to continue, along with profitable premium growth. In addition, the AIG 200 program is also expected to translate into further expense reduction opportunities. The initial phase of the separation of AIG's Life & Retirement segment has started (via the Corebridge IPO) and we expect additional progress in late 2023/early 2024. Our Outperform rating reflects the following points:

Investment points include: Focused on underwriting margin improvement, reducing expenses: AIG has aggressively reduced exposure to underperforming lines and countries where returns are below acceptable levels. This effort along with the greater use of reinsurance, analytics, and better risk management should put AIG on a path toward improving core margins further in the years ahead. The AIG 200 program should also make AIG a more efficient and leaner company.

Favorable pricing supports growth and margin improvement: A favorable P&C pricing environment along with an improved macro backdrop should support margin improvement. Given all the heavy lifting done in the past year, we expect AIG to be in a position to return to premium growth in the quarters ahead.

Capital management & balance sheet strength: We expect AIG to remain active with share buybacks that could be fueled by further stake sales in its remaining ownership interest in Corebridge. We expect further progress toward a double-digit ROE as well as efforts to improve the strength of its balance sheet (debt reduction, investment portfolio credit quality, and reserves).

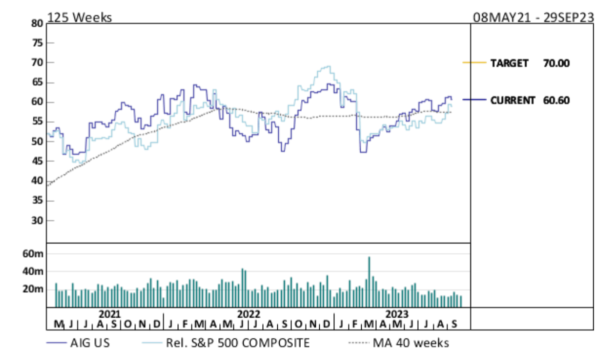
Valuation

Our $70 price target is based on 0.9x our ending 2024 adjusted book value per share estimate. We utilize adjusted book value for valuation purposes (which is similar to tangible book value), as this has been management's focus in setting its ROE targets. AIG shares trade at a discount to P&C peers owing to the hybrid nature of its Life and P&C business. As the company exits the Life & Retirement segment, we anticipate some of the discount will be reduced. We expect management to continue making progress in repositioning underwriting, rightsizing expenses and investment infrastructure as well as further buybacks. As progress is made we anticipate additional multiple expansion. In our view, our price target is consistent with our Outperform rating.

Risks to rating and price target

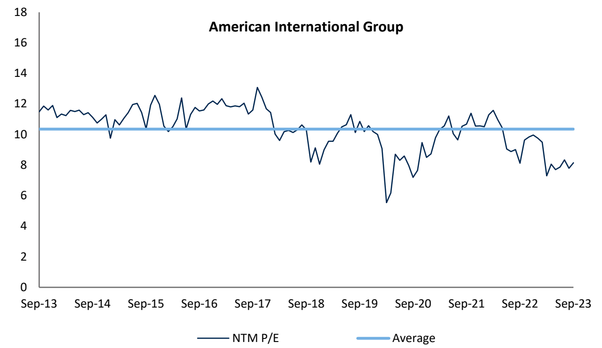
AIG is subject to many inherent risks including market risk (interest rate risk or equity risk) that could pressure investment spreads or put pressure on investment portfolio values. There is also inherent reserving and underwriting risk mainly through whether more recent accident years prove redundant relative to expected frequency and severity assumptions. Other risk factors include: (1) P&C insurance pricing risk; (2) international risk in operating in various countries; and (3) macro risks tied to its business.

Exhibit 7 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 8 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Americold Realty Trust, Inc. (NYSE: COLD)

RBC Capital Markets, LLC
Michael Carroll, CFA (Analyst) (440) 715-2649, michael.carroll@rbccm.com

Rating: Outperform | **Closing Price: USD 30.41**
Price Target: USD 38.00 | **Implied All-in Return (%): 27.9**

Investment summary

Americold Realty Trust (NYSE: COLD) is an industrial REIT solely focused on owning and operating temperature-controlled warehouses. COLD is the largest public player in this niche space, and we believe management will utilize its platform to drive solid earnings growth and create value for shareholders.

Potential catalysts for the stock include:

The recovery could occur more quickly than expected. The same-store portfolio has delivered healthy growth, jumping 13.8 % in 2Q23, and is expected to grow 15–20% in 2023. These improvements have been mainly driven by better occupancy trends while margins should soon expand more noticeably.

Developments should drive strong external growth. COLD is able to pursue developments at solid risk-adjusted returns given its expertise and platform. We believe additional starts could help drive stronger growth in the future and create more value.

Potential acquisitions would be additive. With a better cost of capital, we believe COLD could become more aggressive in pursuing acquisitions, which would push external contributions higher.

Valuation

Price target justification: Our price target of $38 is based on a 2025E EV/EBITDA multiple of ~18.5x. This calculation yields a $40/share gross price, but we discount it back by six months (at a 10% rate) to achieve a 12-month price target. Our target multiple largely reflects a slight premium to the historical acquisition range (12–16x) but a discount to recently transacted large high-quality portfolios (20.0x+). Our price target reflects a ~15% premium to our $33.81/sh YE24E NAV and supports our Outperform rating.

NAV: We estimate the in-place NAV at $27.83/sh assuming a ~7.7% cap rate. We expect the portfolio to generate solid organic growth once stabilized and management to create value through acquisitions and developments, pushing our YE24E NAV to $33.81/sh from our YE23E NAV of $29.67/sh.

Risks to rating and price target

The greatest risks to our estimates, rating, and price target center on operational issues popping up within the company's platform. Other risks including changing consumer preferences, political risks, foreign currency exposure, interest rate concerns, environmental or zoning issues, tenant downsizing or bankruptcies, along with key personnel changes, could also become a concern. A full list of risk factors can be found in the company's SEC filings.

Other company-specific risks include:

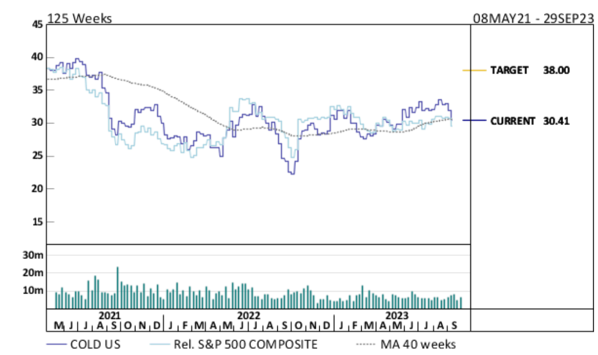
COVID could impact the workforce or supply chain. If the pandemic were to meaningfully impact the workforce or the food supply chain, either directly or indirectly, it could slow down activity and negatively impact results.

Supply could make the environment more difficult. There has been increased interest from institutional capital in the temperature-controlled warehouse space. We believe this could drive construction activity higher, making it more difficult to deliver above-average organic growth.

Tech could make some warehouses obsolete. The space is going through a technological revolution that includes more automation within facilities. This could drive increased efficiency and make certain warehouses less competitive.

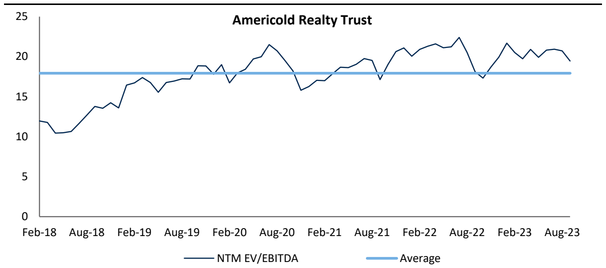
Cybersecurity breaches. The company is currently navigating its second big cyber attack that will likely impact earnings by ~$0.07/share. The company could continue to face this type of risk in the future.

Exhibit 9 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 10 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

Anheuser-Busch InBev SA/NV (BRU: ABI; NYSE: BUD)

RBC Europe Limited
James Edwardes Jones (Analyst) +44 20 7002 2101, james.edwardesjones@rbccm.com

Rating: Outperform	**Closing Price: EUR 52.51**
Price Target: EUR 70.00	**Implied All-in Return (%): 35.2**

Investment summary

AB InBev has underperformed the sector significantly over the last five years. Some of this has been due to elements out of its control, such as turbulent currency fluctuations in Latin America, but the organic performance has also been volatile. Both factors have also led to an unappealingly large debt pile.

Currencies remain the unknown but we think AB InBev's grip on the more controllable factors is tightening. The short-term performance has been more consistent, volume growth is improving and ABI's medium-term ambition of 4-8% EBITDA growth looks realistic to us. Its regional margins are underpinned by strong competitive positioning and there might even be some upside in South America. In addition, management seems to understand the negative implications of its debt load for shareholders and has hence made the decision to pass the interim dividend in both 2020 and 2021.

Adding to the long-term investment case is the change in focus of the global beer sector; both AB InBev and Heineken are talking more about investing in the category than before. Given beer has been losing share to spirits for some time while the brewers have been distracted by M&A and underinvesting and the spirits companies have done the reverse, this change in strategy is likely to be fruitful for the brewers.

Lastly there are additional long-term prospects of AB InBev's digital platform: 'Bees'. We think there is (rightly) nothing in the share price to reflect this at the moment, but it's an interesting piece of optionality.

We hold an Outperform rating for AB InBev.

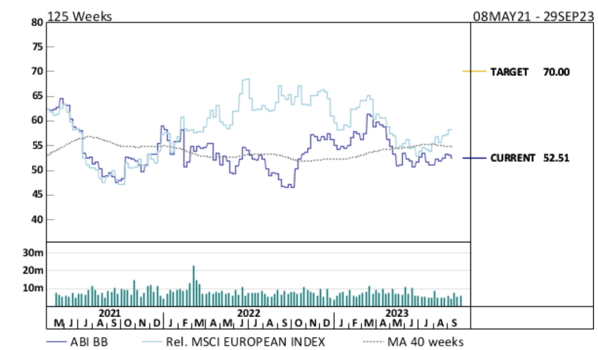
Valuation

We believe that consumer staples stocks lend themselves to a DCF valuation methodology owing to the relative strength and predictability of their cash flows together with, in some instances, a significant mismatch between capital expenditure and depreciation charged through the profit and loss account, meaning that P&L-based valuation metrics (PE ratio, EV/ EBITDA ratio) can be misleading. We use a derivative of a traditional DCF calculation called adjusted present value (APV) whereby the business's operating cash flows are discounted at its cost of equity (8% in this instance) and tax shield at the cost of debt (2.9%). We assume a terminal growth rate of 2.5% per annum from 2035. Under these assumptions, we derive a fair value of €66 per share. Discounting the APV forward by a year at the cost of equity and adding in our dividend forecast for 2023 yields a 12-month price target of €70. Our price target and the implied return support our Outperform rating.

Risks to rating and price target

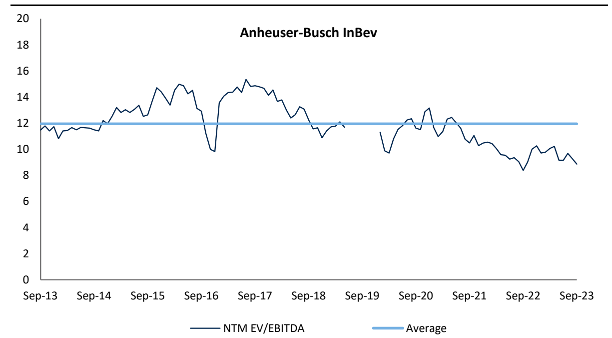
If the Bud Light controversy in the US continues to attract airtime with consequent impact on the volumes of ABI's largest brand, or negative repercussions spill over into other brands and/or geographies, it would have adverse implications for the group's reputation and profitability. Almost all of ABI's debt is in developed market currencies (principally US$ and €s). Any delay in paying down debt (for example, as a result of emerging market currency weakness) would be unhelpful for ABI's share price. The US is ABI's largest market and its largest mainstream brands have consistently lost market share; an acceleration in this market share loss, or slowdown in the US market overall, would not be good. ABI is heavily exposed to emerging markets, notably, Brazil, China, Colombia, Mexico and South Africa. A significant deterioration in consumption or market share in these markets would be a downside risk.

Exhibit 11 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 12 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

Associated British Foods plc (LSE: ABF)

RBC Europe Limited
Richard Chamberlain (Analyst) +44 20 7429 8092, richard.chamberlain@rbccm.com

Rating: Outperform | **Closing Price: GBp 2,068.00**

Price Target: GBp 2,500.00 | **Implied All-in Return (%): 23.0**

Investment summary

ABF's largest business, Primark, offers a space rollout story in Europe and the US, and remains the leading value player in the UK retail space. We expect a further healthy sales trend in the short term, given ongoing recovery trends for store-based retailing, with a strong margin improvement for Primark in FY24/25. On the Food side of the business Grocery has now passed through more cost inflation, while Ingredients appears to be benefitting from a more benign competitive environment. Sugar profitability has been affected short term by lower British Sugar production volumes and increased costs, but profits should improve next year helped by firmer pricing and an improved performance by Vivergo.

ABF currently trades at c.12.5x CY24E P/E and offers a c.2% dividend yield, which we view as attractive given a likely return to double-digit earnings growth from FY24E.

Potential catalysts for the stock: ABF will report its FY results on November 7. At its FY pre-close it stated that it expected full year profits to be slightly better than previous expectations of Group adjusted profit to be moderately ahead of last year. For FY24, we expect a significant recovery in gross margin and operating margin at Primark, given lower freight and raw material costs, pricing and FX benefits. We also expect a substantial improvement in sugar profitability, driven by improvements at British Sugar and a recovery by Vivergo.

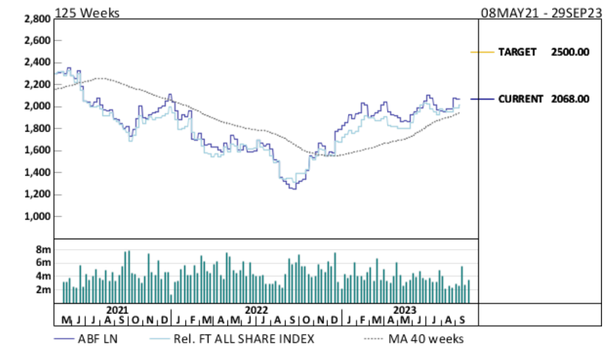
Valuation

We use an average of DCF and sum-of-the-parts analysis to arrive at our price target of 2,500p for ABF. For our DCF, we model a 10-year sales CAGR of 5%, EBIT CAGR of 7% and FCF CAGR of 32%. We use a WACC of 8% and a terminal growth rate of 2.0% due to ABF's global reach with some international growth potential. Our DCF suggests an implied share price of c.£24.35. In our sum-of-the-parts for ABF, we use a FY24E P/E multiple of c.16x for Primark, below Inditex and H&M (c.18-20x) and TJX (c.23x) to reflect its lack of a developed omnichannel offer. For Grocery (c.14x), we value Twinings Ovaltine at a 20% discount to Nestle (ex L'Oreal) and Unilever P/E multiples, and place the rest on a 40% discount. We value Sugar at 9x P/E, above Suedzucker (c.7x). Finally, we value Ingredients at 14x, ahead of Glanbia (c.12x) and below Kerry Group (c.18x) and value Agriculture at 8x, above Origin Enterprises (6.5x). This suggests an implied share price of c.£25.32. Our price target supports an Outperform rating.

Risks to rating and price target

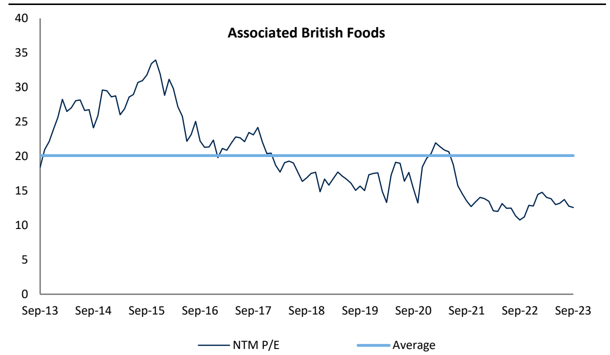
The biggest rating and price target risks for ABF, in our view, are: (1) if footfall to Primark stores weakens materially; (2) Primark's margin outlook weakens due to higher purchasing costs or more/less discounting than we expect; (3) grocery sales growth is below expectations or input cost pressures are higher than we forecast; and (4) if Sugar profits are materially weaker than expectations owing to lower production or a weaker pricing environment.

Exhibit 13 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 14 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Boston Scientific Corporation (NYSE: BSX)

RBC Capital Markets, LLC
Shagun Singh (Analyst) (646) 618-6886, shagun.singh@rbccm.com

Rating: Outperform | **Closing Price: USD 52.80**
Price Target: USD 61.00 | **Implied All-in Return (%): 15.5**

Investment summary

BSX is increasing its WAMGR by shifting into faster-growing MedTech end markets. BSX's shift into higher adjacent growth markets via tuck-in M&A is poised to drive its WAMGR from -1% in 2011–12 to +6% by 2024E and 7–8% during 2024E–26E. The key growth areas include single-use endoscopes (EXALT-D/B), prostate health (Rezum), cardiac monitors (Preventice, LuxDx), cryoablation (POLARx) and pulsed field ablation (Farapulse), neuromodulation (WaveWriter Alpha), structural heart (Accurate Neo2, Watchman), and peripheral interventional (TheraSphere, EKOS), among others. BSX's category leadership strategy driven by product innovation and M&A should drive organic revenue growth above its WAMGR and at the high end of its stated long-term range (8–10%) or even exceed it.

M&A is the No. 1 focus at BSX in driving category leadership. We expect BSX to continue its disciplined approach to M&A. It spent +$13B in deals and +$1B in investments across +50 companies in the last decade with +35 active investments in its VC portfolio. In 2021, BSX made six acquisitions (Preventice, Farapulse, Lumenis, Vertiflex, Devoro, and Baylis), and it is committed to a BBB+ rating with gross leverage of 2.25–2.50x. BSX expects to allocate its FCF to high-quality tuck-in/adjacent M&A and opportunistic share buybacks.

Positioned to drive consistent double-digit EPS growth. BSX has a clear pathway to consistent double-digit EPS growth driven by top-tier organic revenue growth (guidance of 8–10% organic CAGR during 2024E–26E) and strong annual OM expansion (+150bps cumulative through 2026E). We project GM expansion over time driven by margin-accretive product launches, value-improvement initiatives, and strategies to reduce pricing pressure; OM driven by efficient SG&A spending and enhanced productivity in R&D spending. We expect BSX to deliver +30% OMs over time.

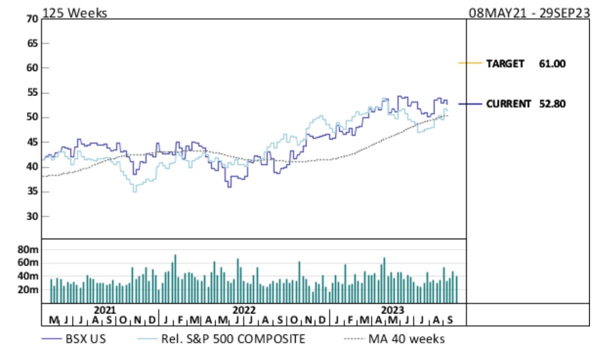
Valuation

Our $61 price target is an equal blend of: (1) DCF yields a value of $62 per share and reflects our forecast through 2032 with a 2% terminal value growth rate and a WACC of ~6.8%; (2) EV-to-Sales analysis uses a 2024E sales multiple of ~6.25x, which yields a value of $60; (3) EV-to-EBITDA analysis uses an 18.0x multiple on 2024E EBITDA, which yields a value of $60; (4) P/E multiple of 27.0x on 2024E EPS, which yields a value of $60. Our $61 price target supports our Outperform rating.

Risks to rating and price target

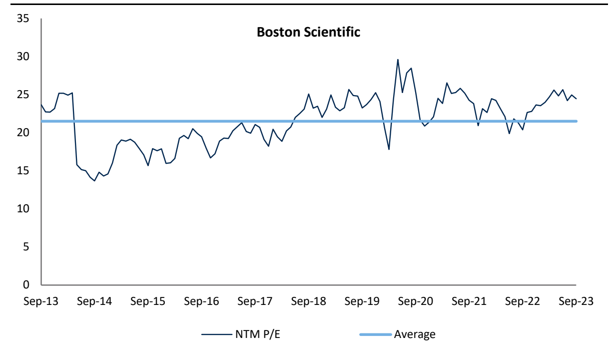
Risks to rating and price target include, but are not limited to: (1) competition that can disrupt and take share; (2) R&D efforts or clinical trials that do not materialize; (3) supply chain or manufacturing disruptions; (4) geopolitical risk; and (5) FX headwinds.

Exhibit 15 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 16 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Canadian Natural Resources Limited (TSX: CNQ; NYSE: CNQ)

Rating: Outperform | **Closing Price: CAD 87.84**
Price Target: CAD 90.00 | **Implied All-in Return (%): 6.6**

RBC Dominion Securities Inc.
Greg Pardy, CFA (Head of Global Energy Research) (416) 842-7848, greg.pardy@rbccm.com

Investment summary

We rate the common shares of Canadian Natural Resources Outperform for the following reasons:

Globally Distinguished. Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by moderate sustaining capital—affords the company superior free cash flow generative power, in our view.

Management Committee Structure. CNQ does not have a CEO. Instead, the company is stewarded by a management committee consisting of 22 people. This group meets weekly and oversees all matters spanning marketing, finance, ESG, operations, and technology, amongst others. Murray Edwards, Executive Chairman, Tim McKay, President, and Mark Stainthorpe, CFO, are all key members of the committee.

Impressive Shareholder Returns. Alongside fourth-quarter 2022 results, CNQ modified its shareholder returns policy which now revolves around a net debt floor of $10 billion (up from $8 billion previously). The company is currently allocating 50% of its free cash flow (after dividends and base capital) towards share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction. Under its new policy, once CNQ's net debt falls to $10 billion the company will allocate 100% of its free cash flow as incremental returns to shareholders. Free cash flow will be defined as adjusted FFO less dividends and total capital expenditures (excluding A&D) in the year. To the extent that the company's net debt rises above $10 billion, it would revert to its prevailing 50/50 policy. CNQ's net debt sat at approximately $12.0 billion as of June 30.

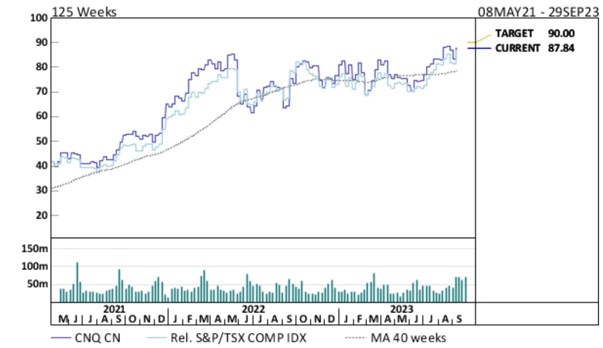
Valuation

Our price target of $90 per share reflects an equal weighting toward a multiple of 1.2x our NAV and an implied 2023E debt-adjusted cash flow multiple of 8.9x at mid-cycle commodity prices. The multiples we have chosen reflect CNQ's superior execution capability, long-life, low-decline asset base, and free cash flow generation potential. Our price target and implied return support our Outperform rating.

Risks to rating and price target

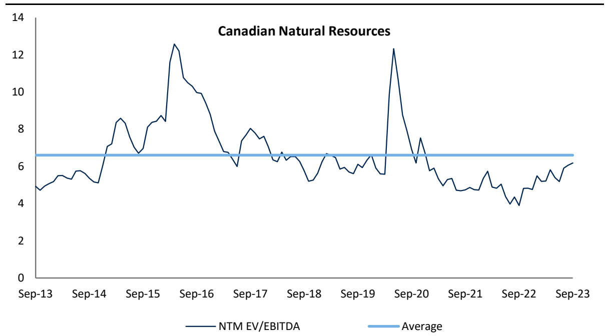
The most significant risk to our price target and rating is unexpected changes in crude oil and natural gas prices. Other risks include the impact of foreign exchange and government legislation as it relates to royalties, income taxes, and environmental policy.

Exhibit 17 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 18 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

Constellation Software Inc. (TSX: CSU)

RBC Dominion Securities Inc.
Paul Treiber, CFA (Analyst) (416) 842-7811, paul.treiber@rbccm.com

Rating: Outperform	Closing Price: CAD 2,804.07
Price Target: CAD 3,300.00	Implied All-in Return (%): 17.9

Investment summary

We believe that Constellation Software is likely to generate one of the highest returns for shareholders over the long term in our coverage universe. Our Outperform thesis reflects: 1) Constellation's ability to rapidly compound capital through acquisitions; 2) Constellation is well positioned to benefit in an uncertain macro environment; and 3) Constellation's valuation appears attractive.

Constellation's ability to rapidly compound capital through acquisitions. We believe that Constellation Software is likely to generate one of the highest returns for shareholders over the long term in our coverage universe. Our outlook reflects the compounding of Constellation's high hurdle rates, along with the scalable nature of Constellation's decentralized business model. Constellation has made changes to its business model to provide for the redeployment of capital at high rates of return. Additionally, the acquisition targets in Constellation's database continue to grow (now at 40k, up from 1.2k in 2006). The 40k acquisition targets imply a large $200B+ addressable market. Moreover, Constellation is pushing decisions for allocating capital further down into the organization. Constellation deployed a record $1,694MM capital on acquisitions in FY22, compared to $1,362MM in FY21 and just $531MM in FY20.

Well positioned to benefit in an uncertain macroeconomic environment. The high frequency of acquisitions and capital deployed YTD in 2023 demonstrate that Constellation's model is counter-cyclical. In periods of economic and financial duress, we believe that Constellation is more likely to deploy larger amounts of capital at high rates. Moreover, Constellation's software is mission-critical and required for day-to-day operations. Recurring maintenance revenue accounted for 71% of FY22 revenue. Our outlook calls for Constellation's constant currency organic growth to remain stable at 4.5% FY23E and 2.0% FY24E, from 2.8% FY22.

Constellation's valuation appears attractive. Constellation is trading at 20x FTM EV/EBITDA, above Canadian software consolidators. Constellation's valuation appears attractive to us given the company's proven ability to compound FCF/share over the long term.

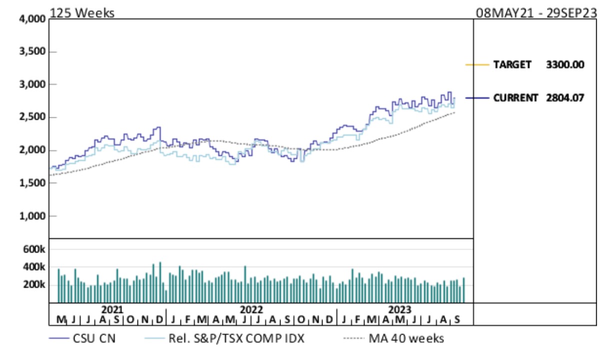
Valuation

Our C$3,300 price target equates to 22x CY24E EV/EBITDA, justified above Canadian software consolidator peers, in our view, given Constellation's faster ability to compound capital in the long term. Constellation has converted 84% of adj. EBITDA into FCF over the last five years. Our price target supports our Outperform rating.

Risks to rating and price target

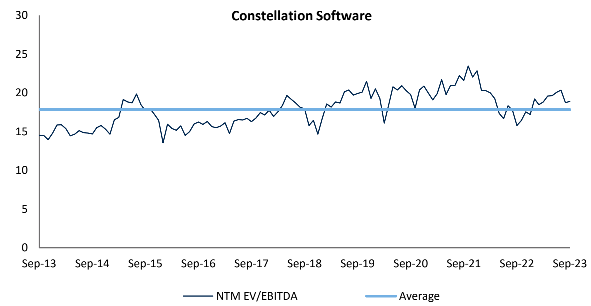
Risks to our rating and price target include: (1) quarterly lumpiness; (2) lack of accretive acquisition candidates; (3) unexpected organic growth headwinds; (4) an inability to sustain further margins; (5) loss of key employees; and (6) a decline in tech market valuations.

Exhibit 19 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 20 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

CrowdStrike Holdings, Inc. (NASDAQ: CRWD)

RBC Capital Markets, LLC
Matthew Hedberg (Analyst) (612) 313-1293, matthew.hedberg@rbccm.com

Rating: Outperform	**Closing Price: USD 167.38**
Price Target: USD 200.00	**Implied All-in Return (%): 19.5**

Investment summary

CrowdStrike was founded in 2011 with a mission of reinventing security for the cloud era. Co-founder George Kurtz previously worked at a gen-1 AV endpoint vendor and was motivated to build CrowdStrike after realizing that legacy security technology was incapable of protecting customers against modern attacks within a hybrid-cloud architecture.

The company developed a differentiated cloud-native security platform that leverages its lightweight intelligent agent and Threat Graph database across a multi-module portfolio of solutions. The company and its customers benefit from the network effect, as each additional endpoint added to the platform expands the crowd-sourced database, which in turn improves the quality of the algorithms.

We view CrowdStrike as a prime land-and-expand model benefiting from SaaS delivery and ability to rapidly add more modules with no extra configuration or consulting needed. The long-term power of the install base should lead to strong net expansion rates as the company cross-sells additional seats (endpoints) and modules.

Potential catalysts for the stock include: (1) ability to maintain net expansion rates by selling additional products into its growing customer base and maintaining low churn rates; (2) new product introduction and/or traction from recently introduced modules; specifically Cloud Workload protection; (3) accelerated customer additions leveraging its multi-pronged, go-to-market approach; (4) Accelerated share-shift from legacy vendors; and (5) Faster-than-expected progression toward profitability driven by top-line success.

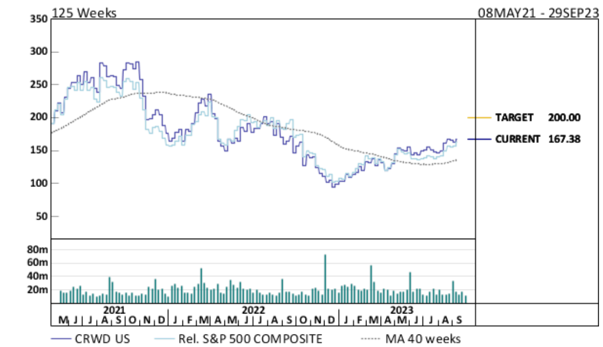
Valuation

We calculate our $200 price target based on 12.3x CY/24E EV/S which remains in line with leading growth security peers and appears reasonable given our LT view of growth and profitability. Additionally, our target assumes 40x CY/24E FCF. Our price target supports an Outperform rating.

Risks to rating and price target

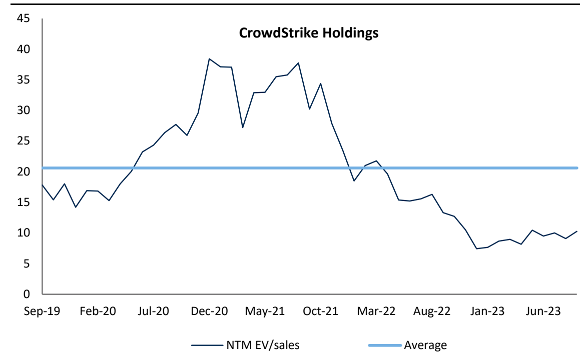
Risks to rating and price target include: (1) CrowdStrike operates in a market with competition from larger legacy competitors, like Symantec, as well as newer entrants; (2) potential pricing pressure given the crowded nature of the market; (3) CrowdStrike operates a land-and-expand model; failure to retain existing customers could be a detriment; (4) CrowdStrike has experienced rapid growth – failure to manage growth/expectations could cause operational challenges; and (5) COVID-19 could impact company operations or customer demand.

Exhibit 21 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 22 - Forward consensus EV/sales history



Source: FactSet

Most recent company note: link

Diamondback Energy, Inc. (NASDAQ: FANG)

RBC Capital Markets, LLC
Scott Hanold (Analyst) (512) 708-6354, scott.hanold@rbccm.com

Rating: Outperform	Closing Price: USD 154.88
Price Target: USD 170.00	Implied All-in Return (%): 15.6

Investment summary

We believe FANG shares should outperform its peer group over the next 12 months. Management has built a solid Permian Basin position with a deep inventory of liquids-rich development opportunities. The company is one of a few that have amassed a combination of quality assets, strong economic growth, minerals ownership, and a water business, which collectively help to provide a competitive advantage. We believe FANG has one of the lowest cost structures in the basin and a corporate cash flow breakeven (including dividend) that is among the best in the industry.

A shareholder-friendly return proposition that includes at least 75% of FCF in the form of a fixed dividend, variable dividend, and stock buybacks. Management plans to be opportunistic on buybacks when FANG shares trade at or below the implied mid-cycle valuation ($60/bbl based).

The company has a runway of tier-1 inventory projects that extend more than a decade.

FANG has a track record of achieving its growth targets while spending within cash. It has a willingness and demonstrated ability to adjust activity levels quickly in response to challenging market conditions.

FANG's corporate strategy is expected to maintain its ESG focus.

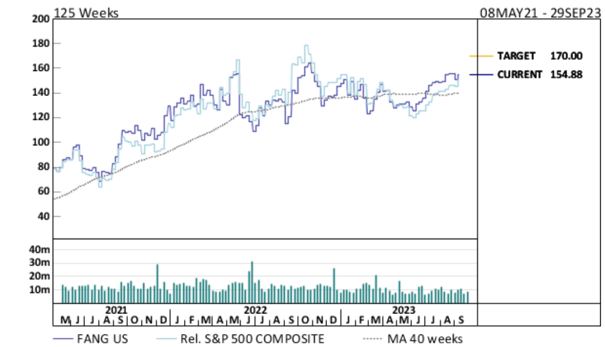
Valuation

Our $170/share price target reflects a premium to our $153/share Net Asset Value (NAV) and a 6.8x multiple on our 2023 EBITDA estimate. Our NAV is a risked assessment of 3P reserves using the long-term RBC commodity price outlook of $65/bbl (WTI), $70/bbl (Brent), and $3.75/Mcf (HH). We expect FANG to trade at a premium to our NAV related to a lower commodity price environment that is reflected in our long-term price forecast. We expect the company to trade in line with peer EBITDA multiples. Our price target along with the NAV upside opportunity supports our Outperform rating.

Risks to rating and price target

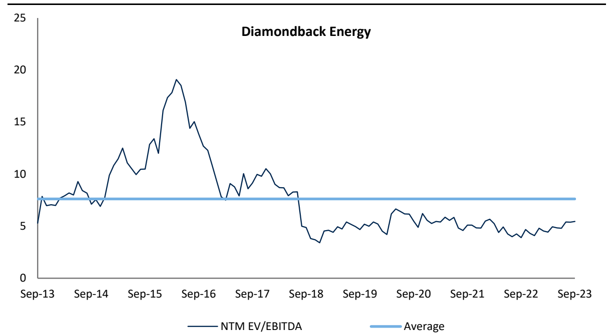
Risks to rating and price target include: (1) much of the potential in FANG shares relies on executing its development strategy on its unconventional acreage positions – results below expectations in this area would have an adverse effect on the stock; and (2) weaker-than-expected commodity prices could cause the stock to perform below our expectations and impede achievement of our price target objective.

Exhibit 23 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 24 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

Element Fleet Management Corp. (TSX: EFN)

RBC Dominion Securities Inc.
Geoffrey Kwan, CFA (Analyst) (604) 257-7195, geoffrey.kwan@rbccm.com

Rating: Outperform | **Closing Price: CAD 19.49**
Price Target: CAD 30.00 | **Implied All-in Return (%): 56.0**

Investment summary

Why we rate EFN shares Outperform: Four key themes drive our positive view of EFN: **(1) attractive growth** – We forecast that EFN's EPS could grow at a mid-teens CAGR over the next five years, driven by new client wins, organic growth within existing customers, and significant returns of capital; **(2) multiple potential catalysts** (see below); **(3) strong defensive attributes** – EFN faces minimal credit/residual risks and tends to have long-term contracts (3–5 years) with high retention rates (~99%); and **(4) attractive valuation** – we see high EPS growth as a key driver of valuation and potential valuation multiple expansion.

Why we like the fleet management industry: In our view, the fleet management industry has several attractive attributes, which we think, given that EFN is the largest player in North America, should provide outsized benefits to the company. Specifically: (1) the fleet management industry has high barriers to entry, which we think is partly attributable to high switching costs for customers, but also significant scale benefits; (2) the industry has a favorable competitive landscape, which we think has generally resulted in rational pricing behavior; (3) as mentioned above, the industry benefits from long-term contracts and very low client turnover/churn; and (4) the industry has strong free cash flow generation potential.

Potential catalysts for the stock include: (1) stronger origination volumes; (2) new customer wins and cross-selling existing customers new fleet services; and (3) increased returns of capital (e.g., further dividend increases, share buybacks, etc.).

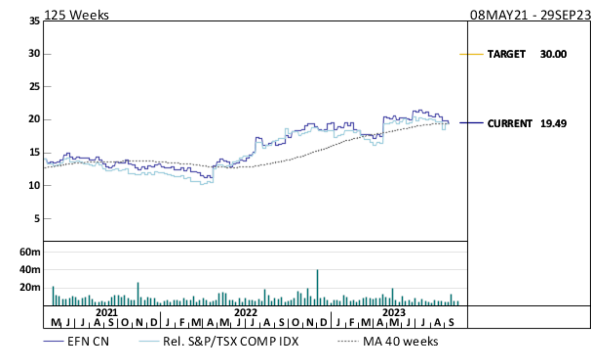
Valuation

Our 12-month price target is $30/share. Our 12-month price target is based on applying an 18x multiple to our blended 2024E/2025E fully diluted operating EPS forecast of $1.69, which is a premium to the global fleet manager peer average. We believe a premium to global fleet management peers is warranted given factors including higher expected growth, stronger fundamentals, greater scale, and very little exposure to credit risk. Our target multiple reflects an attractive mix of strong positive fundamentals, attractive growth potential even in a recession scenario, potential catalysts (e.g., earnings upside) and defensive attributes. We believe our 12-month price target and the implied total return support our Outperform rating.

Risks to rating and price target

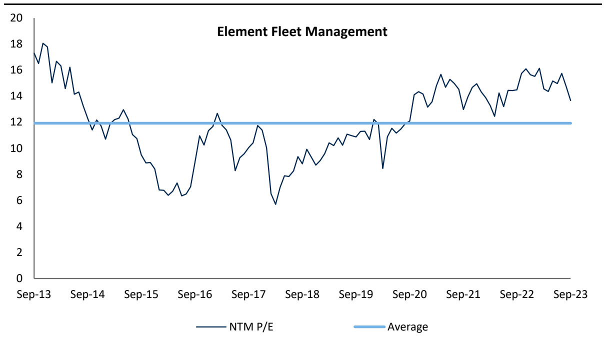
Risks to rating and price target include: (1) evidence of further delays to the time of normalizing originations/OEM production past mid-2023 (EFN's current guidance); (2) key customer losses; and (3) key personnel departures.

Exhibit 25 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 26 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Ferrari N V (MILAN: RACE)

RBC Europe Limited
Tom Narayan (Analyst) +44 20 7429 8594, tom.narayan@rbccm.com

Rating: Outperform	**Closing Price: EUR 279.70**
Price Target: EUR 335.00	**Implied All-in Return (%): 20.1**

Investment summary

Production increase on the horizon. The launch of new vehicles like the Roma and the Purosangue should enable Ferrari to penetrate new demographics and the substantial Chinese luxury auto market. Finally, Ferrari is likely, in our view, to dramatically expand its production. It has the capacity to make 15,000 vehicles but currently makes only 13,000.

Ferrari is a luxury stock. Ferrari's EBITDA margins, stock price movements, and customer base are more similar to those of luxury stocks than auto OEMs. More than 40% of Ferrari owners already have at least one Ferrari and customers are largely in the growing UHNW (ultra-high net worth) and millionaire segment, similar to high-end luxury products. Furthermore, like some luxury brands, Ferrari has pricing power and loyalty, especially given the aura of exclusivity that it has garnered among its customers.

Electrification fears overblown. Demand for Ferrari's PHEV products is strong and the company is able to price its EVs higher. Moreover, we expect the company to leverage EV technology to enhance the product – acceleration, handling, etc. Finally, Ferrari is open to using partners instead of going it solo on EVs. As such, we expect capital allocation to be prudent.

Potential catalysts for the stock include: (1) Purosangue launch; (2) growth of UHNW and millionaire demographic; and (3) take rate of EV products.

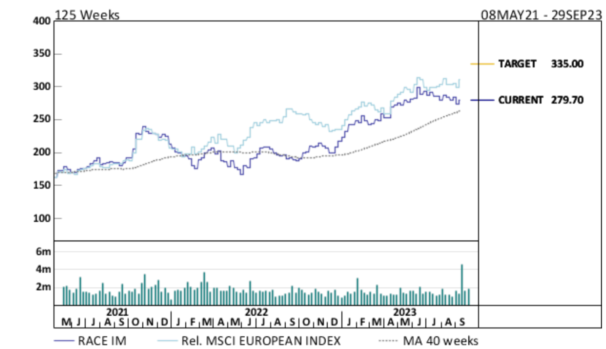
Valuation

Our €335 price target is derived by applying a 27x multiple to our 2024E EBITDA. We then add Industrial net cash, subtract underfunded pension liabilities, and discount back @7% to arrive at our equity value. Our price target supports our Outperform rating.

Risks to rating and price target

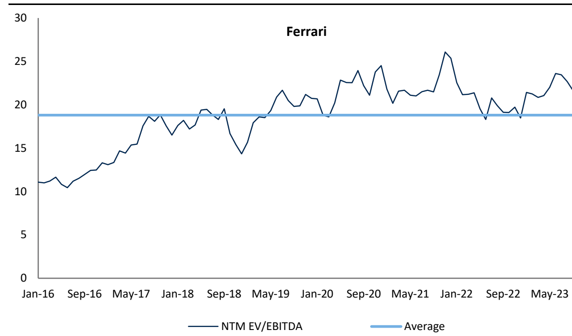
Risks to rating and price target include: (1) challenges to penetrating China; (2) electrification is not in Ferrari's DNA; and (3) premium SUV market is already hyper-competitive.

Exhibit 27 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 28 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

HEICO Corporation (NYSE: HEI)

RBC Capital Markets, LLC
Ken Herbert (Analyst) (415) 633-8583, ken.herbert@rbccm.com

Rating: Outperform	**Closing Price: USD 161.93**
Price Target: USD 200.00	**Implied All-in Return (%): 23.5**

Investment summary

HEICO is a high-quality A&D supplier. The company generates above-industry margins and its FCF conversion ranks consistently as some of the highest in the industry. Moreover, HEI has delivered ~20% top-line growth for several years, making it a long-time A&D favorite for growth investors. We believe the company identified an inefficiency in the commercial aerospace AM (PMA parts) and has built a strong commercial AM and defense electronics set of capabilities.

As the industry recovers, we believe there is a long runway for HEI's commercial business. For example, as fleets age in emerging markets and China, we believe the demand for alternative aircraft parts will increase. The pace may not be the same as it has been in established markets in North America, Europe, and North Asia, but we believe the fundamentals will support the gradual adoption of PMA parts globally. HEI does face competition from OEMs, but it remains disciplined on its PMA and DER selection process. Moreover, the company is well positioned for continued share gains in its commercial aerospace offering as the aviation industry continues to recover.

Key catalysts for HEI include potential M&A transactions, Wencor integration, de-leveraging, and quarterly upside surprises relative to conservative estimates. We also believe that investors will be focused on the quarterly cadence of aerospace sales.

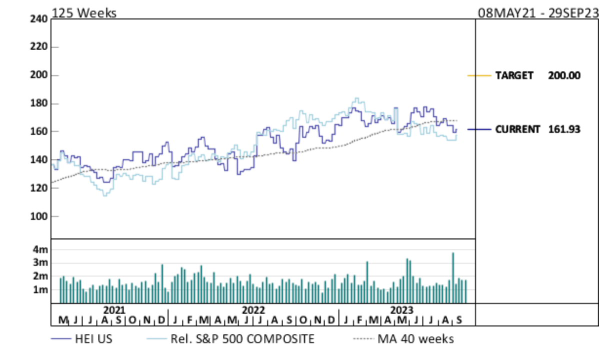
Valuation

Our $200 price target is based on a blend of 48x our 2025E P/E and 25x our 2025E EV/EBITDA. We believe multiples at the mid-to-upper end of the historical ranges are appropriate considering that we are in the mid-stages of the anticipated aerospace recovery, and the company should see incremental upside from acquisitions, not yet reflected in estimates. Our price target supports our Outperform rating.

Risks to rating and price target

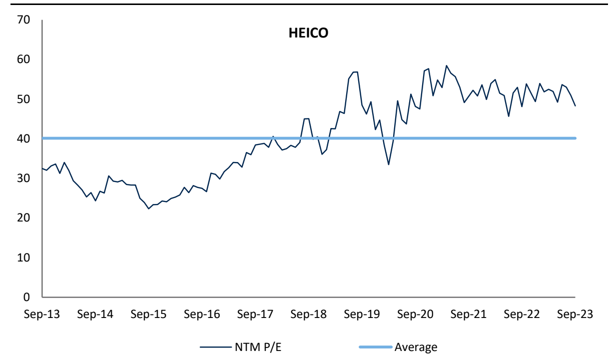
Risks to rating and price target include: (1) pace of the air travel recovery and impact of COVID-19 variants on business and leisure air travel; (2) supply chain disruptions and material lead times; (3) ability to hire the necessary human capital to support growth objectives and opportunities; (4) airline maintenance spending plans and overall airline financial health; (5) airline and aircraft part distributor inventory levels; (6) airline deferred maintenance plans and availability and pricing of new and used space parts and material; (7) total defense spending levels for both modernization efforts and legacy defense systems; (8) timing and opportunity for foreign military sales; (9) risk to FY24 defense budget passage and timing of contract awards; (10) pace of new company product and service introductions; (11) pace and successful integration of future M&A activity; (12) cost management and free cash flow generation; and (13) interest rates and the ability to access capital to support acquisition and other growth initiatives.

Exhibit 29 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 30 - Forward consensus P/E history



Source: Factset

Most recent company note: link

Illumina, Inc. (NASDAQ: ILMN)

RBC Capital Markets, LLC
Conor McNamara, CFA (Analyst) (619) 782-5265, conor.mcnamara@rbccm.com

Rating: Outperform	Closing Price: USD 137.28
Price Target: USD 318.00	Implied All-in Return (%): 131.6

Investment summary

We rate ILMN Outperform with a $318 price target. We believe Illumina's current stock price over-discounts the likelihood of share erosion from smaller competitors and does not factor in years of R&D spend and product innovation that Illumina has invested in the next-gen sequencing (NGS) market, which represents a company-projected $120B TAM. We believe a return to sustainable DD revenue growth will lead to multiple expansion more in line with historical levels, leading to price appreciation.

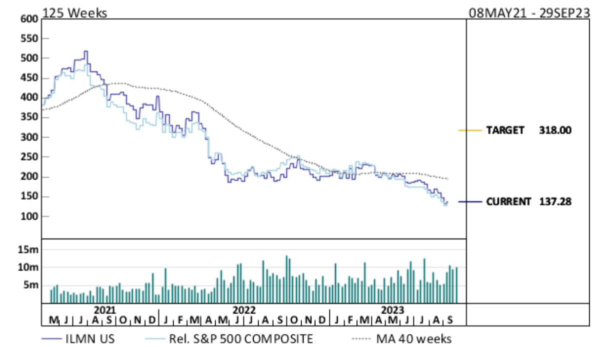
Valuation

Our 12-month price target is based on 9x our CY'25 core ILMN sales estimate. Our target multiple is the 5-year average of pre-pandemic EV/sales multiples of other "innovator" HC stocks and also equates to a similar multiple expansion that we observed from Q4'16 to Q4'17, when ILMN launched the NovaSeq 6000. We also assume that ILMN divests Grail for $0 net proceeds and pays the EU fine of ~$450m. All together that gets us to our price target of $318, which justifies our Outperform rating.

Risks to rating and price target

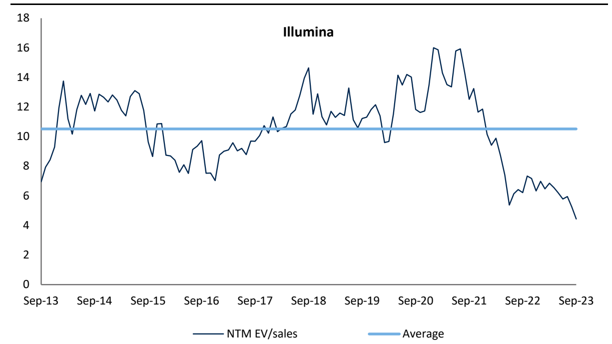
Risks to our rating and price target include: (1) Illumina's divestiture of Grail and subsequent appeals could result in earnings drag, and distraction to management may continue for several years; (2) competition may adversely impact Illumina's operations and financial performance and our CY'25 revenue estimate may be too high; and (3) alternatives to NGS, including long-read sequencing, could damage ILMN's market position.

Exhibit 31 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 32 - Forward consensus EV/sales history



Source: FactSet

Most recent company note: link

London Stock Exchange Group plc (LSE: LSEG)

RBC Europe Limited
Ben Bathurst (Analyst) +44 20 7429 8910, ben.bathurst@rbccm.com

Rating: Outperform	**Closing Price: GBp 8,234.00**
Price Target: GBp 10,000.00	**Implied All-in Return (%): 22.9**

Investment summary

We have an Outperform rating and £100 price target. Following the completion of the Refinitiv deal, LSEG has transformed into an enlarged group with higher quality revenue streams and enhanced exposure to secular growth themes.

We expect the diverse, mostly recurring, revenue streams of the enlarged group to convert to strong cash generation over all time horizons, and we expect leverage to reduce to 1.6x by Dec-23.

Surplus cash generation may be used to buy back shares from Thomson Reuters and Blackstone (as announced with the intended £750m directed buyback), reduce debt further, increase shareholder returns, and as would be our preference, to invest in the range of strategic initiatives that the group has outlined, presenting a source of upside potential to our EBITDA estimates for outer years.

We argue that the transaction changes the most relevant peer group to information service providers. Compared to this peer group, LSEG stands out as trading at a discount to sub-sector averages in P/E and EV/EBITDA terms, despite having stronger than average expected earnings growth.

Improving cyclical factors and re-deployment of surplus cash from 2023 onwards are both sources of potential upside to our estimates.

Valuation

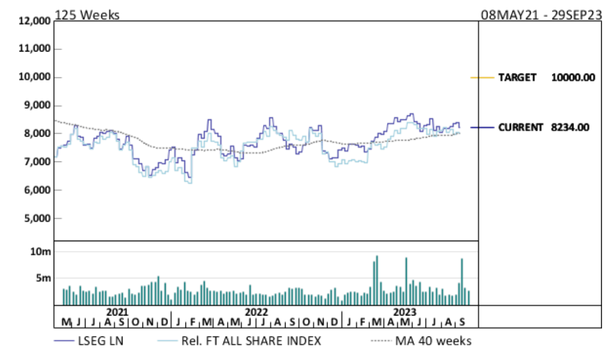
Our price target for London Stock Exchange Group (LSEG) is derived from a discounted cash flow model. We use a three-stage model, whereby we apply a Risk Discount Rate of 8% (reflecting our view of the relative risk of LSEG's business model) and a terminal value growth assumption of 3%. We model our DCF on a reported basis, incorporating FX adjustments to our earnings. We also deduct FY22 net debt of £6.226bn to reach our equity value.

Our price target implies a FY 2023E P/E of 32x, which we see as justified given LSEG's strong FCF generation and exposure to structural growth markets. Our price target of 10,000p supports an Outperform rating.

Risks to rating and price target

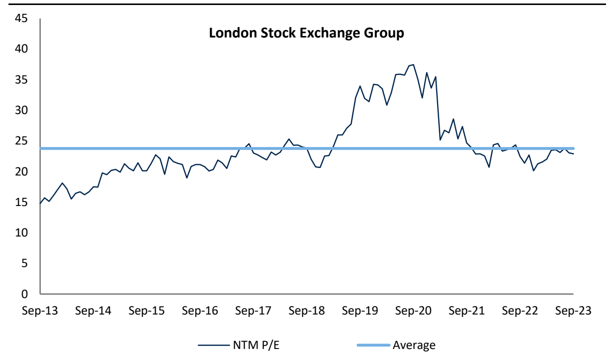
Risks to rating and price target include: (1) failure to integrate with Refinitiv efficiently could produce lower revenue synergies than expected at a higher cost; (2) competition in each of its three business areas could lead to a decrease in LSEG's market share in the respective areas; and (3) Brexit uncertainty remains for Post Trade businesses as only temporary CCP equivalence has been granted to the UK clearing houses until 2025 – although we believe it is unlikely that the European Commission will completely remove all exposure to UK CCPs, this extreme outcome could impact approximately 6% of SwapClear notional.

Exhibit 33 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 34 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Lonza Group AG (SWX: LONN)

RBC Europe Limited
Charles Weston, CFA (Analyst) +44 20 7429 8425, charles.weston@rbccm.com

Rating: Outperform | **Closing Price: CHF 425.60**
Price Target: CHF 705.00 | **Implied All-in Return (%): 66.5**

Investment summary

Market trends to remain robust. The pharma market is growing at 6-7% pa and ongoing trends towards manufacturing outsourcing and onshoring will drive the CDMO market growth into the high single digits, in our view.

Lonza is positioned at the premium end of the market. Lonza is the largest and one of the most profitable CDMOs globally, deriving over half of its revenues from biologics, which we expect to grow faster than the overall market, and 10% from cell and gene therapy, which could grow in the high-teens pa beyond 2023, in our view.

Enhanced focus and transparency complemented by a strong balance sheet. Having divested its Water Care business in 2019 and its Specialty Ingredients division in 2021, Lonza is focused on pharma manufacturing, and the divestments have left the balance sheet with CHF0.8bn of net cash (end-'22), providing for ample strategic flexibility to invest. With an undergeared balance sheet and CHF12bn of pre-capex FCF 2023E-28E, the company has initiated a CHF2bn buyback at levels lower than our fair value.

High ROIC implies upside to consensus. Our proprietary capex project model indicates almost 20% potential upside to consensus revenue and EBITDA for 2026 — this is the key reason we are ahead of consensus forecasts.

Financials. We project a 20% EBITDA CAGR for 2023-27 as margins become less diluted from growth projects.

Valuation

The median 'EEG' of CDMO peers is 1.6x (i.e., EV/EBITDA divided by mkt-adjusted EBITDA growth) — we apply this to a normalised 15% underlying CAGR estimate of EBITDA, and apply a 10% risk adjustment to account for the company's recent trading and guidance track record. This implies 22.5x EV/EBITDA, which we apply to a mature margin (33%) EBITDA to calculate our 12-month price target of CHF705. This is roughly equivalent to our DCF calculation at a cost of equity of 9.5% and terminal growth of 3.0%. This price target supports our Outperform rating.

Risks to rating and price target

Risks to rating and price target include:

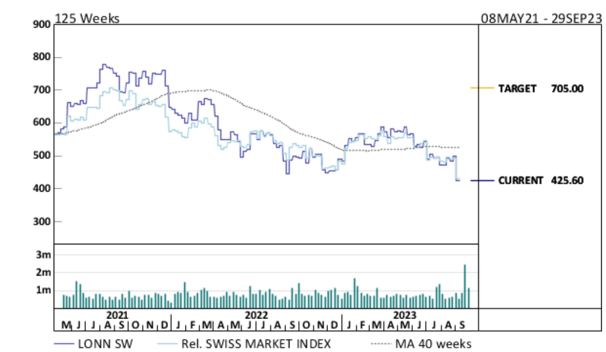
Overcapacity. Many organisations are investing in biologic production, which could lead to price competition. Our analysis suggests that this is unlikely to be an issue in the foreseeable future, but it remains a perceived risk.

Delays to ramp-up. Should the company be unable to drive volumes through its new capacity, revenue and margin would both be at risk.

Funding constraints by customers. There are already signs of a thaw in the biotech IPO market, but if the reality or perception of a tougher funding environment drives deferrals of R&D by biotechs, the pipeline of products for CDMOs may slow.

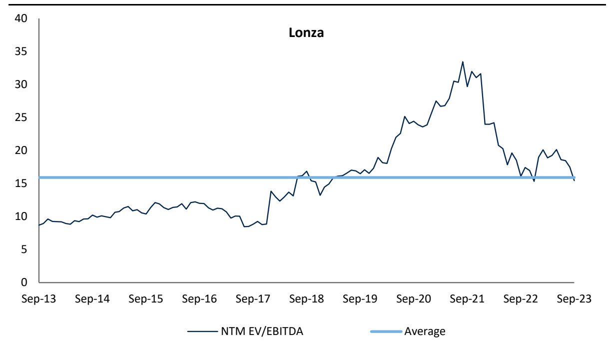
Alzheimer's outsourcing. Lonza is not a manufacturer for the new Alzheimer's drugs from Biogen/Eisai or Eli Lilly as far as we know currently, but should these manufacturers need to scale capacity, or another drug for this large unmet medical need come to market, this could be a substantial driver of additional demand, leading to upside risk to forecasts.

Exhibit 35 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 36 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

M&T Bank Corporation (NYSE: MTB)

RBC Capital Markets, LLC
Gerard Cassidy, CFA (Analyst) (207) 780-1554, gerard.cassidy@rbccm.com

Rating: Outperform | **Closing Price: USD 126.45**
Price Target: USD 160.00 | **Implied All-in Return (%): 30.6**

Investment summary

We rate MTB shares Outperform for the following key reasons:

Best-in-class management team: M&T Bank Corporation's management team has led the company through more than 15 years of consecutive quarters of profitability.

People's United Financial, Inc. (PBCT) acquisition: M&T's acquisition of PBCT had modest tangible book value dilution which was completely recovered by 1Q23.

Allocation of capital: We continue to believe the company is one of the best managers of capital among the top 20 banks. M&T's estimated Common Equity Tier 1 (CET1) ratio was 10.6% in 2Q23 versus 10.2% in 1Q23. Though in July 2022, M&T announced a $3.0 billion stock repurchase program, it did not repurchase any shares in the 2Q23. Over the near term, the buyback program is expected to moderate due to conditions in the financial markets.

Strong balance sheet: M&T proved during the last recession and financial crisis that it has a very strong balance sheet. M&T was one of only two of the top 20 banks that did not cut or eliminate its dividends over the last 15 years.

Superior underwriting standards: The company's net charge-off (NCO) ratios have consistently been below its peer group for the past 10 years.

Low-cost provider of bank products: M&T recognizes that it operates in a commodity business and therefore strives to be the low-cost provider of bank products in its markets. Its efficiency ratio (total operating expenses divided by total revenues) has consistently been the lowest among the top 20 banks.

Long-term investors rewarded: MTB's stock price has outperformed the S&P 500 and the S&P 500 bank indices in each of the last 10- and 20-year time periods. The outperformance can be attributed to the company's focus on growing tangible book value and dividends per share.

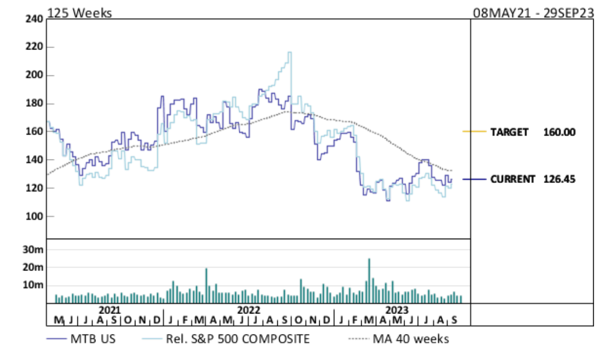
Valuation

We value MTB at $160 per share based on price to book value off our estimated 3Q24 book value per share. Our price target equates to 10.0x our 2024 EPS estimate, 1.04x 3Q24E book value, and 1.57x 3Q24E tangible book value. These multiples are consistent with the highest quality banks in the peer group. Our price target primarily reflects our profitability and risk assessment of the company relative to a peer group of similar companies, as well as current market concerns regarding an economic slowdown. Our price target and implied return support our Outperform rating.

Risks to rating and price target

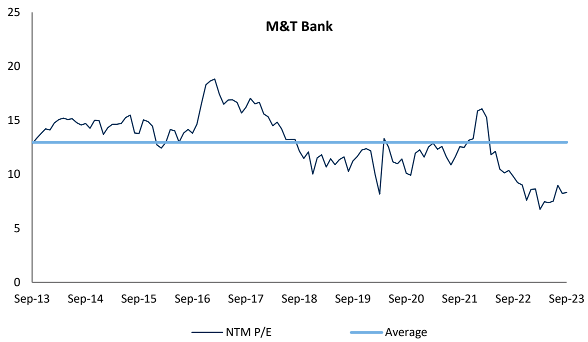
We believe excessive monetary tightening by the Federal Reserve, which results in driving the US economy into a deep recession in 2023, is the key risk for the company, our rating and price target. A deep recession would bring on elevated levels of credit losses which would depress earnings.

Exhibit 37 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 38 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Mastercard Inc. (NYSE: MA)

RBC Capital Markets, LLC
Daniel R. Perlin, CFA (Analyst) (410) 625-6130, daniel.perlin@rbccm.com

Rating: Outperform | **Closing Price: USD 395.91**
Price Target: USD 441.00 | **Implied All-in Return (%): 11.9**

Investment summary

We believe MA is a core long-term holding and an "indexed" way to play payments and benefit from three global secular mega-trends including: (1) global consumption; (2) global digitization of payments, and (3) global innovation, which is creating new payment flows. We note that ~67% of its TAM is from new payment flows, beyond the classic cash to card conversion, while we forecast service revenues to grow 2x the carded-market and are heavily focused on cyber-intelligence/security and data analytics/services, both long-term secular themes.

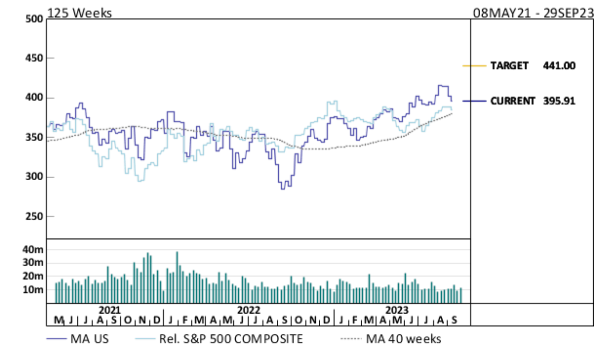
Valuation

Our price target of $441 is 30x our CY24 EPS estimate, generally in line with its historical average. Underlying our estimates are expectations for: (1) near-term pressure before a rebound to double-digit growth in purchase volumes, with modest pricing and secular growth; (2) double-digit increases in transaction revenues; (3) near-term pressure on cross-border revenue growth; and (4) relatively flat client incentives as a percentage of gross revenues. Our price target supports our Outperform rating.

Risks to rating and price target

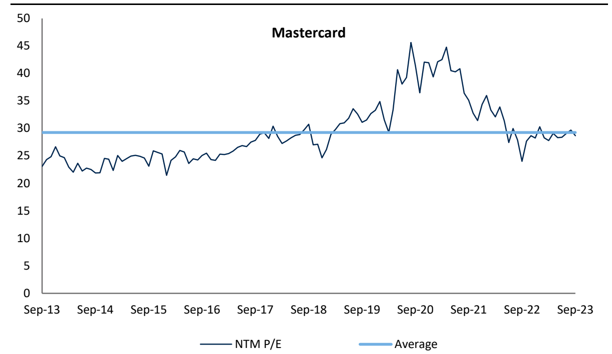
Risks to rating and price target include: a slowdown in payment volumes and cross-border travel (from such things as a global recession), increased regulatory scrutiny or a pushback from large financial institutions on pricing could impede our price target and rating.

Exhibit 39 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 40 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Meta Platforms, Inc. (NASDAQ: META)

RBC Capital Markets, LLC
Brad Erickson (Analyst) (503) 830-9488, brad.erickson@rbccm.com

Rating: Outperform	**Closing Price: USD 300.21**
Price Target: USD 400.00	**Implied All-in Return (%): 33.2**

Investment summary

In possessing both the largest user base as well as the deepest amount of knowledge (data) of that user base, we believe META can compound 15–20%+ earnings growth once it gets through its currently elevated investment cycle around AI which is aimed to both drive engagement share gains while also restoring it to being the dominant player in social media with structural advantages around ad targeting.

Valuation

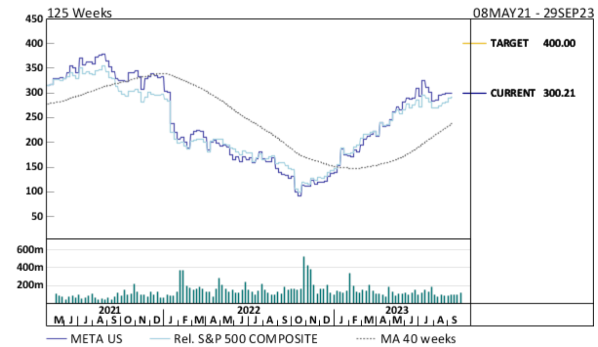
Meta trades at a discount to the broader internet group, which is largely a function of views around core market maturity and laws of large numbers. This discount is likely to persist given the undeniable size of the core business, but we think the gap should persist or narrow depending on META's ability to demonstrate stability in its ad business relative to the Apple-related disruption around signal loss.

Our $400 price target supports our Outperform rating and is based on 12x EV/'24E EBITDA and 22x P/'24E EPS. Our target multiples are below the peer group due to high market penetration and sheer size but in our view reasonable for the long-term secular growth and compounding earnings power of the core business.

Risks to rating and price target

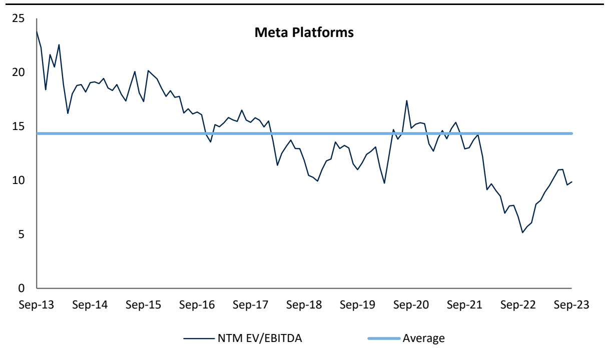
Risks to rating and price target include: regulation, user privacy mandates implemented by either governmental agencies or competing ecosystem providers, competition from existing social platforms or potentially other large technology players, public perception that could lead to a decline in usage, and a macroeconomic downturn.

Exhibit 41 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 42 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

Palo Alto Networks, Inc. (NYSE: PANW)

RBC Capital Markets, LLC
Matthew Hedberg (Analyst) (612) 313-1293, matthew.hedberg@rbccm.com

Rating: Outperform | **Closing Price: USD 234.44**
Price Target: USD 281.00 | **Implied All-in Return (%): 19.9**

Investment summary

Palo Alto Networks is a provider of next-generation network and endpoint security. The company should be able to grow into a growing network and endpoint security market by expanding within its customer base while increasing its reach to new customers through a larger portfolio, geographical expansion, and share shift. We view Palo Alto as well positioned to benefit from an increasingly complex security and threat landscape and as an industry leader in security.

Growth drivers include: (1) above-market growth opportunity by taking share from legacy security vendors; (2) land, expand, and retain strategy for maximizing value from existing install base; (3) potential market gains from a disruptive subscription business; (4) international growth opportunities; (5) opportunity for margin expansion through economies of scale; and (6) benefits from the increased focus on data security due to ongoing breaches and increased regulation.

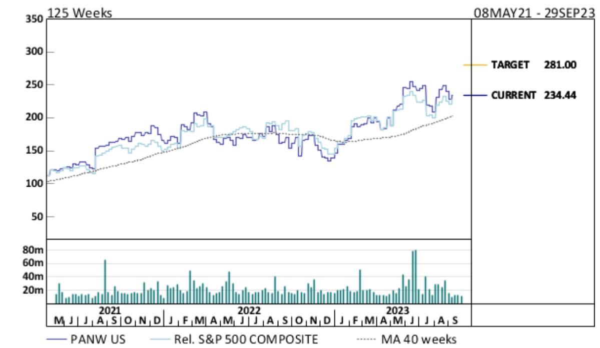
Valuation

Our $281 price target assumes that shares trade at an EV/FCF multiple of 30x our CY/24 estimate, a slight premium to LC peers. Our price target and multiple reflect our confidence in the momentum of next-gen billings and durability of network security given improved consistency as well as new visibility provided for the strategic outlook. The implied return to our price target supports our Outperform rating.

Risks to rating and price target

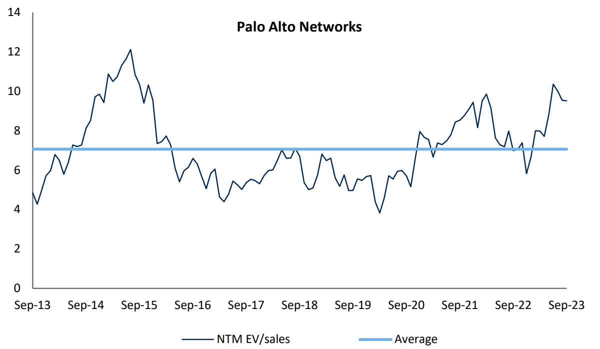
Risks to rating and price target include: (1) improvements around the product line and impact from sales incentives to drive product growth are taking longer than expected; (2) the macro environment remains uncertain; although the security market remains robust, a slowdown in global activity could hinder results; (3) dependency on channel partners is significant and concentrated among several large global distributors; (4) Palo Alto could face increased competition as it continues to take share either from legacy providers or new entrants to the security market; and (5) the company could encounter operational difficulties as it attempts to continue to rapidly increase in scale.

Exhibit 43 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 44 - Forward consensus EV/sales history



Source: FactSet

Most recent company note: link

PG&E Corporation (NYSE: PCG)

RBC Capital Markets, LLC
Shelby Tucker, CFA (Analyst) (212) 428-6462, shelby.tucker@rbccm.com

Rating: Outperform	**Closing Price: USD 16.13**
Price Target: USD 21.00	**Implied All-in Return (%): 30.2**

Investment summary

In the long term, we see significant upside potential if the company is able to execute on its plans and improve investor and rating agency confidence. Near term, we believe a discounted P/E multiple is warranted due to an untested AB 1054, though this should provide better protection relative to the past. Any potential for further material wildfire liabilities could sour regulators and politicians. Our Outperform rating is predicated on a reasonable application of AB 1054 during this wildfire season, should the need arise, which should allow some of the discounted stock valuation to subside.

Potential catalysts for the stock include:

Execution of plan under new management. Execution of the company's Lean Operating System (LOS) and wildfire plans will be essential in terms of improving the company's perceived risk profile, which could lead to greater confidence from investors and rating agencies.

Upside to capital expenditure program. Current capital forecasts include spend above authorized amounts. Potential recovery of these investments in the future may result in greater rate base growth. Approval of undergrounding would provide a boost of confidence.

CA regulatory environment. Constructive outcomes for rate cases as well as approval of additional capital investments may accelerate growth at the utility.

CA emissions targets and electrification. Statewide emissions goals as well as local efforts to decarbonize may promote electric systems over gas systems, resulting in impacts on gas customer counts.

Reintroduction of a dividend. We expect PCG to start paying a dividend by 1Q24. This should prompt income investors to add PCG to their portfolios.

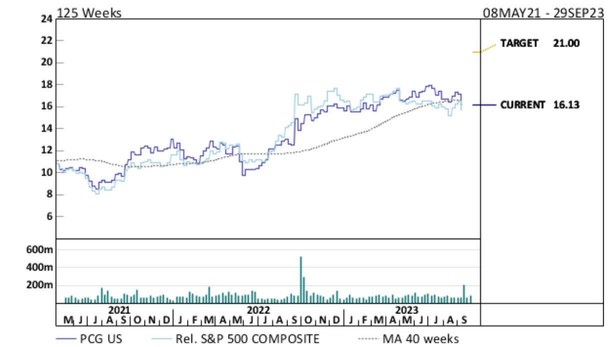
Valuation

We arrive at our $21 price target by applying a 14.4x P/E to our 2025 EPS estimate. Our target multiple is a material discount to our base electric target P/E multiple of 16.9x, which we believe is warranted due to an untested AB 1054 and headline risks. Our price target supports our Outperform rating.

Risks to rating and price target

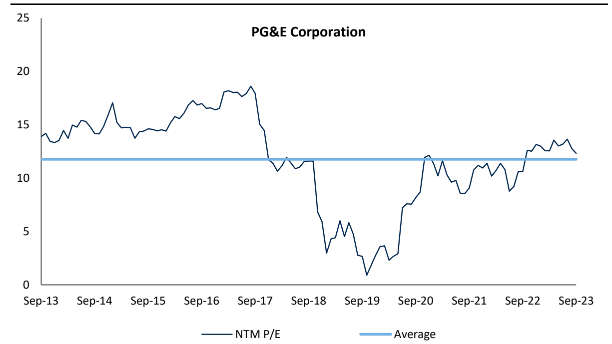
Risks to rating and price target include: (1) negative change in California regulatory environment; (2) additional fines or penalties that are unexpected related to safety matters; (3) utility causes large-scale wildfire; (4) unplanned reduction in the capital spending program; and (5) CA electrification efforts result in fewer gas customers.

Exhibit 45 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 46 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Restaurant Brands International Inc. (NYSE: QSR)

RBC Capital Markets, LLC
Christopher Carril (Analyst) (617) 725-2109, christopher.carril@rbccm.com

Rating: Outperform	**Closing Price: USD 66.62**
Price Target: USD 88.00	**Implied All-in Return (%): 34.8**

Investment summary

We continue to view QSR as our top pick among the global franchised fast-food group. We see potentially improving Burger King US trends, accelerating development, and shifts in capital allocation (toward growth investments and reduction in leverage) driving stock performance. Relative valuation for QSR remains compelling (18.5x 2024E EBITDA, versus global peer average of 18.6x), in our view, particularly as we are taking a more cautious stance on the overall group.

Potential catalysts for the stock include: (1) an acceleration in same-store sales growth, with particular focus on stability at Burger King US; (2) improvement in TH contribution to overall EBITDA growth; (3) a significant brand acquisition; and (4) accelerating new unit development.

Valuation

Our price target of $88 is based on applying a multiple of 18x, which is below QSR's peer group (i.e., MCD, YUM, DPZ) average, to 2024E EBITDA of ~$2.9B. Our price target equates to ~24x 2024E EPS and a 5.3% FCF yield. We believe QSR deserves an 18x multiple given its continued momentum at Tim Hortons Canada, stable trends at Burger King, solid unit growth (historically >5%), and M&A optionality. Its among best-in-class dividend yield also supports our valuation. Our price target supports our Outperform rating.

Risks to rating and price target

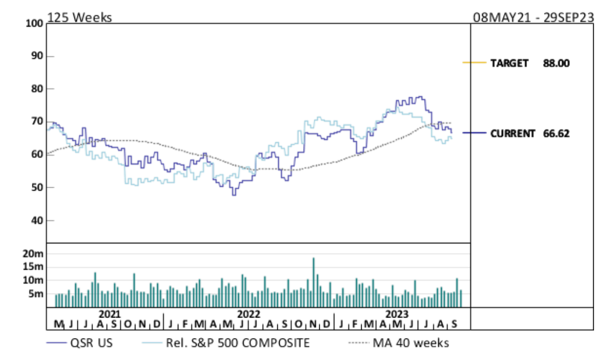
As with most restaurant company stocks, worse-than-expected same-store sales can negatively impact valuation. Risk factors for same-store sales include: macro/consumer headwinds; increased competition; declining consumer demand for the brand. In the case of QSR, we see particular attention in the near term paid to SSS of the Tim Hortons brand.

Unit growth—a key long-term top-line driver for the company—could be impacted by increasing competition for real estate, changes in development costs or from shifts in overall demand for the brand.

Interest rates can also affect valuation for highly/all-franchised restaurant models, particularly those with higher levels of leverage.

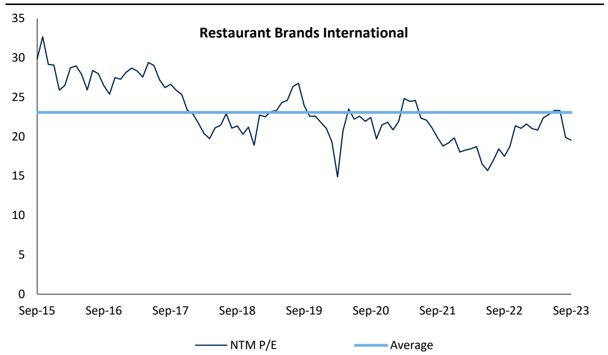
For global restaurant companies, foreign currency exchange risk can have a meaningful impact on revenue and earnings.

Exhibit 47 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 48 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

S&P Global Inc. (NYSE: SPGI)

RBC Capital Markets, LLC
Ashish Sabadra (Analyst) (415) 633-8659, ashish.sabadra@rbccm.com

Rating: Outperform	**Closing Price: USD 365.41**
Price Target: USD 434.00	**Implied All-in Return (%): 19.8**

Investment summary

We believe that the strategic INFO acquisition should accelerate the normalized revenue growth profile and deliver double-digit earnings growth driven by upside to revenue and cost synergies. Complementary data assets powered by Cloud and AI/ML should enable predictive actionable insights from disparate data assets and distribution at scale. Importantly, the transformative acquisition should propel SPGI's ESG offerings and private company offerings. Separately, we expect SPGI to repurchase ~$3.5B worth of shares in FY23, along with near-term cost takeout initiatives that could drive upside to FY23E EPS.

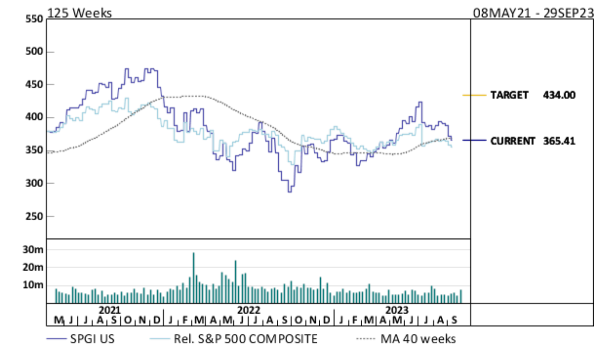
Valuation

Our price target of $434, which supports our Outperform rating, is based on ~30x our FY24E EPS, slightly above historical average given the diversified business model, accelerated cost takeout, large share repurchase and a recovery in credit issuance.

Risks to rating and price target

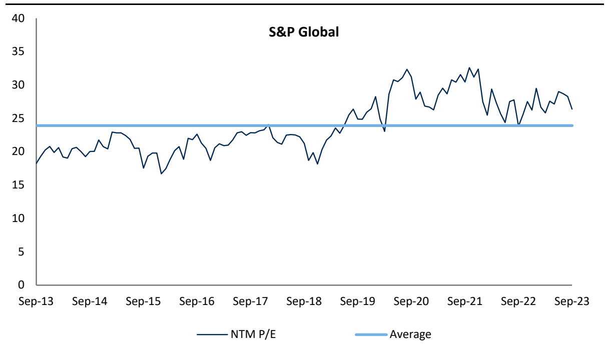
Risks to rating and price target include: (1) a significant decline in credit issuance; (2) increased competition for market data; (3) slowdown in demand for Platts; (4) challenges in integrating acquisitions; and (5) decline in AUM linked to SPGI indices.

Exhibit 49 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 50 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Siemens AG (XETRA: SIE)

RBC Europe Limited
Mark Fielding (Analyst) +44 20 7002 2128, mark.fielding@rbccm.com

Rating: Outperform | **Closing Price: EUR 135.24**
Price Target: EUR 185.00 | **Implied All-in Return (%): 40.1**

Investment summary

Siemens has become a simpler business over the last 10-15 years, but all the change has made past performance hard to understand. We have analysed in detail the underlying performance of the continuing "new" Siemens over the last 15 years. This shows above-sector growth and margin progress across the cycle, and one of the most resilient companies in downturn phases. This does not tally with a continued sector P/E discount of 15-20%.

Outperforming the sector through the cycle: Our analysis shows that "new" Siemens has not just outgrown "old" Siemens since 2006, but also the sector. It has delivered a 2006-21 sales CAGR of +4.2% vs the sector +3.6% and old Siemens +2.9%. And profit margins have risen by ~500bps such that the Industrial business is slightly better than the sector average. This supports our base case for ongoing growth in the 5-7% target range and further margin expansion.

And "new" Siemens is resilient in downturn phases: While our base case is for further positive progress, given wider geopolitical concerns we also considered recessionary risks. Our modelling of the new Siemens industrial business shows it is much less cyclical than average for our coverage. Over the past three industrial downturn phases since 2007, its sales have never fallen by more than -2% and its margins by less than 100bps. This is versus a sector average -7% sales fall and 160bps margin decline.

Valuation

We value Siemens on a target P/E of 18x 23E, which is broadly in line with our sector average supported by our analysis which shows Siemens continuing business as a through-cycle outperformer versus the sector from an operational standpoint. It gives a valuation of €185 per share. P/E is a fair multiple to use in our view given the complicated nature of the group and its underlying net debt/EBITDA being at ~1x, in line with the sector average. Our price target supports our Outperform rating on the stock.

Risks to rating and price target

Risks to rating and price target include:

Economic cycle: Siemens continues to see growth, reflecting its strong order backlog, but if the macro backdrop were to worsen it could impact this assumption.

Cost flexibility: Siemens' size, complexity and board-level representation from labour unions mean that it has historically not been very agile with its cost basis. Siemens has been changing this, but it remains a factor.

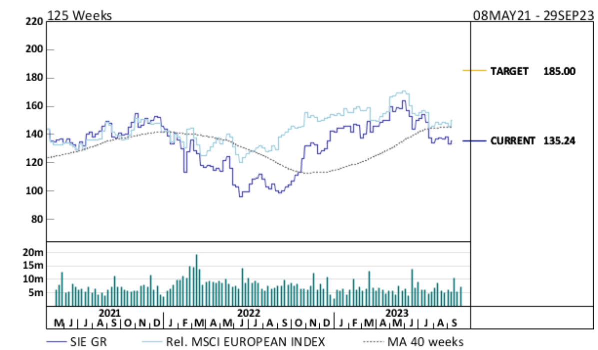
Supply chain: There continue to be supply chain constraints. Siemens' outlook assumes some continued normalisation, which if it did come through would be negative.

Sector de-rating: Further concerns of a deep recession could precipitate a general sell-off and de-rating in the industrials sector, thus affecting Siemens' valuation.

Siemens could suffer indiscriminate buying/selling pressure: Siemens is a highly liquid proxy for industrial Europe and could be bought or sold by portfolio managers wanting to increase or reduce European industrial or European cyclical exposure. The share is also a major component of Germany's DAX Index.

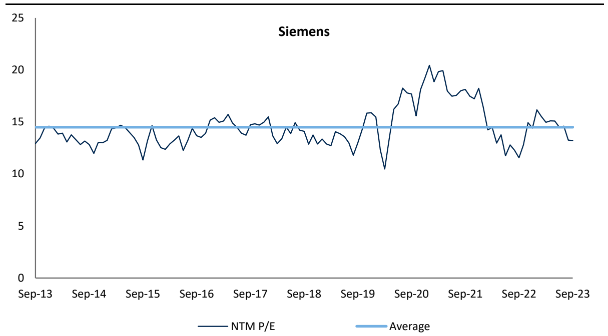
Covid-19 impact: The business is now largely recovered, but any renewed lock downs (e.g., in China) could still be a further negative. Short-cycle businesses (DI and SI) have seen challenges, most notably in China, Germany and Italy.

Exhibit 51 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 52 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

TELUS Corporation (TSX: T; NYSE: TU)

RBC Dominion Securities Inc.
Drew McReynolds, CFA, CA, CPA (Analyst) (416) 842-3805, drew.mcreynolds@rbccm.com

Rating: Outperform	**Closing Price: CAD 22.18**
Price Target: CAD 31.00	**Implied All-in Return (%): 46.3**

Investment summary

Given our more cautious view on the Canadian telecom sector in 2023, TELUS remains the only Outperform-rated stock in our coverage. While TELUS will not be immune to sector headwinds, we view 2023 as a pivotal turning point with TELUS emerging with a distinctively different financial and operating profile relative to most global telecom peers. With FTTH coverage reaching ~85–90% of the targeted broadband footprint, enhanced capex flexibility should enable TELUS to capitalize on 5G without meaningful capital constraints, opportunity costs, or FCF impairment. Longer term, under certain competitive and regulatory conditions, we continue to see strong strategic and financial rationale for TELUS to explore a transformational re-organization that could fully unlock the value of core infrastructure assets and core technology assets.

Potential catalysts for the stock include: (1) greater-than-expected wireline subscriber traction driven by FTTH expansion; (2) better-than-expected efficiencies and operating leverage resulting in higher margins; (3) an easing of Alberta headwinds resulting in improved business market performance; (4) stronger-than-expected improvement in wireless ARPU growth; (5) greater-than-expected step-down in consolidated capex intensity over the medium term; and (6) the crystallization of TELUS Health and/or TELUS Agriculture & Consumer Goods.

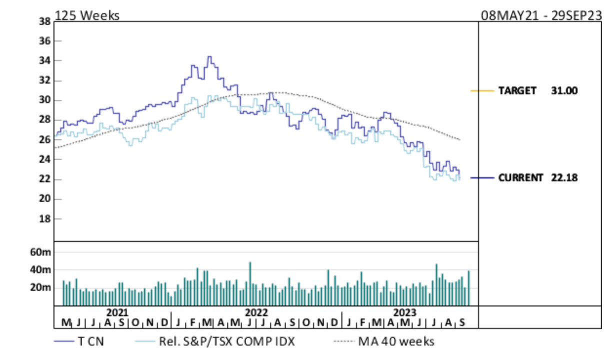
Valuation

The implied total return to our $31 price target supports our Outperform rating. To derive our target, we take the average of three approaches: (1) applying a 22.5x multiple to our blended two-year forward adjusted EPS estimates; (2) applying a target EV/EBITDA multiple of 8.5x to our blended two-year forward EBITDA estimates for TELUS Technology Solutions and factoring in our one-year target for TELUS International; and (3) discounted FCF through 2030E factoring in a WACC of 8.5% and a terminal growth rate of 1.75%. We believe our target multiples are consistent with the company's growth and risk profile relative to Canadian peers, and a higher interest rate environment.

Risks to rating and price target

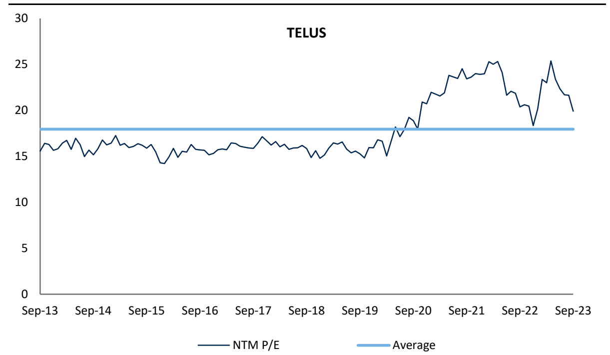
Risks to rating and price target include: (1) a prolonged and/or significant economic downturn; (2) a sustained increase in wireless competition and/or unexpected change in regulation resulting in higher churn and/or accelerated declines in postpaid ARPU; (3) inability to realize additional cost savings to improve wireline margins; (4) higher-than-forecast spectrum outlays; (5) emergence of irrational pricing in residential telephony, television, and/or Internet; and/or (6) higher interest rates and/or a reversal in fund flows out of the sector.

Exhibit 53 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 54 - Forward consensus P/E history



Source: FactSet

Most recent company note: [link]()

Union Pacific Corporation (NYSE: UNP)

RBC Dominion Securities Inc.
Walter Spracklin, CFA, (Analyst) (416) 842-7877, walter.spracklin@rbccm.com

Rating: Outperform | **Closing Price: USD 203.63**
Price Target: USD 282.00 | **Implied All-in Return (%): 41.2**

Investment summary

Our Outperform rating is based on our expectation that PSR-driven efficiencies will be achieved.

We believe that UNP will deliver further operational progress despite volume headwinds. Following the announcement that Jim Vena will be UNP's CEO, we expect that his strong operating philosophy will result in a marked turnaround in operating performance, which we expect will drive O/R and service more toward PSR peers. While cadence of the improvement will be of focus, we have assumed this turnaround is achieved by 2025, resulting in mid-teen EPS CAGR (with risk to the upside) out to 2025. We also believe that UNP's competitive dynamics – unparalleled access to Mexico and the chemicals sector in the US Gulf Coast – provide favourable growth prospects in the long run relative to peers.

Favorable sector fundamentals to drive long-term growth in free cash flow (and shareholder returns). Our constructive outlook on the rail sector is based on the industry's unique characteristics: (1) limited and rational competition; (2) high barriers to entry; and (3) sustainable growth in demand. We expect these attributes to drive real rate increases, volume growth, and margin expansion over the long term supported by service improvements, efficiency initiatives, and the implementation of smart technology. With stable capital expenditure requirements and clean balance sheets, we believe that the industry is positioned to generate increasing free cash flow that will, in turn, drive up shareholder returns through sustained growth in dividends and share repurchases.

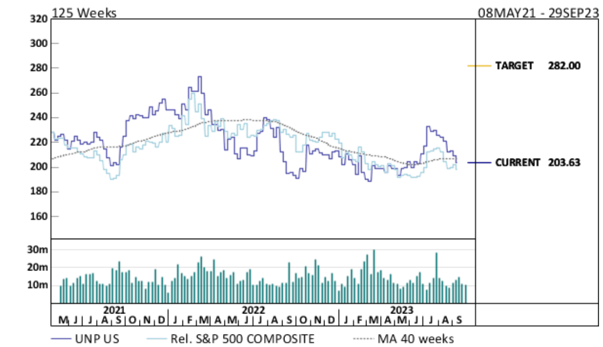
Valuation

Our $282 price target, which supports our Outperform rating, is based on applying a P/E multiple of 20x to our 2025 EPS estimate of $14.08. Our target multiple is a premium to US peers and reflects the impact of the PSR-driven efficiencies we believe will be achieved.

Risks to rating and price target

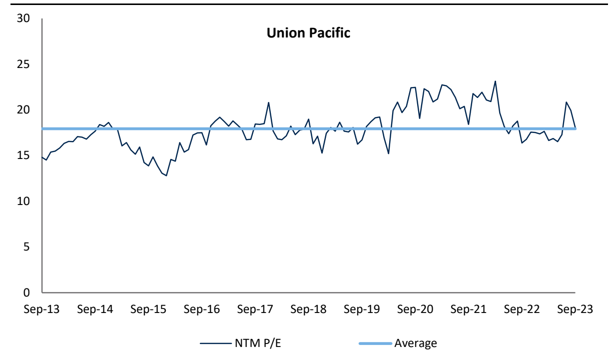
Risks to rating and price target include: (1) further decline in global prices for metallurgical and thermal coal; (2) continued displacement of coal at US utilities on account of persistently low natural gas prices; (3) technological advances in trucking that result in significant share losses; (4) severe network disruption and reduced agriculture production as a result of weather events; and (5) lower industrial production and consumer demand on account of economic volatility throughout North America.

Exhibit 55 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 56 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Veeva Systems Inc. (NYSE: VEEV)

RBC Capital Markets, LLC
Rishi Jaluria (Analyst) (415) 633-8798, rishi.jaluria@rbccm.com

Rating: Outperform | **Closing Price: USD 203.45**
Price Target: USD 225.00 | **Implied All-in Return (%): 10.6**

Investment summary

We like shares of Veeva for four primary reasons:

Veeva's domain expertise and deep customer relationships have created a market leadership position and a sustainable economic moat, limiting the threat of competition. As a result, Veeva has one of the highest average revenues per customer in software (~$1.6M last year).

We see multiple growth drivers for Veeva to maintain 20%+ subscription growth, including CDMS, Data Cloud, and Vault OLS (Outside of Life Sciences). We believe Veeva has a large TAM that will continue to grow with new products and that Vault, Veeva's content management platform, is a continued engine for innovation.

Veeva's financial model is best-in-class, with a leading blend of growth and profitability. Veeva continues to show 20%+ organic subscription growth, while also seeing FCF margins approach 40% (which places Veeva in rare territory among SaaS companies), making Veeva a consistent "Rule of 40" company. This is the result of Veeva's product-led growth, fiscal discipline, and its unique GTM motion of the "Veeva Way", which involves slowly driving adoption through reference selling.

The life sciences market is attractive, as it is a defensive industry that is also rather profitable (pharmaceutical companies have software-like gross margins of 70%+) and technology-forward (with the pandemic accelerating digital transformation initiatives). One key feature of life sciences is that the industry is more collaborative than others, which makes reference to selling a key part of the GTM model. In addition, Veeva's blue chip customer base spans almost all of the top pharmaceutical companies, including household names such as Pfizer, Moderna, Johnson & Johnson, AstraZeneca, and Regeneron.

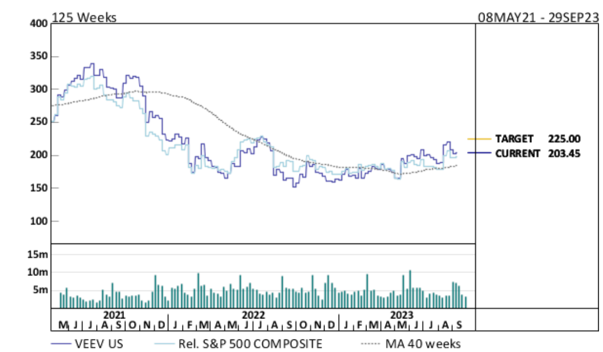
Valuation

Our $225 price target is based on 31x EV/CY24E FCF, a premium to the peer group, which we believe is warranted considering Veeva's leading blend of growth and margins, runway for future growth, and competitive positioning. Our price target supports our Outperform rating.

Risks to rating and price target

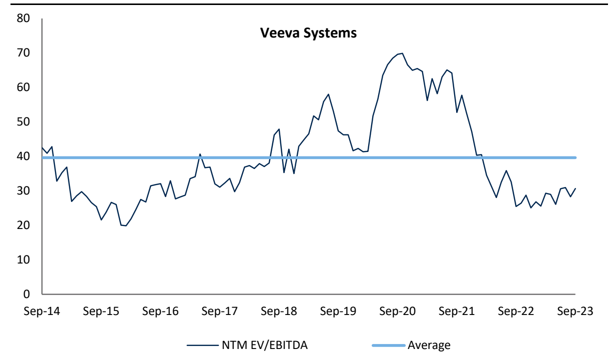
Risks to rating and price target include: (1) customer concentration, with the top 10 customers representing 36% of revenue; (2) international risk, with non-US revenue representing ~40% of total revenue; (3) CRM remains a significant part of the business at ~45% of total revenue (according to our estimates); (4) competition, including from vertical and horizontal software vendors; and (5) Veeva has a dual-class share structure; Class B shares hold ~52% voting power, which limits investors' ability to effect change at Veeva.

Exhibit 57 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 58 - Forward consensus EV/EBITDA history



Source: FactSet

Most recent company note: link

WESCO International, Inc. (NYSE: WCC)

RBC Capital Markets, LLC
Deane Dray, CFA (Analyst) (212) 428-6465, deane.dray@rbccm.com

Rating: Outperform	**Closing Price: USD 143.82**
Price Target: USD 189.00	**Implied All-in Return (%): 32.5**

Investment summary

WESCO is the leading North America-based electrical distributor in the +$100 billion highly fragmented North American electrical products' distribution market with an estimated 7% market share, and 13% post-Anixter deal. We admire the scrappy, no-frills attitude that runs throughout the organization, as well as the strong historical free cash flow and debt pay-down history. After it emerged victorious from the Anixter bidding war, we estimate compelling upside based on pro-forma EPS and historically low multiples. We also like the fundamental scale benefits that come with the deal, including greater bargaining power with customers and suppliers that should help the company battle the ongoing tough price/cost backdrop.

Valuation

Our $189 price target assumes WCC trades to an undemanding 40% discount to our 18.0x SMID-cap 2024E target group P/E multiple, or 10.8x. This is at the low end of WCC's historical (40%)-(10%) relative P/E range to discount the elevated leverage, integration risk following the Anixter deal, risk that the macro meaningfully turns over, and destocking continues. This is balanced by the powerful secular drivers of electrification, grid hardening, automation, data centers, and infrastructure spending. Our price target supports our Outperform rating.

Risks to rating and price target

Risks to rating and price target include:

Integration risk with Anixter

Economic conditions. WESCO operates in cyclical industrial end markets and a slowdown in global activity could adversely impact sales and operating margins. Macro trends including inflation/deflation, commodity costs, credit availability, currency fluctuations, and supply chain could all materially impact results.

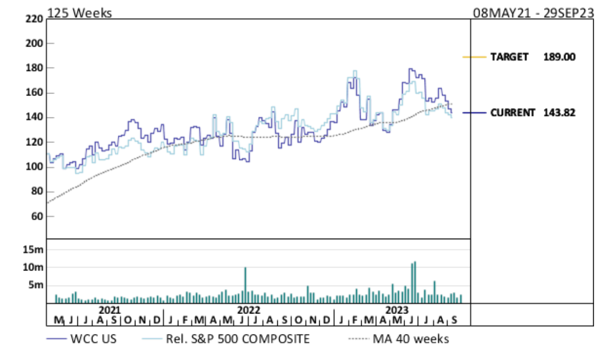
Competition and pricing. WESCO operates in the highly fragmented and competitive electrical products' distribution market. With limited access to credit, smaller competitors may potentially cut prices and pressure WESCO's disciplined business model. There is also a growing risk from online distributors such as Amazon Business.

Acquisitions. WESCO has been active on the M&A front in this consolidating market and is exposed to overpaying for targets and integration headwinds. We remain confident in management's discipline on this front but acknowledge that large deals such as EECOL require considerable management attention and carry inherent integration risk.

Financial risks. Tightening credit standards and any disruption to credit markets could cause our estimates to be too optimistic.

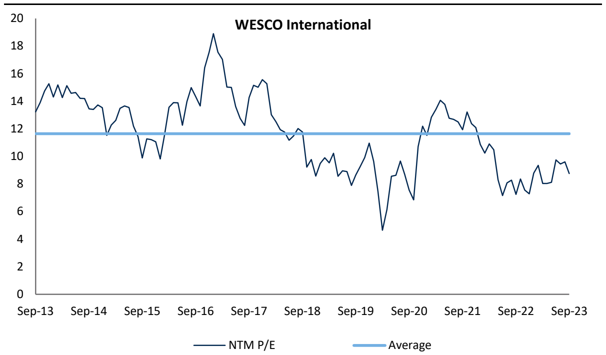
Nonresidential end market. A slower-than-expected recovery in the nonresidential construction end market could cause our estimates to be too optimistic.

Exhibit 59 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 60 - Forward consensus P/E history



Source: FactSet

Most recent company note: link

Required disclosures

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Ratings
Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating: The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Sep-2023

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [Outperform]	820	55.97	250	30.49
HOLD [Sector Perform]	590	40.27	148	25.08
SELL [Underperform]	55	3.75	5	9.09

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