

EMCOR Group Inc. (EME)

\$86.50 (As of 01/09/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

EMCOR's shares have outperformed its industry in a year. Strong demand across geographies and end-markets served as well as disciplined project execution are driving the company. Its major segments, primarily the U.S. Mechanical and Electrical Construction segment, continued to display strength, backed by higher project activity. Meanwhile, prospects in non-residential markets are quite impressive. It expects consistent growth in the markets and decent demand for government as well as commercial site-based services. Estimates for 2020 earnings have remained stable over the past 60 days. However, lack of higher margin projects is denting its profitability. Also, increase in commodity prices and cyclical nature of the markets served by the company are risks.

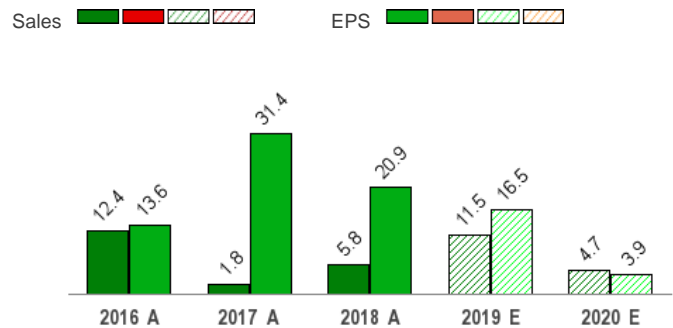
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.54 - \$62.88
20 Day Average Volume (sh)	204,897
Market Cap	\$4.9 B
YTD Price Change	0.2%
Beta	1.09
Dividend / Div Yld	\$0.32 / 0.4%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.8%
Last Sales Surprise	5.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	15.5
P/E F1	14.6
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,307 E	2,466 E	2,454 E	2,468 E	9,494 E
2019	2,159 A	2,324 A	2,288 A	2,299 E	9,069 E
2018	1,900 A	1,954 A	2,047 A	2,229 A	8,131 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.25 E	\$1.52 E	\$1.49 E	\$1.64 E	\$5.94 E
2019	\$1.28 A	\$1.49 A	\$1.45 A	\$1.50 E	\$5.72 E
2018	\$0.94 A	\$1.23 A	\$1.36 A	\$1.38 A	\$4.91 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 01/09/2020. The reports text is as of 01/10/2020.

Overview

EMCOR Group is one of the leading providers of mechanical and electrical construction, industrial and energy infrastructure, as well as building services for a diverse range of businesses. The company serves commercial, industrial, utility and institutional clients. The company currently operates under the following reportable segments:

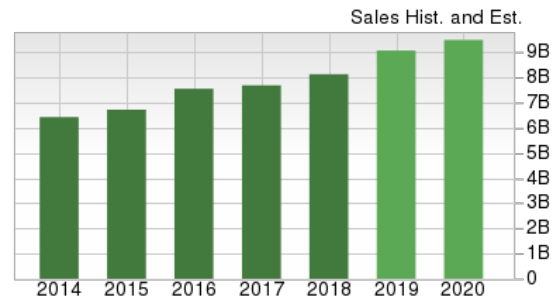
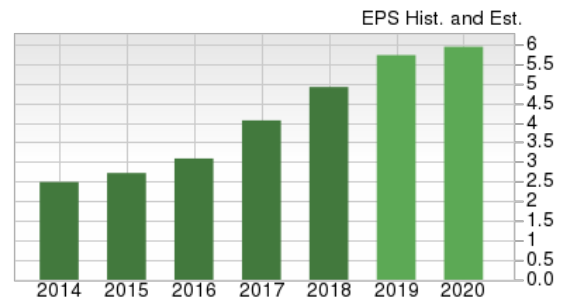
United States Electrical Construction and Facilities Services (contributing 24.2% to total revenues in the third quarter of 2019) – This comprises systems for premises electrical and lighting systems; electrical power transmission and distribution; roadway and transit lighting; fiber optic lines; voice and data communication; as well as low-voltage systems, such as fire alarm, security and process control.

United States Mechanical Construction and Facilities Services (38%) – This involves systems for fire protection; heating, ventilation, air conditioning, refrigeration and clean-room process ventilation; water and wastewater treatment and central plant heating and cooling; plumbing, process and high-purity piping; millwrighting; steel fabrication, erection and welding; as well as controls and filtration.

United States Building Services (23.3%) – This segment provides various types of support services related to operation and maintenance of clients' facilities in the U.S. These include commercial and government site-based operations and maintenance; military base operations support services; infrastructure and building projects for federal, state and local governmental agencies.

United States Industrial Services (10.2%) – This segment comprises industrial maintenance and services that are needed for refineries and petrochemical plants such as designing, manufacturing, repairing and hydro blast cleaning of shell and tube heat exchangers and related equipment; overhaul and maintenance of critical process units in refineries and petrochemical plants.

United Kingdom Building Services (4.3%) – This segment provides support services related to operation and maintenance of commercial and government client facilities in the U.K.



Reasons To Buy:

▲ **Robust Construction Business to Boost Profitability:** The U.S. Construction segment has been maintaining strong momentum. The company's major segments, primarily the U.S. Mechanical and Electrical Construction segments, continued to display significant strength. This is being driven by higher project activity within the health care, commercial and transportation markets. Encouraged by robust performance so far, accretive acquisitions and increasing traction in the U.S. construction space, EMCOR's management remains confident about 2019 results as well.

Robust construction activity, mainly in the non-residential markets, along with aggressive acquisitions will help EMCOR to drive profit

During the third quarter, the U.S. Construction segment continued to deliver robust revenue performance, posting a combined 14.3% year-over-year increase, with organic growth of 10.4%, reflecting solid execution across its portfolio of construction projects.

▲ **Solid '19 Guidance:** Backed by favorable project mix and the assumption of continuation of current market conditions, EMCOR lifted its view for 2019 earnings as well as revenues during the third-quarter 2019 earnings call. It now expects revenues to be \$9 billion, up from the previous guidance of \$8.8-\$8.9 billion. Moreover, it anticipates earnings from continuing operations in the range of \$5.65-\$5.75 per share, up from prior expectation of \$5.50-\$5.75. EMCOR remains strongly placed to leverage its growth base, even as it seeks future strategic investment opportunities.

EMCOR's shares have outperformed its industry in the past year. The company surpassed estimates in each of the trailing 11 quarters. EMCOR has been gaining from its diversified business structure, which enables it to tap opportunities and neutralize operating risks associated with economic down-cycles.

▲ **Aggressive Acquisition Broadens Footprint:** The company is keen on acquisition of assets and businesses. The company's acquisition strategies are directed toward buying small private firms with proven management and expansion potential.

EMCOR executed the acquisition of five companies in first nine months of 2019. In the third quarter, the company generated incremental revenues of \$75.6 million from acquisitions. These buyouts strengthened its overall results by adding new markets, opportunities and capabilities. Moreover, in 2018, it had acquired four companies that expanded its capabilities and geographical presence. All of them increased its mechanical services presence in the Mid-Atlantic and California, built leading positions in building controls in the New York City market and allowed the company to enter the important North Texas electrical construction market.

The company expects the acquisitions to be accretive to EMCOR's 2019 earnings as well. Also, Ardent Services buyout is estimated to aid its Electrical business line secure large projects during the coming quarters, thus supplementing top-line growth. Such buyouts are expected to contribute to the company's revenue stream, going forward.

▲ **Robust Non-Residential Markets:** Ongoing industry trends hold tremendous potential for EMCOR, going forward. Currently, the commercial market represents lucrative opportunities, given an increasing tendency among clients to upgrade buildings and other infrastructure-related services. The company is also expanding the ambit of its Industrial business line beyond traditional shop-related operations to explore other profitable works in areas like food processing and power. In fact, currently, some factors are indicating a pick-up in general turnaround activity in Industrial Services market, which should benefit EMCOR.

This apart, surging number of bus depots, tunnels, bridges & airports, coupled with business prospects in the water market, imply that EMCOR's future in the transportation market shines bright. Also, under the Trump administration, industry players hold a more positive view on potential business investment.

In a nutshell, EMCOR's prospects in non-residential markets remain quite impressive, which will likely help it secure more mid-sized large projects in the rest of the year. Also, the company remains optimistic about the commercial sector going into 2019, judging by the bidding opportunities EMCOR is witnessing presently. EMCOR expects continued growth in the non-residential construction market and decent demand for government and commercial site-based services. The company also expects a strong energy retrofit market for small projects.

Reasons To Sell:

- ▼ **Lower Operating Profit:** The company's U.S. mechanical construction and facilities services segment has been experiencing lower profits due to the mix of work within the manufacturing market (including projects that are in the earlier stages of completion and typically carry lower gross profit margins). Also, lower gross profit from construction projects within the transportation market due to the absence of significant projects added to the woes.

During the second quarter and first six months of 2019, the segment's operating income declined 5.9% and 2.2%, respectively. The segment was impacted by the above-mentioned headwinds. In the second quarter, profit was impacted by reduced activities within the hospitality market due to the substantial completion of some large projects.

- ▼ **Increase in Commodity Prices:** EMCOR is affected by an increase in commodity prices of raw materials like copper and steel as well as a rise in gasoline prices. Volatility in oil prices remains a primary challenge for EMCOR's future growth.

Apart from this, EMCOR is vulnerable to changes in the Federal decisions. Notably, other than the Facilities Services division, all other segments witness a significant proportion of fixed-price contracts. Such factors expose the company's business to higher risks.

- ▼ **Cyclical Nature of the Markets:** EMCOR's business, which is susceptible to the cyclical nature of the markets in which its clients operate, is dependent upon the timing and funding of new awards. The company provides construction and maintenance services to customers operating in a variety of markets, which have been cyclical and will continue to be so, subject to significant fluctuations, including economic conditions and changes in client spending.

Investment decisions of the customers may vary in terms of location or as a result of factors like the availability of labor, relative construction costs or competitive conditions in their industries. As EMCOR is dependent on the timing and funding of new awards, it is therefore vulnerable to changes in clients' markets and investment decisions.

Again, EMCOR's business may be largely affected by significant reductions in government spending or delays/disruptions in the government appropriations process. Certain businesses derive a major portion of their revenues from federal, state and local governmental agencies. As a result, reduced or delayed spending by the federal government, and/or state and local governments may have a material and significant impact on business.

Cyclical nature of the markets served by the company, dependence on government spending and stretched valuation pose risks.

Last Earnings Report

EMCOR Beats on Q3 Earnings & Revenues, Raises Guidance

EMCOR Group Inc. reported solid results in third-quarter 2019. Adjusted earnings and revenues surpassed the respective Zacks Consensus Estimate and improved year over year. The solid performance was mainly driven by strong project execution across the business.

Backed by the solid performance, favorable project mix, and strong underlying market conditions, EMCOR has raised its full-year 2019 guidance for revenues as well as earnings.

Adjusted earnings during the reported quarter came in at \$1.45 per share, beating the consensus mark of \$1.41 by 2.8%. The reported figure also increased 6.6% from the year-ago quarter's level. The improvement was driven by strong revenue growth across the board and disciplined project execution.

Revenues of \$2.29 billion surpassed the consensus mark of \$2.17 billion by 5.5% and rose 11.8% year over year. Notably, the company experienced solid demand across geographies and end-markets served. Organically, revenues increased 8.1% year over year.

Segment Details

In the quarter under review, the U.S. Construction segment recorded revenue improvement of 14.3% year over year, with organic growth of 10.4%.

Within U.S. Construction, the U.S. Electrical Construction segment reported revenue growth of 14.1% year over year. Also, the U.S. Mechanical Construction segment reported revenue growth of 14.4% from a year ago. Markedly, operating margin in these two segments was 6.1% and 7%, respectively, given strong project execution.

Revenues in the U.S. Building Services segment maintained robust momentum on double-digit revenue growth of 12.3% and operating margin improvement of 40 basis points (bps) year over year. The solid improvement was driven by strong performance of mechanical and commercial site-based businesses.

The U.S. Industrial Services unit posted revenue growth of 3% year over year. However, the U.K. Building Services segment's revenues declined 2.9% year over year due to significant macroeconomic uncertainties.

Operating Highlights

Selling, general and administrative expenses — as a percentage of revenues — were 9.6%, in line with the prior-year period. However, the metric was down 10 bps sequentially.

Non-GAAP operating income (excluding impairment loss on identifiable intangible assets) totaled \$115.7 million during the quarter, 3.6% higher than \$111.8 million in the prior-year period. However, adjusted operating margin of 5.1% was down 40 bps from the prior-year figure of 5.5%.

Liquidity & Cash Flow

As of Sep 30, 2019, the company had cash and cash equivalents of \$368.1 million compared with \$363.9 million at 2018-end. Long-term debt and finance lease obligations totaled \$247.8 million, down from \$254.8 million recorded on Dec 31, 2018.

In the first nine months of 2019, EMCOR provided \$176.9 million cash to operating activities compared with \$65.9 million in the comparable prior-year period.

2019 Guidance Raised

Buoyed by solid first nine months performance, favorable project mix and the assumption that the current market conditions will continue, EMCOR lifted its view for full-year 2019 earnings as well as revenues.

EMCOR now projects revenues to be \$9 billion, up from the prior guided range of \$8.8-\$8.9 billion for the year. The company now expects earnings within \$5.65-\$5.75 per share, up from the prior expectation of \$5.50-\$5.75.

Notably, the company's solid growth of business and the non-residential construction market is expected to persist in 2020.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	5.51%
EPS Surprise	2.84%
Quarterly EPS	1.45
Annual EPS (TTM)	5.60

Valuation

EMCOR's shares are up 36.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 9.3% and 29.9% in the past year, respectively.

The S&P 500 index is up 25.2% in the past year.

The stock is currently trading at 14.54X forward 12-month price to earnings, which compares to 10.63X for the Zacks sub-industry, 15.75X for the Zacks sector and 17.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.64X and as low as 11.13X, with a 5-year median of 16.02X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$91 price target reflects 15.29X forward 12-month earnings.

The table below shows summary valuation data for EME

Valuation Multiples - EME					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	14.54	10.63	15.75	17.44
	5-Year High	22.64	18.31	18.83	19.34
	5-Year Low	11.13	10.37	10.63	15.17
	5-Year Median	16.02	14.78	15.97	17.44
P/S F12M	Current	0.51	0.36	1.9	3.51
	5-Year High	0.65	0.56	2.23	3.51
	5-Year Low	0.37	0.33	1.25	2.54
	5-Year Median	0.5	0.42	1.63	3
EV/EBITDA TTM	Current	9.24	6.4	19	11.99
	5-Year High	12.86	13.17	22.53	12.86
	5-Year Low	8.48	6.26	14.4	8.48
	5-Year Median	9.23	8.67	19.39	10.67

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

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

Industry Comparison Industry: Building Products - Heavy Construction				Industry Peers		
	EME Neutral	X Industry	S&P 500	MTZ Neutral	NOA Outperform	PRIM Neutral
VGM Score	A	-	-	A	A	B
Market Cap	4.86 B	1.29 B	23.94 B	4.75 B	326.31 M	1.10 B
# of Analysts	3	2.5	13	7	2	2
Dividend Yield	0.37%	0.18%	1.78%	0.00%	1.02%	1.12%
Value Score	B	-	-	B	A	A
Cash/Price	0.08	0.12	0.04	0.01	0.03	0.04
EV/EBITDA	10.07	7.51	13.97	8.59	8.98	7.20
PEG Ratio	NA	2.32	2.03	NA	NA	NA
Price/Book (P/B)	2.46	1.51	3.33	2.83	2.49	1.68
Price/Cash Flow (P/CF)	13.54	6.52	13.73	8.89	5.59	6.59
P/E (F1)	14.48	10.95	18.79	11.14	7.47	11.32
Price/Sales (P/S)	0.54	0.46	2.64	0.64	0.66	0.34
Earnings Yield	6.87%	9.14%	5.32%	8.98%	13.38%	8.83%
Debt/Equity	0.22	0.61	0.72	0.82	2.30	0.72
Cash Flow (\$/share)	6.39	3.01	6.94	7.00	2.12	3.27
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	20.77%	22.86%	10.56%	48.50%	163.31%	16.51%
Proj. EPS Growth (F1/F0)	3.73%	16.32%	7.49%	8.04%	17.78%	16.56%
Curr. Cash Flow Growth	11.33%	26.14%	14.83%	33.43%	44.26%	32.70%
Hist. Cash Flow Growth (3-5 yrs)	10.97%	9.80%	9.00%	13.39%	15.04%	6.79%
Current Ratio	1.43	1.41	1.23	1.65	1.00	1.39
Debt/Capital	18.26%	39.76%	42.99%	45.12%	69.66%	41.80%
Net Margin	3.51%	2.65%	11.08%	4.37%	4.73%	2.75%
Return on Equity	17.11%	13.86%	17.16%	24.39%	23.52%	14.08%
Sales/Assets	2.08	1.44	0.55	1.56	0.87	1.83
Proj. Sales Growth (F1/F0)	4.68%	7.88%	4.20%	10.12%	10.31%	9.90%
Momentum Score	B	-	-	B	A	F
Daily Price Chg	2.02%	0.00%	0.53%	-1.52%	0.59%	-0.92%
1 Week Price Chg	-0.52%	-0.01%	-0.30%	-0.02%	-1.07%	-1.46%
4 Week Price Chg	-2.06%	0.16%	1.92%	2.02%	9.59%	-5.49%
12 Week Price Chg	-2.16%	-1.08%	6.54%	-7.89%	13.03%	4.88%
52 Week Price Chg	36.16%	-1.72%	22.58%	35.93%	14.89%	6.01%
20 Day Average Volume	204,897	81,571	1,580,816	743,104	85,996	125,700
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.27%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	1.27%	0.00%
(F1) EPS Est 12 week change	-0.28%	0.37%	-0.50%	3.36%	2.91%	-18.80%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	NA

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	B
Momentum Score	B
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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