

MasTec, Inc. (MTZ)

\$28.50 (As of 03/13/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

MasTec reported better-than-expected fourth-quarter 2019 earnings on the back of solid Power Generation & Industrial segment. Earnings surpassed the Zacks Consensus Estimate for 16 consecutive quarters. The metric grew 21.5% year over year in the quarter and 38.2% in 2019. Notably, the power segment revenues increased a notable \$700 million from 2017 till 2019. Strong backlog and prospects across segments have been driving MasTec's performance. The year 2020 is expected to shape up well, with strong backlog and accelerating growth potential, especially across communications, transmission, and power generation segments. However, ramp-up costs due to wireless and wireline fiber initiatives, and volatility in the Oil & Gas segment are pressing concerns.

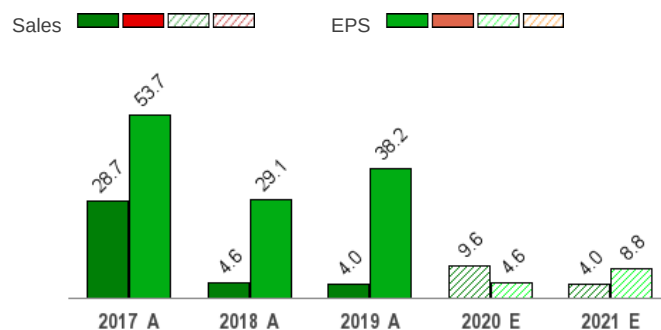
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$73.71 - \$25.01
20 Day Average Volume (sh)	1,564,316
Market Cap	\$2.2 B
YTD Price Change	-55.6%
Beta	1.29
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Heavy Construction
Zacks Industry Rank	Bottom 13% (220 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	5.5
P/E F1	5.2
PEG F1	0.7
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,520 E	2,039 E	2,131 E	1,979 E	8,194 E
2020	1,326 E	1,878 E	2,380 E	2,249 E	7,876 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	\$0.54 E	\$1.25 E	\$1.79 E	\$1.30 E	\$5.93 E
2020	\$0.47 E	\$1.13 E	\$2.04 E	\$1.77 E	\$5.45 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 03/13/2020. The reports text is as of 03/16/2020.

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 –

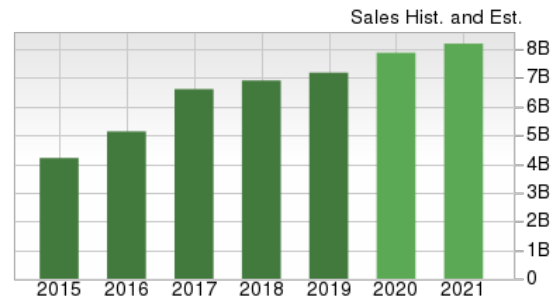
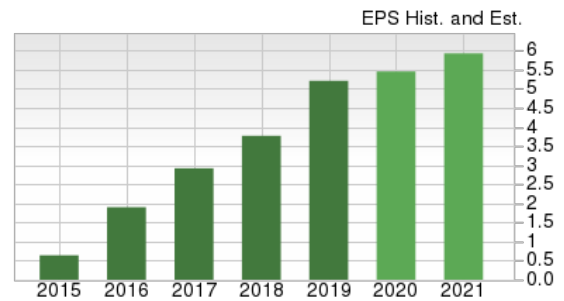
Communications (accounting for 36.5% of total 2019 revenues): The segment performs engineering, construction and maintenance of communications infrastructure mainly related to wireless and wireline communications and install-to-the-home.

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 & Strong Prospects:** As of Dec 31, 2019, the company achieved 18-month backlog of \$8 billion, up 3.9% from \$7.7 billion recorded in 2018. This backlog marks the highest year-end level in MasTec's history, and depicts strong demand in end-markets served in 2020 and beyond. MasTec is poised to gain from significant amounts of project awards across multiple segments. It expects solid revenue growth for all its segments in 2020, and projects the Oil & Gas segment to register double-digit revenue improvement. The company expects margin improvements in Communications, Electric Transmission and Power Generation, while a decrease in Oil & Gas margins related to project mix.

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. Although uncertainty surrounding the outcome of the pending T-Mobile/Sprint merger resulted in lower activity levels in fourth-quarter 2019, which will continue in first-half 2020, the company expects activity levels to significantly increase in second-half 2020.

For Oil & Gas, MasTec will witness strong broad-based performance across its midstream projects, integrity work, utility main replacements and facility construction. The Electric Transmission business is anticipated to witness double-digit revenue growth in 2020, with continued margin expansion. Catalysts driving the business include shift to clean energy, grid enhancements, and general spending around replacing and strengthening aging infrastructure. The Power Generation business will continue to benefit from wind, solar, power generation and civil markets, and expects long-term growth opportunities.

▲ **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.

▲ **Driving Shareholder Value:** During 2019, share repurchases — which were completed under the company's \$150-million share repurchase program in September 2018 — totaled \$0.6 million. The company now has \$128.8 million shares remaining in the stock repurchase authorization, including \$28.8 million under its September 2018 share repurchase program and the full amount of \$100 million under its December 2018 share repurchase program. 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.

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 Oil & Gas to have witnessed a slower start in 2020 compared with 2019, as it has fewer winter projects and most of the projects are starting in spring. For example, its four major projects are set to start toward the end of the first quarter, five in the second quarter, and another couple of projects in early third quarter. 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. 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 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. The segment's adjusted EBITDA margin contracted 570 bps, 380 bps, 290 bps and 120 bps in the first, second, third and fourth quarters of 2019, respectively.
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Last Earnings Report

MasTec (MTZ) Q4 Earnings Top, Revenues Lag, 2020 View Strong

Quarter Ending **12/2019**

MasTec, Inc. reported better-than-expected earnings in fourth-quarter 2019 on the back of solid Power Generation & Industrial segment. The segment's revenues have increased a notable \$700 million since 2017.

MasTec's adjusted earnings per share of \$1.30 surpassed the Zacks Consensus Estimate of \$1.26 by 3.2% and exceeded the company's expectation by 4%. Also, the metric grew 21.5% on a year-over-year basis.

Report Date	Feb 27, 2020
Sales Surprise	-2.02%
EPS Surprise	3.17%
Quarterly EPS	1.30
Annual EPS (TTM)	5.21

However, revenues of \$1.71 billion missed the consensus mark of \$1.75 billion by 2% and declined 10.5% year over year. Notably, the said figure was in line with MasTec's expectation. On third-quarter 2019 earnings call, the company noted that fourth-quarter and 2019 revenues will reflect the absence of a large project in the Oil & Gas business.

At the end of 2019, the company reported 18-month backlog of \$8 billion, up 3.9% from \$7.7 billion recorded last year.

Segment Update

Revenues from Communications grew 3.8% year over year to \$673.9 million. Adjusted EBITDA margin, however, contracted 120 basis points (bps) to 8%.

Electrical Transmission segment's revenues came in at \$115.6 million, up 15.9% from the year-ago quarter. Adjusted EBITDA margin came in at 8%, up 240 bps from the year-ago period.

Power Generation and Industrial's revenues surged a notable 50.2% year over year to \$333 million. Adjusted EBITDA margin also rose 40 bps from the prior-year quarter to 7.7%.

Revenues from the Oil and Gas segment fell 38.1% from a year ago to \$586.7 million. Nonetheless, adjusted EBITDA margin improved an impressive 820 bps to 23%.

Operational Update

General and administrative expenses increased 4.2% from the prior-year quarter to \$78.9 million. The company reported adjusted EBITDA of \$210.2 million, up 7.4% from the prior-year period. Adjusted EBITDA margin also surged 210 bps to 12.3%.

Financial Details

As of Dec 31, 2019, MasTec had cash and cash equivalents of \$2.174 billion compared with \$2.169 billion at 2018-end. The company provided \$550.3 million of cash from operating activities in 2019 compared with \$530 million in 2018. Free cash flow in 2019 was \$458.8 million.

2019 Highlights

In 2019, adjusted earnings were \$5.21 per share, marking a 38.2% improvement from \$3.77 registered in 2018. Also, the said metric surpassed the consensus mark by 0.8%. Revenues totaled \$7.2 billion, reflecting 4.3% increase from a year ago. Adjusted EBITDA margin of 11.7% increased 130 bps year over year.

2020 Guidance

Backed by strong results in fourth-quarter 2019, solid backlog position, great visibility, healthy demand across segments and favorable market conditions, MasTec provided strong 2020 guidance. Also, it remains confident about 2021 and beyond, backed by end-market strength.

Revenues are expected to be \$8 billion in 2020. The consensus mark for the same stands at \$7.94 billion.

Adjusted EBITDA is projected to be \$900 million, indicating growth from \$843.2 million reported in 2019. Moreover, adjusted EBITDA margin is expected to be 11.3%. Adjusted earnings (excluding intangible asset amortization expense) are anticipated to be \$5.63 per share, suggesting an increase from \$5.44 in 2019.

First-Quarter 2020 View

MasTec expects revenues for first-quarter 2020 to be \$1.3 billion, indicating a decline from \$1.52 billion reported a year ago. Adjusted EBITDA is expected to be \$108 million, with margin forecast of 8.3%. This implies fall from the year-ago respective figures of \$140.1 million and 9.2%. Adjusted earnings per share (excluding intangible asset amortization expense) are anticipated to be 48 cents, indicating a decline of 22.6% from 62 cents reported in the comparable prior-year period.

Valuation

MasTec shares are down 56.9% in the year-to-date period and 42.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 43.6% and 24.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 41.1% and 8.1%, respectively.

The S&P 500 index is down 15.8% in the year-to-date period and 5.3% in the past year.

The stock is currently trading at 5.3X forward 12-month earnings, which compares to 7.06X for the Zacks sub-industry, 11.81X for the Zacks sector and 15.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.8X and as low as 4.88X, with a 5-year median of 13.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 5.4X 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	5.13	7.06	11.81	15.72
	5-Year High	23.8	18.31	18.86	19.34
	5-Year Low	4.88	10.37	10.71	15.18
	5-Year Median	13.4	14.78	15.93	17.42
P/S F12M	Current	0.27	0.2	1.43	2.9
	5-Year High	0.7	0.56	2.23	3.43
	5-Year Low	0.23	0.2	1.25	2.54
	5-Year Median	0.49	0.42	1.65	3
EV/EBITDA TTM	Current	4.68	4.74	16.7	10.05
	5-Year High	13.81	13.28	22.73	12.88
	5-Year Low	4.51	4.46	14.22	8.31
	5-Year Median	8.26	8.66	19.46	10.78

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)



Top Peers

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

Industry Comparison Industry: Building Products - Heavy Construction				Industry Peers		
	MTZ Neutral	X Industry	S&P 500	DY Neutral	EME Neutral	NOA Neutral
VGM Score	A	-	-	A	A	A
Market Cap	2.18 B	594.55 M	19.05 B	641.18 M	3.54 B	205.13 M
# of Analysts	7	2	13	6	3	2
Dividend Yield	0.00%	0.25%	2.31%	0.00%	0.51%	1.60%
Value Score	A	-	-	A	B	A
Cash/Price	0.02	0.13	0.05	0.07	0.08	0.02
EV/EBITDA	4.33	4.33	11.57	4.32	6.60	3.80
PEG Ratio	0.68	1.33	1.68	1.33	NA	NA
Price/Book (P/B)	1.21	1.18	2.56	0.74	1.72	1.52
Price/Cash Flow (P/CF)	3.47	3.51	10.18	2.26	8.46	1.86
P/E (F1)	5.41	7.00	14.94	10.63	10.56	4.89
Price/Sales (P/S)	0.30	0.24	2.02	0.19	0.39	0.38
Earnings Yield	19.12%	14.24%	6.67%	9.41%	9.47%	20.45%
Debt/Equity	0.82	0.68	0.70	1.02	0.24	2.00
Cash Flow (\$/share)	8.21	3.66	7.01	8.99	7.43	4.03
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	54.92%	23.20%	10.85%	-4.58%	21.45%	226.24%
Proj. EPS Growth (F1/F0)	4.69%	10.43%	5.99%	-15.86%	3.54%	35.40%
Curr. Cash Flow Growth	13.89%	13.52%	6.15%	-2.35%	13.47%	92.49%
Hist. Cash Flow Growth (3-5 yrs)	17.50%	8.58%	8.52%	9.31%	11.55%	20.79%
Current Ratio	1.78	1.37	1.24	3.90	1.37	0.75
Debt/Capital	45.04%	40.40%	42.57%	50.55%	19.52%	66.68%
Net Margin	5.46%	3.54%	11.64%	1.71%	3.54%	5.12%
Return on Equity	23.93%	13.09%	16.74%	8.46%	16.80%	26.77%
Sales/Assets	1.47	1.40	0.54	1.46	2.03	0.92
Proj. Sales Growth (F1/F0)	9.65%	4.06%	3.54%	1.01%	5.33%	9.03%
Momentum Score	D	-	-	F	C	F
Daily Price Chg	6.86%	4.31%	8.21%	28.48%	14.40%	4.62%
1 Week Price Chg	-5.54%	-2.49%	-0.67%	-19.93%	0.04%	-9.12%
4 Week Price Chg	-53.09%	-29.98%	-22.67%	-53.60%	-28.34%	-32.06%
12 Week Price Chg	-55.16%	-33.86%	-20.46%	-57.66%	-28.06%	-37.51%
52 Week Price Chg	-39.63%	-39.92%	-10.79%	-58.66%	-12.91%	-40.21%
20 Day Average Volume	1,564,316	117,766	3,061,271	1,079,502	490,279	261,545
(F1) EPS Est 1 week change	-2.58%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.76%	-2.76%	-0.32%	-31.75%	0.17%	-3.77%
(F1) EPS Est 12 week change	-3.48%	-2.55%	-0.65%	-31.99%	0.28%	-2.55%
(Q1) EPS Est Mthly Chg	-35.59%	-2.13%	-0.62%	-106.67%	3.20%	-4.26%

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	D
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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