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May 29, 2020

Martin Marietta (MLM)

$197.45 (As of 05/28/20)

Price Target (6-12 Months): **$207.00**

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

Summary

Martin Marietta reported lower-than-expected earnings in first-quarter 2020. Earnings declined 39.7% year over year due to lowered unit costs, which reduced aggregate inventory valuation by 18 cents/share. However, aggregates volume and pricing grew 2.3% and 2.7%, respectively. Also, cement shipments and pricing were up by respective 5.2% and 2.6%. That said, concrete volume declined 14.1% due to weather in Texas, partially offset by double-digit growth in Colorado. While it has seen minimal COVID-19 disruptions during the quarter as the business continues to operate as an essential business, it expects demand to soften later in 2020. Although infrastructure is likely to be more resilient in the near term, it expects the private sector (residential & non-residential) to feel the adverse impacts of COVID-19 sooner than the public one.

Price, Consensus & Surprise

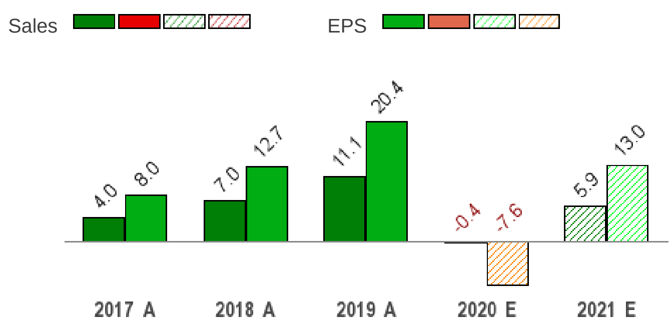
Data Overview

52 Week High-Low	**$281.82 - $135.08**
20 Day Average Volume (sh)	**662,385**
Market Cap	**$12.3 B**
YTD Price Change	**-29.4%**
Beta	**0.92**
Dividend / Div Yld	**$2.20 / 1.1%**
Industry	**Building Products - Concrete and Aggregates**
Zacks Industry Rank	**Bottom 31% (176 out of 254)**

Last EPS Surprise	**-26.8%**
Last Sales Surprise	**-0.2%**
EPS F1 Est- 4 week change	**-4.7%**
Expected Report Date	**08/04/2020**
Earnings ESP	**-5.9%**

P/E TTM	**20.9**
P/E F1	**21.9**
PEG F1	**2.0**
P/S TTM	**2.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	945 E	1,211 E	1,395 E	1,162 E	4,665 E
2020	891 A	1,180 E	1,297 E	1,037 E	4,405 E
2019	878 A	1,196 A	1,323 A	1,025 A	4,422 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.75 E	$3.63 E	$4.44 E	$2.70 E	$10.17 E
2020	$0.41 A	$2.98 E	$3.84 E	$1.99 E	$9.00 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, except sales and EPS estimates, is as of 05/28/2020. The reports text and the analyst-provided sales and EPS estimates are as of 05/29/2020.

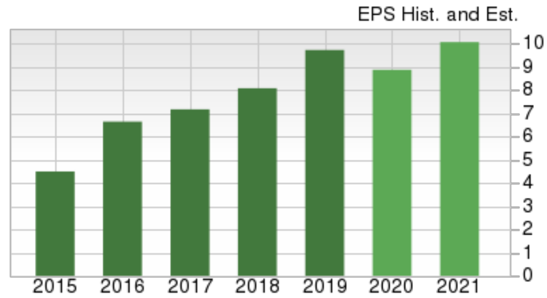
Overview

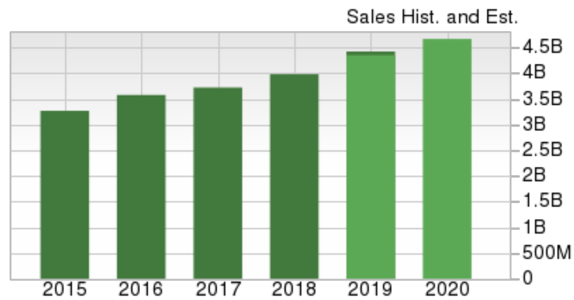
Based in Raleigh, NC, **Martin Marietta Materials, Inc.** produces and supplies construction aggregates and other heavy building materials, mainly cement, in the United States. The end uses of the company's aggregates and cement are infrastructure, private residential and private non-residential construction. 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:

An uptick in public construction activity will boost demand. Acquisitions and healthy balance sheet also bode well.

- **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 highlights that Texas (the company's largest revenue producing state) and Colorado (second largest) remain in good health amid coronavirus-related uncertainties. Additionally, in North Carolina, the company booked 10 million tons of aggregates on six large NCDOT projects in first-quarter 2020, and 9.4 million is expected to be shipped in 2020 and 2021. Notably, the infrastructure market accounted for 32% of first-quarter 2020 aggregates shipments.

  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).

- **Solid Public Infrastructure Demand:** 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.

  The company expects the outlook for public infrastructure, particularly for aggregate intensive street/highway work, to remain more resilient during these uncertain times. The outlook for infrastructure construction, particularly for aggregates-intensive highways and streets, is expected to be the most near-term resilient. While shelter-in-place orders have been issued in the vast majority of the United States, most state DOTs have remained operational and continue to advance current and planned transportation projects, capitalizing on reduction of vehicles on the road and related traffic congestion.

  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.

- **Healthy Balance Sheet:** Amid coronavirus-related uncertainties, the company has strengthened the balance sheet and cash position, with timely bond offering in early March 2020, issuing $500 million of 10-year senior notes at a 2.5% coupon. Evidently, its total debt to total capital increased to 41.4% at March-end from 37.9% at 2019-end. Proceeds will be used to repay the $300 million of floating rate notes that mature later in May 2020, with bulk of the remaining cash preserved on the balance sheet. After making the May repayment, it will have no additional bond maturities for more than four years. At the end of the March quarter, the company had $424 million of cash and $757.7 million unused borrowing capacity under the existing revolving facilities. Excluding the $300 million earmarked for the May 2020 debt repayment, it had $880 million of available liquidity at Mar 31, 2020.

- **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. Martin Marietta continues to expect pursuing selective acquisitions, joint ventures or other business arrangements that will help the company expand footprint.

Reasons To Sell:

Coronavirus-related woes and adverse weather conditions raise concerns

- **Coronavirus-Related Woes:** Although the company has seen minimal disruption from COVID-19 through April 2020, it expects softer demand in the coming months as businesses and governments have shifted focus on the virus. Because of uncertainty in aggregates demand caused by COVID-19, the company withdrew its previously announced financial guidance for 2020. Large non-residential projects are experiencing delays, while residential construction activity is expected to decline in 2020. Although infrastructure is expected to be more resilient in the near term, Martin Marietta expects the private sector (residential and non-residential) to feel coronavirus-related adverse impacts sooner than the public sector.

  Martin Marietta has reduced the projection for capital spending for discretionary projects to $325-350 million from $425-475 million previously expected. Additionally, it has temporarily paused share repurchases until visibility becomes clearer. Also, the impact of lower state funding could weigh on its second-half 2020 performance (given the absence of congressional action), with varying effects depending on the health of state budgets.

- **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 the Downstream business, ready mixed concrete shipments decreased 14.1% year over year in first-quarter 2020, resulting from weather-impacted project delays in Texas that more than offset double-digit growth in Colorado. In fourth-quarter 2019, weather-related woes impacted projects in Colorado in the Downstream business.

- **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 (MLM) Q1 Earnings Miss Estimates, Down Y/Y

Quarter Ending	03/2020
Report Date	May 05, 2020
Sales Surprise	-0.21%
EPS Surprise	-26.79%
Quarterly EPS	0.41
Annual EPS (TTM)	9.47

Martin Marietta Materials, Inc. reported lower-than-expected earnings in first-quarter 2020. In the quarter under review, the company reported adjusted earnings per share of 41 cents, missing the Zacks Consensus Estimate of 56 cents by 26.8%. The reported figure also decreased by a significant 39.7% from the year-ago level of 68 cents per share. The downside was due to the impact of lower unit production costs on aggregates inventory standards and the prior-year benefit from a change in tax election for a subsidiary.

Total revenues (including Product and services and Freight revenues) in the quarter came in at $958.2 million, up 2% year over year. The upside was mainly attributed to higher shipments and pricing across the Building Materials business in the quarter.

Segment Discussion

The building Materials segment (including aggregates, cement, ready-mixed concrete, asphalt and paving product lines) total revenues were $892.5 million, reflecting an increase of 3.2% year over year.

Within the segment, product and services revenues amounted to $831.1 million, up 2.7% from the year-ago level. Freight revenues of $61.4 million were also up 10% from the year-ago period.

Again in Product and Services, Aggregates' revenues of $570.3 million improved 4.7% from the year-ago quarter. Also, Cement revenues grew 7.7% year over year to $106.6 million. Ready Mixed Concrete's revenues, however, declined 10.2% year over year to $189.7 million.

Revenues in Asphalt and paving product lines increased 45.6% from the year-ago quarter to $18.1 million.

Geographically, Mid-America Group operations' shipments grew 4.4% from the prior-year period, driven by robust warehouse and data center construction activities in Iowa and Indiana. This was offset by lower infrastructure shipments in North Carolina. Pricing in the region improved just 1.4% from the prior-year quarter owing to geographic mix.

Southeast Group operations' shipments declined 3.2% from the prior-year quarter due to unfavorable weather on account of heavy rains. Pricing, however, improved 4.7% in the quarter owing to underlying strength in North Georgia and Florida markets.

West Groups' aggregate shipments grew 2.5% from a year ago, driven by strong underlying Colorado demand. This was partly offset by weather-impacted construction delays in Texas. Pricing grew 3.7% year over year.

The Magnesia Specialties segment — including magnesium oxide, magnesium hydroxide and dolomite lime products — reported total revenues of $65.7 million, decreasing 11.3% year over year. The downside was due to persistent decline in chemicals products, attributable to international customers' rationalized inventory levels.

Operating Highlights

Consolidated gross margin during the quarter came in at 14.9%, decreasing 30 basis points. Also, adjusted EBITDA of $149 million declined 5.8% year over year.

Liquidity and Cash Flow

As of Mar 31, 2020, Martin Marietta had cash and cash equivalents of $424 million compared with $21 million at 2019-end. Long-term debt (excluding current maturities) was $2.62 billion compared with $2.43 at 2019-end. Net cash provided by operations was $106.7 million at first quarter-end, down from $117.9 million in the comparable period of 2019.

It had $757.7 million of unused borrowing capacity on the existing credit facilities as of Mar 31, 2020. In March 2020, the company issued $500 million of 2.5% senior notes due 2030. It intends to use the net proceeds for the repayment of $300 million of floating rate notes maturing in May 2020 and for general corporate purposes. Excluding the $300 million earmarked for the May 2020 debt repayment, the company had approximately $880 million of available liquidity on Mar 31, 2020.

Given the level of uncertainty surrounding the coronavirus pandemic, it has withdrawn its earlier issued full-year 2020 guidance.

Valuation

Martin Marietta's shares are down 29.4% in the year-to-date period and 7.1% in the and trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 27.8% and 12.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 16% but sector is up 6%.

The S&P 500 index is down 5.9% in the year-to-date period but up 8.4% in the past year.

The stock is currently trading at 21.07X forward 12-month earnings, which compares to 25.23X for the Zacks sub-industry, 18.79X for the Zacks sector and 22.02X 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 22.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $207 price target reflects 22.14X 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	21.07	25.23	18.79	22.02
	5-Year High	33.34	33.88	18.79	22.02
	5-Year Low	12.4	12.88	10.75	15.23
	5-Year Median	22.5	20.36	15.88	17.49
P/S F12M	Current	2.72	1.9	1.8	3.42
	5-Year High	4.01	2.66	2.12	3.44
	5-Year Low	1.89	1.52	1.17	2.53
	5-Year Median	3.08	2.11	1.6	3.01
EV/EBITDA TTM	Current	12.48	15.23	16.73	11.21
	5-Year High	22.71	23.32	21.19	12.86
	5-Year Low	9.75	13.03	12.39	8.26
	5-Year Median	16.1	18	17.89	10.8

As of 05/28/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (176 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Arcosa, Inc. **(ACA)**	Neutral	3
Eagle Materials Inc **(EXP)**	Neutral	3
FORTERRA INC **(FRTA)**	Neutral	2
Granite Construction Incorporated **(GVA)**	Neutral	3
Summit Materials, Inc. **(SUM)**	Neutral	3
U S Concrete, Inc. **(USCR)**	Neutral	3
Vulcan Materials Company **(VMC)**	Neutral	4
CRH PLC **(CRH)**	Underperform	5

Industry Comparison Industry: Building Products - Concrete And Aggregates

Industry Peers

	MLM	X Industry	S&P 500	EXP	SUM	VMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	C	-	-	A	C	D
Market Cap	12.29 B	1.79 B	21.49 B	2.83 B	1.79 B	14.62 B
# of Analysts	7	3	14	7	5	7
Dividend Yield	1.11%	0.00%	1.98%	0.59%	0.00%	1.23%
Value Score	C	-	-	B	C	D
Cash/Price	0.04	0.13	0.06	0.04	0.13	0.01
EV/EBITDA	11.94	7.34	12.50	18.77	8.30	14.01
PEG Ratio	1.96	6.89	2.87	NA	NA	2.86
Price/Book (P/B)	2.32	1.28	2.95	2.92	1.28	2.61
Price/Cash Flow (P/CF)	12.55	5.55	11.81	8.11	5.36	14.59
P/E (F1)	21.64	21.93	21.33	14.02	34.71	25.72
Price/Sales (P/S)	2.58	0.79	2.28	1.95	0.79	2.93
Earnings Yield	4.56%	4.55%	4.50%	7.13%	2.87%	3.89%
Debt/Equity	0.58	0.71	0.76	1.67	1.34	0.57
Cash Flow ($/share)	15.73	2.71	6.96	8.39	2.93	7.56
Growth Score	C	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	18.74%	10.52%	10.87%	9.99%	-26.31%	22.74%
Proj. EPS Growth (F1/F0)	-7.57%	-30.84%	-10.48%	-12.95%	-51.91%	-8.69%
Curr. Cash Flow Growth	15.01%	15.68%	5.39%	-2.83%	46.64%	12.71%
Hist. Cash Flow Growth (3-5 yrs)	17.98%	15.48%	8.55%	13.09%	27.62%	19.87%
Current Ratio	1.70	2.21	1.29	4.00	2.41	2.68
Debt/Capital	36.55%	41.53%	44.54%	62.56%	57.31%	36.29%
Net Margin	12.51%	3.67%	10.59%	4.89%	3.67%	12.34%
Return on Equity	11.30%	7.80%	16.26%	24.46%	7.89%	11.38%
Sales/Assets	0.46	0.60	0.55	0.60	0.56	0.47
Proj. Sales Growth (F1/F0)	-0.39%	-0.53%	-2.53%	2.40%	-0.67%	-1.67%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	-2.43%	-0.31%	-0.65%	-1.51%	-6.44%	-1.02%
1 Week Price Chg	6.91%	4.14%	4.99%	23.36%	17.26%	3.92%
4 Week Price Chg	3.80%	5.26%	4.28%	11.42%	3.84%	-2.30%
12 Week Price Chg	-18.95%	-15.45%	-3.05%	-17.19%	-13.17%	-14.94%
52 Week Price Chg	-7.11%	-13.16%	0.01%	-22.10%	10.18%	-13.16%
20 Day Average Volume	662,385	60,269	2,425,602	432,890	1,307,360	1,351,933
(F1) EPS Est 1 week change	1.32%	0.00%	0.00%	1.13%	18.95%	0.97%
(F1) EPS Est 4 week change	-4.72%	0.00%	-1.70%	-7.19%	34.26%	-7.91%
(F1) EPS Est 12 week change	-20.84%	-50.14%	-16.00%	-21.67%	-45.43%	-23.35%
(Q1) EPS Est Mthly Chg	5.94%	5.32%	-3.25%	4.70%	59.26%	1.52%

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	C
Growth Score	C
Momentum Score	A
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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