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Aug 06, 2020

Dycom Industries Inc. (DY)

$45.09 (As of 08/05/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/04/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: C | Growth: C | Momentum: C	**2-Buy** VGM:C

Summary

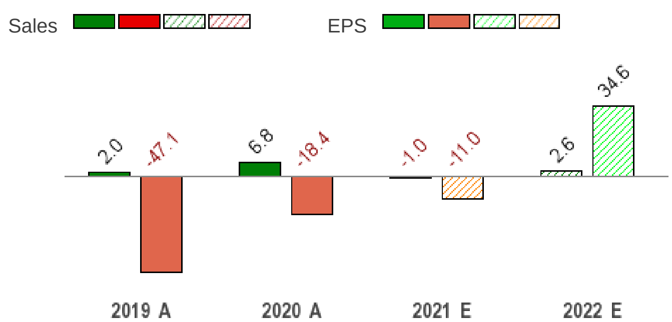
Shares of Dycom have outperformed its industry so far this year. The trend is likely to continue, considering impressive first-quarter fiscal 2021 performance despite challenging economic backdrop. Its adjusted earnings topped the Zacks Consensus Estimate by 1000%. Also, contract revenues surpassed the same by 10.2%. Notably, the top and the bottom line surpassed projections. Dycom witnessed increased demand from the two of its top five customers owing to the deployment of 1-gigabit wireline networks, wireless/wireline converged networks and wireless networks. However, it has been challenges from a large customer program and a slow start at a specific customer's rollout of its new system put pressure on its yearly results. Meanwhile, the uncertain economic backdrop owing to COVID-19 has forced Dycom to revoke its quarterly guidance.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$55.00 - $12.24**
20 Day Average Volume (sh)	**294,415**
Market Cap	**$1.4 B**
YTD Price Change	**-4.4%**
Beta	**1.48**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Building Products - Heavy Construction**
Zacks Industry Rank	**Bottom 32% (173 out of 253)**
Last EPS Surprise	**1,000.0%**
Last Sales Surprise	**10.2%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**08/26/2020**
Earnings ESP	**0.0%**
P/E TTM	**21.5**
P/E F1	**22.3**
PEG F1	**NA**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022					3,392 E
2021	814 A	840 E	866 E	785 E	3,305 E
2020	834 A	884 A	884 A	738 A	3,340 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					$2.72 E
2021	$0.36 A	$0.69 E	$0.81 E	$0.13 E	$2.02 E
2020	$0.53 A	$1.09 A	$0.88 A	-$0.23 A	$2.27 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 08/05/2020. The reports text is as of 08/06/2020.

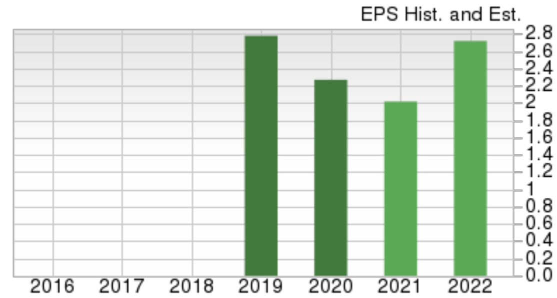
Overview

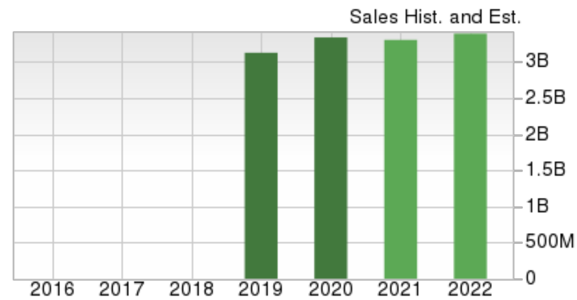
Based in North America, Dycom Industries Inc. is a specialty contracting firm operating in the telecom industry. The company provides diverse services such as engineering, construction, maintenance and installation services for the cable and telephone companies. Dycom provides specialty constructing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

Telecommunications (accounting for 90.8% of 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 (6.1%): 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 (3.1%): 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:

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

- **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.

  In the past few quarters, the company's top line benefited immensely from extensive deployment of 1-gigabit wireline networks by major customers. Dycom remains optimistic about the strengthening industry environment, given strong end-market drivers. Although the recent market trend is a concern for the company, telecommunication networks that are crucial infrastructure for the country will gain momentum post pandemic.

- **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 $6.442 billion at the end of first-quarter fiscal 2021. Of this backlog, 39% is expected to be completed over the next 12 months. 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, despite prevailing market uncertainties.

- **Engineering & Construction Work Gains Momentum**: Dycom expects engineering and construction work to gain strong momentum in the coming quarters, given solid market prospects. 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 upcoming results to be impacted from uncertain economic conditions and challenges surrounding a large customer program, the business is likely to gain momentum post pandemic as most of its works are deemed essential for economy.

Reasons To Sell:

- **Margins Under Pressure**: Dycom posted lackluster first-quarter fiscal 2021 results, wherein adjusted earnings of 36 cents per share fell 32.1% from the year-ago quarter's figure. Adjusted EBITDA margins declined 20 basis points from the year-ago quarter's figure. Challenges surrounding a large customer program, and a slow start at a specific customer in rolling out its new system added to the woes. The company pointed out that although major customers have stepped up infrastructure spending, higher-than-expected costs of a large customer program have dented margins.

  Challenges surrounding a large customer program, economic uncertainty, intense competition and customer concentration are adding to Dycom's woes.

  Apart from these headwinds, the novel coronavirus outbreak is likely to impact its business as macroeconomic uncertainty in the rest of the year may influence some of its customer plans. During the earnings call, management stated though it has revoked its fiscal 2021 guidance, its adjusted EBITDA growth projection remains intact.

- **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. Dycom's largest customer Verizon contributed 21.6% to total revenues. While AT&T (second-largest customer) contributed 18.9% of revenues, CenturyLink added 18.3% to total revenues. Comcast accounted for 14.5% while Windstream represented 5.2% of the total revenues. Notably, on Feb 25, 2019, Windstream filed a petition for reorganization. Bankruptcy of a major customer is expected to weigh on the company's results going forward.

Last Earnings Report

Dycom Q1 Earnings & Guidance Beat, Pulls Q2 Outlook

Quarter Ending	04/2020
Report Date	May 19, 2020
Sales Surprise	10.18%
EPS Surprise	1,000.00%
Quarterly EPS	0.36
Annual EPS (TTM)	2.10

Dycom Industries Inc. reported impressive earnings results for first-quarter fiscal 2021 (ended Apr 25, 2020). Notably, both the top and the bottom line of the company surpassed its projections despite a challenging economic backdrop.

Given the significant uncertainties stemming from the COVID-19, the company refrained from providing any guidance for the fiscal second quarter as well as the subsequent quarters. Nonetheless, it expects the ongoing quarter's adjusted EBITDA growth to be consistent with the year-ago reported figure on the back of stable demand for its services.

During the quarter, Dycom reported adjusted earnings of 36 cents per share. The Zacks Consensus Estimate was of a loss of 4 cents per share. However, the metric fell 32.1% from the year-ago quarter's earnings. Nonetheless, the bottom line substantially came ahead of the company's guided range of a loss of 9 cents to earnings of 8 cents per share. Dycom has been facing issues regarding a large customer program while a slow start at a specific customer's rollout of its new system weighed on its earnings performance.

Revenue & Operating Highlights

Contract revenues of $814.3 million dipped 2.3% year over year but surpassed the consensus mark of $738.7 million by 10.2%. Notably, the reported figure exceeded the company's forecast of $730-$780 million.

Organically, revenues (excluding storm restoration services of $4.7 million in the year-ago quarter) slid 1.8% year over year. The company witnessed increased demand from the two 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 78.5% to total contract revenues, decreasing 3.9% organically. Dycom's largest customer Verizon accounted for 21.6% of the total revenues. While AT&T (second-largest customer) reflected 18.9% of revenues, CenturyLink added 18.3% to total revenues, surging 40.8% on organic basis. Comcast accounted for 14.5% while Windstream — representing 5.2% of the total revenues — climbed 26.1% organically. Revenues from all other customers grew 7% organically in the quarter.

Dycom's backlog at the end of the reported quarter totaled $6.442 billion comparing unfavorably with $7.314 billion at fiscal 2020-end and $7.051 billion in the year-ago comparable quarter. This downside was due to the customers' reprioritization of the components of a large program. Of the backlog, $2.512 billion is projected to be completed in the next 12 months.

Gross margin during the quarter was 16.5%, up 80 basis points (bps) from the predicted level. Adjusted G&A expense, as a percentage of contract revenues, declined 18 bps from the prior-year number. Adjusted EBITDA margin of 8.6% contracted 20 bps from the year-ago level.

Financials

As of Apr 25, 2020, Dycom had cash and cash equivalents worth $643.9 million compared with $54.6 million on Jan 25, 2020. Borrowings under its revolving line of credit were $675 million in the quarter. Long-term debt was $1.36 billion at the end of the reported quarter compared with $844.4 million at fiscal 2020-end.

Fiscal 2021 View

For the full fiscal, the company anticipates capital expenditures, net of disposal proceeds, within $60-$70 million, a reduction of $60 million from its prior guidance.

Valuation

Dycom's shares are down 3.4% in the year-to-date period and 6.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 21.7% but the Zacks Construction sector is up 5.1% in the year-to-date period. Over the past year, the Zacks sub-industry is down 17.4% but sector is up 20.6%.

The S&P 500 index is up 3.3% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 18.95X forward 12-month earnings, which compares to 11.21X for the Zacks sub-industry, 19.96X for the Zacks sector and 22.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30X and as low as 6.74X, with a 5-year median of 17.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $47 price target reflects 19.76X 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 F12M	Current	18.95	11.21	18.96	22.71
	5-Year High	30	18.31	18.99	22.71
	5-Year Low	6.74	7.52	10.74	15.25
	5-Year Median	17.02	14.5	15.86	17.55
P/S F12M	Current	0.43	0.31	2.12	3.63
	5-Year High	1.27	0.56	2.12	3.63
	5-Year Low	0.13	0.22	1.17	2.53
	5-Year Median	0.78	0.42	1.63	3.04
EV/EBITDA TTM	Current	5.9	5.68	19.28	12.89
	5-Year High	126.1	13.28	21.52	12.89
	5-Year Low	NA	4.12	12.49	8.24
	5-Year Median	8.75	8.53	17.81	10.89

As of 08/05/2020

Industry Analysis **Zacks Industry Rank:** Bottom 32% (173 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
North American Construction Group Ltd. **(NOA)**	Outperform	1
Great Lakes DredgeDock Corporation **(GLDD)**	Neutral	3
MasTec, Inc. **(MTZ)**	Neutral	3
Orion Group Holdings, Inc. **(ORN)**	Neutral	3
Primoris Services Corporation **(PRIM)**	Neutral	3
Sterling Construction Company Inc **(STRL)**	Neutral	3
Tutor Perini Corporation **(TPC)**	Neutral	3
Granite Construction Incorporated **(GVA)**	Underperform	5

Industry Comparison Industry: Building Products - Heavy Construction

Industry Peers

	DY	X Industry	S&P 500	GVA	PRIM	TPC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	5	3	3
VGM Score	C	-	-	B	A	A
Market Cap	1.43 B	1.16 B	22.93 B	856.77 M	887.35 M	654.44 M
# of Analysts	5	2.5	14	1	2	2
Dividend Yield	0.00%	0.00%	1.76%	2.84%	1.31%	0.00%
Value Score	C	-	-	A	B	A
Cash/Price	0.48	0.28	0.07	NA	0.12	0.45
EV/EBITDA	6.42	5.63	13.16	NA	5.63	10.43
PEG Ratio	NA	NA	2.99	NA	NA	NA
Price/Book (P/B)	1.71	1.32	3.20	0.68	1.38	0.45
Price/Cash Flow (P/CF)	5.01	5.22	12.45	4.01	5.59	1.35
P/E (F1)	22.19	11.82	21.78	13.19	15.14	6.40
Price/Sales (P/S)	0.43	0.36	2.47	0.25	0.27	0.13
Earnings Yield	4.48%	8.22%	4.33%	7.58%	6.63%	15.67%
Debt/Equity	1.69	0.71	0.77	NA	0.72	0.35
Cash Flow ($/share)	8.99	3.11	6.94	4.57	3.29	9.55
Growth Score	C	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	-10.30%	21.26%	10.46%	NA	24.54%	-7.76%
Proj. EPS Growth (F1/F0)	-11.10%	1.39%	-7.14%	187.97%	-24.53%	187.86%
Curr. Cash Flow Growth	-2.35%	14.43%	5.47%	62.71%	0.32%	234.73%
Hist. Cash Flow Growth (3-5 yrs)	9.31%	12.12%	8.55%	26.48%	6.65%	24.32%
Current Ratio	4.51	1.23	1.32	NA	1.38	1.50
Debt/Capital	62.78%	41.64%	44.59%	NA	41.89%	26.05%
Net Margin	0.32%	3.43%	10.15%	NA	2.78%	-0.63%
Return on Equity	7.78%	9.92%	14.46%	NA	15.06%	4.22%
Sales/Assets	1.36	1.34	0.51	NA	1.77	1.06
Proj. Sales Growth (F1/F0)	-1.03%	0.00%	-1.68%	4.06%	9.11%	17.35%
Momentum Score	C	-	-	B	A	D
Daily Price Chg	3.32%	0.89%	0.59%	3.33%	6.61%	0.55%
1 Week Price Chg	3.83%	-1.30%	0.14%	-8.18%	-2.43%	-1.67%
4 Week Price Chg	17.82%	4.75%	5.31%	2.23%	15.30%	9.52%
12 Week Price Chg	68.12%	33.68%	19.84%	33.80%	34.33%	81.04%
52 Week Price Chg	-7.43%	-19.87%	2.73%	-38.07%	-5.16%	20.47%
20 Day Average Volume	294,415	108,867	2,098,555	314,184	320,963	358,710
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	39.92%	-0.49%
(F1) EPS Est 4 week change	0.00%	0.00%	1.10%	0.00%	39.92%	-0.49%
(F1) EPS Est 12 week change	20.30%	0.00%	1.04%	-103.27%	34.39%	-0.49%
(Q1) EPS Est Mthly Chg	0.00%	1.98%	0.39%	0.00%	0.00%	3.97%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	C
Momentum Score	C
VGM Score	C

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.

Disclosures

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