

Dycom Industries Inc. (DY)

\$26.34 (As of 03/30/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

Shares of Dycom have underperformed its industry so far this year. Adverse weather, seasonal effects, challenges surrounding a large customer program, and a slow start at a specific customer in rolling out its new system have been weighing on its margins. Discouragingly, estimates for fiscal 2021 have declined in the past 30 days, reflecting concerns surrounding its prospects. That said, 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. Moreover, Dycom's strong financial position, coupled with diligent operational execution, allows it to undertake strategic initiatives for expanding market share, thereby supporting growth.

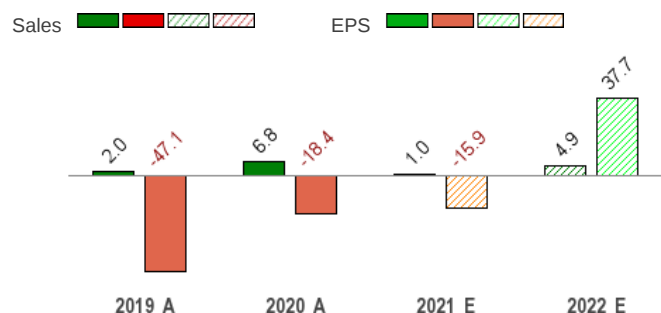
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.55 - \$12.24
20 Day Average Volume (sh)	1,241,811
Market Cap	\$832.0 M
YTD Price Change	-44.1%
Beta	1.30
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Bottom 17% (211 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1,050.0%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-8.7%
Expected Report Date	05/19/2020
Earnings ESP	0.0%
P/E TTM	11.6
P/E F1	13.8
PEG F1	1.8
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,539 E
2021	757 E	875 E	921 E	811 E	3,374 E
2020	834 A	884 A	884 A	738 A	3,340 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$2.63 E
2021	-\$0.02 E	\$0.81 E	\$0.94 E	\$0.14 E	\$1.91 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 03/30/2020. The reports text is as of 03/31/2020.

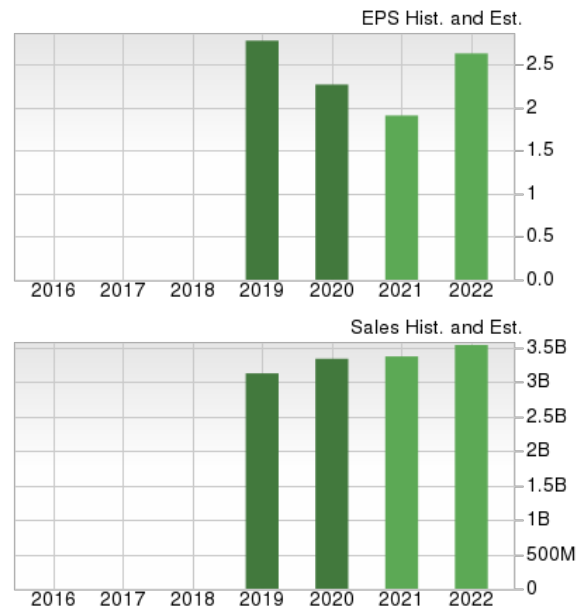
Overview

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:

▲ **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 fiscal 2020, its contract revenues increased 6.8% year over year. Organically, revenues improved 8.3% in same period.

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 \$7.314 billion at the end of fiscal 2020. Of this backlog, more than 37% 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, as it received significant contracts from top customers.

▲ **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. In fiscal 2020, acquisitions contributed \$26.6 million to total contract revenues.

Dycom exited the first, second, third and fourth quarters of fiscal 2020 with liquidity of \$358.9 million, \$289.1 million, \$219.6 million, and \$337.3 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.

▲ **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 low contract revenues in the upcoming quarters due to challenges surrounding a large customer program and a slow start at a specific customer, the metric is likely to grow by the end of fiscal 2021.

Reasons To Sell:

▼ **Margins Under Pressure, Tepid Outlook:** Dycom posted lackluster fourth-quarter fiscal 2020 results, wherein adjusted loss of 23 cents per share lagged analysts' expectation of a loss of 2 cents. Gross margins contracted 120 basis points (bps) year over year, owing to adverse weather and greater seasonal effects. Challenges surrounding a large customer program, and a slow start at a specific customer in rolling out its new system added to the woes. Adjusted EBITDA margins also declined 200 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 margins. During the fiscal fourth-quarter 2020 earnings call, management stated that it is likely to be hurt by the above-mentioned headwinds in fiscal 2021.

Despite overall favorable trends, initiations of large-scale network deployments, particularly those occurring during periods of customer M&A activity, remain vulnerable to timing uncertainty, thus adding to Dycom's woes.

Given the above-mentioned woes, the company issued a tepid view for first and second quarters of fiscal 2021. For the fiscal first quarter, it anticipates contract revenues in the range of \$730-\$780 million, indicating a decline from \$833.7 million reported a year ago. Adjusted earnings are anticipated between loss of 9 cents and earnings of 8 cents per share. The said range suggests a significant fall from the prior-year reported earnings of 53 cents per share. It also expects adjusted EBITDA margin to decrease from the year-ago period.

For the fiscal second quarter, Dycom expects revenue growth between low single-digit decrease and low single-digit increase. This compares unfavorably with the year-ago figure of 10.6% increase. Adjusted EBITDA margin is likely to be in line with the 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 fiscal 2020, its top five customers contributed 78.4% to total contract revenues. Dycom's largest customer, Verizon accounted for 21.8% of total revenues. AT&T contributed 20.6%, CenturyLink added 16.4%, Comcast accounted for 15.1% and Windstream represented 4.5% 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's Q4 Loss Wider Than Anticipated, Q1 Guidance Weak

Dycom Industries Inc. reported lackluster fourth-quarter fiscal 2020 (ended Jan 25, 2020) results. Its bottom line not only missed the Zacks Consensus Estimate but also declined from the year-ago level. The company provided weak fiscal first-quarter guidance.

During the quarter, it reported adjusted loss of 23 cents per share, wider than the consensus estimate of 2 cents. In the year-ago quarter, the company reported earnings of 10 cents per share. Dycom highlighted that adverse weather, seasonal effects, challenges surrounding a large customer program, and a slow start at a specific customer in rolling out its new system weighed on margins in the quarter.

Revenue & Operating Highlights

Dycom's quarterly contract revenues came in at \$737.6 million, increasing 1.5% year over year. The reported figure also surpassed the consensus mark of \$727.6 million by 1.4%.

Organically, revenues (excluding storm restoration services of \$20.4 million in the year-ago quarter) grew 1.3% year over year in the fiscal fourth quarter. This marked the seventh 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 77.2% to total contract revenues, decreasing 1.2% organically. Dycom's largest customer Verizon accounted for 21.9% of the total revenues. Verizon grew 3.3% year over year organically. CenturyLink (second-largest customer) added 18.3% to total revenues and increased 31.1% organically. AT&T contributed 18% to revenues; Comcast accounted for 13.8%; and Windstream — representing 5.3% of the total revenues — climbed 45.9% organically. Revenues from all other customers grew 10.6% organically in the quarter.

Dycom's backlog at the end of the reported quarter totaled \$7.314 billion versus \$6.349 billion at fiscal third-quarter end. Of the backlog, \$2.716 billion is projected to be completed in the next 12 months.

Gross margin during the quarter was 14.2%, which was 175 basis points (bps) below the company's expectations. Adjusted EBITDA margin also contracted 200 bps to 6% from 8% in the year-ago quarter.

Financials

As of Jan 25, 2020, Dycom had cash and cash equivalents of \$54.6 million compared with \$128.3 million on Jan 26, 2019. Long-term debt was \$844.4 million at the end of fiscal 2020 compared with \$867.6 million at fiscal 2019-end.

First-Quarter Fiscal 2021 Guidance

The company anticipates contract revenues in the range of \$730-\$780 million. The said range indicates a decline from the year-ago figure of \$833.7 million.

Bottom line (on an adjusted basis) is expected within a loss of 9 cents to earnings of 8 cents per share. The estimated range suggests a decline from the prior-year reported earnings of 53 cents per share.

Quarter Ending 01/2020

Report Date	Feb 26, 2020
Sales Surprise	1.37%
EPS Surprise	-1,050.00%
Quarterly EPS	-0.23
Annual EPS (TTM)	2.27

Valuation

Dycom's shares are down 44.1% in the year-to-date period and 44.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 42.3% and 31.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 38.7% and sector is down 18.4%.

The S&P 500 index is down 21.1% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 12.98X forward 12-month earnings, which compares to 7.15X for the Zacks sub-industry, 11.15X for the Zacks sector and 15.48X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.65X and as low as 6.74X, with a 5-year median of 17.21X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 13.79X 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	12.98	7.15	11.15	15.48
	5-Year High	30.65	18.31	18.86	19.34
	5-Year Low	6.74	7.15	10.71	15.18
	5-Year Median	17.21	14.78	15.93	17.44
P/S F12M	Current	0.24	0.21	1.32	2.75
	5-Year High	1.27	0.56	2.23	3.43
	5-Year Low	0.13	0.21	1.25	2.54
	5-Year Median	0.81	0.42	1.65	3
EV/EBITDA TTM	Current	4.97	4.8	15.49	9.4
	5-Year High	126.1	13.28	22.73	12.88
	5-Year Low	NA	4.12	13.17	8.27
	5-Year Median	9.04	8.66	19.43	10.78

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (211 out of 254)



Top Peers

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

Industry Comparison Industry: Building Products - Heavy Construction				Industry Peers		
	DY Neutral	X Industry	S&P 500	GVA Underperform	PRIM Neutral	TPC Underperform
VGM Score	A	-	-	B	A	C
Market Cap	831.96 M	727.06 M	18.21 B	633.81 M	727.06 M	293.24 M
# of Analysts	6	1	13	2	2	1
Dividend Yield	0.00%	0.27%	2.3%	3.83%	1.61%	0.00%
Value Score	A	-	-	A	A	C
Cash/Price	0.07	0.19	0.06	0.35	0.17	0.90
EV/EBITDA	4.88	4.84	11.22	4.24	4.81	8.44
PEG Ratio	1.79	NA	1.74	NA	NA	NA
Price/Book (P/B)	0.96	1.03	2.41	0.50	1.21	0.20
Price/Cash Flow (P/CF)	2.93	3.77	9.70	2.97	4.54	0.61
P/E (F1)	13.41	8.07	15.12	8.07	8.30	3.24
Price/Sales (P/S)	0.25	0.25	1.96	0.19	0.23	0.07
Earnings Yield	7.25%	12.39%	6.55%	12.39%	12.05%	30.87%
Debt/Equity	1.02	0.68	0.70	0.31	0.74	0.50
Cash Flow (\$/share)	8.99	3.66	7.01	4.57	3.29	9.55
Growth Score	B	-	-	D	B	F
Hist. EPS Growth (3-5 yrs)	-4.58%	21.36%	10.89%	24.94%	21.26%	-5.82%
Proj. EPS Growth (F1/F0)	-15.86%	10.43%	1.80%	206.33%	11.80%	157.14%
Curr. Cash Flow Growth	-2.35%	13.73%	5.93%	62.71%	0.32%	234.73%
Hist. Cash Flow Growth (3-5 yrs)	9.31%	8.97%	8.55%	26.48%	6.65%	24.32%
Current Ratio	3.90	1.37	1.23	1.76	1.36	1.66
Debt/Capital	50.55%	40.40%	42.57%	23.81%	42.58%	33.18%
Net Margin	1.71%	3.54%	11.64%	-3.11%	2.65%	-8.71%
Return on Equity	8.46%	13.09%	16.74%	-4.63%	13.09%	2.19%
Sales/Assets	1.46	1.40	0.54	1.34	1.72	0.99
Proj. Sales Growth (F1/F0)	1.01%	4.06%	2.08%	4.06%	12.09%	12.40%
Momentum Score	D	-	-	B	A	A
Daily Price Chg	4.73%	0.37%	2.63%	0.74%	5.66%	-2.83%
1 Week Price Chg	57.38%	2.46%	12.32%	10.87%	13.67%	-4.46%
4 Week Price Chg	-6.40%	-20.34%	-18.22%	-32.03%	-24.39%	-58.21%
12 Week Price Chg	-43.18%	-34.90%	-23.36%	-51.62%	-31.56%	-51.62%
52 Week Price Chg	-44.48%	-34.61%	-17.22%	-69.81%	-30.12%	-66.82%
20 Day Average Volume	1,241,811	236,461	4,211,236	1,313,243	364,785	1,754,990
(F1) EPS Est 1 week change	0.00%	0.00%	-0.19%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.69%	-3.22%	-3.07%	-14.72%	0.00%	0.00%
(F1) EPS Est 12 week change	-32.27%	-8.68%	-4.15%	-17.65%	-5.26%	-26.53%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-2.28%	NA	0.00%	0.00%

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	A
Growth Score	B
Momentum Score	D
VGM Score	A

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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