

EMCOR Group Inc. (EME)

\$57.85 (As of 03/13/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: C

Summary

EMCOR's shares have outperformed the industry so far this year. The trend is likely to continue given solid fourth-quarter 2019 results, wherein the top and bottom lines surpassed the respective Zacks Consensus Estimate by 2.1% and 2.7%, and improved 7.8% and 11.6% year over year. The upside was mainly driven by strong project execution across the business and disciplined project execution. Non-GAAP operating income grew 8.1% from the prior year, supported by cost discipline. It provided strong earnings and revenue guidance for 2020. However, on Feb 15, 2020, it found a RYUK ransomware attack infecting some of its systems with malware. Notably, its 2020 guidance reflects some financial impact of the ransomware attack.

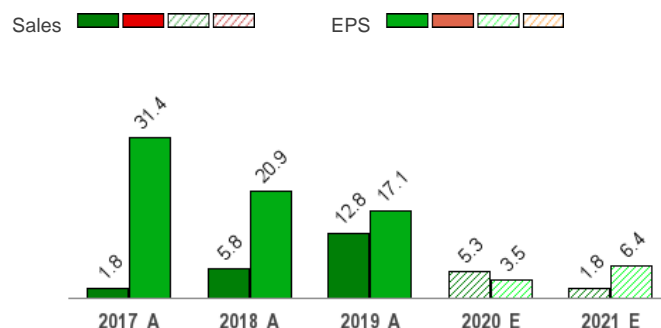
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.54 - \$54.83
20 Day Average Volume (sh)	490,279
Market Cap	\$3.5 B
YTD Price Change	-27.2%
Beta	1.02
Dividend / Div Yld	\$0.32 / 0.5%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Bottom 13% (220 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.7%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	05/05/2020
Earnings ESP	1.6%
P/E TTM	10.9
P/E F1	9.7
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,839 E
2020	2,300 E	2,454 E	2,438 E	2,472 E	9,664 E
2019	2,159 A	2,324 A	2,288 A	2,404 A	9,175 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.33 E
2020	\$1.29 E	\$1.54 E	\$1.51 E	\$1.60 E	\$5.95 E
2019	\$1.28 A	\$1.49 A	\$1.45 A	\$1.54 A	\$5.75 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 03/13/2020. The reports text is as of 03/16/2020.

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:

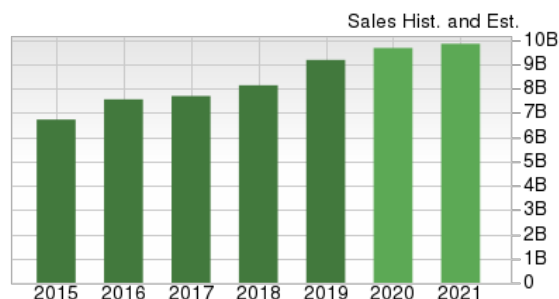
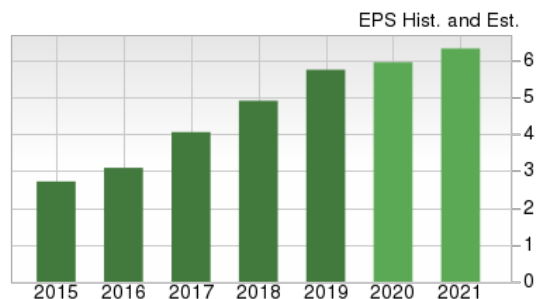
United States Electrical Construction and Facilities Services (contributing 24% to total revenues in 2019) – This comprises systems for premises electrical and lighting systems; electrical power transmission and distribution; roadway and transit lighting; fiber optic lines; voice and data communication; as well as low-voltage systems, such as fire alarm, security and process control.

United States Mechanical Construction and Facilities Services (36%) – 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%) – 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 (12%) – 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 (5%) – 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 2020 results.

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

During 2019, the U.S. Construction segment continued to deliver robust revenue performance, posting a combined 13% year-over-year increase, with organic growth of 9.3%, reflecting solid execution across its portfolio of construction projects. Operating profit also grew 7.6% year over year.

- ▲ **Solid '20 Guidance:** Backed by favorable project mix and the assumption that the current market conditions will continue, EMCOR provided strong earnings as well as revenue guidance. It expects revenues in the range of \$9.5-\$9.7 billion, up from \$9.17 billion in 2019. Moreover, it anticipates earnings in the range of \$5.60-\$6.30 per share. Considering the mid-point of the guided range the said metric indicates an increase from \$5.75 reported in 2019. EMCOR remains strongly placed to leverage its growth base, even as it seeks future strategic investment opportunities.

EMCOR's shares have outperformed the industry so far this year. The company surpassed estimates in each of the trailing 12 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 seven companies in 2019. On Nov 1, 2019, it acquired Batchelor & Kimball, Inc. ("BKI") — a leading full service provider of mechanical construction and maintenance services — for approximately \$220.0 million. The acquisition strengthened its position, and broadened capabilities in the Southern and Southeastern regions of the United States.

In 2019, the company generated incremental revenues of \$134.5 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 2020 earnings as well.

- ▲ **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 2020, given the bidding opportunities presently witnessed by EMCOR. 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 first six months of 2019, the segment's operating income declined 2.2% year over year. The segment was impacted by the above-mentioned headwinds. In second-quarter 2019, profit was impacted by reduced activities within the hospitality market due to substantial completion of some large projects.

- ▼ **Increase in Commodity 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 Q4 Earnings & Revenues Beat, 2020 View Strong

EMCOR Group Inc. reported solid results in fourth-quarter 2019, wherein the top and bottom lines surpassed the respective Zacks Consensus Estimate, and improved year over year. The solid performance was mainly driven by strong project execution across the business and cost discipline.

The company reported adjusted earnings of \$1.54 per share, which topped the consensus mark of \$1.50 by 2.7% and increased 11.6% from the year-ago quarter. The improvement was driven by strong revenue growth across the board and disciplined project execution.

Revenues during the quarter totaled \$2.4 billion, surpassing the consensus mark of \$2.36 billion by 2.1%. Also, the reported figure grew 7.8% year over year, driven by solid segmental growth.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	2.07%
EPS Surprise	2.67%
Quarterly EPS	1.54
Annual EPS (TTM)	5.76

Segment Details

The U.S. Construction segment recorded revenue improvement of 9.9% year over year, supported by project wins across key market sectors and geographies.

Within U.S. Construction, the U.S. Electrical Construction and facilities services segment reported revenue growth of 5.7% year over year. Also, the U.S. Mechanical Construction and facilities services segment reported revenue growth of 12.7% from a year ago.

Revenues in the U.S. Building Services segment maintained robust momentum during the quarter, as is evident from double-digit revenue growth of 10.9%. The solid improvement was driven by strong mechanical services division and a number of large contract wins in the commercial site-based services division. The U.S. Industrial Services unit's revenues, however, declined 4.3% year over year.

The U.K. Building Services segment's revenues increased 3.6% year over year.

Operating Highlights

Selling, general and administrative expenses — as a percentage of revenues — were 10%, up 10 basis points (bps) from the prior-year period.

Non-GAAP operating income (excluding impairment loss on identifiable intangible assets) totaled \$122.9 million during the quarter, 8.1% higher than the prior-year period, supported by its focus on cost discipline and execution. Yet, adjusted operating margin of 5.1% was almost in line with the prior-year period.

Liquidity & Cash Flow

As of Dec 31, 2019, the company had cash and cash equivalents of \$358.8 million compared with \$363.9 million at 2018-end. Long-term debt and finance lease obligations totaled \$244.1 million, down from \$254.8 million recorded on Dec 31, 2018.

In 2019, EMCOR provided \$355.7 million cash to operating activities compared with \$271 million a year ago.

2019 Highlights

Adjusted earnings in the full year were recorded at \$5.75 per share, up 17.1% year over year. The reported figure surpassed the consensus estimate of \$5.72 by 0.5%. Revenues also grew 12.8% from the year-ago period, backed by 9.3% organic growth. The uptick was mainly due to broad-based improvement across the business, underscored by double-digit growth in each of the domestic segments.

2020 Guidance

Buoyed by favorable project mix and the assumption that the current market conditions will continue, EMCOR provided strong earnings as well as revenue guidance.

It projects revenues for 2020 in the range of \$9.5-\$9.7 billion. The consensus estimate for 2020 revenues is currently pegged at \$9.67 billion. The company expects earnings within \$5.60-\$6.30 per share compared with the consensus mark of \$5.94.

Importantly, it anticipates robust project pipeline and sustained growth in the non-residential construction market in 2020.

On Feb 15, 2020, EMCOR found a RYUK ransomware attack infecting some of its systems with malware. However, as a precaution, it has promptly shut down certain IT systems to help detect the problem. Notably, the company's full-year 2020 guidance reflects some financial impact of the ransomware attack.

Valuation

EMCOR's shares are up 27.1% in the year-to-date period and 14.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 43.5% and 24.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 40.9% and 6.8%, respectively.

The S&P 500 index is down 15.5% in the year-to-date period and 3.3% in the past year.

The stock is currently trading at 10.42X forward 12-month earnings, which compares to 7.06X for the Zacks sub-industry, 11.81X for the Zacks sector and 15.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.64X and as low as 9.12X, with a 5-year median of 16.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 10.95X 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 F12M	Current	10.42	7.06	11.81	15.72
	5-Year High	22.64	18.31	18.86	19.34
	5-Year Low	9.12	7.06	10.71	15.18
	5-Year Median	16.02	14.78	15.93	17.42
P/S F12M	Current	0.36	0.2	1.43	2.9
	5-Year High	0.65	0.56	2.23	3.43
	5-Year Low	0.32	0.2	1.25	2.54
	5-Year Median	0.5	0.42	1.65	3
EV/EBITDA TTM	Current	6.74	4.74	16.7	10.05
	5-Year High	11.17	13.28	22.73	12.88
	5-Year Low	5.94	4.46	14.22	8.31
	5-Year Median	9.24	8.66	19.46	10.78

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)



Top Peers

Dycom Industries, Inc. (DY)	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		
	EME Neutral	X Industry	S&P 500	MTZ Neutral	NOA Neutral	PRIM Neutral
VGM Score	A	-	-	A	A	A
Market Cap	3.54 B	594.55 M	19.05 B	2.18 B	205.13 M	568.41 M
# of Analysts	3	2	13	7	2	2
Dividend Yield	0.51%	0.25%	2.31%	0.00%	1.60%	2.05%
Value Score	B	-	-	A	A	A
Cash/Price	0.08	0.13	0.05	0.02	0.02	0.12
EV/EBITDA	6.60	4.33	11.57	4.33	3.80	4.10
PEG Ratio	NA	1.33	1.68	NA	NA	NA
Price/Book (P/B)	1.72	1.18	2.56	1.21	1.52	0.95
Price/Cash Flow (P/CF)	8.46	3.51	10.18	3.47	1.86	3.55
P/E (F1)	9.72	7.00	14.94	5.23	4.89	6.49
Price/Sales (P/S)	0.39	0.24	2.02	0.30	0.38	0.18
Earnings Yield	9.47%	14.24%	6.67%	19.12%	20.45%	15.41%
Debt/Equity	0.24	0.68	0.70	0.82	2.00	0.74
Cash Flow (\$/share)	7.43	3.66	7.01	8.21	4.03	3.29
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	21.45%	23.20%	10.85%	54.92%	226.24%	21.26%
Proj. EPS Growth (F1/F0)	3.54%	10.43%	5.99%	4.69%	35.40%	11.80%
Curr. Cash Flow Growth	13.47%	13.52%	6.15%	13.89%	92.49%	0.32%
Hist. Cash Flow Growth (3-5 yrs)	11.55%	8.58%	8.52%	17.50%	20.79%	6.65%
Current Ratio	1.37	1.37	1.24	1.78	0.75	1.36
Debt/Capital	19.52%	40.40%	42.57%	45.04%	66.68%	42.58%
Net Margin	3.54%	3.54%	11.64%	5.46%	5.12%	2.65%
Return on Equity	16.80%	13.09%	16.74%	23.93%	26.77%	13.09%
Sales/Assets	2.03	1.40	0.54	1.47	0.92	1.72
Proj. Sales Growth (F1/F0)	5.33%	4.06%	3.54%	9.65%	9.03%	12.09%
Momentum Score	C	-	-	D	F	A
Daily Price Chg	14.40%	4.31%	8.21%	6.86%	4.62%	17.74%
1 Week Price Chg	0.04%	-2.49%	-0.67%	-5.54%	-9.12%	7.11%
4 Week Price Chg	-28.34%	-29.98%	-22.67%	-53.09%	-32.06%	-49.50%
12 Week Price Chg	-28.06%	-33.86%	-20.46%	-55.16%	-37.51%	-48.52%
52 Week Price Chg	-12.91%	-39.92%	-10.79%	-39.63%	-40.21%	-47.65%
20 Day Average Volume	490,279	117,766	3,061,271	1,564,316	261,545	228,326
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-2.58%	0.00%	0.00%
(F1) EPS Est 4 week change	0.17%	-2.76%	-0.32%	-2.76%	-3.77%	-5.26%
(F1) EPS Est 12 week change	0.28%	-2.55%	-0.65%	-3.48%	-2.55%	-5.26%
(Q1) EPS Est Mthly Chg	3.20%	-2.13%	-0.62%	-35.59%	-4.26%	NA

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	C
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.

Disclosures

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