

MasTec, Inc. (MTZ)

\$59.50 (As of 02/11/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: C

Growth: B

Momentum: A

Summary

Shares of MasTec has outperformed its industry in the past year. The price performance is backed by solid earnings surprise history. The company's earnings have surpassed the Zacks Consensus Estimate for 15 consecutive quarters. Strong backlog and growth prospects across its segments have been driving MasTec's performance. Based on strong backlog and recent awards, 2020 is expected to shape up well, with accelerating growth potential especially across communications, transmission, and power generation segments. However, continued weakness in the fulfillment and installation business within the Communications segment raises a concern. Ramp-up costs due to wireless and wireline fiber initiatives in the segment added to the woes.

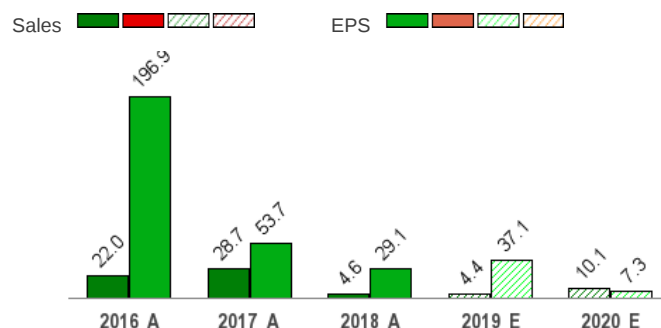
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$73.71 - \$42.72
20 Day Average Volume (sh)	630,336
Market Cap	\$4.5 B
YTD Price Change	-7.3%
Beta	1.29
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Top 21% (53 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.1%
Last Sales Surprise	-5.3%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	12.0
P/E F1	10.7
PEG F1	1.3
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,564 E	2,039 E	2,220 E	2,062 E	7,940 E
2019	1,518 A	1,939 A	2,017 A	1,745 E	7,210 E
2018	1,397 A	1,618 A	1,977 A	1,918 A	6,909 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.70 E	\$1.48 E	\$1.79 E	\$1.50 E	\$5.55 E
2019	\$0.58 A	\$1.60 A	\$1.73 A	\$1.26 E	\$5.17 E
2018	\$0.35 A	\$1.04 A	\$1.33 A	\$1.07 A	\$3.77 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 02/11/2020. The reports text is as of 02/12/2020.

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 –

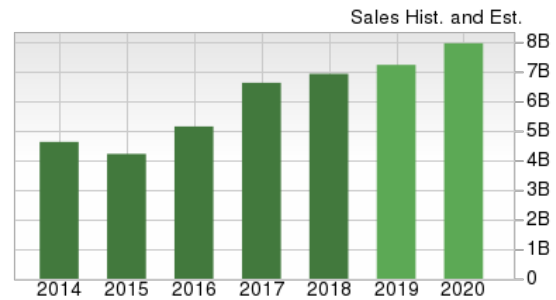
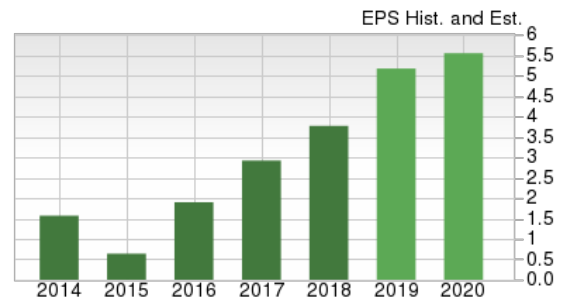
Communications (accounting for 33.7% of total third-quarter 2019 revenues): The segment performs engineering, construction and maintenance of communications infrastructure mainly related to wireless and wireline communications and install-to-the-home.

Oil and Gas (48.2%): 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 (5.1%): 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 (13%): 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:** As of Sep 30, 2019, the company achieved 18-month backlog of \$7.52 billion. This backlog position depicts strong demand in end-markets served in 2019 and beyond. MasTec is poised to gain from significant amounts of project awards across multiple segments. The company expects strong revenues for 2020 on solid demand expectations for Oil & Gas, Communications, Power Generation & Industrial and Electrical Transmission segments. Driven by the backlog generated from the combination of increased renewable project activity and the expansion of services into biomass and other smaller production facilities, the Power Generation & Industrial segment will show sizable growth. In Oil & Gas, MasTec will witness strong broad-based performance across its midstream projects, integrity work, utility main replacements and facility construction. The Communications segment will also benefit from multi-year demand for tower, small cell and fibre deployments, along with the execution of transformational 5G wireless. The Transmission and Power Generation business will continue to benefit from backlog growth. The pipeline business is poised to benefit from a large multi-year cycle of large project buildouts.

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

▲ **Accretive Acquisitions; Upbeat Views:** During the first nine months of 2019, MasTec completed three acquisitions, one in the Oil and Gas segment and two within the Communications segment. During the first six months of 2019, acquisitions contributed approximately \$75 million to total consolidated revenues. During the third quarter conference call, the company boosted its 2019 guidance for adjusted EBITDA and EPS. 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. Currently, it has taken two major initiatives for fiber business. These initiatives are expected to lead to significant growth as it moves from the early stage of engineering into construction, which carries a higher-dollar value, in turn accelerating second-half 2019. The company expects approximately 20% growth in both wireline and wireless market.

▲ **Strong Project Pipeline:** As a result of the operational improvements carried out in the Power Generation and Industrial segment, there has been a significant improvement in margins. Revenues from the Power Generation group have more than tripled from \$300 million in 2017 to almost \$1 billion this year. With nearly \$1 billion in backlog and a number of expected awards, 2020 is expected to be another year of strong growth. Notable backlog activity during the third quarter includes a strong sequential increase in power generation and industrial segment backlog, and an approximate \$700 million sequential increase in total backlog beyond 18 months, driven primarily by significant Communications segment awards during the quarter.

Despite commodity price fluctuations, MasTec's oil and gas market is likely to be robust for years to come. In addition to opportunities in the United States, Mexico has implemented energy regulation reforms to authorize and attract foreign investment in the energy sector to expand and revitalize its energy industry. These initiatives call for a significant shift from fuel oils to more environmentally sensitive and cleaner natural gas. Notably, the segment's adjusted EBITDA margins improved an impressive 640 basis points (bps) during the first nine months of 2019. It anticipates Oil & Gas revenues to grow in the high-single digit range in 2020, with an adjusted EBITDA margin rate in the high teens range.

▲ **Driving Shareholder Value:** MasTec approved a new buyback program of up to \$100 million shares, which reflects its commitment to generate long-term value for its shareholders. During the first nine months of 2019, share repurchases — which were completed under the company's \$150-million share repurchase program in September 2018 — totaled approximately \$0.6 million. The company now has approximately \$128.8 million of shares remaining under the share repurchase authorization. MasTec continues to expect strong 2019 cash flow from operations of nearly \$600 million.

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.

MasTec also 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, the company expects lower second-half 2019 Oil & Gas segment revenues due to regulatory delays on a large oil and gas project that will move some project activity into 2020. That said, MasTec continues to expect strong adjusted EBITDA margin rate performance.

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 the first nine months of 2019 accounted for 63% 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. The company expects growth in the wireline and wireless business to be affected by about 10% decline in the fulfillment and installation business.
 - ▼ **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 2019. However, the full impact of these market infrastructure initiatives won't be fully reflected in the Communication segment's 2019 revenues. Various multi-year initiatives are anticipated to accelerate in size and scope through 2019, which includes significant costs. The company's 2019 guidance includes the impact of expected ramp-up costs from the Communications segment, related to wireless and wireline fiber initiatives in the near future. The segment's adjusted EBITDA margin contracted 570 bps, 380 bps and 290 bps in the first, second and third quarters of 2019.
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Last Earnings Report

MasTec's Q3 Earnings Beat Estimates

MasTec, Inc. reported third-quarter 2019 results, wherein earnings beat the Zacks Consensus Estimate but revenues missed the same. The company also raised its EPS guidance for 2019.

That said, the company expects lower-than-expected second half 2019 Oil & Gas segment revenues, due to the regulatory delays, thereby pushing a portion of a large oil and gas project into 2020.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-5.31%
EPS Surprise	6.13%
Quarterly EPS	1.73
Annual EPS (TTM)	4.98

Let's Delve Deeper

MasTec reported adjusted earnings per share of \$1.73, which surpassed the Zacks Consensus Estimate of \$1.63 by 6.1%. Also, on a year-over-year basis, the metric grew 30.1% from the prior-year figure of \$1.33.

Revenues of \$2.02 billion missed the consensus mark of \$2.13 billion by 5.2% but grew 2% year over year. The upside was mainly driven by strong demand, favorable market conditions and improved pricing. However, lower contribution from the Oil & Gas business partially offset the positives.

At the end of the third quarter, the company reported 18-month backlog of \$7.5 billion, down \$300 million from the corresponding period of last year. Meanwhile, the backlog does not include awards worth nearly \$700 million signed during the quarter that are estimated to be realized after 18-month period.

Segment Update

Revenues from Communications grew 2.7% year over year to \$679.5 million. Adjusted EBITDA margin, however, contracted 290 bps to 8.4%.

Electrical Transmission segment's revenues came in at \$103 million, up 3.9% from the year-ago quarter. Adjusted EBITDA margin came in at 7.6%, up 450 bps from the year-ago period.

Power Generation and Industrial's revenues surged a notable 45.7% year over year to \$261.7 million. However, adjusted EBITDA margin fell 450 bps from the prior-year quarter to 0.9%.

Revenues from the Oil and Gas segment fell 6.1% from a year ago to \$972.5 million. Nonetheless, adjusted EBITDA margin improved an impressive 690 bps to 21.9%.

Operational Update

General and administrative expenses declined 10.4% from the prior-year quarter to \$77.1 million. The company's adjusted EBITDA of \$252.1 million was up 11% from the prior-year period. Adjusted EBITDA margin also surged 110 bps to 12.5%.

Financial Details

MasTec reported cash and cash equivalents of \$43.1 million as of Sep 30, 2019 compared with \$27.4 million at 2018-end.

The company provided \$441.4 million of cash from operating activities in the first nine months of 2019 compared with \$26.8 million in the comparable year-ago period.

2019 Guidance Updated

Backed by strong results in the third quarter, great visibility, strong demand across segments, and favorable market conditions, MasTec upwardly revised adjusted EBITDA and earnings projection. Adjusted EBITDA is now projected to be \$842 million versus \$836 million expected earlier. Moreover, adjusted EBITDA margin is expected to be 11.7% compared with 10.9% projected earlier. Adjusted earnings per share are now anticipated to be around \$5.16 (\$3.77 in 2018) versus \$5.04 expected earlier. However, revenues are now expected to be roughly \$7.2 billion compared with prior projection of \$7.7 billion. The lower revenue guidance reflects the absence of a large project in the Oil & Gas business.

Fourth-Quarter View

MasTec expects revenues to be \$1.7 billion, indicating a decline from \$1.92 billion reported a year ago. Adjusted EBITDA is expected to be \$209 million, with margin forecast of 12.3%. This compares favorably with the year-ago adjusted EBITDA of \$195.8 million and margin of 10.2%. Adjusted earnings per share are anticipated to be \$1.25, indicating growth of 16.8% from \$1.07 reported in 2018. The Zacks Consensus Estimate for the same is in line with its expectation. Notably, the company expects lower second half 2019 Oil & Gas segment revenues due to regulatory delays on a large oil and gas project that will move some project activity into 2020. That said, MasTec continues to expect strong adjusted EBITDA margin rate performance.

Valuation

MasTec's shares are up 37.4% in the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 6.4% and 26.2%, respectively.

The S&P 500 index is up 21.1% in the past year.

The stock is currently trading at 10.1X forward 12-month price to earnings, which compares to 10.8X for the Zacks sub-industry, 16.04X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.8X and as low as 9.09X, with a 5-year median of 13.41X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$63 price target reflects 10.69X 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 F 12M	Current	10.1	10.8	16.04	19.12
	5-Year High	23.8	18.31	18.86	19.34
	5-Year Low	9.09	10.37	10.71	15.18
	5-Year Median	13.41	14.78	16	17.47
P/S F12M	Current	0.57	0.35	1.96	3.56
	5-Year High	0.7	0.56	2.23	3.56
	5-Year Low	0.23	0.34	1.25	2.54
	5-Year Median	0.49	0.42	1.65	3
EV/EBITDA TTM	Current	6.9	6.08	19.21	11.36
	5-Year High	13.67	13.17	22.55	12.85
	5-Year Low	6.5	6.08	14.41	8.47
	5-Year Median	8.28	8.68	19.37	10.7

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 254)



Top Peers

Dycom Industries, Inc. (DY)	Outperform
North American Construction Group Ltd. (NOA)	Outperform
EMCOR Group, Inc. (EME)	Neutral
Granite Construction Incorporated (GVA)	Neutral
Orion Group Holdings, Inc. (ORN)	Neutral
Primoris Services Corporation (PRIM)	Neutral
Sterling Construction Company Inc (STRL)	Neutral
Tutor Perini Corporation (TPC)	Neutral

Industry Comparison Industry: Building Products - Heavy Construction				Industry Peers		
	MTZ Neutral	X Industry	S&P 500	DY Outperform	EME Neutral	NOA Outperform
VGM Score	A	-	-	D	A	A
Market Cap	4.54 B	1.31 B	24.31 B	1.39 B	4.86 B	295.79 M
# of Analysts	7	2	13	6	3	2
Dividend Yield	0.00%	0.18%	1.78%	0.00%	0.37%	1.13%
Value Score	C	-	-	B	B	A
Cash/Price	0.01	0.15	0.04	0.01	0.08	0.03
EV/EBITDA	8.30	7.78	13.97	7.13	10.08	8.53
PEG Ratio	1.35	1.97	2.06	1.97	NA	NA
Price/Book (P/B)	2.70	1.54	3.24	1.58	2.46	2.26
Price/Cash Flow (P/CF)	8.50	6.87	13.65	4.73	13.55	5.08
P/E (F1)	10.77	11.02	19.12	15.72	14.56	6.79
Price/Sales (P/S)	0.61	0.41	2.67	0.41	0.54	0.59
Earnings Yield	9.33%	9.08%	5.23%	6.36%	6.86%	14.74%
Debt/Equity	0.82	0.59	0.70	1.15	0.22	2.30
Cash Flow (\$/share)	7.00	3.01	6.94	9.30	6.39	2.12
Growth Score	B	-	-	F	B	A
Hist. EPS Growth (3-5 yrs)	48.50%	22.86%	10.85%	2.12%	20.77%	163.31%
Proj. EPS Growth (F1/F0)	7.26%	12.91%	7.30%	12.91%	3.84%	17.78%
Curr. Cash Flow Growth	33.43%	25.59%	8.92%	NA	11.33%	44.26%
Hist. Cash Flow Growth (3-5 yrs)	13.39%	8.58%	8.36%	16.66%	10.97%	15.04%
Current Ratio	1.65	1.40	1.22	3.87	1.43	1.00
Debt/Capital	45.12%	38.81%	42.90%	53.52%	18.26%	69.66%
Net Margin	4.37%	2.55%	11.81%	1.68%	3.51%	4.73%
Return on Equity	24.39%	13.81%	16.98%	9.87%	17.11%	23.52%
Sales/Assets	1.56	1.39	0.54	1.48	2.08	0.87
Proj. Sales Growth (F1/F0)	10.12%	6.55%	3.90%	4.15%	6.55%	13.86%
Momentum Score	A	-	-	F	C	B
Daily Price Chg	5.11%	0.00%	0.65%	4.56%	0.08%	2.37%
1 Week Price Chg	-1.54%	0.84%	2.47%	4.55%	2.77%	-1.93%
4 Week Price Chg	-6.06%	-0.46%	1.35%	-0.92%	0.92%	-7.14%
12 Week Price Chg	-16.20%	-0.67%	5.63%	-10.35%	-3.80%	-1.10%
52 Week Price Chg	38.89%	0.00%	16.19%	-28.64%	30.23%	4.96%
20 Day Average Volume	630,336	79,056	1,995,746	360,654	267,976	130,588
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.73%	0.00%	0.00%	-0.77%	0.11%	0.00%
(F1) EPS Est 12 week change	0.05%	0.00%	-0.19%	-11.26%	0.11%	1.27%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
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.

Disclosures

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