

## Dycom Industries Inc. (DY)

**\$54.38** (As of 08/26/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

### Summary

Shares of Dycom have broadly outperformed the industry so far this year. The trend is likely to continue, given impressive second-quarter fiscal 2021 earnings, which topped analysts' expectation by a whopping 71% and grew 8.3% from the prior year. Gross and adjusted EBITDA margins also improved 160 and 120 basis points (bps), respectively. The uptrend was mainly driven by increased demand for network bandwidth and mobile broadband, along with extensive deployment of 1-gigabit wireline networks. Also, improved operating leverage and lower-than-expected disruptions from the COVID-19 pandemic added to the positives. However, it projects contract revenues and margins to range from in line to modestly lower sequentially for the fiscal third quarter, owing to uncertain market conditions.

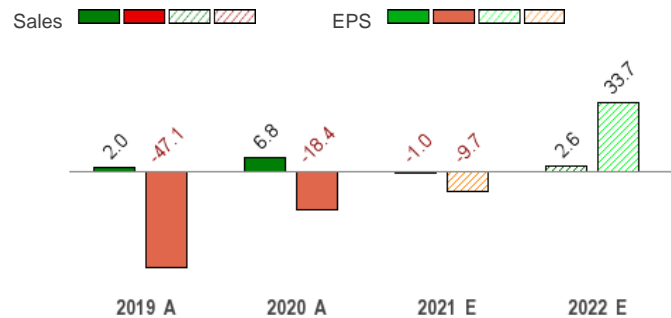
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$55.00 - \$12.24
20 Day Average Volume (sh)	357,955
Market Cap	\$1.7 B
YTD Price Change	15.3%
Beta	1.48
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Building Products - Heavy Construction</a>
Zacks Industry Rank	Top 19% (48 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	71.0%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	11/24/2020
Earnings ESP	0.0%
P/E TTM	24.8
P/E F1	26.5
PEG F1	NA
P/S TTM	0.5

### 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					\$2.74 E
2021	\$0.36 A	\$0.69 E	\$0.81 E	\$0.13 E	\$2.05 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 08/26/2020. The reports text is as of 08/27/2020.

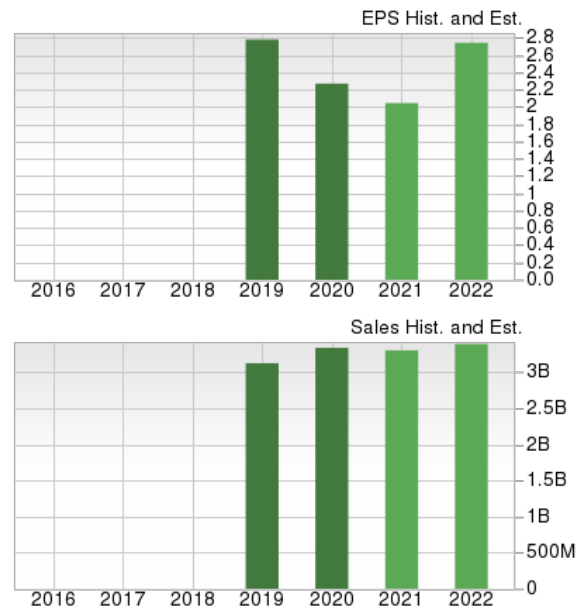
## Overview

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.



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## 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. 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 contracts from AT&T, Comcast, Verizon and Charter, which will boost 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 a stable 12-month backlog despite a challenging economic backdrop. This indicates persistent growth through the next calendar year. The company recorded backlog of \$6.441 billion at the end of second-quarter of fiscal 2021, almost in line sequentially. Of this backlog, 38.1% 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.

▲ **Enough Liquidity:** Dycom has a strong liquidity position to overcome near-term obligations. As of Jul 25, 2020, it had cash and equivalents of \$22.5 million, with more than \$451 million available under the \$750-million credit facility. At fiscal second quarter-end, its short-term obligations — including current portion of debt and operating lease liabilities — were \$49.7 million, down from the fiscal first quarter's \$51.9 million. Long-term debt (including non-current operating lease liabilities) totaled \$709 million, significantly down from \$1,407 million at fiscal first quarter-end. Notably, the company has no significant debt maturity until September 2021 and the available liquidity is more than enough to meet short-term obligations.

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## Reasons To Sell:

- ▼ **Coronavirus-led Disruptions to Weigh on Near-Term Results:** The novel coronavirus outbreak is hurting Dycom's business as macroeconomic uncertainty resulting from the same has been influencing some of its customer plans. In the last two quarters, the company witnessed increased demand from just two of the top five customers. Also, it witnessed uncertainty in the overall municipal environment due to COVID-19-led disruptions.

Its fiscal second-quarter revenues declined 6.8% organically. Also, backlog fell marginally from the fiscal first quarter and 3.7% year over year. Owing to the uncertainty, it expects contract revenues and margins to range from in line to modestly lower sequentially for the fiscal third quarter.

- ▼ **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 recently, 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 fiscal second quarter, Dycom's largest customer Verizon accounted for 19.8% of the total revenues. While CenturyLink (the second-largest customer) added 19.2% to total revenues, AT&T made up 16.3% of revenues. Comcast accounted for 15.9% while Windstream represented 5.3% 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.

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

## Last Earnings Report

### Dycom Q2 Earnings Beat Estimates, Margins Up Y/Y

Dycom Industries Inc. reported impressive earnings for second-quarter fiscal 2021 (ended Jul 25, 2020). Notably, the bottom line not only surpassed the Zacks Consensus Estimate but also grew on a year-over-year basis.

#### Earnings & Revenue Discussion

Dycom reported adjusted earnings of \$1.18 per share, surpassing the Zacks Consensus Estimate of 69 cents by a whopping 71%. Notably, the metric increased 8.3% from the year-ago earnings of \$1.09 per share. Dycom experienced broad-based improvement in the services performed despite the complexity of a large customer program. Also, improved operating leverage and lower-than-expected disruptions from the COVID-19 pandemic helped it record higher year-over-year earnings.

Contract revenues of \$823.9 million dipped 6.8% year over year and missed the consensus mark of \$884.2 million by 2%. Organically, revenues fell 6.8% year over year. The company witnessed stable demand despite a challenging economic backdrop. Moreover, it witnessed solid growth from two of the top five customers.

The company's top five customers contributed 76.6% to total contract revenues, which decreased 9.2% organically. Revenues from all other customers grew 2% organically for the quarter.

Dycom's largest customer Verizon accounted for 19.8% of the total revenues. While CenturyLink (the second-largest customer) added 19.2% to total revenues, surging 14.2% on an organic basis, AT&T made up 16.3% of revenues. Comcast accounted for 15.9%, while Windstream — representing 5.3% of the total revenues — climbed 25.2% organically.

Dycom's backlog at the end of the reported quarter totaled \$6.441 billion, comparing unfavorably with \$7.314 billion at fiscal 2020-end and \$6.691 billion in the year-ago comparable period. Of the backlog, \$2.455 billion is projected to be completed in the next 12 months.

#### Operating Highlights

Gross margin for the quarter was 20.1%, up 160 basis points (bps) from the year-ago level. Adjusted EBITDA margin of 12.5% expanded 120 bps from the year-ago level.

#### Financials

As of Jul 25, 2020, Dycom had cash and cash equivalents worth \$22.5 million compared with \$54.6 million on Jan 25, 2020. Long-term debt was \$665.5 million at the end of the reported quarter compared with \$844.4 million at fiscal 2020-end.

#### Fiscal Third-Quarter 2021 View

For the fiscal third quarter (ended Oct 24, 2020), it expects contract revenues and margins to range from in line to modestly lower sequentially.

Quarter Ending **07/2020**

Report Date	Aug 26, 2020
Sales Surprise	-1.97%
EPS Surprise	71.01%
Quarterly EPS	1.18
Annual EPS (TTM)	2.19

## Valuation

Dycom's shares are up 15.3% in the year-to-date period and 21.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 19.4% but the Zacks Construction sector is up 7.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 14.1% but sector is up 22.9%.

The S&P 500 index is up 6.9% in the year-to-date period and 19.5% in the past year.

The stock is currently trading at 22.25X forward 12-month earnings, which compares to 10.72X for the Zacks sub-industry, 18.53X for the Zacks sector and 23.11X for the S&P 500 index.

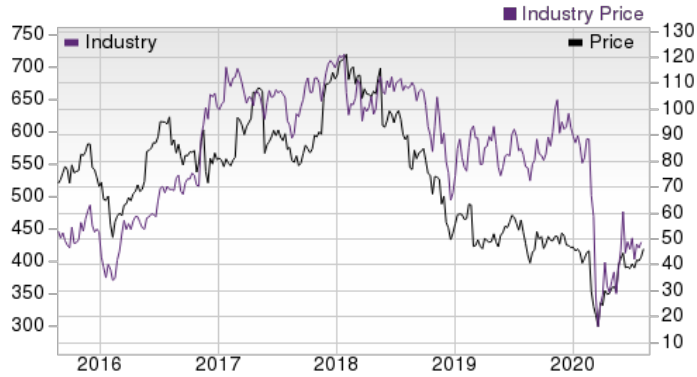
Over the past five years, the stock has traded as high as 30X and as low as 6.74X, with a 5-year median of 17.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 23.32X forward 12-month earnings.

The table below shows summary valuation data for DY

Valuation Multiples - DY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.25	10.72	18.53	23.11
	5-Year High	30	18.31	19.19	23.11
	5-Year Low	6.74	7.52	10.74	15.25
	5-Year Median	17.02	14.45	15.86	17.58
P/S F12M	Current	0.51	0.31	2.12	3.77
	5-Year High	1.27	0.56	2.13	3.77
	5-Year Low	0.13	0.22	1.18	2.53
	5-Year Median	0.77	0.42	1.63	3.05
EV/EBITDA TTM	Current	6.53	6.15	19.22	13.25
	5-Year High	126.1	13.28	21.27	13.25
	5-Year Low	NA	4.12	12.44	8.25
	5-Year Median	8.72	8.64	17.89	10.92

As of 08/26/2020

## Industry Analysis Zacks Industry Rank: Top 19% (48 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
North American Construction Group Ltd. (NOA)	Outperform	1
Primoris Services Corporation (PRIM)	Outperform	1
Sterling Construction Company Inc (STRL)	Outperform	1
Great Lakes DredgeDock Corporation (GLDD)	Neutral	3
MasTec, Inc. (MTZ)	Neutral	3
Orion Group Holdings, Inc. (ORN)	Neutral	3
Tutor Perini Corporation (TPC)	Neutral	3
Granite Construction Incorporated (GVA)	Underperform	4

Industry Comparison Industry: Building Products - Heavy Construction				Industry Peers		
	DY	X Industry	S&P 500	GVA	PRIM	TPC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	1	3
VGM Score	A	-	-	B	A	A
Market Cap	1.73 B	1.30 B	23.69 B	855.83 M	866.60 M	628.55 M
# of Analysts	4	2	14	1	2	2
Dividend Yield	0.00%	0.00%	1.65%	2.84%	1.34%	0.00%
Value Score	B	-	-	A	A	A
Cash/Price	0.44	0.28	0.07	NA	0.18	0.43
EV/EBITDA	5.27	5.30	13.37	NA	5.26	10.13
PEG Ratio	NA	NA	3.04	NA	NA	NA
Price/Book (P/B)	1.98	1.25	3.17	0.68	1.34	0.43
Price/Cash Flow (P/CF)	6.05	5.50	12.78	4.01	5.46	1.30
P/E (F1)	26.39	10.56	21.63	13.17	10.56	6.14
Price/Sales (P/S)	0.53	0.38	2.50	0.25	0.26	0.13
Earnings Yield	3.77%	9.29%	4.44%	7.59%	9.47%	16.32%
Debt/Equity	0.81	0.71	0.75	NA	0.72	0.35
Cash Flow (\$/share)	8.99	3.11	6.94	4.57	3.29	9.55
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	-10.30%	20.77%	10.41%	NA	26.86%	-7.76%
Proj. EPS Growth (F1/F0)	-9.91%	2.84%	-4.92%	187.97%	5.59%	187.86%
Curr. Cash Flow Growth	-2.35%	14.43%	5.22%	62.71%	0.32%	234.73%
Hist. Cash Flow Growth (3-5 yrs)	9.31%	12.12%	8.50%	26.48%	6.65%	24.32%
Current Ratio	3.18	1.23	1.34	NA	1.38	1.50
Debt/Capital	44.79%	41.64%	44.18%	NA	41.89%	26.05%
Net Margin	0.54%	3.43%	10.25%	NA	2.78%	-0.63%
Return on Equity	8.12%	12.08%	14.66%	NA	15.06%	4.22%
Sales/Assets	1.36	1.29	0.50	NA	1.77	1.06
Proj. Sales Growth (F1/F0)	-1.03%	0.00%	-1.45%	4.06%	9.76%	17.35%
Momentum Score	C	-	-	C	D	D
Daily Price Chg	11.53%	0.00%	-0.18%	-0.65%	-1.59%	-2.44%
1 Week Price Chg	-0.73%	-2.29%	-1.45%	-7.89%	-5.27%	-4.74%
4 Week Price Chg	23.09%	3.53%	2.10%	2.18%	7.16%	0.81%
12 Week Price Chg	18.17%	1.82%	3.61%	-3.58%	1.07%	8.31%
52 Week Price Chg	21.47%	-17.51%	3.61%	-33.13%	-2.76%	28.96%
20 Day Average Volume	357,955	110,596	1,883,291	338,178	509,483	379,190
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.34%	2.48%	0.93%	0.00%	39.92%	-0.49%
(F1) EPS Est 12 week change	3.18%	3.46%	3.41%	-103.27%	39.92%	-0.49%
(Q1) EPS Est Mthly Chg	0.00%	4.59%	0.00%	0.00%	27.89%	3.97%

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## 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.

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### 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>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

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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