

EMCOR Group Inc. (EME)

\$70.58 (As of 07/29/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

Summary

EMCOR's shares have outperformed the industry so far this 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. Notably, strength in healthcare and manufacturing markets also supports the growth. However, coronavirus-led economic slowdown, higher costs and expenses, as well as volatility in the oil and gas market are significant concerns for the company. Owing to uncertainty of economic disruption by the coronavirus, EMCOR withdrew its full-year 2020 guidance.

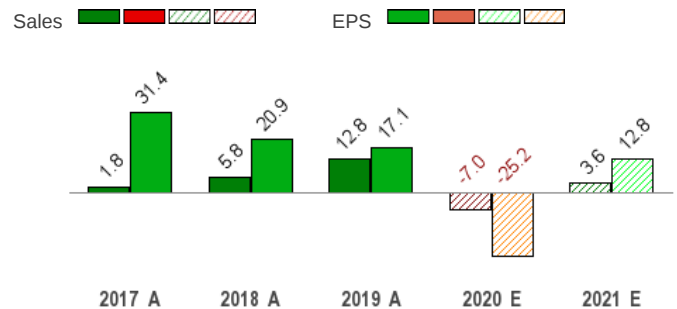
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.54 - \$41.85
20 Day Average Volume (sh)	283,325
Market Cap	\$3.9 B
YTD Price Change	-18.2%
Beta	1.03
Dividend / Div Yld	\$0.32 / 0.5%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Bottom 21% (199 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/03/2020
Earnings ESP	0.0%
P/E TTM	12.1
P/E F1	16.4
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,846 E
2020	2,300 A	1,867 E	2,098 E	2,270 E	8,535 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					\$4.85 E
2020	\$1.35 A	\$0.80 E	\$0.92 E	\$1.11 E	\$4.30 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 07/29/2020. The reports text is as of 07/30/2020.

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:

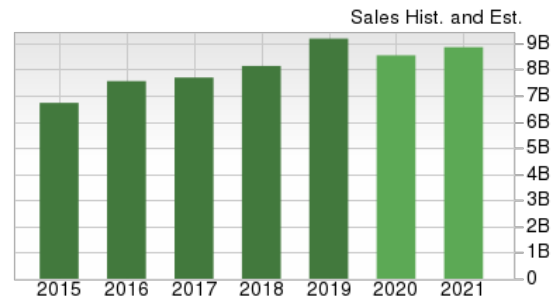
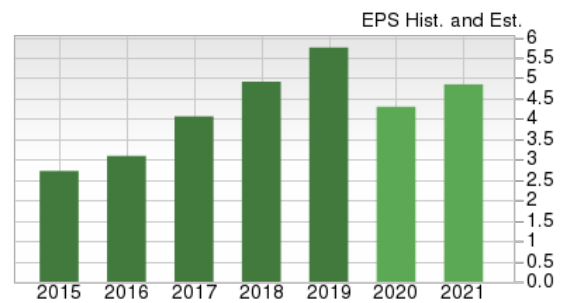
United States Electrical Construction and Facilities Services (contributing 24% to total revenues in 2019) – This comprises systems for premises electrical and lighting systems; electrical power transmission and distribution; roadway and transit lighting; fiber optic lines; voice and data communication; 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 manufacturing, health care, transportation and institutional markets, partially offset by reduced project activity within the commercial, hospitality and water market sectors.

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

In first-quarter 2020, the U.S. Construction segment delivered robust revenue performance, with a combined 6.2% year-over-year increase, given solid project execution across its portfolio of construction. Operating profit also grew 6.1% year over year.

Despite being impacted by COVID-19, the company remains encouraged by robust performance, accretive acquisitions and a 6.4% increase in Remaining Performance Obligations or RPOs.

▲ **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.

In January, EMCOR acquired a building automation and controls solutions company within the building services segment. Also, it 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. The acquisition strengthened its position, and broadened capabilities in the Southern and Southeastern regions of the United States.

In the first quarter, the company generated incremental revenues of \$82.5 million from acquisitions. These buyouts strengthened its overall results by adding new markets, opportunities and capabilities. The company plans to acquire more such companies in the future.

▲ **Non-Residential Markets Strong:** 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.

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.

▲ **Stable Balance Sheet:** EMCOR ended first-quarter 2020 with a total debt (including borrowings under the revolving credit facility, long-term debt, and finance and operating lease liabilities) of \$693 million, up from \$499 million on Dec 31, 2019. As a precautionary measure, it has upsized the existing credit facility of \$900 million to \$1.3 billion to provide additional flexibility in the unprecedented scenario. EMCOR has the option of increasing the size of the facility to a maximum of \$1.9 billion. It had \$1.021 billion of available credit as of Mar 31, 2020. Evidently, its debt to capitalization increased to 27.2% at the end of the first quarter from 21.7% in the fourth-quarter 2019. Nonetheless, the company's cash and cash equivalents of \$347.1 million were sufficient to meet its short-term debt of \$10.4 million. Also, the company's times interest earned ratio of 34.8 reflects a sequential improvement from 33.6 in the prior quarter. This shows that EMCOR is well positioned to meet debt obligations.

Reasons To Sell:

▼ **Coronavirus-Related Woes:** The recent economic slowdown resulting from shutdowns due to the coronavirus outbreak is a concern for the company. The building services business witnessed maximum disruption from the COVID-19 pandemic as the quarter progressed, primarily due to complete or partial closure of customer facilities. Although it didn't face much impact in the first quarter, its future results are likely to witness certain disruptions caused by the pandemic.

Coronavirus-led shutdowns, cyclical nature of oil & gas markets, and dependence on government spending pose risks.

The company noted that Mechanical and Electrical Construction segments are operating at 75-80% of capacity. The Building Services segment is operating at 65-70% of total capacity. The Industrial Services business is 75-80% operative. The U.K. business, which is less impacted currently, operates at 80-85% of capacity.

Given uncertainties arising from the coronavirus outbreak, the company suspended its 2020 guidance.

▼ **Lower Operating Profit:** The company's U.S. mechanical construction 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.

The building services business witnessed higher selling, general, and administrative expenses, under-absorption of certain overhead costs within commercial site-based services operations due to COVID-19, an increase in the provision for credit losses, as well as reduced gross margin as a result of a change in the mix of work.

▼ **Increase in Commodity Prices:** Volatility in oil prices remains a primary challenge for EMCOR's future growth. Near-term prospects for the oil and gas industry look grim and are expected to influence other industries associated with it. The company believes that coronavirus impact on the oil and gas market will in turn hurt the industrial services segment.

Apart from this, EMCOR is vulnerable to changes in the Federal decisions. Notably, other than the Facilities Services divisions, 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.

Last Earnings Report

EMCOR Q1 Earnings Match, Revenues Miss Estimates

EMCOR Group Inc. reported first-quarter 2020 results, wherein earnings met the Zacks Consensus Estimate but revenues missed the same.

Earnings & Revenues

The company reported adjusted earnings of \$1.35 per share, which matched the consensus mark but increased 5.5% from the year-ago quarter, attributable to strength in healthcare and manufacturing market sectors.

Revenues during the quarter totaled \$2.3 billion, missing the consensus mark of \$2.32 billion by 1%. That said, the reported figure grew 6.5% year over year, of which 2.7% was organic growth, led by double-digit improvement in U.S. Mechanical Construction and Industrial Services segments.

Segment Details

The U.S. Construction segment recorded revenue improvement of 6.2% year over year, supported by strength in healthcare and manufacturing market sectors. Operating margin remained flat year over year in the quarter.

Within U.S. Construction, the U.S. Electrical Construction and Facilities Services segment's revenues declined 0.5% but operating margin improved 30 basis points (bps) year over year. Nonetheless, the U.S. Mechanical Construction and Facilities Services segment reported revenue growth of 10.9% from a year ago. Operating margin remained on par with the year-ago level.

Revenues in the U.S. Building Services segment registered year-over-year revenue growth of 1.2%. This segment faced the maximum disruption from the COVID-19 pandemic as the quarter progressed, primarily due to complete or partial closure of customer facilities. Operating margin declined 140 bps year over year. The U.S. Industrial Services unit's revenues grew 19.9% and operating margin improved 30 bps year over year. The growth was led by strength in its field services operations, as a result of strong execution on several large turnarounds.

The U.K. Building Services segment's revenues increased 4.5% and operating margin expanded 120 bps year over year.

Operating Highlights

Selling, general and administrative expenses — as a percentage of revenues — were 9.9%, up 30 bps from the prior-year period.

Operating income totaled \$106 million during the quarter, 3.6% higher than the prior-year period, supported by its focus on project execution. However, operating margin of 4.6% was 10 bps lower than the prior-year period.

Liquidity & Cash Flow

As of Mar 31, 2020, the company had cash and cash equivalents of \$347.1 million compared with \$358.8 million at 2019-end. Total debt (excluding operating leases) was \$504.5 million, up from \$312.2 million recorded on Dec 31, 2019. Total debt to capitalization was 19.9%, up from 13.2% at 2019-end.

In the quarter, EMCOR used \$78.8 million cash for operating activities compared with \$57.4 million a year ago.

In March, EMCOR entered into a \$1.6-billion credit agreement, comprising a \$1.3-billion revolving credit facility and \$300 million term loan. It has an option to further increase the revolving credit line to \$1.9 billion of capacity.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	-0.96%
EPS Surprise	0.00%
Quarterly EPS	1.35
Annual EPS (TTM)	5.83

Valuation

EMCOR shares are down 18.2% in the year-to-date period and 16.3% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 27.1% but the Zacks Construction sector is up 3.5% in the year-to-date period. Over the past year, the Zacks sub-industry is down 24.3% but sector is up 16.3%.

The S&P 500 index is up 1.4% in the year-to-date period and 9.8% in the past year.

The stock is currently trading at 15.3X forward 12-month earnings, which compares to 10.59X for the Zacks sub-industry, 19.78X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.64X and as low as 8.02X, with a 5-year median of 15.87X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72 price target reflects 16.07X 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	15.3	10.59	19.78	22.7
	5-Year High	22.64	18.31	19.78	22.7
	5-Year Low	8.02	7.52	10.74	15.25
	5-Year Median	15.87	14.55	15.86	17.52
P/S F12M	Current	0.44	0.29	2.11	3.59
	5-Year High	0.65	0.56	2.12	3.59
	5-Year Low	0.28	0.22	1.17	2.53
	5-Year Median	0.5	0.42	1.63	3.02
EV/EBITDA TTM	Current	7.6	5.4	18.91	14.19
	5-Year High	11.17	13.28	21.24	12.85
	5-Year Low	5.27	4.12	12.43	8.25
	5-Year Median	9.24	8.64	17.85	10.89

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Dycom Industries, Inc. (DY)	Neutral	3
MasTec, Inc. (MTZ)	Neutral	3
North American Construction Group Ltd. (NOA)	Neutral	3
Orion Group Holdings, Inc. (ORN)	Neutral	3
Primoris Services Corporation (PRIM)	Neutral	3
Sterling Construction Company Inc (STRL)	Neutral	3
Tutor Perini Corporation (TPC)	Neutral	3
Granite Construction Incorporated (GVA)	Underperform	5

Industry Comparison Industry: Building Products - Heavy Construction				Industry Peers		
	EME	X Industry	S&P 500	MTZ	NOA	PRIM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	C	-	-	A	A	C
Market Cap	3.87 B	1.12 B	22.69 B	2.94 B	191.84 M	808.84 M
# of Analysts	3	2.5	14	6	3	2
Dividend Yield	0.45%	0.00%	1.8%	0.00%	1.92%	1.43%
Value Score	B	-	-	A	A	B
Cash/Price	0.10	0.31	0.07	0.02	0.16	0.12
EV/EBITDA	7.57	5.29	13.11	5.21	3.94	5.29
PEG Ratio	NA	NA	3.05	NA	NA	NA
Price/Book (P/B)	1.91	1.26	3.15	1.74	1.37	1.31
Price/Cash Flow (P/CF)	9.50	4.88	12.28	4.86	1.48	5.09
P/E (F1)	15.98	10.69	22.27	8.48	6.37	13.79
Price/Sales (P/S)	0.42	0.33	2.46	0.42	0.41	0.25
Earnings Yield	6.09%	7.76%	4.25%	11.78%	15.75%	7.28%
Debt/Equity	0.34	0.76	0.75	0.85	2.34	0.76
Cash Flow (\$/share)	7.43	3.11	6.94	8.21	4.03	3.29
Growth Score	D	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	21.26%	21.26%	10.85%	59.35%	317.47%	24.54%
Proj. EPS Growth (F1/F0)	-25.27%	-10.12%	-7.70%	-9.73%	-17.11%	-24.53%
Curr. Cash Flow Growth	13.47%	14.43%	5.31%	13.89%	92.49%	0.32%
Hist. Cash Flow Growth (3-5 yrs)	11.55%	12.12%	8.55%	17.50%	20.79%	6.65%
Current Ratio	1.50	1.30	1.31	1.65	0.98	1.34
Debt/Capital	25.46%	43.16%	44.23%	46.02%	70.02%	43.16%
Net Margin	3.53%	3.44%	10.45%	5.44%	7.63%	2.40%
Return on Equity	16.51%	9.92%	14.99%	22.94%	28.09%	12.79%
Sales/Assets	2.00	1.34	0.53	1.45	0.77	1.73
Proj. Sales Growth (F1/F0)	-6.97%	0.00%	-1.97%	1.82%	-14.59%	9.11%
Momentum Score	D	-	-	A	A	D
Daily Price Chg	9.04%	1.61%	1.52%	1.40%	2.58%	2.51%
1 Week Price Chg	-0.52%	-1.84%	0.37%	-1.84%	0.88%	-2.43%
4 Week Price Chg	9.12%	0.00%	5.44%	-7.75%	-2.77%	-5.36%
12 Week Price Chg	21.35%	20.49%	15.38%	16.81%	28.94%	20.49%
52 Week Price Chg	-16.36%	-20.50%	-1.61%	-22.27%	-52.24%	-20.04%
20 Day Average Volume	283,325	91,725	1,846,377	733,273	55,907	227,483
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.27%	0.00%	9.55%	0.00%
(F1) EPS Est 12 week change	-1.68%	0.00%	-0.85%	-1.06%	4.07%	-19.27%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.13%	0.00%	7.69%	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	D
Momentum Score	D
VGM Score	C

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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