

Martin Marietta (MLM)

\$275.79 (As of 01/03/20)

Price Target (6-12 Months): **\$317.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 11/04/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

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 first nine months of 2019 results, higher shipments, strong pricing and cost-management efforts. Notably, the company raised its guidance for full year 2019, given strong past three quarters results and attractive underlying market fundamentals. The company is well positioned for the fourth quarter of 2019 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. Also, 2020 earnings estimates have been trending upward over the past 60 days, reflecting solid bottom-line prospect.

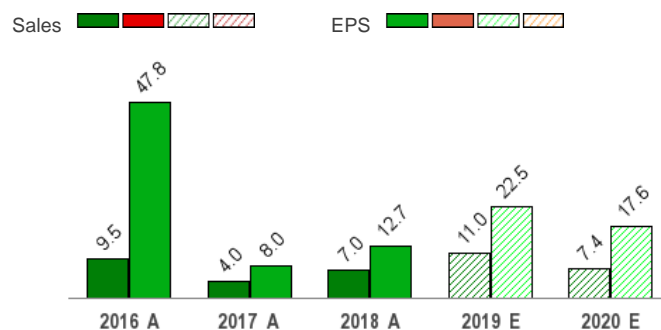
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$281.82 - \$171.84
20 Day Average Volume (sh)	408,557
Market Cap	\$17.2 B
YTD Price Change	-1.4%
Beta	1.11
Dividend / Div Yld	\$2.20 / 0.8%
Industry	Building Products - Concrete and Aggregates
Zacks Industry Rank	Top 11% (27 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.1%
Last Sales Surprise	6.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	29.6
P/E F1	23.7
PEG F1	2.2
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	949 E	1,318 E	1,431 E	1,131 E	4,744 E
2019	878 A	1,196 A	1,323 A	1,019 E	4,417 E
2018	802 A	1,129 A	1,142 A	956 A	3,980 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.78 E	\$3.86 E	\$4.49 E	\$2.67 E	\$11.65 E
2019	\$0.68 A	\$3.01 A	\$3.96 A	\$2.16 E	\$9.91 E
2018	\$0.16 A	\$3.25 A	\$2.85 A	\$1.66 A	\$8.09 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/03/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/06/2020.

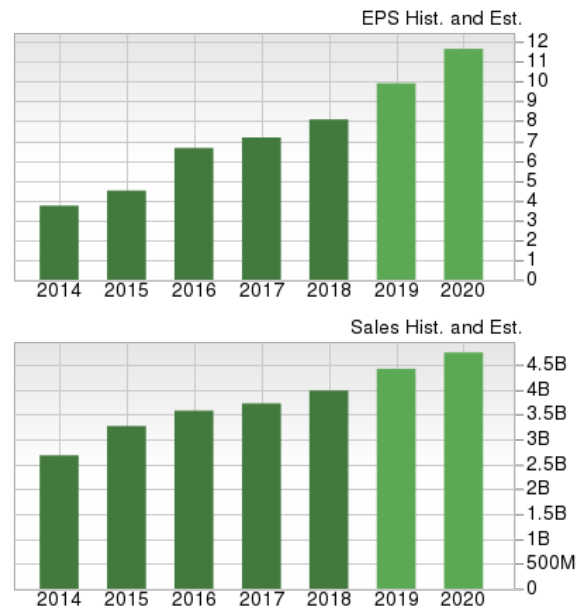
Overview

Based in Raleigh, NC, **Martin Marietta Materials, Inc.** produces and supplies construction aggregates and other heavy building materials, mainly cement, in the U.S. 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 (95.4% of third-quarter 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 (31.6%), the Southeast Group (9.4%) and the West Group (54.4%).

Magnesia Specialties (4.6%): 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:

▲ **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.

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

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). Earnings estimates for 2020 have increased 1.2%, over the past 60 days, reflecting analysts' optimism surrounding the company's bottom-line growth prospects.

▲ **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 38% of its third-quarter aggregate shipments.

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 Bode Well:** Aggregate shipments to the non-residential market (representing 34% of third-quarter 2019 aggregate shipments) increased 25% and 19% in the second and third quarters of 2019, respectively, driven by both commercial and heavy industrial construction activities. The Architectural Billings Index as well as Dodge Momentum Index suggest commercial and institutional construction activity to remain healthy throughout 2019. 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 accounted for 22% of third-quarter 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, backed by favorable demographics, job growth, land availability, lower interest rates and higher permits.

▲ **Regular Acquisitions & Divestitures:** 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.

Along with acquisitions, the company has been divesting a number of underperforming operations since 2001. During the second quarter 2018, Martin Marietta divested its heritage Forsyth aggregates quarry, north of Atlanta, Georgia, and the legacy Bluegrass Beaver Creek aggregates quarry in Western Maryland.

Risks

- **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.

Although strong demand and improved weather led to 9% year-over-year growth in downstream businesses and ready mix concrete shipments each, 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.

The asphalt and paving business — which operates solely in Colorado — witnessed lower production days due to continued extreme weather, resulting in a 8% decrease in asphalt shipments.

- **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.
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Last Earnings Report

Martin Marietta Q3 Earnings & Revenues Top Estimates

Quarter Ending **09/2019**

Martin Marietta Materials, Inc. reported solid results in third-quarter 2019, wherein the top and bottom lines surpassed the respective Zacks Consensus Estimate, and improved on a year-over-year basis. The upside is mainly driven by broad-based improvement in shipments, and pricing and profitability across the Building Materials business. This reflects disciplined execution of its strategic plan and operational excellence. Notably, it raised its full-year 2019 guidance on the back of strong performance in the first nine months of the year and attractive underlying housing market fundamentals.

Report Date	Oct 29, 2019
Sales Surprise	6.24%
EPS Surprise	13.14%
Quarterly EPS	3.96
Annual EPS (TTM)	9.31

In the quarter under review, the company reported adjusted earnings per share of \$3.96, beating the Zacks Consensus Estimate of \$3.50 by 13.1%. Also, the reported figure increased a whopping 38.9% from the year-ago level of \$2.85 per share. Total revenues (including Product and services and Freight revenues) in the quarter came in at \$1,420.2 million, up 16.4% year over year. The upside was mainly attributable to double-digit improvement in both aggregates and cement shipments, as well as solid volume growth in its downstream products. Notably, Products and services revenues of \$1,323.1 million surpassed the consensus mark of \$1,249 million by 6.2% and increased 15.8% year over year.

Segment Discussion

Building Materials segment (including aggregates, cement, ready-mixed concrete, asphalt and paving product lines) total revenues were \$1,355.4 million, reflecting an increase of 18.3% year over year. The improvement was backed by strong demand across the business and benefits from weather-deferred projects. Within the segment, product and services revenues amounted to \$1,263.8 million, up 17.7% from the year-ago level. Freight revenues of \$91.5 million were also up 26.6% from the year-ago period. Again, in Product and services, Aggregates' revenues of \$818.7 million improved 12.4% from the year-ago quarter. Also, Cement's revenues grew 20.6% year over year to \$119.6 million. Ready Mixed Concrete's revenues also improved 9% year over year to \$271.8 million. Revenues in Asphalt and paving product lines increased 36.6% from the year-ago quarter to \$131.1 million. Geographically, Mid-America Group operations' shipments grew 14% from the prior-year period, driven by attractive market fundamentals that drove infrastructure and commercial projects. Pricing in the said region also improved 3.5% from the prior-year quarter. Southeast Group operations inched up 0.8% from the prior-year quarter on the back of 5.7% growth in pricing, partially offset by negative impact of Hurricane Dorian and delayed timing of projects in the region. Moreover, West Groups' aggregate shipments grew 14.8% from a year ago, driven by energy-related projects along the Gulf Coast, increasing commercial activity in Colorado and improved weather conditions. Pricing also grew 9.2% year over year.

The Magnesia Specialties segment — including magnesium oxide, magnesium hydroxide and dolomite lime products — reported total revenues of \$59.3 million, decreasing 13.2% year over year. The downside was due to international chemicals and domestic lime customers rationalized inventory levels.

Operating Highlights, Liquidity and Cash Flow

Consolidated gross margin during the quarter came in at 29.6%, improving 390 basis points. Also, adjusted EBITDA of \$493.1 million grew 27.4% year over year.

As of Sep 30, 2019, Martin Marietta had cash and cash equivalents of \$49.1 million compared with \$44.9 million on Dec 31, 2018. Net cash provided by operations was \$649.8 million at the end of third-quarter 2019 compared with \$441.5 million in the comparable period of 2018.

2019 Guidance Raised

Backed by solid underlying demand and third-party forecasts, Martin Marietta raised its full-year 2019 guidance. Total revenues for 2019 are expected in the band of \$4.66-\$4.77 billion compared with \$4.535-\$4.730 billion expected earlier. Gross profit is projected in the range of \$1,175-\$1,230 million (compared with prior projection of \$1,130-\$1,235 million). The company now expects EBITDA within \$1.245-\$1.305 billion compared with \$1.20-\$1.315 billion guided earlier. It expects capital expenditure in the range of \$375-\$400 million compared with \$350-\$400 million anticipated earlier. Aggregates Product line total revenues are projected in the range of \$2.980-\$3.020 billion. Prior expectation was \$2.865-\$2.960 billion. Aggregates volume growth is expected in the range of 11-12% versus 8-10% anticipated earlier. Average selling price is likely to grow 4-5% from a year ago. Cement total revenues are estimated in the band of \$435-\$465 million. Ready Mixed Concrete and Asphalt and Paving's Products and services revenues are anticipated within \$1.245-\$1.275 billion (versus \$1.20-\$1.40 billion expected earlier). The company expects Magnesia Specialties Business' net sales between \$290 million and \$300 million. Within Aggregates, infrastructure shipments are likely to grow in high-single digits. Non-residential shipments are projected to increase in double digits. Residential shipments are also expected to rise in double digits. ChemRock/Rail shipments are likely to be marginally up from the prior-year figure.

Preliminary 2020 View

The company currently projects low-to-mid-single-digit growth in aggregates shipments and mid-single-digit rise in aggregates pricing. Per third-party forecasts and underlying demand trends, Martin Marietta believes that the current construction cycle will continue boosting its future performance. Notably, in 2020, the construction cycle is expected to expand at a steady pace for each of its three primary construction end-use markets.

Valuation

Martin Marietta's shares are up 53.9% in the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and sector are up 28.4% and 33.1%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 23.63X forward 12-month price to earnings, which compares to 21.72X for the Zacks sub-industry, 15.75X for the Zacks sector and 18.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.34X and as low as 15.55X, with a 5-year median of 22.74X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$317 price target reflects 27.16X 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 F 12M	Current	23.63	21.72	15.75	18.7
	5-Year High	33.34	39.36	18.83	19.34
	5-Year Low	15.55	12.88	10.63	15.17
	5-Year Median	22.74	20.5	16.1	17.44
P/S F12M	Current	3.63	2.27	1.91	3.47
	5-Year High	4.01	2.66	2.23	3.47
	5-Year Low	1.94	1.51	1.25	2.54
	5-Year Median	3.05	2.1	1.63	3
EV/EBITDA TTM	Current	16.82	16.49	18.97	12.01
	5-Year High	22.61	25.14	22.53	12.86
	5-Year Low	12.38	13.93	14.4	8.49
	5-Year Median	16.28	18.17	19.4	10.66

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Top 11% (27 out of 252)



Top Peers

FORTERRA INC (FRTA)	Outperform
Arcosa, Inc. (ACA)	Neutral
CRH PLC (CRH)	Neutral
Eagle Materials Inc (EXP)	Neutral
Summit Materials, Inc. (SUM)	Neutral
U S Concrete, Inc. (USCR)	Neutral
Vulcan Materials Company (VMC)	Neutral
Granite Construction Incorporated (GVA)	Underperform

Industry Comparison Industry: Building Products - Concrete And Aggregates				Industry Peers		
	MLM Outperform	X Industry	S&P 500	EXP Neutral	SUM Neutral	VMC Neutral
VGM Score	C	-	-	B	B	B
Market Cap	17.24 B	3.63 B	23.66 B	3.79 B	2.62 B	18.81 B
# of Analysts	6	3.5	13	3	3	5
Dividend Yield	0.80%	0.00%	1.79%	0.44%	0.00%	0.87%
Value Score	D	-	-	B	B	C
Cash/Price	0.00	0.06	0.04	0.01	0.07	0.00
EV/EBITDA	19.26	10.67	13.88	20.46	10.24	19.77
PEG Ratio	2.15	1.41	1.99	1.41	NA	1.36
Price/Book (P/B)	3.25	1.77	3.36	3.75	1.89	3.39
Price/Cash Flow (P/CF)	20.23	8.74	13.62	11.61	20.48	21.13
P/E (F1)	23.67	16.75	18.74	16.98	25.97	24.91
Price/Sales (P/S)	3.70	0.68	2.67	2.70	1.23	3.89
Earnings Yield	4.22%	5.97%	5.32%	5.89%	3.86%	4.02%
Debt/Equity	0.60	0.63	0.72	0.98	1.35	0.57
Cash Flow (\$/share)	13.64	1.28	6.94	7.83	1.14	6.73
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	21.26%	13.23%	10.56%	10.48%	-39.82%	31.53%
Proj. EPS Growth (F1/F0)	17.51%	18.04%	7.41%	6.07%	107.31%	18.57%
Curr. Cash Flow Growth	13.52%	9.13%	14.83%	12.70%	-23.09%	24.06%
Hist. Cash Flow Growth (3-5 yrs)	23.65%	19.15%	9.00%	13.09%	62.80%	19.15%
Current Ratio	2.29	2.04	1.23	2.50	2.34	2.47
Debt/Capital	37.40%	38.45%	42.92%	49.41%	57.53%	36.42%
Net Margin	12.35%	4.39%	11.08%	3.07%	0.20%	12.43%
Return on Equity	11.52%	8.08%	17.10%	18.87%	1.40%	11.55%
Sales/Assets	0.47	0.54	0.55	0.62	0.54	0.47
Proj. Sales Growth (F1/F0)	7.41%	3.59%	4.20%	2.56%	5.52%	7.67%
Momentum Score	C	-	-	F	C	C
Daily Price Chg	-0.30%	-0.30%	-0.61%	-0.30%	-2.43%	-0.43%
1 Week Price Chg	2.00%	0.33%	0.13%	1.27%	-4.45%	1.50%
4 Week Price Chg	1.14%	-1.06%	2.60%	-1.31%	-1.06%	-1.28%
12 Week Price Chg	2.96%	0.73%	8.87%	0.73%	3.05%	-4.31%
52 Week Price Chg	61.74%	18.49%	29.34%	47.06%	83.70%	47.12%
20 Day Average Volume	408,557	22,129	1,603,615	285,092	1,283,166	727,624
(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%	0.00%	0.00%	0.19%	-0.35%
(F1) EPS Est 12 week change	7.03%	-2.15%	-0.57%	3.78%	-6.23%	0.04%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-5.06%

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	D
Growth Score	B
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.

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