Dycom Industries Inc. (DY)

$47.26 (As of 12/30/19)

Price Target (6-12 Months): **$50.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/27/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: B | Growth: F | Momentum: A	

Summary

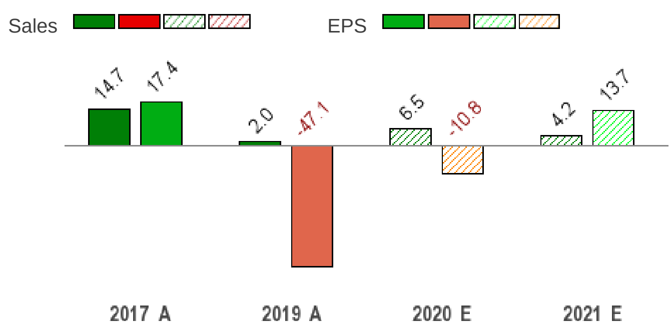
Although shares of Dycom have underperformed its industry in the past three months, earnings estimates for fiscal 2020 also increased in the past 30 days, reflecting optimism surrounding the company's prospects. The uptrend is likely to continue, given its solid third-quarter fiscal 2020 (ended Oct 26, 2019) results, wherein the top and bottom lines topped analysts' expectations by 4.5% and 22.2%, respectively. Contract revenues also grew 4.2% year over year. It has been benefiting from 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. However, margins contracted from the year-ago period due to continued impacts of increased complexity of a large customer program.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$64.48 - $40.06**
20 Day Average Volume (sh)	**394,959**
Market Cap	**$1.5 B**
YTD Price Change	**-12.6%**
Beta	**1.39**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Building Products - Heavy Construction**
Zacks Industry Rank	**Bottom 12% (223 out of 253)**
Last EPS Surprise	**22.2%**
Last Sales Surprise	**4.5%**
EPS F1 Est- 4 week change	**0.3%**
Expected Report Date	**02/26/2020**
Earnings ESP	**0.0%**
P/E TTM	**18.2**
P/E F1	**19.1**
PEG F1	**2.5**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



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

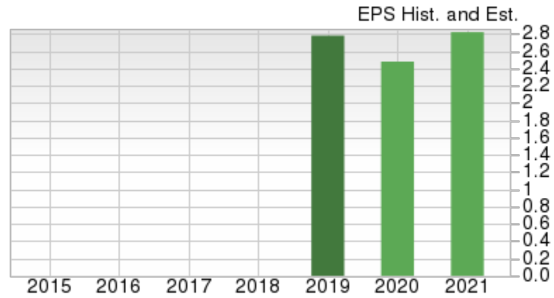
	Q1	Q2	Q3	Q4	Annual*
2021	$0.30 E	$1.04 E	$1.12 E	$0.22 E	$2.82 E
2020	$0.53 A	$1.09 A	$0.88 A	-$0.02 E	$2.48 E
2019	$0.65 A	$1.05 A	$0.98 A	$0.10 A	$2.78 A

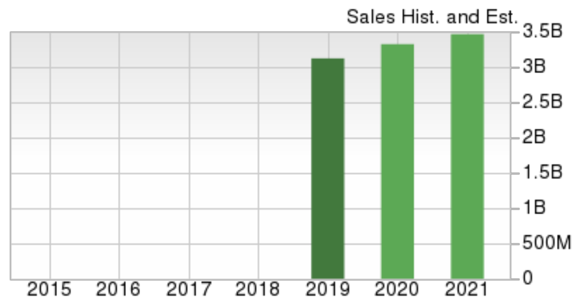
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/30/2019. The reports text is as of 12/31/2019.

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:

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. 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 increased 0.4% in the past 30 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.

Reasons To Sell:

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.

- **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.

Last Earnings Report

Dycom's Q3 Earnings & Revenues Beat Estimates

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

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.

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 12.5% in trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 21.6% and 39.3% in the past year.

The S&P 500 index is up 28% in the past year.

The stock is currently trading at 16.93X forward 12-month price to earnings, which compares to 10.88X for the Zacks sub-industry, 15.69X for the Zacks sector and 18.76X 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 17.53X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $50 price target reflects 17.92X 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	16.93	10.88	15.69	18.76
	5-Year High	30.65	18.31	18.83	19.34
	5-Year Low	10.28	10.37	10.63	15.17
	5-Year Median	17.53	14.82	16.1	17.44
P/S F12M	Current	0.43	0.37	1.88	3.41
	5-Year High	1.27	0.56	2.23	3.41
	5-Year Low	0.37	0.33	1.25	2.54
	5-Year Median	0.81	0.42	1.63	3
EV/EBITDA TTM	Current	7.1	6.4	18.97	12.01
	5-Year High	124.4	13.17	22.53	12.86
	5-Year Low	NA	6.26	14.4	8.49
	5-Year Median	9.49	8.67	19.4	10.65

As of 12/30/2019

Industry Analysis **Zacks Industry Rank:** Bottom 12% (223 out of 253)

Top Peers

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

Industry Comparison Industry: Building Products - Heavy Construction

Industry Peers

	DY Neutral	X Industry	S&P 500	GVA Underperform	PRIM Underperform	TPC Neutral
VGM Score	D	-	-	C	A	A
Market Cap	1.49 B	1.28 B	23.75 B	1.28 B	1.13 B	636.03 M
# of Analysts	6	2	13			
Dividend Yield	0.00%	0.18%	1.79%	1.89%	1.08%	0.00%
Value Score	B	-	-	B	B	A
Cash/Price	0.01	0.12	0.04	0.18	0.04	0.44
EV/EBITDA	7.44	7.66	13.92	7.66	7.38	4.85
PEG Ratio	2.54	2.38	2.12	NA	NA	NA
Price/Book (P/B)	1.69	1.49	3.32	1.02	1.73	0.42
Price/Cash Flow (P/CF)	5.08	6.83	13.73	6.01	6.82	4.41
P/E (F1)	19.04	12.36	19.56	NA	13.66	8.43
Price/Sales (P/S)	0.44	0.44	2.67	0.38	0.36	0.14
Earnings Yield	5.25%	7.66%	5.10%	-7.02%	7.32%	11.86%
Debt/Equity	1.15	0.61	0.72	0.31	0.72	0.55
Cash Flow ($/share)	9.30	3.01	6.94	4.57	3.27	2.87
Growth Score	F	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	2.12%	22.86%	10.53%	24.94%	16.51%	-2.16%
Proj. EPS Growth (F1/F0)	-10.85%	8.96%	6.30%	-182.48%	8.67%	-9.64%
Curr. Cash Flow Growth	NA%	26.14%	14.83%	62.71%	32.70%	30.35%
Hist. Cash Flow Growth (3-5 yrs)	16.66%	9.80%	9.00%	26.48%	6.79%	-0.45%
Current Ratio	3.87	1.41	1.23	1.76	1.39	1.88
Debt/Capital	53.52%	39.76%	42.99%	23.81%	41.80%	35.44%
Net Margin	1.68%	2.65%	11.08%	-3.11%	2.75%	-5.66%
Return on Equity	9.87%	13.86%	17.10%	-4.63%	14.08%	4.70%
Sales/Assets	1.48	1.44	0.55	1.34	1.83	1.00
Proj. Sales Growth (F1/F0)	6.46%	3.97%	2.86%	3.28%	7.64%	1.96%
Momentum Score	A	-	-	F	A	B
Daily Price Chg	1.74%	0.00%	-0.43%	2.00%	1.50%	0.00%
1 Week Price Chg	-1.57%	-1.56%	0.13%	-3.85%	-2.45%	-3.66%
4 Week Price Chg	-6.73%	2.35%	2.78%	8.70%	3.53%	-15.89%
12 Week Price Chg	2.23%	2.76%	8.67%	-11.92%	12.20%	-10.09%
52 Week Price Chg	-12.55%	9.38%	27.07%	-31.78%	16.36%	-20.79%
20 Day Average Volume	394,959	81,853	1,731,328	1,261,342	142,872	537,353
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.27%	0.00%	0.00%	-7.77%	0.00%	0.00%
(F1) EPS Est 12 week change	0.75%	0.48%	0.14%	NA	-3.26%	-6.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-19.36%	0.00%	0.00%

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	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.

Disclosures

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