

Dycom Industries Inc. (DY)

\$41.09 (As of 02/03/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 01/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **2-Buy**

Zacks Style Scores: VGM:D

Value: B | Growth: F | Momentum: A

Summary

Shares of Dycom have underperformed its industry in the past three months. The dismal performance was primarily due to higher-than-expected costs along with continued impacts of increased complexity of a large customer program. Also, massive promotional expenditure and cut-throat pricing competition are adding to the woes. However, earnings estimates for fiscal 2020 increased in the past 60 days, reflecting optimism surrounding the company's growth prospects. Notably, increased demand for network bandwidth and mobile broadband along with extensive deployment of 1-gigabit wireline networks, are likely to benefit the company going forward.

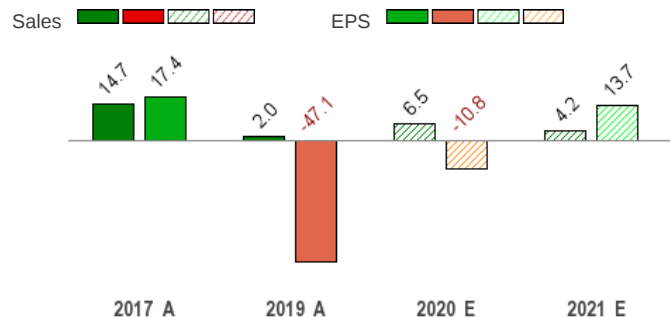
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.48 - \$39.54
20 Day Average Volume (sh)	351,960
Market Cap	\$1.3 B
YTD Price Change	-12.9%
Beta	1.35
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Top 20% (50 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	4.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	15.8
P/E F1	14.6
PEG F1	1.9
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	800 E	897 E	954 E	846 E	3,471 E
2020	834 A	884 A	884 A	728 E	3,330 E
2019	731 A	799 A	848 A	749 A	3,128 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.30 E	\$1.04 E	\$1.12 E	\$0.22 E	\$2.82 E
2020	\$0.53 A	\$1.09 A	\$0.88 A	-\$0.02 E	\$2.48 E
2019	\$0.65 A	\$1.05 A	\$0.98 A	\$0.10 A	\$2.78 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/03/2020. The reports text is as of 02/04/2020.

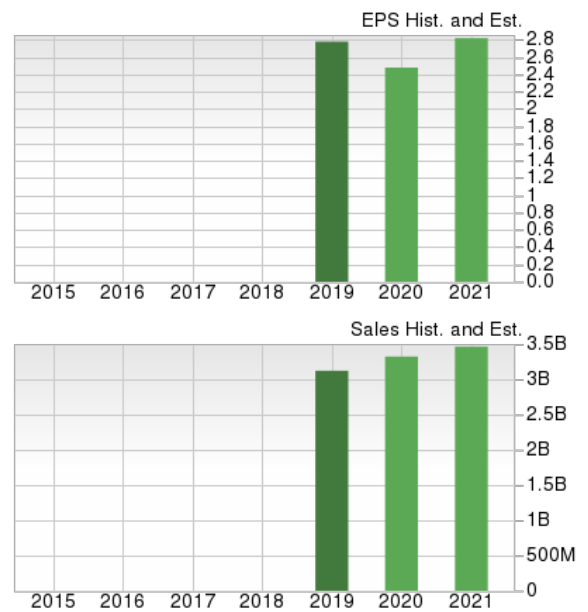
Overview

Based in North America, **Dycom Industries Inc.** is a specialty contracting firm operating in the telecom industry. The company provides diverse services such as engineering, construction, maintenance and installation services for the cable and telephone companies. Dycom provides specialty constructing services to the following customers:

Telecommunications (accounting for 90.3% of third-quarter fiscal 2020 contract revenues): Dycom provides integrated services for designing aerial, underground and buried fiber optic, copper, and coaxial cable systems for telecom, cable and multiple system operators. It also equips telecom providers with engineering services for designing concept boxes and terminals for various activities. For the wireless network, the company's service package comprises tower construction, installation of lines and antenna, constructing foundation and equipment pad, fabrication for required equipment and materials as well as testing services at the site.

Underground Facility Locating (6.3%): The company provides underground facility-locating services to a number of utility companies to avoid damage of the underground facilities like telephone, cable television, power, water, sewer and gas lines. Dycom's expertise in these not only minimizes the damage but also controls its impact on people in the surrounding areas.

Electric and Gas Utilities (3.4%): Dycom also offers services to electric and gas utility companies for both construction and maintenance of gas pipelines and power distribution network. These services are generally provided on a stand-alone basis. However, at times the company is required to provide comprehensive services for deploying both telecom and electric infrastructure at new constructions. Dycom is also adept in installation and maintenance of natural gas transmission networks.



Reasons To Buy:

▲ **Strong Growth Prospects in Telecommunication Business:** Dycom's business primarily benefits from increased demand for network bandwidth and mobile broadband, given the proliferation of smart phones. As telecommunications networks face increased demand, customers need to expand the capacity and improve the performance of existing networks and in certain instances deploy new networks. Presently, a number of major industry participants are deploying significant wireline networks to offer bandwidth-enabling 1-gigabit speeds, thereby creating significant opportunities for Dycom.

Favorable industry trends like surging demand for 1 Gigabyte deployments, huge investment in wireline networks and cable capacity projects will continue to drive growth.

In the past few quarters, the company's top line benefited immensely from extensive deployment of 1-gigabit wireline networks by major customers. In the first nine months of fiscal 2020, its contract revenues increased 9.4% year over year. Organically, revenues improved 15.8% in the fiscal first quarter, followed by 11.1% and 4.7% growth in the fiscal second quarter and third quarters of 2020, respectively.

It has secured several converged wirelines, wireless multi-use network deployments across the country. Dycom remains optimistic about the strengthening industry environment, given strong end-market drivers.

▲ **Continuous Contract Flows:** The company continues to book new contracts and renew existing ones. Dycom has secured new customer business from AT&T, Comcast, Verizon, CenturyLink and Windstream Holdings, which will add to the company's growth momentum. Over the last few years, Dycom has successfully increased the long-term value of its maintenance business, which is expected to complement its deployment of 1-gigabit and wireless-wireline converged-networks.

Further, Dycom continues to experience strong 12-month backlog, which indicates continued growth through the next calendar year. The company recorded backlog of \$6.349 billion as of Oct 26, 2019. Of this backlog, nearly 40% is expected to be completed over the next 12 months. Notably, the company has already received contracts worth more than \$1.5 billion that will be included in fiscal fourth-quarter backlog. Going forward, we expect the company's string of contract wins and strong customer relationships to act as growth drivers. The company remains positive about substantial opportunities across a broad array, as it received significant contracts from top customers.

Although shares of Dycom have underperformed its industry in the past three months, earnings estimates for fiscal 2020 have increased in the past 60 days, reflecting optimism surrounding the company's prospects.

▲ **Strategic Initiatives for Expanding Market Share:** Dycom's strong financial position, coupled with diligent operational execution, allows it to undertake strategic initiatives for expanding market share. The company has an ardent eye for acquisitions to expand its geographic presence.

In March 2018, Dycom acquired certain assets and assumed certain liabilities of a telecommunications construction and maintenance services provider in the Midwest and Northeast United States, thereby expanding the company's geographic presence within its existing customer base. During the first nine months of fiscal 2020, acquisitions contributed \$20.9 million to total contract revenues.

Dycom exited the fiscal first, second and third quarters with liquidity of \$358.9 million, \$289.1 million, and \$219.6 million, respectively, comprising available credit facility and cash on hand. Such a robust cash position grants it the flexibility to undertake strategic investments and acquisitions to reinforce growth prospects. The company made some changes in net working capital which contributed toward operating cash flow improvement, while still providing the necessary resources for investment to support growth. We believe such steps will boost investor's confidence in the stock.

▲ **Engineering and Construction Work Gains Momentum:** Dycom expects engineering and construction work to gain strong momentum in the coming quarters. Several large programs have gained momentum in recent times, and many new contracts have commenced meaningful activity, thus propelling Dycom's growth. Although it expects low contract revenues in the fiscal fourth quarter due to seasonal fluctuations, the same is likely to grow in fiscal 2021.

Risks

- **Pressurized Margins, Tepid Outlook:** Although the company reported solid results, gross margins contracted 92 basis points (bps) in the fiscal third quarter, owing to continued impacts of increased complexity of a large customer program. Adjusted EBITDA margins also declined 120 bps from the year-ago period. The company pointed out that although major customers have stepped up infrastructure spending, higher-than-expected costs of a large customer program have dented Dycom's margins. Meanwhile, during the fiscal third-quarter earnings call, the company's management stated that its fourth quarter is likely to be hurt from seasonality including inclement weather, fewer available work days due to holidays, reduced daylight work hours and the restart of calendar payroll taxes.

Given the above-mentioned headwinds, the company issued a tepid view for the fiscal fourth quarter. It anticipates contract revenues in the range of \$700-\$740 million, indicating a decline from \$748.6 million reported a year ago. Adjusted earnings are anticipated between loss of 15 cents and earnings of 2 cents per share. The said range suggests a significant fall from the prior-year reported earnings of 10 cents per share. It also expects adjusted EBITDA margin to decrease from the year-ago period.

On the further discouraging note, the company projects revenues to decline in first-quarter fiscal 2021 and adjusted EBITDA margin to remain flat with the comparable prior-year period.

- **Competitive Pressure in Telecommunications Industry:** The U.S. telecommunications industry is facing intense pricing competition. Severe spectrum crunch, coupled with gradual Smartphone and tablet adoption, are compelling wireless operators to seek other options for raising revenues. Massive promotional expenditure and cut-throat pricing competition are major concerns presently plaguing the industry. Moreover, the telecommunication industry is highly dynamic in nature which continues to experience rapid technological, structural and competitive changes and may reduce the service requirements from Dycom thereby impacting financial performance adversely.
- **Cyclical Nature of Business:** Dycom's services are highly cyclical and remain vulnerable to economic downturns. During times of economic downturn volatility in credit and equity markets reduce the availability of debt or equity financing which in turn reduces capital spending on the part of clients. Other macroeconomic factors like currency exchange rates can impact the business as the company has considerable business presence in Canada. Although the foreign currency exchange rate risk did not have significant impact on Dycom's top line in recently reported quarter, it could hurt the company financial in coming quarters. Hence, such factors remain a matter of concern for Dycom.

Also, fluctuations in the price of oil can pose significant headwinds for the company as cost of conducting business is directly linked with increase in fuel price. As majority of contracts do not allow the company to adjust pricing for higher fuel costs during a contract term, Dycom's inability to accommodate price increases adds to its woes and directly hurts margins.

- **Sales Concentrated Around Few Customers:** A significant portion of Dycom's sales comes from its top five customers. During the fiscal third quarter, its top five customers contributed 77.3% to total contract revenues. Dycom's largest customer, Verizon accounted for 20.6% of total revenues. CenturyLink added 18.6%, AT&T contributed 18.4%, Comcast accounted for 14.9% and Windstream represented 4.8% of the total revenues. Notably, Windstream filed a petition for reorganization a year ago. Bankruptcy of a major customer is expected to weigh on the company's results going forward.
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Last Earnings Report

Dycom's Q3 Earnings & Revenues Beat Estimates

Dycom Industries Inc.'s top and bottom lines not only beat the Zacks Consensus Estimate but also improved from the year-ago level.

During the quarter, the company reported adjusted earnings of 88 cents per share, surpassing the consensus estimate of 72 cents by 22.2%. However, earnings decreased 10.2% on a year-over-year basis due to lower margins, reflecting continued impacts of the complexity of a large customer program.

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	4.46%
EPS Surprise	22.22%
Quarterly EPS	0.88
Annual EPS (TTM)	2.60

Revenue & Operating Highlights

Dycom's quarterly contract revenues came in at \$884.1 million, increasing 4.2% year over year. The reported figure also surpassed the consensus mark of \$846.4 million by 4.5%.

Organically, revenues (excluding storm restoration services of \$3.9 million in the year-ago quarter) grew 4.7% year over year in the fiscal third quarter. This marks the sixth consecutive quarter of organic growth. The upside was backed by higher demand from three of its top five customers owing to the deployment of 1-gigabit wireline networks, wireless/wireline converged networks and wireless networks.

The company's top five customers contributed 77.3% to total contract revenues, increasing 3.4% organically. Dycom's largest customer Verizon accounted for 20.6% of the total revenues. Verizon grew 4.6% year over year organically. CenturyLink (second-largest customer) added 18.6% to total revenues and increased 38.6% organically. AT&T contributed 18.4% to revenues; Comcast accounted for 14.9%; and Windstream, representing 4.8% of the total revenues, climbed 43.2% organically. Revenues from all other customers grew 9.6% organically in the quarter.

Dycom's backlog at the end of the reported quarter totaled \$6.349 billion versus \$6.691 billion at the end of fiscal second quarter. Approximately \$2.524 billion of the backlog is projected to be completed in the next 12 months.

Gross margin during the quarter was 18.1%, which declined 92 basis points (bps) due to higher cost of a large customer program. Adjusted EBITDA margin also contracted 120 bps to 10.4% from 11.6% in the year-ago quarter.

Financials

As of Oct 26, 2019, Dycom had cash and cash equivalents of \$11.8 million compared with \$128.3 million on Jan 26, 2019. Long-term debt was \$970.2 million at the end of the fiscal third quarter compared with \$867.6 million at fiscal 2019-end.

Fourth-Quarter Fiscal 2020 Guidance

The company anticipates contract revenues in the range of \$700-\$740 million, lower than the Zacks Consensus Estimate of \$753.5 million (considering the mid-point of the guided range). The said range indicates a decline from the year-ago figure of \$748.6 million.

Adjusted earnings are anticipated between loss of 15 cents and earnings of 2 cents per share. Considering the mid-point of this guidance, the estimated range is below the consensus mark of earnings of 13 cents per share for the quarter. Also, the said range suggests a fall from the prior-year reported earnings of 10 cents per share. Dycom expects adjusted EBITDA margin to decrease from the year-ago period.

Notably, the quarterly results are likely to be impacted by seasonality including inclement weather, fewer available work days due to holidays, reduced daylight work hours and the restart of calendar payroll taxes.

Valuation

Dycom's shares are down 32.5% in trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 4% and 24.6% in the past year.

The S&P 500 index is up 16.9% in the past year.

The stock is currently trading at 16.56X forward 12-month price to earnings, which compares to 10.67X for the Zacks sub-industry, 15.64X for the Zacks sector and 18.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.65X and as low as 10.28X, with a 5-year median of 17.43X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$47 price target reflects 18.95X forward 12-month earnings.

The table below shows summary valuation data for DY

Valuation Multiples - DY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	16.56	10.67	15.64	18.5
	5-Year High	30.65	18.31	18.83	19.34
	5-Year Low	10.28	10.37	10.63	15.18
	5-Year Median	17.43	14.82	15.93	17.46
P/S F12M	Current	0.39	0.34	1.89	3.45
	5-Year High	1.27	0.56	2.23	3.45
	5-Year Low	0.37	0.34	1.25	2.54
	5-Year Median	0.81	0.42	1.64	3
EV/EBITDA TTM	Current	6.56	6.04	18.97	11.95
	5-Year High	124.4	13.17	22.54	12.85
	5-Year Low	NA	6.04	14.41	8.49
	5-Year Median	9.31	8.67	19.37	10.66

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Top 20% (50 out of 254)



Top Peers

North American Construction Group Ltd. (NOA)	Outperform
EMCOR Group, Inc. (EME)	Neutral
Granite Construction Incorporated (GVA)	Neutral
MasTec, Inc. (MTZ)	Neutral
Orion Group Holdings, Inc. (ORN)	Neutral
Primoris Services Corporation (PRIM)	Neutral
Sterling Construction Company Inc (STRL)	Neutral
Tutor Perini Corporation (TPC)	Neutral

Industry Comparison Industry: Building Products - Heavy Construction				Industry Peers		
	DY Outperform	X Industry	S&P 500	GVA Neutral	PRIM Neutral	TPC Neutral
VGM Score	D	-	-	B	A	A
Market Cap	1.30 B	1.26 B	23.66 B	1.26 B	1.09 B	551.56 M
# of Analysts	6	2	13	1	2	1
Dividend Yield	0.00%	0.19%	1.82%	1.93%	1.12%	0.00%
Value Score	B	-	-	A	A	A
Cash/Price	0.01	0.15	0.04	0.18	0.04	0.50
EV/EBITDA	6.86	7.54	13.87	7.54	7.18	4.50
PEG Ratio	1.94	1.82	1.97	NA	NA	NA
Price/Book (P/B)	1.47	1.43	3.24	1.00	1.67	0.37
Price/Cash Flow (P/CF)	4.42	6.45	13.40	5.91	6.55	3.83
P/E (F1)	14.57	10.71	18.48	13.11	11.26	4.48
Price/Sales (P/S)	0.39	0.39	2.60	0.37	0.34	0.12
Earnings Yield	6.86%	9.34%	5.40%	7.63%	8.88%	22.33%
Debt/Equity	1.15	0.59	0.72	0.31	0.72	0.55
Cash Flow (\$/share)	9.30	3.01	6.92	4.57	3.27	2.87
Growth Score	F	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	2.12%	22.86%	10.80%	24.94%	16.51%	-2.16%
Proj. EPS Growth (F1/F0)	13.79%	13.79%	7.46%	206.74%	16.56%	63.33%
Curr. Cash Flow Growth	NA%	25.59%	10.59%	62.71%	32.70%	30.35%
Hist. Cash Flow Growth (3-5 yrs)	16.66%	8.58%	8.55%	26.48%	6.79%	-0.45%
Current Ratio	3.87	1.40	1.21	1.76	1.39	1.88
Debt/Capital	53.52%	38.81%	42.91%	23.81%	41.80%	35.44%
Net Margin	1.68%	2.55%	11.76%	-3.11%	2.75%	-5.66%
Return on Equity	9.87%	13.81%	17.24%	-4.63%	14.08%	4.70%
Sales/Assets	1.48	1.39	0.55	1.34	1.83	1.00
Proj. Sales Growth (F1/F0)	4.25%	7.02%	4.22%	5.26%	7.48%	9.54%
Momentum Score	A	-	-	D	B	D
Daily Price Chg	1.66%	0.00%	0.67%	-0.44%	0.28%	-2.58%
1 Week Price Chg	-9.19%	-3.86%	-2.60%	1.19%	-3.02%	2.64%
4 Week Price Chg	-11.37%	-7.16%	-0.76%	-3.64%	-2.02%	-8.96%
12 Week Price Chg	-18.26%	-6.94%	2.84%	-1.85%	-2.46%	-42.78%
52 Week Price Chg	-30.05%	-3.58%	13.93%	-37.59%	7.38%	-33.11%
20 Day Average Volume	351,960	80,833	1,915,782	520,792	106,555	533,566
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.98%	0.00%	0.00%
(F1) EPS Est 12 week change	-10.57%	0.00%	-0.13%	-12.96%	0.00%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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