Martin Marietta (MLM)

$186.59 (As of 05/01/20)

Price Target (6-12 Months): **$200.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/14/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: F | Growth: A	Momentum: C

Summary

Shares of Martin Marietta have outperformed its industry in the past year. This outperformance is likely to continue going forward, courtesy of strong 2019 results, higher shipments, strong pricing and cost-management efforts. Notably, the company provided strong guidance for 2020, given strong past quarters' results and attractive underlying market fundamentals. The company is well positioned for the upcoming periods on the back of its strong pipeline of large multi-year energy projects, and improving residential, non-residential, and public construction demand trends. Its strength on acquisitions and divestitures is also encouraging. However, adverse weather conditions and rising costs raise concern. Also, 2020 earnings estimates have been trending downward over the past 30 days, reflecting concern for the company.

Price, Consensus & Surprise

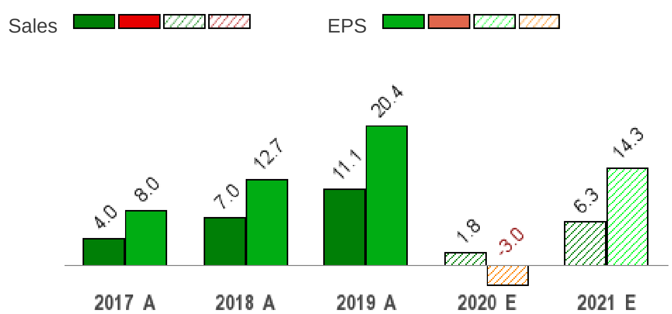
Data Overview

52 Week High-Low	**$281.82 - $135.08**
20 Day Average Volume (sh)	**738,522**
Market Cap	**$11.6 B**
YTD Price Change	**-33.3%**
Beta	**0.93**
Dividend / Div Yld	**$2.20 / 1.2%**
Industry	**Building Products - Concrete and Aggregates**
Zacks Industry Rank	**Bottom 49% (128 out of 253)**

Last EPS Surprise	**-4.1%**
Last Sales Surprise	**0.5%**
EPS F1 Est- 4 week change	**-10.6%**
Expected Report Date	**05/05/2020**
Earnings ESP	**-0.6%**

P/E TTM	**19.2**
P/E F1	**19.7**
PEG F1	**1.8**
P/S TTM	**2.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	973 E	1,261 E	1,486 E	1,242 E	4,786 E
2020	893 E	1,205 E	1,332 E	1,072 E	4,503 E
2019	878 A	1,196 A	1,323 A	1,025 A	4,422 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.65 E	$3.48 E	$4.36 E	$2.68 E	$10.80 E
2020	$0.56 E	$2.82 E	$3.84 E	$2.12 E	$9.45 E
2019	$0.68 A	$3.01 A	$3.96 A	$2.09 A	$9.74 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 05/01/2020. The reports text is as of 05/04/2020.

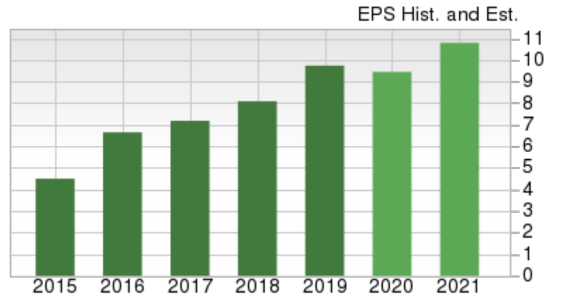
Overview

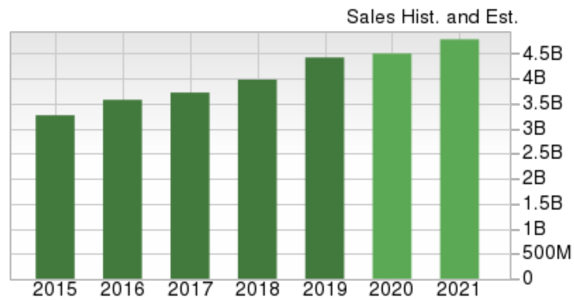
Based in Raleigh, NC, **Martin Marietta Materials, Inc.** produces and supplies construction aggregates and other heavy building materials, mainly cement, in the United States. The end uses of the company's aggregates and cement are infrastructure, private residential and private non-residential construction. Railroad, agricultural, utility and environmental industries also use these products.

The company's total revenues include sales of products and services to customers (net of any discounts or allowances) and freight revenues.

Building Materials (accounting for 94.9% of 2019 total revenues): The Building Materials business includes aggregates, cement, ready mixed concrete, asphalt and paving product lines. The Building Materials business includes three reportable segments: The Mid-America Group (30.3%), the Southeast Group (10.5%) and the West Group (54.1%).

Magnesia Specialties (5.1%)**:** The segment produces magnesia-based chemicals products used in industrial, agricultural and environmental applications and dolomitic lime sold primarily to customers in the steel industry.





Reasons To Buy:

> The company's string of acquisitions, divestitures and attractive shareholder returns are encouraging. Also, an uptick in private and public construction activity will boost demand

▲ **Leading Supplier of Aggregates:** Martin Marietta is a leading supplier of construction aggregates in the United States used for construction of highways, infrastructure projects and residential, commercial and industrial building development. The company has a vast network of aggregate quarries and distribution centers throughout the southern U.S., in the Bahamas and Canada, as well as distribution centers along the Gulf of Mexico and Atlantic coasts. Higher shipments, pricing improvement and benefits from growth initiatives owing to strong underlying demand will boost its sales and profits at the Aggregates business in the forthcoming quarters.

Shares of the company have outperformed its industry in the past year. The outperformance was backed by robust underlying construction market fundamentals supported by solid infrastructure (particularly for aggregates-intensive highways and streets), Non-residential (buoyed by both commercial and heavy industrial sectors) and Residential (given attractive mortgage rates and affordable homes prices within the company's geographic footprint).

▲ **Public Infrastructure Demand Improving:** Public sector construction includes spending by federal, state and local governments for construction of highways, bridges, airports, dams, roads and other infrastructure construction. Generally, public sector spending is a lot more stable than the private sector because public construction projects are less affected by general economic cycles and receive predictable government funding. Notably, the infrastructure market represents 35% of its 2019 aggregate shipments. In 2020, the company expects infrastructure shipments to grow meaningfully, driven by healthy state Department of Transportation (DOT) budgets and an expected extension or replacement for the Fixing America's Surface Transportation (FAST) Act.

Importantly, Trump's impetus to spur massive infrastructure investments in roads, highways, ports and airports bodes well for aggregate producers like Martin Marietta. The plan also addresses the issues related to drinking and wastewater system, energy and rural infrastructure, and veterans' hospitals, to name a few. This will further propel demand for products sold by companies like Martin Marietta.

The multi-year highway bill — five-year, $305 billion FAST Act — enacted in December 2015 increased the funding certainty for the state transportation and highway programs. This, coupled with state/local municipal-level initiatives to finance infrastructure projects, should propel the increased construction of highways, streets, roads, and bridges in the near term, thereby increasing aggregates demand.

▲ **Solid Commercial & Residential Construction Activities:** Aggregate shipments to the non-residential market (representing 36% of 2019 aggregate shipments) is expected to show a meaningful increase in 2020, driven by both commercial and heavy industrial construction activities. The Architectural Billings Index and Dodge Momentum Index suggest commercial and institutional construction activity to remain healthy throughout 2020. The company expects large energy-sector projects, particularly along the Gulf Coast, to continue driving growth and boosting aggregates demand over the next several years.

Residential construction — which represented 22% of 2019 aggregate shipments — should continue to grow within the company's geographic footprint, particularly now, with attractive mortgage rates and a modest rise in home prices. The residential outlook across Martin Marietta's geographic footprint remains a positive (primarily across its leading southeastern and southwestern markets), backed by favorable demographics, job growth, land availability, lower interest rates and higher permits.

▲ **Regular Acquisitions:** The company completed more than 85 smaller acquisitions since its Initial Public Offering in 1994 till 2017, strengthening its position in the Aggregates business. Notably, the company has acquired aggregates and related quarry locations from industry majors like Vulcan Materials, Lafarge North America and CEMEX, Inc.

In April 2018, Martin Marietta acquired Bluegrass Materials Company for $1.625 billion in cash. The addition of Bluegrass strengthened Martin Marietta's aggregates position in the high-growth regions of Southeastern and Mid-Atlantic. Bluegrass has a portfolio of more than 125 years of strategically-located, high-quality reserves across Georgia, South Carolina, Maryland, Kentucky and Tennessee. In late June, the company acquired several sand and gravel operations and a permitted Greenfield site in Omaha, Nebraska, adding approximately 30 million tons of total reserves to its Midwest business.

Reasons To Sell:

> Adverse weather conditions and rising costs raise concern.

- **Weather Woes:** Weather-related challenges in many markets are affecting Martin Marietta. All of the company's businesses are subjected to weather-related risks that can significantly affect production schedules and profitability. Excessive rainfall, flooding, or severe drought can jeopardize shipments, production, and profitability in all of the company's markets. The first and fourth quarters are most adversely affected by winter. Hurricane activity in the Atlantic Ocean and Gulf Coast is most active during the third and fourth quarters. In fact, weather, contractor capacity issues and logistics disruptions have remained causes of concerns throughout 2018 for Martin Marietta.

  In fourth-quarter 2019, weather-related woes impacted projects in Colorado in the Downstream business.

  The asphalt and paving business — which operates solely in Colorado — witnessed lower production days due to continued extreme weather, resulting in a 4.1% decrease in asphalt shipments in the fourth quarter.

  In downstream businesses, shipments decreased nearly 16% in third-quarter 2019 owing to unfavorable weather conditions in Texas and Colorado. This was followed by a 4% decrease in shipments in the first quarter of 2019 as Colorado's harsh winter hindered early construction activity in that state.

- **Rising Costs Could Hamper Profitability:** Higher labor, freight and material costs remain a concern for the company. Higher costs are likely to pressurize the company's gross margin and also the bottom line.

  During the first quarter 2019, although the company's Cement operations benefited from strong volume and pricing growth, extended maintenance outages, higher rail freight costs and reduced operating leverage from lower production levels led to 1,270-basis point degradation in product gross margin. Outages included planned and unplanned repairs at both cement plants, and the acceleration of maintenance activities originally planned for the later part of 2019.

- **Lower Margins in Aggregates Downstream Operations:** Martin Marietta's aggregates-related downstream operations have lower gross margins (excluding freight and delivery revenues) than its aggregates product line due to highly competitive market dynamics, lower barriers to entry and volatility in fuel costs. Therefore, as the downstream operations are expanded, overall gross margin (excluding freight and delivery revenues) is likely to be adversely affected.

Last Earnings Report

Martin Marietta Q4 Earnings Miss Estimates, Up Y/Y

Quarter Ending	12/2019
Report Date	Feb 11, 2020
Sales Surprise	0.53%
EPS Surprise	-4.13%
Quarterly EPS	2.09
Annual EPS (TTM)	9.74

Martin Marietta Materials, Inc. reported lower-than-expected fourth-quarter 2019 earnings. Nonetheless, the company highlighted 2019 as the most profitable year in its history. Improved shipments, pricing and profitability across the major part of the Building Materials business helped it to achieve the eighth consecutive year of growth in revenues, gross profit, adjusted EBITDA and earnings per share.

In the quarter under review, the company reported adjusted earnings per share of $2.09, missing the Zacks Consensus Estimate of $2.18 by 4.1%. However, the reported figure increased an impressive 39.3% from the year-ago level of $1.50 per share.

Total revenues (including Product and services and Freight revenues) in the quarter came in at $1,100.4 million, up 7.9% year over year. The upside was mainly attributable to double-digit growth in cement shipments. Also, higher shipments in the aggregates business led to the upside.

Segment Discussion

The **Building Materials** segment (including aggregates, cement, ready-mixed concrete, asphalt and paving product lines) total revenues were $1,044.3 million, reflecting an increase of 10.1% year over year.

Within the segment, product and services revenues amounted to $973.7 million, up 9.6% from the year-ago level. Freight revenues of $70.6 million were also up 18.8% from the year-ago period.

Again, in Product and Services, Aggregates' revenues of $635.3 million improved 9.6% from the year-ago quarter. Also, Cement's revenues grew 23.9% year over year to $108.1 million. Ready Mixed Concrete's revenues also improved 4.9% year over year to $223.9 million. Revenues in Asphalt and paving product lines increased 2.2% from the year-ago quarter to $68.4 million.

Geographically, Mid-America Group operations' shipments grew 3.5% from the prior-year period, driven by wind energy and data center projects in the Midwest. Pricing in the said region improved only 1% from the prior-year quarter owing to lower infrastructure shipments and unfavorable product mix. Southeast Group operations inched up 7.5% from the prior-year quarter on the back of strong private-sector construction activity in North Georgia and Florida markets, and 3% growth in pricing. This upside was partially offset by infrastructure project delays. Moreover, West Groups' aggregate shipments grew 3.4% from a year ago, driven by strong underlying Texas demand. This was partly offset by Colorado's weather-impacted construction delays and unanticipated operating downtime. Pricing grew 12.9% year over year.

The **Magnesia Specialties** segment — including magnesium oxide, magnesium hydroxide and dolomite lime products — reported total revenues of $56.1 million, decreasing 22% year over year. Its product revenues decreased 24.1% to $51 million. The downside was due to international chemicals and domestic lime customers rationalized inventory levels.

Operating Highlights

Consolidated gross margin during the quarter came in at 23.5%, improving 120 basis points (bps). Selling, general and administrative expenses — as a percentage of total revenues — improved 30 bps year over year. Also, adjusted EBITDA of $278.8 million grew 11.4% year over year.

Liquidity and Cash Flow

As of Dec 31, 2019, Martin Marietta had cash and cash equivalents of $21 million compared with $44.9 million in the corresponding period of 2018. Net cash provided by operations was $966.1 million at the end of 2019 compared with $705.1 million in the comparable period of 2018.

2019 Highlights

Earnings came in at $9.74 per share, increasing 31.1% year over year. Total revenues of $4,739.1 million also advanced 11.7% from the 2018 level.

2020 Guidance

Backed by solid underlying demand and third-party forecasts, Martin Marietta raised its full-year 2019 guidance. Total revenues for 2020 are expected in the band of $4,875-$5,075 million. The Zacks Consensus Estimate for 2020 revenues is currently pegged at $4,740 million. Gross profit is projected in the range of $1,295-$1,390. The company expects adjusted EBITDA within $1,347.5-$1,452.5 million. It expects capital expenditure in the range of $425-$475 million. Aggregates Product line total revenues are projected in the range of $3,185-$3,295 million. Aggregates volume growth is expected in the range of 2-4%. Average selling price is likely to grow 4-6% from a year ago. Cement total revenues are estimated in the band of $470-$500 million. Ready Mixed Concrete and Asphalt and Paving's Products and Services revenues are anticipated within $1,255-$1,325 million. The company expects Magnesia Specialties Business' net sales between $265 million and $275 million.

Valuation

Martin Marietta's shares are down 32% in the year-to-date period and 14.7% in the and trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 30.4 and 20.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 22.6% and 9.5%, respectively.

The S&P 500 index is down 9.6% in the year-to-date period and 0.5% in the past year.

The stock is currently trading at 19.22X forward 12-month earnings, which compares to 20.49X for the Zacks sub-industry, 16.11X for the Zacks sector and 20.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.34X and as low as 12.4X, with a 5-year median of 22.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $200 price target reflects 20.22X forward 12-month earnings.

The table below shows summary valuation data for MLM

Valuation Multiples - MLM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.22	20.49	16.11	20.71
	5-Year High	33.34	33.88	17.94	20.71
	5-Year Low	12.4	12.88	10.76	15.19
	5-Year Median	22.58	20.3	15.88	17.44
P/S F12M	Current	2.57	1.89	1.64	3.28
	5-Year High	4.01	2.66	2.12	3.44
	5-Year Low	1.89	1.52	1.17	2.54
	5-Year Median	3.08	2.11	1.6	3.01
EV/EBITDA TTM	Current	12	16.24	16.4	10.66
	5-Year High	22.71	23.32	21.2	12.87
	5-Year Low	9.75	13.35	12.49	8.27
	5-Year Median	16.13	18.06	17.97	10.78

As of 04/30/2020

Industry Analysis **Zacks Industry Rank:** Bottom 49% (128 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
FORTERRA INC **(FRTA)**	Outperform	1
Arcosa, Inc. **(ACA)**	Neutral	3
Eagle Materials Inc **(EXP)**	Neutral	3
Summit Materials, Inc. **(SUM)**	Neutral	3
U S Concrete, Inc. **(USCR)**	Neutral	4
Vulcan Materials Company **(VMC)**	Neutral	3
CRH PLC **(CRH)**	Underperform	5
Granite Construction Incorporated **(GVA)**	Underperform	3

Industry Comparison Industry: Building Products - Concrete And Aggregates

	MLM	Industry	S&P 500	Industry Peers NA
Zacks Recommendation (Long Term)	NA	-	-	NA
Zacks Rank (Short Term)	NA	-	-	
VGM Score	-	-	-	-
Market Cap	NA	NA	20.61 B	NA
# of Analysts	NA	NA	14	
Dividend Yield	NA	NA	2.11%	%
Value Score	NA	-	-	-
Cash/Price	NA	NA	0.06	NA
EV/EBITDA	NA	NA	11.87	NA
PEG Ratio	NA	NA	2.47	NA
Price/Book (P/B)	NA	NA	2.67	NA
Price/Cash Flow (P/CF)	NA	NA	10.66	NA
P/E (F1)	NA	NA	19.01	NA
Price/Sales (P/S)	NA	NA	2.10	NA
Earnings Yield	NA	NA	5.05%	NA%
Debt/Equity	NA	NA	0.72	NA
Cash Flow ($/share)	NA	NA	7.01	NA
Growth Score	NA	-	-	NA
Hist. EPS Growth (3-5 yrs)	NA	NA	10.88%	NA
Proj. EPS Growth (F1/F0)	NA	NA	-7.32%	NA
Curr. Cash Flow Growth	NA	NA	5.92%	NA
Hist. Cash Flow Growth (3-5 yrs)	NA	NA	8.55%	NA
Current Ratio	NA	NA	1.23	NA
Debt/Capital	NA	NA	43.84%	NA
Net Margin	NA	NA	11.08%	NA
Return on Equity	NA	NA	16.44%	NA
Sales/Assets	NA	NA	0.54	NA
Proj. Sales Growth (F1/F0)	NA	NA	-1.42%	NA
Momentum Score	NA	-	-	-
Daily Price Chg	NA	NA	-2.39%	NA%
1 Week Price Chg	NA	NA	-1.74%	NA%
4 Week Price Chg	NA	NA	17.07%	NA%
12 Week Price Chg	NA	NA	-18.53%	NA
52 Week Price Chg	NA	NA	-9.82%	NA
20 Day Average Volume	NA	0	2,641,413	0
(F1) EPS Est 1 week change	NA	NA	0.00%	NA
(F1) EPS Est 4 week change	NA	NA	-6.62%	NA
(F1) EPS Est 12 week change	NA	NA	-13.28%	NA
(Q1) EPS Est Mthly Chg	NA	NA	-11.97%	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	F
Growth Score	A
Momentum Score	C
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.

Disclosures

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