

MasTec, Inc. (MTZ)

\$44.49 (As of 08/05/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

MasTec's business has been benefitting from strong Oil & Gas and Communications business. Strong backlog and prospects across segments are also adding to the positives. The year 2020 is expected to shape up well, with strong backlog and accelerating growth potential, especially across communications, transmission, and power generation segments. Strong balance sheet and resilient FCF profile added to the positives. However, COVID-19 related disruptions, ramp-up costs due to wireless and wireline fiber initiatives, and volatility in the Oil & Gas segment are pressing concerns. Shares of MasTec have underperformed its industry in the year-to-date period.

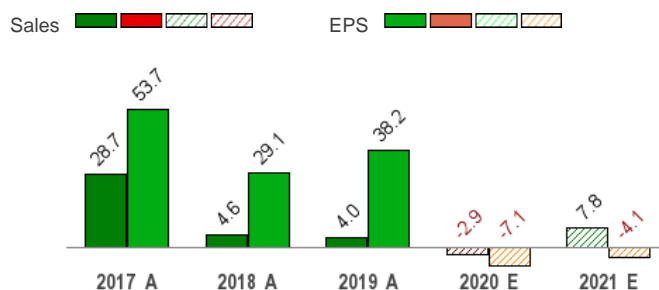
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$73.71 - \$22.51
20 Day Average Volume (sh)	928,477
Market Cap	\$3.3 B
YTD Price Change	-30.7%
Beta	1.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Bottom 32% (173 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.8%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	4.5%
Expected Report Date	10/29/2020
Earnings ESP	2.4%
P/E TTM	9.7
P/E F1	9.2
PEG F1	1.2
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,552 E	1,785 E	2,088 E	2,251 E	7,519 E
2020	1,417 A	1,569 A	1,910 E	2,115 E	6,978 E
2019	1,518 A	1,939 A	2,017 A	1,709 A	7,183 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.50 E	\$1.02 E	\$1.39 E	\$1.35 E	\$4.64 E
2020	\$0.60 A	\$0.95 A	\$1.64 E	\$1.71 E	\$4.84 E
2019	\$0.58 A	\$1.60 A	\$1.73 A	\$1.30 A	\$5.21 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 08/05/2020. The reports text is as of 08/06/2020.

Overview

MasTec, Inc. is a leading infrastructure construction company operating mainly throughout North America. The company engages in the engineering, building, installation, maintenance and upgrade of energy, communication and utility and other infrastructure.

MasTec reports its results under five segments focused on broad end-user markets –

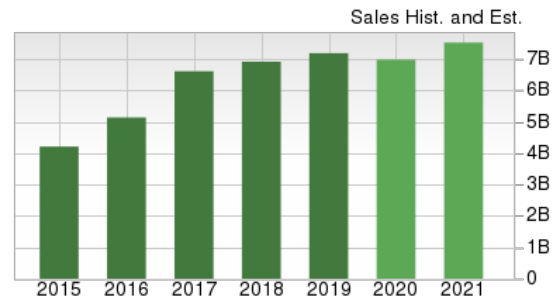
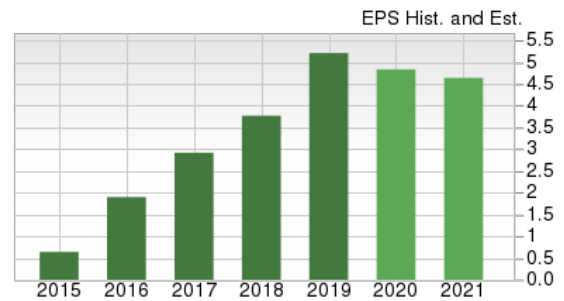
Communications (accounting for 36.5% of total 2019 revenues): The segment performs engineering, construction and maintenance of communications infrastructure mainly related to wireless and wireline communications and install-to-the-home.

Oil and Gas (43.4%): The segment performs engineering, construction and maintenance services on oil and natural gas pipelines and processing facilities for the energy and utilities industries.

Electrical Transmission (5.8%): The segment primarily serves the energy and utility industries through the engineering, construction and maintenance of electrical transmission lines and substations.

Power Generation and Industrial (14.4%): The segment primarily serves the energy and utility end-markets and other end-markets through the installation and construction of conventional and renewable power plants, related electrical transmission infrastructure, ethanol facilities and various types of industrial infrastructure.

Other: It primarily includes small business units that perform construction services for a variety of end markets in Mexico and elsewhere internationally.



Reasons To Buy:

▲ **Record Backlog Provides Strong Visibility:** As of Mar 31, 2020, the company achieved a record 18-month backlog of \$8.3 billion, up \$367 million sequentially and \$327 million year over year. This backlog marks the highest year-end level in MasTec's history, and provides strong visibility for 2020 and 2021. Backlog in Oil & Gas was up 2.4% year over year, while that of Communications was down 8.1%. The same in Power Generation and Industrial was up 82.5% year over year. The consolidated book to bill stood at 1.3x at the end of the first quarter. MasTec is poised to gain from significant amounts of project awards across multiple segments.

MasTec will benefit from strong backlog and growth prospects of the segments, along with the recent acquisitions.

In Communications, it expects growth for the current year to be driven by continued expansion of fiber optic networks, investments in wireless network capacity and 5G-related work. 5G significantly enhances the number of opportunities for MasTec based on the total number of network elements involved. As the largest wireless contractor in North America, MasTec is uniquely positioned to tap these opportunities. Now that the T-Mobile/Sprint merger has closed, the company expects activity levels to significantly increase in second-half 2020. The communications segment continues to offer attractive upside opportunities, driven by 5G investment and accelerating spending by DISH and T-Mobile. The most notable near-term dislocation has been witnessed in the install-to-the home business (which accounted for 4.4% of 2019 revenues) in the Communications segment.

For the Electric Transmission segment, despite COVID-19 related disruptions, MasTec expects revenues and earnings in 2020 to exceed 2019 levels, and believes that the segment is well positioned for 2021 and beyond. Catalysts driving the business include aging infrastructure, reliability, renewables and system hardening.

For Oil & Gas, the segment backlog — which mostly consists of gas pipeline work — grew sequentially in first-quarter 2020 despite lower oil prices. The company did acknowledge the risks to oil pipeline projects if oil prices remain at sub-\$20/bbl for long. However, it is to be noted that its current bookings are weighted toward natural gas and replacement projects than to oil pipelines.

MasTec will witness strong broad-based performance across its midstream projects, integrity work, utility main replacements and facility construction. The Power Generation business is expected to grow 30-50% in 2020 and margins are likely to improve more than 100 basis points from 2019. It continues to see strong demand for renewables, with significant growth in solar activity and distributed generation.

▲ **Accretive Acquisitions:** During 2019, MasTec completed six acquisitions. One of them specializes in water infrastructure for pipeline companies and is included within the Oil and Gas segment. Four of them, including a wireline/fiber deployment construction contractor and a telecommunications company specializing in a broad range of end-to-end wireless telecommunications solutions, are added to the Communications segment. Another one specializes in construction projects in the power industry, and is included in Power Generation and Industrial segment. During the year, acquisitions contributed approximately \$188 million to total consolidated revenues. Given MasTec's strong cash flow profile, it expects to continue evaluating the expected investment return associated with acquisitions and other strategic initiatives to grow operations, as well as share repurchase opportunities.

▲ **Wireline & Wireless Businesses Unlock Significant Opportunities:** MasTec's wireless business has significant potential given that substantial investments are expected in wireless infrastructure related to the densification associated with 5G deployment. Every major carrier has publicly disclosed plans and initiatives for 5G. Also, AT&T was awarded FirstNet, a nationwide public safety wireless network. Both 5G and FirstNet will be catalyst for MasTec's revenues. 5G significantly enhances the number of opportunities for MasTec, based on the total number of network elements involved. Each of those elements added require significant construction activity.

In its wireline markets, fiber expansion continues to be a major growth driver. The company believes that it is just the beginning of the most aggressive fiber build cycles in its history. A number of customers are aggressively deploying fiber assets and the level has increased in 2019. A considerable ramp up is expected in 2020. The company expects strong nationwide fiber deployment projects from both telephone companies and cable TV companies that will provide it with significant opportunities over the coming years.

▲ **Enough Liquidity to Tide Over the Pandemic & Resilient FCF Outlook:** MasTec has a strong cash flow profile, which is expected to help it tackle the pandemic. MasTec ended the first quarter with a long-term debt of \$1.4 billion, down 1.9% sequentially. The company's cash position increased to \$72 million in the quarter from \$71 million at fourth quarter-end. Although its total debt to total capitalization slightly increased to 49.3% in the first quarter from 48.2% in the prior quarter, it has ample liquidity. It ended the first quarter with \$950 million liquidity, which is defined as cash and availability under the credit facility, and has no significant near-term maturities. MasTec expects 2020 cash flow from operations to meet or slightly exceed the 2019 record level of \$550 million.

▲ **Driving Shareholder Value:** MasTec intends to opportunistically invest in this program if conditions permit. In first-quarter 2020, the company repurchased \$119.4 million worth of common stock. As of Mar 31, 2020, \$159.4 million was available for future share buybacks under its open share repurchase programs, which included \$9.4 million under the company's December 2018 share repurchase program and \$150 million under a new share repurchase program that was authorized on Mar 19, 2020. Notably, during 2019, share repurchases — which were completed under the company's \$150-million share repurchase program in September 2018 — totaled \$0.6 million. In 2019, it generated a record level of \$550 million in cash flow from operations and ended the year with net debt, defined as total debt less cash of \$1.36 billion, which equates to a book leverage ratio of 1.6.

Reasons To Sell:

- ▼ **High Competition/Project Delays:** MasTec operates in a highly competitive and fragmented industry. With only few barriers to entry in the markets, any organization that has adequate financial resources and access to technical expertise may become a competitor.

Although MasTec has enough visibility throughout the remainder of 2020, the biggest risks to its guidance are around governmental permitting, crew social distancing mitigation and the impact they may have on project schedules, along with any potential project delays. MasTec faces execution risk, if the company fails to properly manage projects or face project delays, it could result in additional costs or claims to the company. Its Oil & Gas pipeline segment's top line has been witnessing a negative impact over the last few quarters, due to regulatory-imposed work delays on a few large project activities. Notably, regulatory disruptions in selected long-haul pipeline construction activity led to revenue decline in the Oil & Gas segment in 2019.

Project delays and continued weakness in the fulfillment and installation business within the Communications segment poses risks. Also, rising start-up and ramp-up costs raise concerns.

- ▼ **Customer Concentration:** MasTec derives a significant amount of revenues from a handful of large customers. The company's top 10 customers in 2019 accounted for 64% of total revenues, with AT&T contributing 20%. Customer concentration increases the risk of the company to individual customer capital budgets cuts, which might impact results.
 - ▼ **Headwinds in Communications Business:** In the Communications segment, the company continues to suffer a decline in home installation and customer fulfillment markets. In first-quarter 2020, wireline and wireless business revenues were up 10% year over year, offset by a 20% decline in the installation business. The company expects growth in the wireline and wireless business to be affected by decline in the fulfillment and installation business going forward.
 - ▼ **Rising Start-Up/Ramp-Up Costs:** Many of the company's new initiatives such as 5G, FirstNet and Verizon One Fiber will be in various stages of ramping during 2020. Various multi-year initiatives are anticipated to accelerate in size and scope through 2020, which includes significant costs. The company's 2020 guidance includes the impact of expected ramp-up costs from the Communications segment, related to wireless and wireline fiber initiatives in the near future.
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Last Earnings Report

MasTec Q1 Earnings & Revenues Top Estimates

MasTec, Inc. reported impressive results in first-quarter 2020. Despite COVID-19 impacts, both the top and bottom lines surpassed the Zacks Consensus Estimate, and exceeded expectations on the back of solid segmental performance (barring Oil and Gas).

Although the recent economic slowdown is impacting the overall industry, the company believes that the strong balance sheet and solid backlog position it well in this unprecedented period.

Jose Mas, MasTec's chief executive officer, said, "We expect continued volatility and caution as the world begins to reopen and demand recovers. In the meantime, we enjoy significant backlog and have strong visibility both for the remainder of 2020 and 2021."

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	1.80%
EPS Surprise	18.75%
Quarterly EPS	0.95
Annual EPS (TTM)	4.58

Inside the Headlines

MasTec reported adjusted earnings per share of 60 cents, which surpassed the Zacks Consensus Estimate of 45 cents by 33.3% and exceeded the company's expectation by 25%. However, the metric fell 3.2% on a year-over-year basis.

Revenues of \$1.42 billion topped the consensus mark of \$1.31 billion by 8.1% and surpassed the company's projection by 9.2%. However, the metric fell 6.7% year over year.

On fourth-quarter 2019 earnings call, MasTec noted that all results — effective first-quarter 2020 — will be shown under a new presentation basis. At the end of the first quarter, the company reported 18-month backlog of \$8.3 billion, up 4% from the last year.

Segment Update

Revenues from Communications grew 5.1% year over year to \$644.1 million. Adjusted EBITDA margin, however, surged 50 basis points (bps) to 7.9%. Electrical Transmission segment's revenues came in at \$128.1 million, up 35% from the year-ago quarter. Adjusted EBITDA margin came in at 6.5%, up 250 bps from the year-ago period.

Power Generation and Industrial's revenues surged a notable 51.2% year over year to \$286.3 million. Adjusted EBITDA margin was in line with the year-ago figure of 1.7%. Revenues from the Oil and Gas segment declined 42.2% from a year ago to \$359.1 million. Nonetheless, adjusted EBITDA margin improved an impressive 340 bps to 20.7%.

Operational Update

General and administrative expenses, as a percentage of revenues, increased 120 bps from the prior-year quarter to 6%. The company reported adjusted EBITDA of \$118 million, down 15.8% from the prior-year period. Adjusted EBITDA margin also contracted 90 bps to 8.3%.

Financial Details

As of Mar 31, 2020, MasTec had cash and cash equivalents of \$71.7 million compared with \$43.2 million at first quarter 2019-end. The company provided \$230.3 million of cash from operating activities in the first quarter versus \$46.8 million cash used in the comparable year-ago period.

At the end of the quarter, it had approximately \$950 million in liquidity, including cash and availability under the credit facility.

2020 Guidance Lowered

MasTec noted that most of its construction services have been deemed essential under state and local pandemic mitigation orders. The company's segments remain operational even in the face of the pandemic. However, it anticipates the business to be impacted by COVID-19 in the remaining quarters of 2020. The company may witness lost productivity from governmental permitting delays, reduced crew productivity due to stay-at-home orders, lower levels of overhead cost absorption and delay or shutdown of projects.

Based on the current market conditions, MasTec updated its 2020 guidance. Revenues are now expected within \$7.3-\$7.7 billion compared with \$8 billion projected earlier. Adjusted EBITDA is projected within \$775-\$825 million versus \$900 million expected earlier. This indicates a decline from adjusted EBITDA of \$843.2 million in 2019. Adjusted EBITDA margin is likely to be in the range of 10.6-10.7%, indicating fall from 11.7% recorded in prior year. Adjusted earnings are anticipated within \$4.50-\$5.00 per share (versus \$5.63 expected earlier). Adjusted earnings in 2019 were \$5.46 per share.

Second-Quarter View

MasTec expects revenues between \$1.5 and \$1.6 billion. Adjusted EBITDA is expected within \$150-\$160 million, with margin projection of 10%. Adjusted EBITDA in the year-ago period was \$240.7 million, with margin of 12.4%. Adjusted earnings per share are anticipated within 78-89 cents, suggesting a significant decline from the year-ago figure of \$1.65.

Valuation

MasTec shares are down 30.7% in the year-to-date period and 25.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 21.7% but are up 5.1% in the Zacks Construction sector in the year-to-date period. Over the past year, the Zacks sub-industry is down 17.4% but sector is up 20.7%.

The S&P 500 index is up 2.6% in the year-to-date period and 15% in the past year.

The stock is currently trading at 9.83X forward 12-month earnings, which compares to 11.21X for the Zacks sub-industry, 18.96X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.8X and as low as 4.43X, with a 5-year median of 13.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 10.38X forward 12-month earnings.

The table below shows summary valuation data for MTZ

Valuation Multiples - MTZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.83	11.21	18.96	22.58
	5-Year High	23.8	18.31	18.99	22.58
	5-Year Low	4.43	7.52	10.74	15.25
	5-Year Median	13.39	14.5	15.86	17.55
P/S F12M	Current	0.44	0.31	2.12	3.63
	5-Year High	0.7	0.56	2.12	3.63
	5-Year Low	0.23	0.22	1.17	2.53
	5-Year Median	0.49	0.42	1.63	3.04
EV/EBITDA TTM	Current	6.77	5.68	19.28	12.8
	5-Year High	13.81	13.28	21.52	12.85
	5-Year Low	4.2	4.12	12.49	8.24
	5-Year Median	8.26	8.53	17.81	10.89

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
EMCOR Group, Inc. (EME)	Outperform	3
North American Construction Group Ltd. (NOA)	Outperform	1
Dycom Industries, Inc. (DY)	Neutral	2
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		
	MTZ	X Industry	S&P 500	DY	EME	NOA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Outperform
Zacks Rank (Short Term)	3	-	-	2	3	1
VGM Score	A	-	-	C	D	A
Market Cap	3.28 B	1.16 B	22.93 B	1.43 B	4.04 B	228.79 M
# of Analysts	6	2.5	14	5	3	3
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.43%	1.61%
Value Score	A	-	-	C	B	A
Cash/Price	0.02	0.28	0.07	0.48	0.09	0.15
EV/EBITDA	5.40	5.63	13.16	6.42	7.53	3.86
PEG Ratio	1.13	NA	2.99	NA	NA	NA
Price/Book (P/B)	1.88	1.32	3.20	1.71	2.08	1.35
Price/Cash Flow (P/CF)	5.42	5.22	12.45	5.01	9.91	1.77
P/E (F1)	9.06	11.82	21.78	22.34	19.57	5.67
Price/Sales (P/S)	0.49	0.36	2.47	0.43	0.45	0.49
Earnings Yield	10.88%	8.22%	4.33%	4.48%	5.11%	17.70%
Debt/Equity	0.71	0.71	0.77	1.69	0.26	1.66
Cash Flow (\$/share)	8.21	3.11	6.94	8.99	7.43	4.03
Growth Score	A	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	58.74%	21.26%	10.46%	-10.30%	21.26%	281.52%
Proj. EPS Growth (F1/F0)	-7.20%	1.39%	-7.14%	-11.10%	-34.61%	11.21%
Curr. Cash Flow Growth	13.89%	14.43%	5.47%	-2.35%	13.47%	92.49%
Hist. Cash Flow Growth (3-5 yrs)	17.50%	12.12%	8.55%	9.31%	11.55%	20.79%
Current Ratio	1.40	1.23	1.32	4.51	1.48	0.96
Debt/Capital	41.64%	41.64%	44.59%	62.78%	20.41%	62.44%
Net Margin	4.81%	3.43%	10.15%	0.32%	1.78%	7.63%
Return on Equity	19.17%	9.92%	14.46%	7.78%	16.17%	26.47%
Sales/Assets	1.36	1.34	0.51	1.36	1.92	0.78
Proj. Sales Growth (F1/F0)	-1.82%	0.00%	-1.68%	-1.03%	-3.48%	-29.92%
Momentum Score	A	-	-	C	F	A
Daily Price Chg	6.44%	0.89%	0.59%	3.32%	1.15%	3.19%
1 Week Price Chg	-0.72%	-1.30%	0.14%	3.83%	7.82%	9.37%
4 Week Price Chg	12.15%	4.75%	5.31%	17.82%	20.14%	17.49%
12 Week Price Chg	43.38%	33.68%	19.84%	68.12%	31.62%	43.26%
52 Week Price Chg	-25.95%	-19.87%	2.73%	-7.43%	-9.79%	-42.16%
20 Day Average Volume	928,477	108,867	2,098,555	294,415	356,631	77,234
(F1) EPS Est 1 week change	4.52%	0.00%	0.00%	0.00%	-47.60%	29.89%
(F1) EPS Est 4 week change	4.52%	0.00%	1.10%	0.00%	-44.14%	42.30%
(F1) EPS Est 12 week change	3.75%	0.00%	1.04%	20.30%	-39.50%	42.30%
(Q1) EPS Est Mthly Chg	5.20%	1.98%	0.39%	0.00%	25.00%	41.03%

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	A
Growth Score	A
Momentum Score	A
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.

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