



ARGUS ANALYSTS' TOP PICKS FOR 2021

THE MONTHLY RESEARCH CONFERENCE CALL

MODERATOR:

Jim Kelleher, CFA

Director of Research

Wednesday, January 6, 2021

11:00 a.m. ET

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■ **Argus Analysts' Top Picks for 2021**

- Jim Kelleher, CFA, Director of Research
- John Eade, President of Argus

■ **Argus Quick Notes**

- Top & Bottom Performers of 2020
- Top Financial Stocks
- Activist Stocks
- Min-Vol Stocks
- Our Favorite Tech Stocks
- Find these on the homepage of our website

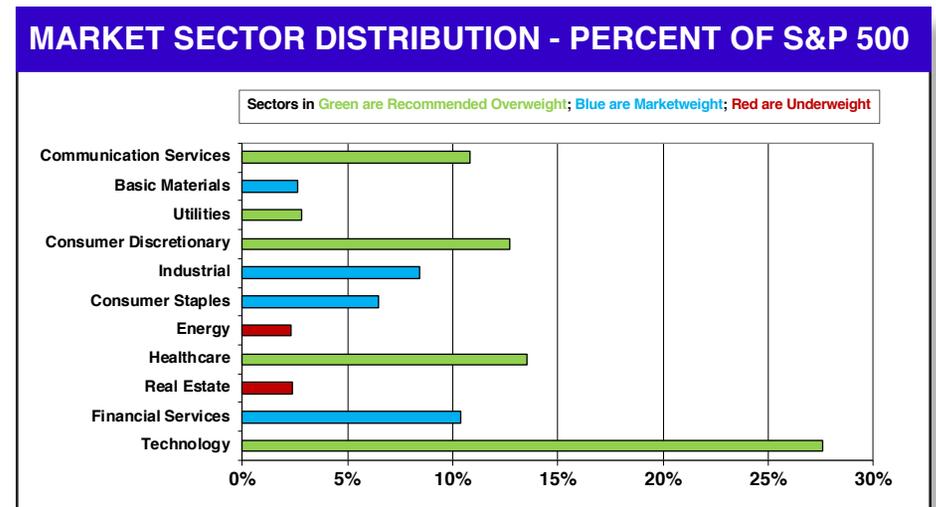
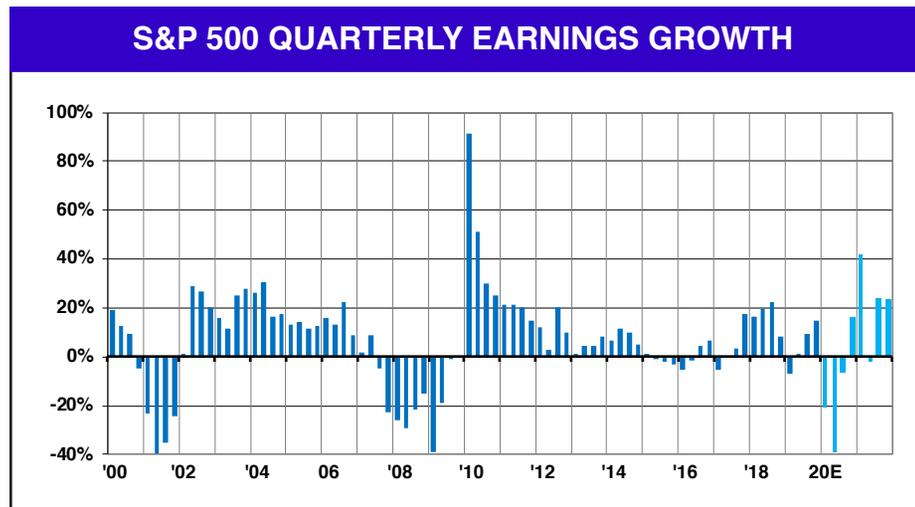
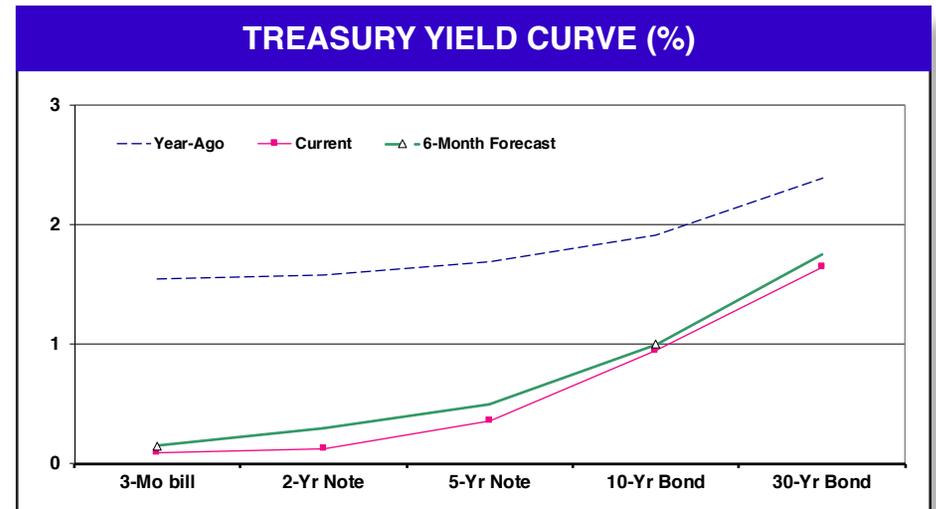
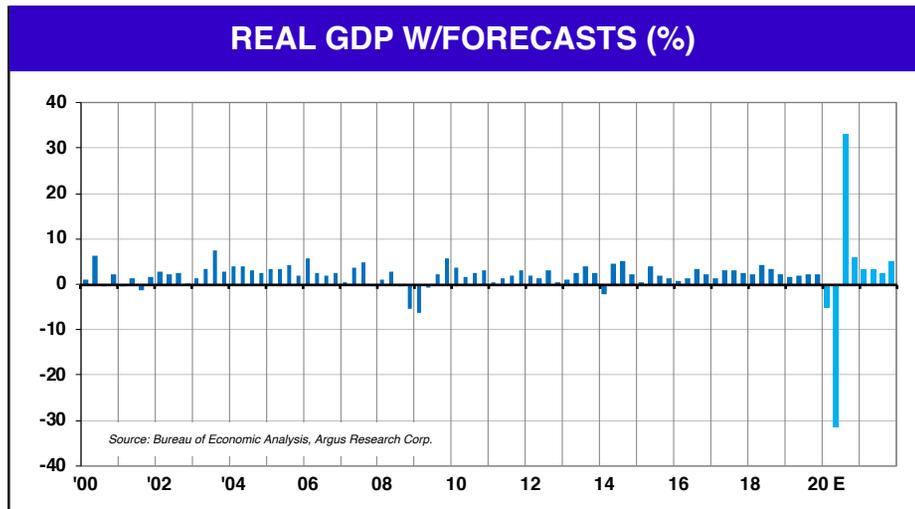
■ **Argus High Yield Portfolio**

- With interest rates near record lows, investors seek income
- COVID vaccine promise is lifting cyclical, defensive, and income
- RUS 1000 Value ETF yields 2.5% vs. 1.0% for growth
- and under 1.0% for 10-year Treasury
- Find our Theme Portfolios under Portfolio Strategy on our website

■ **Market Podcast**

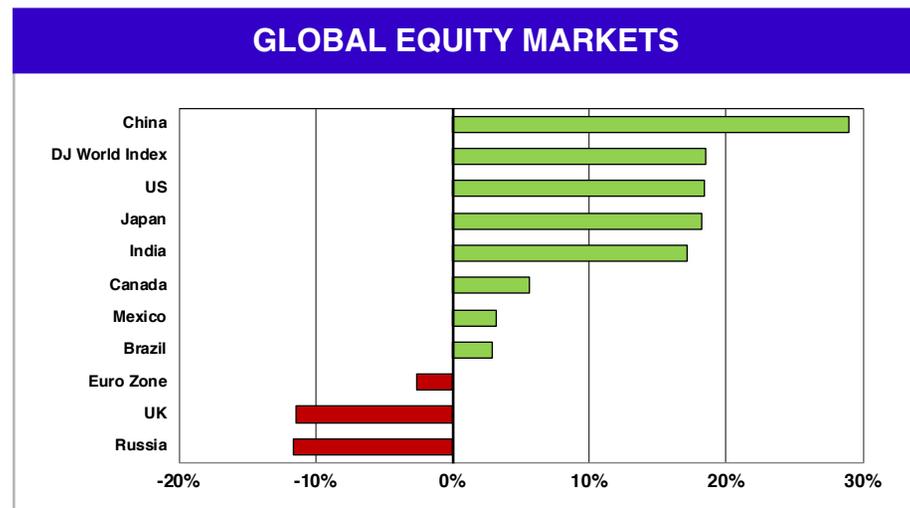
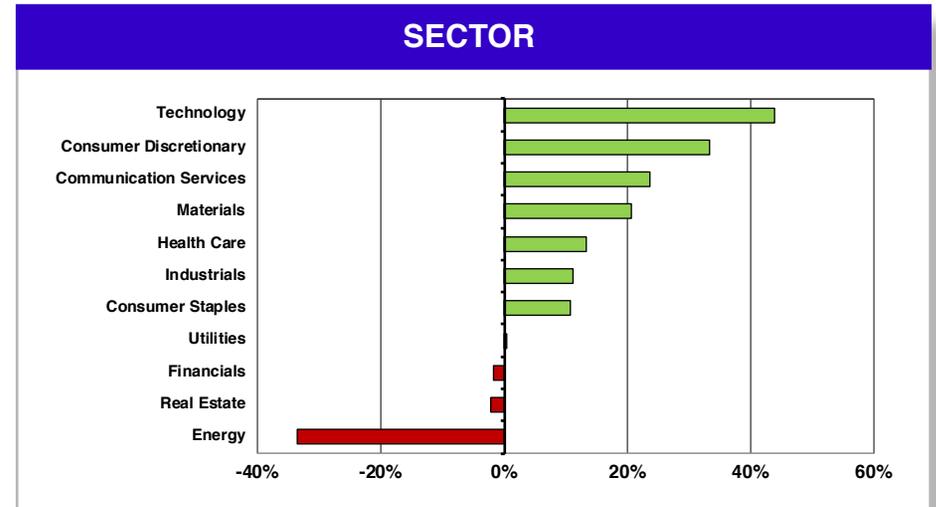
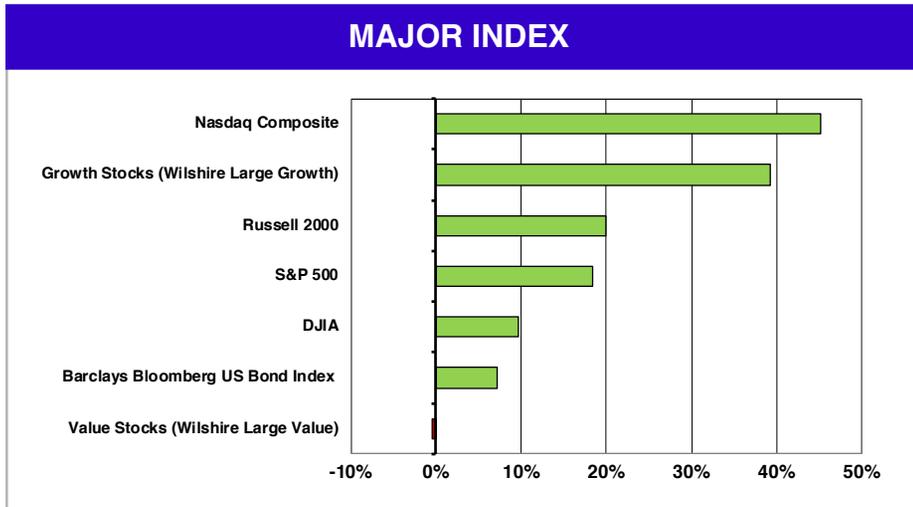
- Investment Themes Podcast for 2021
- Find it on the site: Home Page, News & Media

MACRO FORECASTS



MARKET PERFORMANCE

DATA AS DECEMBER 31, 2020



BASIC MATERIALS

- » Ecolab Inc. (ECL)
- » Linde plc (LIN)

COMMUNICATION SERVICES

- » T-Mobile US, Inc. (TMUS)

CONSUMER DISCRETIONARY

- » Tesla, Inc. (TSLA)
- » Nike Inc. (NKE)
- » TJX Companies (TJX)
- » Chipotle Mexican Grill (CMG)

CONSUMER STAPLES

- » Procter & Gamble (PG)

ENERGY

- » ConocoPhillips Inc. (COP)

FINANCIAL SERVICES

- » PNC Financial Services (PNC)
- » Allstate Corp. (ALL)
- » CME Group Inc. (CME)
- » S&P Global Inc. (SPGI)

HEALTHCARE

- » Zimmer Biomet (ZBH)
- » Charles River Labs (CRL)
- » Teladoc Health, Inc. (TDOC)
- » Zoetis Inc. (ZTS)

INDUSTRIALS

- » Old Dominion Freight Line Inc. (ODFL)

REAL ESTATE

- » Digital Realty Trust (DLR)

TECHNOLOGY

- » Qualcomm Inc. (QCOM)
- » NVidia Corp. (NVDA)
- » Palo Alto Networks, Inc. (PANW)

UTILITIES

- » DTE Energy (DTE)
- » Ameren Corp. (AEE)

■ LINDE PLC (LIN)

12-month target price: \$298

(Bill Selesky)

- Linde plc is the largest industrial gas producer in the world and benefits from working in a highly concentrated industry. Long-term contracts provide more predictable and visible EPS growth through “take or pay” contracts.
- Linde is also an integration/restructuring story (the integration of Linde AG and Praxair) and a balance sheet story (paying down debt). We believe a share repurchase initiation is on target for 2021.
- We are impressed with the margin progress that Linde plc is making on the integration of Linde AG and Praxair. Margins exiting 2020 suggest meaningful upside potential in 2021, all else equal. We like the risk reward.
- Looking ahead, Linde should benefit from the positive merchant gas pricing environment, structurally improving returns from industry consolidation and ESG optionality in decarbonization technology.

■ **ECOLAB INC. (ECL)**

12-month target price: \$250

(David E. Coleman)

- **Ecolab Inc. is a leader in water, hygiene, and energy technologies with prospects for above-average revenue and earnings growth over the long term.**
- **As a cyclical company, Ecolab has withstood soft demand related to the pandemic. Management responded by changing the sales team's focus, providing near-term revenue support.**
- **The company also divested a lower-margin segment, which should boost profitability in 2020-2021.**
- **With the global economy improving, Ecolab appears well-positioned for cyclical recovery.**
- **Ecolab has an impressive history of dividend payments and growth. The shares are a suitable core holding in a diversified portfolio.**
- **Nonfundamental selloffs often represent good buying opportunities for this diversified company.**

■ T-MOBILE US, INC. (TMUS)

12-month target price: \$135

(Joseph Bonner, CFA)

- With the Sprint merger, T-Mobile acquired a large subscriber base, critically important to providing positive network effects and equally as important, a trove of high-value spectrum assets enabling it to rapidly build out its nationwide 5G network.
- This scrappy industry challenger can compete for the first time on an equal footing with wireless telecom incumbents Verizon and AT&T.
- T-Mobile is keeping up the market share pressure on rivals with periodic new service plan innovations and its, by now, typical razzle dazzle marketing.
- While the 2020 pandemic may have initially dampened the 5G iPhone super cycle, 2021 may be the year that 5G actually becomes a reality after all the hype, helping drive revenue and profitability higher.

■ **TJX COMPANIES INC. (TJX)**

12-month target price: \$78

(Chris Graja, CFA)

- **TJX is one of our favorite retailers in a scenario where concerns about COVID ease and the economic recovery remains on track.**
- **Our five-year EPS growth rate forecast is 12% based on traffic-driven increases in comparable sales, attractive opportunities to increase square footage, with other retailers closing stores, and a benefit from share repurchases as earnings rebound.**
- **The company's edge is that its merchants offer a treasure hunt of unique, brand-name merchandise at bargain prices. This, along with a lean cost structure should lead TJX through this epidemic, the recovery, and a return to "normal" times.**
- **On December 8, TJX reinstated the dividend with 13% increase. We see the reinstatement as a sign of management's confidence in the company's liquidity and financial flexibility. The indicated dividend yield is approximately 1.5%.**

■ NIKE INC. (NKE)

12-month target price: \$165

(John Staszak, CFA)

- Nike's strong brand and product pipeline have enabled it to raise prices and increase sales of both apparel and footwear.
- In response to changing purchasing trends and the coronavirus pandemic, Nike is focusing on ecommerce sales.
- Nike has a strong balance sheet, moderate debt, and enough cash to cover all current obligations, which we think will enable it to endure the coronavirus pandemic.
- Over the long term, we expect growth at Nike to be driven by the Jordan Brand, which represents more than 12% of sales; continued innovation; expanding e-commerce sales, and renewed growth in China.

■ **TESLA, INC. (TSLA)**

12-month target price: \$777

(Bill Selesky)

- **Electric vehicles only account for 1.7% of U.S. auto sales, but the majority are Teslas (namely the Model 3). The name “Tesla” has become synonymous with “electric vehicle” and despite rising EV competition, we still see Tesla’s market share penetration accelerating.**
- **Tesla produced 368K vehicles in 2019 and plans to finish 2020 at about 500K, despite COVID-19. In our view, with production ramp-ups occurring at each of their manufacturing facilities, a 1 million unit target for 2021 is well within reach.**
- **Underlying strength of Tesla’s business continues to grow. In July 2020, coming off a 7-week, coronavirus-related shutdown in Fremont, TSLA posted its 4th straight quarterly profit in the midst of ramping up both the brand-new Model Y and the Shanghai-made Model 3, while others struggled.**
- **A Biden Presidency, along with Secretary of Transportation (Pete Buttigieg), plan to quicken the use of EVs, including more than 500,000 new public charging outlets by the end of 2030 and restoring the full EV tax credit. These efforts should help motivate further consumer EV adoption.**

■ **CHIPOTLE MEXICAN GRILL (CMG)**

12-month target price: \$1,460

(John Staszak, CFA)

- **Chipotle possesses a healthy balance sheet and robust mobile ordering and delivery platforms that will help it to recover as the economy reopens.**
- **In response to the coronavirus pandemic, Chipotle is focusing on its digital offerings and its delivery capabilities.**
- **We think the company will gain market share from the many restaurants that have had to close as a result of the pandemic**
- **We remain confident that Chipotle can achieve its long-term goals of mid-single-digit comps, high single-digit revenue growth, and mid-teens operating margins.**

■ PROCTER & GAMBLE CO (PG)

12-month target price: \$160

(Chris Graja, CFA)

- Over the next 12 months, we expect P&G to benefit from increased awareness of health and hygiene and the increased time spent at home.
- Our 5-year earnings growth rate is 8%. We expect P&G to grow organic sales faster than the markets it serves, grow core EPS in the mid- to high single digits and generate adjusted free cash flow productivity of 90% or greater.
- We believe the 2.3% dividend yield, is very attractive for a company with AA credit ratings. Treasury notes yield less than 1%. The company has paid a dividend for 130 years. The 10-year annualized dividend growth rate is about 5%
- The company sells daily-use products where performance matters, including : Pampers; Tide laundry detergent; Charmin toilet paper; Vicks, Sinex and NyQuil; Bounty paper towels; Puffs tissues; PeptoBismol; Mr. Clean; Dawn dish soap; and Microban sanitizer.

■ CONOCOPHILLIPS (COP)

12-month target price: \$50

(Bill Selesky)

- We see Energy (especially E&P's) as being big beneficiaries of the “reopening trade” in 2021. Given the limited demand recovery at this stage, we believe the sector is positioned to benefit disproportionately from the reopening as demand for travel returns.
- COP checks all the boxes for sustained outperformance: excellent management team, disciplined investment, and consistent return of cash coupled with a high quality, low cost portfolio.
- Looking ahead, we believe that COP will deliver an attractive combination of both strong free cash flow and earnings growth. Dividend growth a priority (yield 4.36%).
- The pending Concho Resources (CXO) transaction bolsters COP's already diversified, low cost asset base. This margin accretive deal is scheduled to close in 1Q21.

■ **ALLSTATE CORP. (ALL)**

12-month target price: \$120

(Kevin Heal)

- We believe that Allstate will continue to benefit from lower auto claims and catastrophe losses.
- Return on equity, our preferred measure, was reported at 17.7% well above other peers.
- Combined ratios, another measure of profitability, remain well below others in its peer group.
- Over the last five years, the company has raised the dividend at an annual rate of 10%. The dividend yield is approximately 2.0%.

■ CME GROUP (CME)

12-month target price: \$200

(Kevin Heal)

- We view favorably the company's ability to continually introduce new products, especially in the burgeoning cryptocurrency markets.
- Volumes should improve on longer-dated interest rate and agricultural contracts.
- In addition to its regular quarterly dividend, the company pays an annual dividend enhancing the total potential return.
- We think the company's strong margins and prospects for further improvements should lead to further appreciation in 2021 and justify our \$200 target price.

■ PNC FINANCIAL SERVICES (PNC)

12-month target price: \$150

(Stephen Biggar)

- We believe the sale of PNC's large stake in BlackRock in 2021 provides substantial opportunities to expand its regional bank presence.
- Recent agreement to acquire BBVA USA Bancshares, the Houston-based U.S. banking subsidiary of Banco Bilbao Vizcaya, will widen the company's reach to 29 of the 30 largest markets in the U.S., including expansion into the faster-growing Sunbelt region of the U.S.
- We look for loss provisions to decline substantially in 2021 as the threat of wide-scale credit losses subsides along with economic improvement, and interest margins to widen toward 2021 year-end as the yield curve steepens.
- The shares currently yield 3.2% from the \$4.60 annualized dividend.

■ **S&P GLOBAL INC. (SPGI)**

12-month target price: \$380

(John Eade)

- **S&P Global is putting the finishing touches on a multiyear restructuring with its upcoming acquisition of IHS Markit Inc., and will soon be focused on its faster-growing financial businesses, including the lucrative and not-very-competitive business of rating bonds.**
- **The company has a transparent management team and consistently ‘underpromises and overdelivers’ with financial results.**
- **SPGI management consistently receives high ESG scores from our ESG partner JUST Capital Inc.**
- **S&P Global has a history of paying - and growing – dividends. The most recent dividend payout hike was 17.5%.**
- **The SPGI share price has risen steadily over the past six years, as have earnings. We see value in the SPGI shares, despite the strong run..**

■ ZIMMER BIOMET (ZBH)

12-month target price: \$170

(David Toung)

- We see the ROSA robotics surgical platform driving increased market share for orthopedic hip and knee implants.
- Zimmer will be more aggressive in M&A in 2021 for acquiring new technologies in surgeries.
- The company will benefit from improvements in elective procedural volume post-COVID.

■ CHARLES RIVER LABS (CRL)

12-month target price: \$230

(David Toung)

- CRL is benefiting from outsourcing of R&D to early-stage contract research organizations (CRO).
- Acquisitions from 2020 will drive revenue growth and market share gains in 2021.
- CRL is leader in early-stage research for developing gene and cell therapies

■ **TELADOC HEALTH, INC. (TDOC)**

12-month target price: \$260

(David Toung)

- TDOC is a leader in providing care through telemedicine
- Growth in telemedicine care and telemedicine-assisted surgical procedures will continue into 2021.
- TDOC expanded its capabilities and market footprint through recent acquisitions (Livongo and In-Touch Health).

■ **ZOETIS INC. (ZTS)**

12-month target price: \$200

(Jasper Hellweg)

- With pet ownership on the rise, we like Zoetis' market leadership in the space, as well as its steady output of new treatments for companion animals and its strategically aligned partnerships and acquisitions designed to strengthen its portfolio.
- The company is also well diversified, both in terms of its range of products and in terms of its geographic scope, with nearly half of its revenues generated internationally.
- Zoetis has increased its dividend payment annually since its 2013 IPO, most recently by 25% to an annualized rate of \$1.00 per share. The dividend yield is approximately 0.6%.
- We think the company's strong margins and prospects for further improvements should lead to further appreciation in 2021 and justify our \$200 target price.

■ **OLD DOMINION FREIGHT LINE INC. (ODFL)**

12-month target price: \$220

(John Eade)

- Trucks consistently hold the top market share in the Transport Industry, and unlike rails, the trucking industry is very fragmented.
-
- Old Dominion is among the most efficient operators in the trucking industry and is poised to expand its market share.
- On the other side of the pandemic crisis, the domestic supply chain will be more important than ever.
- The ODFL shares have consistently outperformed the market and the Industrial sector over trailing 3-month, 1-year and five-year periods.
- The company is a consistent double-digit dividend grower.

■ **DIGITAL REALTY TRUST (DLR)**

12-month target price: \$180

(John Staszak, CFA)

- The company recently acquired a European data storage company, Interxion, which will boost the company's footprint in Europe.
- Currently under construction are data center expansions in six metros including: Hong Kong, Seoul, Mexico City, Paris, Marseille and Frankfurt.
- We note that Europe - and the greater EMEA region - is the most favorable geographic region the company operates in, offering data storage players like Digital Realty healthy margins and strong growth potential.
- Current dividend yield is 3.2%. Over the past five years, the board has raised the dividend at an average annual rate of 4.9%.

■ QUALCOMM INC. (QCOM)

12-month target Price: \$175

(Jim Kelleher, CFA)

- We believe Qualcomm is uniquely positioned to benefit amid one of our key themes for 2021, which 5G and the app economy.
- In a highly positive FY20, Qualcomm signed a multi-year licensing agreement with Huawei and won a major antitrust case when a federal appeals court overruled an FTC decision.
- Although Apple may in time seek to use its own 5G modems to displace Qualcomm chips, that change is not imminent. While chip sales are meaningful, the licensing agreement with Apple in our view is the more important revenue and profit contributor.
- With the Huawei signing, the Apple licensing agreement, and the appeals court victory, Qualcomm – which has been in constant litigation in the two decades we have followed the company – appears to be exiting that phase of its existence.
- We expect 5G to be a huge market driver and profitable revenue opportunity for Qualcomm, which brings existing market strengths into the crucial 5G device launch. The broad ramp-up of 5G handsets that began late in 2020 should continue to gather momentum into calendar 2021 and beyond.

■ **NVIDIA CORP. (NVDA)**

12-month target Price of \$600

(Jim Kelleher, CFA)

- **We believe NVidia is primed for further appreciation based on its positioning at the center of another of our themes, AI, given the central role of graphics processing in cloud data center, machine learning, inference and applications acceleration.**
- **COVID-19 continues to impact NVidia's business in both negative and positive ways. The gaming and data center platforms have benefited as people continue to work, learn and play from home.**
- **During an extremely busy fiscal 3Q21, NVidia launched its RTX series 30 Ampere gaming card family to huge demand in the PC gaming market; and introduced Bluefield-2 data processing units (DPUs), representing the next step in NVidia's approach to AI data center.**
- **Based on the planned acquisition of ARM Holdings, NVidia will extend its reach from cloud data centers into leadership in edge data centers, fueling the internet of things.**
- **We recommend establishing or adding to positions in this preeminent vehicle for participation in the AI economy. We believe that most technology investors should own NVDA in the age of deep learning, AI, and GPU-driven applications acceleration levels.**

■ **PALO ALTO NETWORKS, INC. (PANW)**

12-month target price: \$334

(Joseph Bonner, CFA)

- The rapid growth in new distributed computing and cloud data environments brings with it a host of network security issues.
- Palo Alto as one of the most innovative enterprise network security firms is looking to secure both the burgeoning number of data endpoints and the data itself as more workloads shift to third party cloud providers.
- Management continues to invest organically and through tuck-in M&A to enhance its next-generation security solutions.
- Palo Alto is one of the few companies to actually raise guidance during the COVID-19 pandemic.

■ DTE ENERGY (DTE)

12-month target price: \$140

(Angus Kelleher-Ferguson)

- We like DTE Energy's 3.5% dividend yield in the current low-interest-rate environment; DTE management recently approved a 7% increase.
- The company recently announced plans to spin off the company's midstream operations. We view this move as a positive for shareholders, as the market tends to award pure-play utilities with higher multiples.
- DTE has exposure to Detroit's auto industry, as roughly 50% of DTE's industrial sales come from automotive companies or auto suppliers.
- The auto industry has shown strength during the pandemic and General Motors has announced plans to produce electric vehicles at DTE-powered manufacturing plants.

■ AMEREN CORP. (AEE)

12 month target price \$87

(Gary Hovis)

- We favor the company's strong balance sheet, expanding rate base and generally positive relations with regulators, and expect Ameren to deliver average annual earnings growth of 4.5%-5.5% over the next two-to-three years.
- The company has a growing network of transmission assets, which have the potential to earn a higher return on equity than utilities with generation and distribution assets only.
- Ameren's 2020 EPS guidance range is \$3.40-\$3.60. Our 2020 EPS estimate is \$3.50 and in 2021, we are looking at \$3.66.
- Our target price of \$87 assumes the stabilization and rapid turnaround of the current coronavirus emergency.

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