



## ***THE MONTHLY RESEARCH CONFERENCE CALL***

# **ARGUS ANALYSTS' TOP PICKS FOR 2022**

Moderator:

Jim Kelleher, CFA

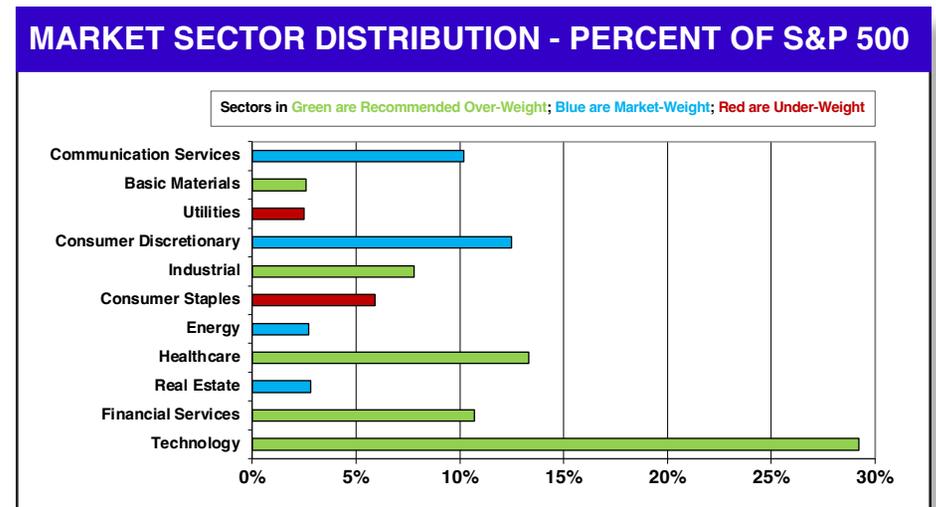
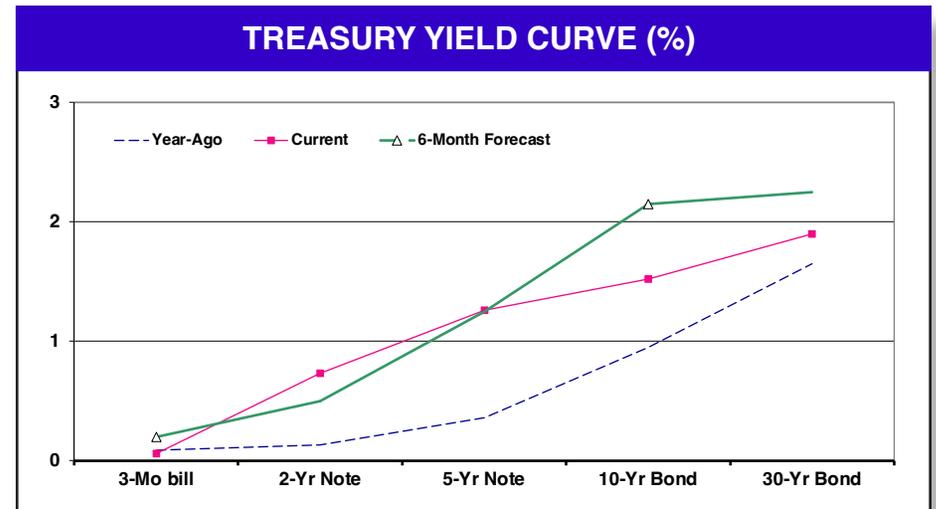
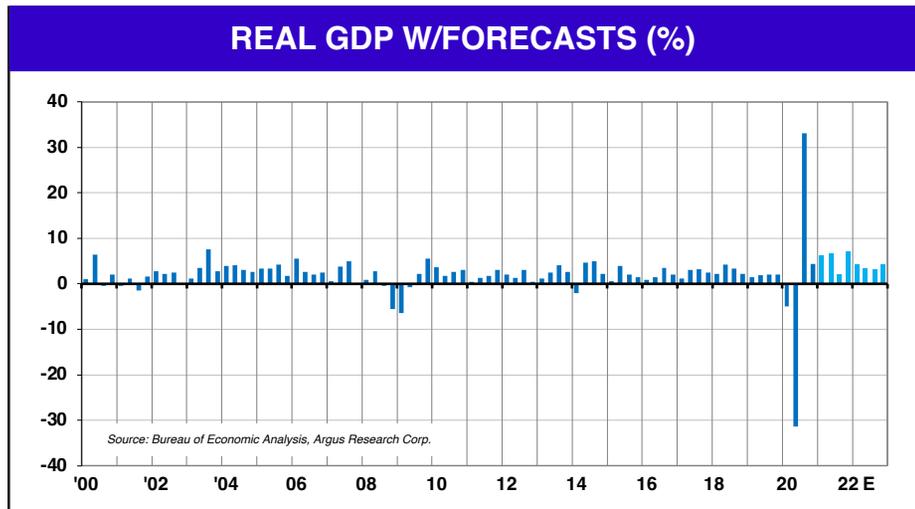
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- **Argus Analysts' Top Picks for 2022**
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  - Dividends are a key element of total return
  - Dividend growth signals strong execution, new product success
  - Correlates to strong cash flow growth & total return

# MACRO FORECASTS

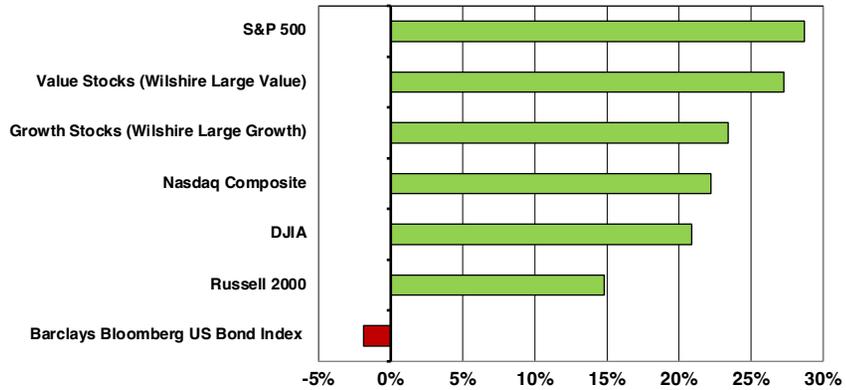


# MARKET PERFORMANCE

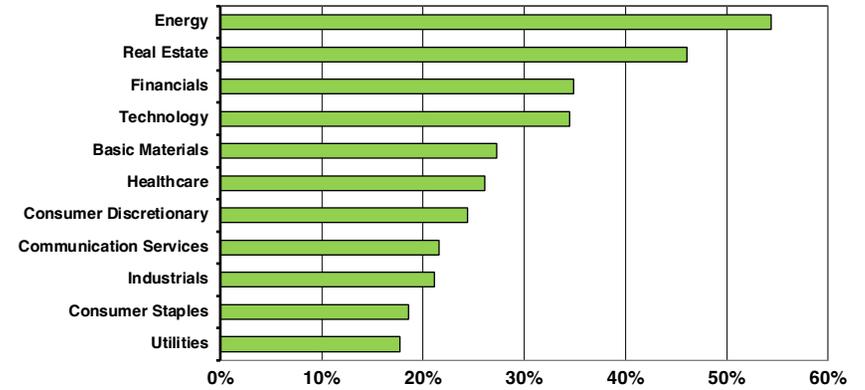
DATA AS DECEMBER 31, 2021



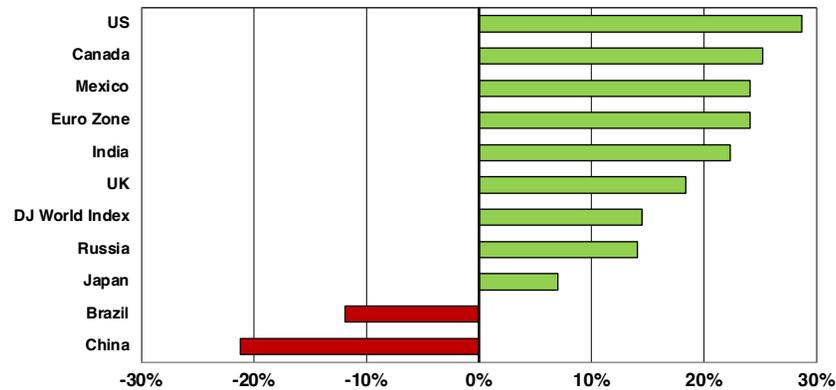
## MAJOR INDEX



## SECTOR



## GLOBAL EQUITY MARKETS



## **BASIC MATERIALS**

- » Corteva Inc. (CTVA)
- » Nucor Corp. (NUE)

## **COMMUNICATION SERVICES**

- » Google Inc. (GOOGL)

## **CONSUMER DISCRETIONARY**

- » General Motors Co. (GM)
- » Williams-Sonoma Inc. (WSM)
- » Hilton Worldwide Holdings (HLT)
- » Ethan Allen (ETD)
- » Tractor Supply Co. (TSCO)

## **CONSUMER STAPLES**

- » Walmart Inc. (WMT)

## **ENERGY**

- » Devon Energy Corp. (DVN)

## **FINANCIAL SERVICES**

- » PNC Financial Services (PNC)
- » Prudential Financial Inc. (PRU)
- » S&P Global Inc. (SPGI)

## **HEALTHCARE**

- » CVS Health Corp. (CVS)
- » Moderna Inc. (MRNA)
- » Catalent (CTLT)
- » McKesson (MCK)

## **INDUSTRIALS**

- » Old Dominion Freight Line Inc. (ODFL)
- » AECOM (ACM)

## **REAL ESTATE**

- » Host Hotels & Resorts Inc. (HST)

## **TECHNOLOGY**

- » Qualcomm Inc. (QCOM)
- » NVidia Corp. (NVDA)
- » Cloudflare, Inc. (NET)
- » PayPal Holdings (PYPL)

## **UTILITIES**

- » American Electric Power Co. Inc. (AEP)

## ■ CORTEVA INC. (CTVA)

12-month target price: \$58

(Bill Selesky)

- Corteva was the June 2019 spinoff from DowDuPont. The company is a pure-play seed and crop protection company. Its competitive advantages range from its global scale, broad product range, and strong new product pipeline. Corteva also is focused on boosting shareholder returns through stock buybacks and dividends.
- For 2022, we expect strong pricing trends in all of its seed offerings, mainly corn and soybeans, and expect worldwide demand to remain healthy, following a strong 2021, which did not see any material buildup in carryover of crop inventories.
- We see the outlook for corn demand in 2022 as remaining robust, largely due to expected growth in ethanol production, used in gasoline blending. This follows our view that transportation volumes should increase following a restart of the economy following the easing of COVID-19 restrictions.
- Since early 2021, activist hedge fund Starboard Value has owned \$400 million in CTVA shares. We believe the hedge fund's ownership stake is due to the opportunity for CTVA to expand its growth potential, particularly in sales, profitability, and margin expansion, which has lagged its peers over the past few years. In addition, we believe new CEO Chuck Magro, hired at year-end 2021, will lead the company to stronger profits in 2022.

## ■ **NUCOR CORP. (NUE)**

12-month target price: \$140

(David E. Coleman)

- Nucor Corp. is a manufacturer of steel and steel products and North America's largest steel recycler. The company's three main operating units are Steel Mills, Steel Products, and Raw Materials.
- This well-managed company has a strong balance sheet and offers a solid dividend yield, and is seeing strong demand in most end markets.
- Based on management's guidance, we recently raised our 2022 EPS estimate to \$16.35 from \$15.10.
- The shares rose strongly from their pandemic lows in the \$30s in March 2020 to current levels above \$110. We believe the shares have potential to reach and exceed our 12-month target price of \$140.

## ■ **ALPHABET INC. (GOOGL)**

12-month target price: \$3,100

(Joseph Bonner, CFA)

- **Alphabet's Google division dominates the digital advertising market, a market that continues to experience strong secular growth.**
- **Alphabet is one of the big tech companies that continually innovates in mobile, public cloud, and big data analytics, as well as emerging areas such as artificial intelligence, virtual/augmented reality and even quantum computing.**
- **Although autonomous vehicle technology is at too early a stage for mass consumer adoption, Alphabet is further along in the testing phase than any of its competitors.**
- **With success, growth, and size come anti-trust concerns in the U.S. and globally.**

## ■ **ETHAN ALLEN INTERIORS INC. (ETD)**

12-month target price: \$36

(Kristina Ruggeri)

- **Ethan Allen's sales and earnings are benefiting from new product lines targeting younger customers.**
- **Management believes that new designer software will allow the company to match or exceed current sales levels with 20%-30% fewer sales associates.**
- **The company is also experiencing gross margin benefits from the recent consolidation of case goods manufacturing.**
- **Ethan Allen maintains a healthy balance sheet with no outstanding debt. The company also pays a dividend that yields about 4% and paid two special dividends in 2021.**

## ■ GENERAL MOTORS CO. (GM)

12-month target price: \$66

(Bill Selesky)

- General Motors has one of the most diversified portfolios within the Automotive OEM sector and has multiple ways, in our view, to enhance shareholders value through electric vehicles (EVs), legacy vehicles (Internal Combustion Engines), and Autonomy.
- Additionally, General Motors also has leading North American margins, generates strong free cash flow, and has a robust balance sheet.
- Furthermore, we believe that near-term difficulties with semiconductor shortages, supply-chain disruptions, and commodity price inflation are all manageable circumstances that GM will be able to address. With demand remaining strong, a new earnings growth cycle should begin to take hold starting in 1H22 as we see it.
- Upcoming EV launches are on track, with the HUMMER EV released during the fall of 2021 and the Cadillac LYRIQ expected in the first half of 2022. We believe these launches will serve as positive events for the company.

## ■ HILTON WORLDWIDE HOLDINGS INC. (HLT)

12-month target price: \$178

(John Staszak, CFA)

- We believe that the continued rollout of coronavirus vaccines will lead to increased room demand, along with higher RevPAR and management fees.
- We expect the reopening of the remainder of the company's hotels, and prospects for accelerated growth in management fees to benefit earnings.
- We also expect earnings to benefit from the spinoff of the timeshare businesses and the sale of additional company-owned hotels.
- Our long-term rating on HLT remains BUY based on the company's solid development pipeline, new brands, and well-regarded loyalty program.

## ■ TRACTOR SUPPLY CO. (TSCO)

12-month target price: \$255

(Taylor Conrad)

- The COVID-19 pandemic has accelerated growth for Tractor Supply Co., attributable to the home-improvement and in-home activities trend. We believe these trends may remain intact post pandemic, furthering the company's growth.
- We have a positive view of the company's customer focus and brand-building initiatives, omni-channel investments, successful loyalty programs, and accelerated online sales.
- Management has signaled confidence with a 30% dividend increase in January 2021.
- The company's digital business is growing, with more than 2 million downloads for the mobile app.

## ■ WILLIAMS-SONOMA INC. (WSM)

12-month target price: \$250

(Chris Graja, CFA)

- **WSM's performance during the COVID-19 crisis increases our confidence in management's ability to drive sales with innovative products, improve operating efficiency, and generate cash. We are evaluating an increase in our financial strength recommendation to Medium-High, which would be the same level as Costco, Walmart, Colgate, and Target.**
- **Our five-year earnings growth rate is 9%. There are several reasons that we expect WSM to keep growing. Most notable is that CEO Laura Alber and the company's designers have shown that they can maintain their rare knack for building brands and product lines from scratch.**
- **CFO Julie Whalen said recently that she expected the company to benefit from a strong housing market, the permanent adoption of "hybrid work," the shift to online shopping, and the interest of younger investors in companies like WSM with strong corporate values and a focus on sustainability.**
- **Over the last five years, WSM has raised the dividend at a compound annual rate of 10.6%. WSM has raised the dividend three times during the pandemic and announced two new share-repurchase plans. The indicated dividend yield is approximately 1.7%.**

## ■ **WALMART INC. (WMT)**

12-month target price: \$180

(Chris Graja, CFA)

- **Walmart's past investments have helped it to win business and generate strong cash flow during the pandemic. The company is taking advantage of its financial strength and ability to invest in its supply chain, technology, and associates to extend its advantage into the future. Return on Investment was up 60 basis points to 14% at the end of FY21.**
- **Our five-year earnings growth rate is 6%. Drivers of medium- to long-term growth include improving the offering of general merchandise; winning new customers through initiatives like Walmart+; growing ancillary businesses including financial services and healthcare; and selling advertisers on the ability to connect with WMT's 140 million weekly customers.**
- **Walmart has repositioned its international businesses, focusing on faster-growing markets that are going to be important for the next 20 years. These include India, China, Mexico, and Canada. WMT is also growing online sales by third-party vendors and improving the profitability of its e-commerce business.**
- **Walmart has increased its payout every year since it first declared a dividend in 1974. The dividend yield is about 1.5%**

## ■ DEVON ENERGY CORP. (DVN)

12-month target price: \$53

(Bill Selesky)

- We expect Energy sector outperformance in 2022, based on industry-wide disciplined capital spending, limited production growth, and a supportive macro backdrop. These factors have created a structural supply deficit, which we believe will take years to rectify. We believe this benefits a low-cost supplier like Devon Energy significantly.
- Devon operates within a multi-basin portfolio, with the Delaware Basin representing about 70% of total volume. Commodity exposure is well balanced (gas, oil and NGLs) and we believe inventory depth provides sustainable outperformance.
- Devon's business strategy prioritizes free cash flow (FCF) growth over volume growth, which provides for accelerating cash returns to shareholders. The company has 29 consecutive years of dividend payments and the dividend remains a top-funding priority.
- Additionally, on February 16, 2021, Devon instituted the Energy industry's first "variable plus fixed dividend" framework. The "new" dividend program, initiated after Devon's acquisition of WPX Energy, provides both a sustainable "fixed" dividend plus a variable dividend, when business conditions allow. The company also has an active \$1 billion share-repurchase program.
- Lastly, breakeven funding levels (including both capital spending plans and fixed dividend programs) currently are forecasted at about \$35 per barrel WTI.

## ■ PNC FINANCIAL SERVICES GROUP INC. (PNC)

12-month target price: \$220

(Stephen Biggar)

- Based in Pittsburgh, PNC provides a range of retail and commercial banking, residential mortgage lending, and asset-management services.
- With the Federal Reserve set to raise short-term interest rates in 2022, we believe regional banks will perform well due to widening net interest margins. PNC is well positioned with an asset-sensitive balance sheet that will benefit from higher rates.
- PNC also has a catalyst in the mid-2021 acquisition of the U.S. banking subsidiary of Banco Bilbao Vizcaya, which added to the company's national bank franchise and we expect to result in about \$900 million in cost savings.
- Following the Federal Reserve's June 2021 stress test results, PNC announced a 9% increase in the quarterly common dividend, to \$1.25 per share (the shares currently yield 2.5%) and plans to repurchase up to \$2.9 billion in stock.

## ■ PRUDENTIAL FINANCIAL INC. (PRU)

12-month target price: \$120

(Kevin Heal)

- Prudential's balance sheet is clean, and management consistently returns capital to shareholders through dividend hikes and share buybacks.
- The company pays an annualized dividend of \$4.60 per share for a yield of about 4.2%.
- Assets under management continue to grow, generating higher year-over-year income.
- We remain confident that Prudential will continue to invest in higher-growth markets internationally and shed lower-margin assets.

## ■ **S&P GLOBAL INC. (SPGI)**

12-month target price: \$525

(John Eade)

- The SPGI shares rose more than 45% in 2021.
- 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 ‘under-promises and over-delivers’ 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 15%.
- 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.

## ■ **CATALENT INC. (CTLT)**

12-month target price: \$160 target

(David Toung)

- Catalent is a key manufacturing partner for developers of vaccines and therapies for COVID-19.
- Through internal investments and M&A, the company is also expanding its ability to develop and manufacture biologic drugs and cell and gene therapies.
- We expect Catalent to generate strong revenue growth and margin expansion in 2022.

## ■ **CVS HEALTH CORP. (CVS)**

12-month target price: \$120

(Chris Graja, CFA)

- We continue to see the merger with Aetna as a logical continuation of CVS management's plan to provide innovative ways to help both healthcare payers and individual patients.
- In December 2021, we raised our five-year growth rate forecast to 7% from 5%. We expect EPS growth to accelerate as a result of growth in existing businesses, cost cutting, expansion into new businesses, and share repurchases. We expect to raise our published growth rate gradually as the company delivers on its growth plan.
- CVS Health can use its trusted pharmacists, Minute Clinics, and clinical programs to lower treatment costs, improve compliance with doctors' orders, and reduce the need for patients to be re-admitted to hospitals. By demonstrating that it can control costs and improve patient health, CVS should be in a position to retain existing customers, win new business, and gain market share.
- On December 9, CVS Health announced a 10% dividend increase to an annual \$2.20. CVS also announced a \$10 billion share-repurchase plan. The indicated dividend yield is approximately 2.1%.

## ■ **MCKESSON CORP. (MCK)**

12-month target price: \$270

(David Toung)

- **MCK is playing an important role in the fight against COVID-19 in the U.S. and overseas through the distribution of vaccines, tests, and ancillary supply kits.**
- **We expect the company to benefit from higher pharmaceutical distribution volumes in 2022, driven by higher prescription volumes, more-normalized levels of primary care visits, and higher new patient starts on specialty drugs.**
- **With its exit from the European businesses, McKesson can redeploy capital on M&A and expanded technology offerings.**

## ■ MODERNA INC. (MRNA)

12-month target price: \$350

(Jasper Hellweg)

- Over the next 12 months, we expect Moderna to continue to benefit from an increasing number of advance purchase orders for its COVID-19 vaccine, as well as the potential rollout of variant-specific vaccine formulations.
- The company is also in advanced stages of clinical development for vaccines for the flu, respiratory syncytial virus (RSV), and Cytomegalovirus (CMV), and has had promising results in its work on a vaccine for HIV.
- The stock recently retreated to what we view as an attractive entry-point for investors, forming a floor near its 50-week moving average as people assessed the impact of the Omicron variant, although we note that the company's vaccine followed by a booster dose remains one of the most-effective measures against getting sick from the virus.
- Our five-year earnings growth rate is 16%. We expect the company to continue to benefit from its successful COVID-19 vaccine development, further expansion of its manufacturing capacity, and the launch of additional life-saving products to market.

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

12-month target price: \$400

(John Eade)

- The ODFL shares rose more than 80% in 2021.
- 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 three-month, one-year and five-year periods.
- The company is a consistent double-digit dividend grower.

## ■ **AECOM (ACM)**

12-month target price \$88

(John Staszak, CFA)

- **AECOM is switching to a professional services business model. We have a favorable view of this shift and expect ACM to benefit from increased infrastructure spending going forward.**
- **We expect growing demand for road and water projects to provide the company's Design & Consulting Service unit with a stable source of revenue.**
- **Based on its financial strength, we think that ACM is well positioned to manage through the pandemic.**
- **We also expect demand for AECOM's services to benefit from several secular trends, including accelerating urbanization in developing countries, the steady increase in the share of global GDP represented by these countries, and rising energy consumption.**

## ■ **HOST HOTELS & RESORTS INC. (NYSE: HST)**

12-month target price: \$20

(Angus Kelleher)

- Host Hotels & Resorts is the largest hotel REIT by market cap and revenue. Host owns 80 luxury hotel properties with about 45,400 rooms.
- Host recently reported third-quarter results that exceeded Street expectations. The company posted 3Q21 adjusted FFO of \$143 million or \$0.20 per share, compared to an AFFO loss of \$80 million or \$0.11 per share in 3Q20.
- Host has a solid balance sheet, and is the only lodging REIT with an investment-grade rating from Moody's. As such, we view HST as an attractive holding for investors seeking exposure to the lodging industry recovery.
- Our target price of \$20 implies a projected 2022 price/AFFO multiple of 13.2 and a price/sales ratio of 2.6, both below the peer average.

## ■ CLOUDFLARE INC. (NET)

12-month target price: \$230

(Joseph Bonner, CFA)

- Cloudflare provides cloud-based network services that protect internet apps and help them to run faster -- without requiring clients to add hardware, install new software, or change code.
- Cloudflare's key performance indicators demonstrate its traction in both landing and retaining customers as it focuses on upmarket, enterprise-level customers.
- The company is also developing new services both organically and through tuck-in M&A in order to increase the value of its platform for current subscribers and expand into adjacent markets.
- Cloudflare reported both non-GAAP operating and net profit in 3Q21 for the first time since its September 2019 IPO.

## ■ **NVIDIA CORP. (NVDA)**

12-month target Price of \$380

(Jim Kelleher, CFA)

- We believe Nvidia is primed for further appreciation based on its positioning in the AI data center, 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 2021, Nvidia launched its RTX series 30 Ampere gaming card family to huge demand in the PC gaming market. A year later, RTX series cards remains sold-out and should experience multiple quarters of exceptional demand ahead.
- The planned acquisition of ARM Holdings has hit some roadblocks, but Nvidia is pressing ahead with the planned deal. If closed, the acquisition will extend Nvidia's reach from cloud data centers into leadership in edge data centers.
- 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.

## ■ **PAYPAL HOLDINGS INC. (PYPL)**

12-month target price: \$310

(Stephen Biggar)

- **PayPal is a technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide.**
- **The company remains in a high-growth phase, with high-teens revenue growth and mid-20% EPS growth, aided by trends that include an ongoing secular shift toward digital payments over cash and checks.**
- **PayPal has been innovative in the payments space and in our view has several competitive advantages as it seeks to grow payment volumes, including a well-established international presence, and strong and increasing merchant acceptance.**
- **We believe recent share price weakness reflects a short-term spending slowdown due to the pandemic resurgence, and represents a buying opportunity for the high-quality shares.**

## ■ QUALCOMM INC. (NYSE:QCOM)

12-month target Price: \$205

(Jim Kelleher, CFA)

- We believe Qualcomm is uniquely positioned to benefit as 5G goes mainstream, which is one of our key themes for 2022.
- In a highly positive FY21, Qualcomm benefited from multi-year licensing agreements and Snapdragon processor sales to major Asian handset makers, as well as continued momentum with Apple.
- Although Apple may in time seek to use its own 5G modems to displace Qualcomm chips, that change is not imminent. And while chip sales to Apple are meaningful, the licensing agreement with Apple in our view is the more important revenue and profit contributor.
- Qualcomm -- which has been in near-constant litigation in the two decades we have followed the company -- has put all or most legal issues behind and can focus on leading the 5G market in a multi-year rollout.
- We expect 5G to be a huge market driver and profitable revenue opportunity for Qualcomm, which brings existing market strengths into a maturing 5G device market. The broad ramp-up of 5G handsets that began late in 2020 should continue to gather momentum into calendar 2022 and beyond.

## ■ **AMERICAN ELECTRIC POWER CO. INC. (AEP)**

12-month target price: \$102

(Angus Kelleher)

- **AEP ranks among the nation's largest generators of electricity and is well positioned to drive earnings growth through investments in its regulated businesses and in renewable generation.**
- **AEP recently agreed to sell its Kentucky operations to Liberty Utilities for \$2.85 billion. The sale includes both regulated utility and regulated transmission assets. The proceeds will eliminate the need for equity issuance in 2022, which will benefit EPS.**
- **Management has raised its 2021 adjusted EPS guidance to \$4.65-\$4.75, up at the low end from a prior \$4.55-\$4.75.**
- **The company recently raised its quarterly dividend by 5.4% to \$0.78 per share, or \$3.12 annually, for a yield of about 3.7%, above the peer average of 3.1%. Over the past five years, the dividend has grown at a compound annual rate of 5.7%.**

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