

Vulcan Materials (VMC)

\$108.07 (As of 03/31/20)

Price Target (6-12 Months): **\$113.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/20/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

Vulcan Materials have outperformed its industry in the past year. The outperformance is primarily attributed to strong aggregate shipments and pricing, underpinned by solid public demand and operational discipline. The trend is expected to continue in the near term, given impressive 2019 results (led by 8% growth in industry-leading unit profitability and double-digit improvement in adjusted EBITDA) and strong 2020 prospects led by growing public construction demand and resurgence in demand on the private side, particularly residential. However, higher repair/maintenance costs, more mix of remote customers (greater rail usage) and lower tipping fees on clean fill are weighing on profitability over the past few quarters. Estimates for 2020 have moved downward in the past 30 days, depicting analysts' concern over its earnings prospects.

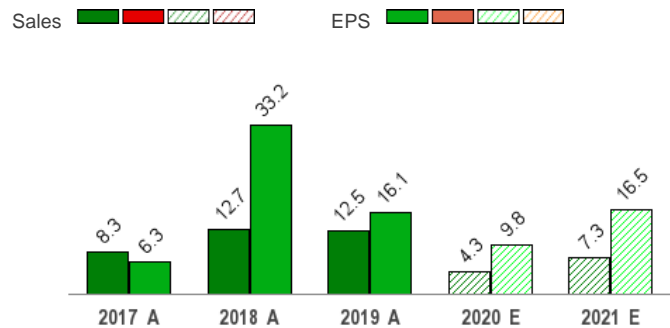
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$152.49 - \$65.56
20 Day Average Volume (sh)	1,997,285
Market Cap	\$14.3 B
YTD Price Change	-25.0%
Beta	0.93
Dividend / Div Yld	\$1.36 / 1.3%
Industry	Building Products - Concrete and Aggregates
Zacks Industry Rank	Top 34% (87 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.6%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-7.9%
Expected Report Date	05/07/2020
Earnings ESP	-16.2%
P/E TTM	23.0
P/E F1	20.9
PEG F1	1.2
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,053 E	1,480 E	1,575 E	1,346 E	5,514 E
2020	996 E	1,384 E	1,455 E	1,239 E	5,141 E
2019	997 A	1,328 A	1,419 A	1,186 A	4,929 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$1.88 E	\$2.12 E	\$1.40 E	\$6.01 E
2020	\$0.48 E	\$1.63 E	\$1.85 E	\$1.23 E	\$5.16 E
2019	\$0.46 A	\$1.48 A	\$1.68 A	\$1.08 A	\$4.70 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 03/31/2020. The reports text is as of 04/01/2020.

Overview

Based in Birmingham, AL, **Vulcan Materials Company** is engaged in the production, distribution and sale of construction aggregates and other construction materials in the U.S. and Mexico. The company has four operating segments going by the principal product lines: Aggregates, Concrete, Asphalt mix and Calcium.

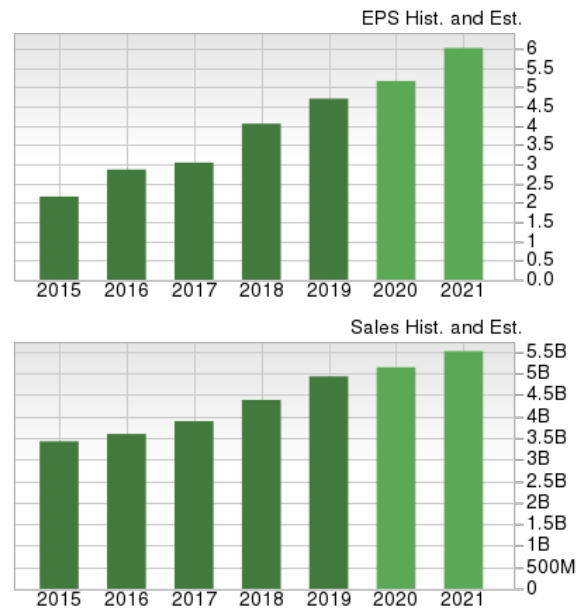
Aggregates (81% of 2019 total revenues): The segment produces and sells aggregates like crushed stone, sand and gravel and other aggregates. The segment serves markets in 20 U.S. states, Washington D.C., the Bahamas and Mexico. The end uses of Vulcan's aggregates include public construction (such as bridges, highways, airports, schools and prisons) as well as private residential (single-family houses, duplexes, apartment buildings and condominiums) and private non-residential (manufacturing, retail, offices, industrial and institutional) construction.

Concrete (8%): The Concrete segment deals with the production and sale of ready-mix concrete in six U.S. states, Washington D.C. and the Bahamas. This segment functions as a customer of the Aggregates segment as aggregates are a major component in ready-mix concrete. In Mar 2014, the company sold its concrete business in the Florida area.

Asphalt Mix (17.4%): The Asphalt Mix segment produces and sells asphalt mix in mid-Atlantic, Georgia, Southwestern and Western markets. In Jan 2015, Vulcan Materials swapped some of its ready-mix concrete operations for CEMEX's 13 asphalt plants, primarily in Arizona.

Calcium (0.2%): Vulcan Materials exited the Cement business with the sale of the Florida facilities in Mar 2014. The company, however, retained the calcium operation at the Brooksville, FL facility and renamed the segment as Calcium. The Florida calcium facility mines, produces and sells calcium products.

Notably, aggregates inter-segment sales accounted for 6.6% of its total revenues in 2019.



Reasons To Buy:

▲ **Rising Construction Activity in Public & Residential Sectors:** Shares of Vulcan Materials have outperformed its industry in the past year. The trend is expected to continue, post its solid performance in 2019 and strong 2020 prospects, given increasing public construction demand and a resurgence in demand on the private side, particularly residential. Vulcan Materials has been witnessing strong aggregate shipments and pricing, underpinned by growing public demand and operational discipline. Vulcan-served markets should continue to benefit from public construction demand, primarily led by significantly higher levels of highway funding in key states. Public sector construction includes spending by federal, state and local governments for construction of highways, bridges, airports, dams, roads and other infrastructure construction. Publicly-funded construction accounts for significant part (approximately 45-55%) of Vulcan Materials' total aggregate shipments. Generally, public sector spending is much more stable than the private because the public construction projects are less affected by general economic cycles.

Strong public and private construction activity along with its strong aggregate reserve position, pricing power, bolt-on acquisitions and significant debt reduction are encouraging.

Importantly, Trump's impetus to fix America's infrastructure has been spurring massive infrastructure investments in roads, highways, ports and airports. The plan will also address issues related to drinking and waste water system, energy and rural infrastructure, and veterans' hospitals, to name a few. This will further propel demand for products sold by companies like Vulcan Materials.

The multi-year highway bill — five-year, \$305 billion FAST Act — enacted in Dec 2015 increased the funding certainty for state transportation and highway programs. This, coupled with state/local municipal level initiatives to finance infrastructure projects, should propel increased construction of highways, streets, roads, and bridges in the near term, thereby increasing aggregates demand.

Meanwhile, private consumer demand in Vulcan Materials-served markets has also been recovering steadily. Underlying demand fundamentals — including population and employment growth — remain firmly in place and underpin the company's expectations of growth in private, residential and non-residential construction. This visibility of demand growth has set the stage for solid price improvement in 2020.

▲ **Four Strategic Initiatives:** The company remains focused on creating long-term value by compounding unit margins through four strategic initiatives — Commercial Excellence, Operational Excellence, Strategic Sourcing and Logistics Innovation — that enhance price growth and operating efficiencies. Higher price realizations and its four strategic initiatives should continue to increase unit profitability. Improvements in pricing helped the company to achieve 8% growth in industry-leading unit profitability and double-digit improvement in adjusted EBITDA (up 12.2%) in 2019. This reflects its strong performance despite higher-than-expected costs incurred in the fourth quarter of 2019.

Overall, during 2019, the company managed to increase revenues (12.5%), adjusted EBITDA (up 12.2%) and adjusted earnings (up 16%), while decreasing overhead expenses as a percentage of total revenues (down 10 basis points in SAG).

▲ **Expansion Via Acquisitions:** Since becoming a public company in 1956, Vulcan Materials followed a systematic inorganic strategy for expansion and has wrapped up various bolt-on acquisitions that had contributed significantly to its growth. Although the company made no buyouts through 2019, Vulcan Materials had completed four acquisitions — totaling \$221 million — in 2018. These buyouts complement its existing positions, as well as expand foothold in Alabama, California, and Texas markets.

In 2020, Vulcan Materials expects to spend approximately \$200 million for internal growth projects that are already underway. These projects include the opening of a new quarry in California, capacity expansion at other quarries, and improvements in its logistics and distribution network, and sales yards.

▲ **Enhancing Shareholders' Return:** Vulcan Materials has been actively managing cash flows, returning considerable free cash to investors through share repurchases and dividends. In 2019, the company returned \$167 million to its shareholders through dividends and share buybacks. In February 2020, Vulcan Materials announced a hike in dividend payout, maintaining its long-standing commitment of increasing stockholder returns. The board of directors approved a 9.7% hike in quarterly cash dividend to 34 cents per share (\$1.36 annually) from 31 cents (\$1.24 annually). This new dividend will be paid on Mar 10, 2020 to its shareholders of record as of Feb 26, 2020.

Reasons To Sell:

- ▼ **Higher Repair & Maintenance Costs:** Fourth-quarter 2019 profitability was negatively impacted by higher repair and maintenance costs, geographic volume mix including higher sales volumes in rail-served remote markets, as well as lower tipping fees for clean fill. In fact, Concrete segment gross profit was \$7 million in fourth-quarter 2019, down \$5 million from the prior year, mainly due to project delays, and higher repair and maintenance costs.

Rising costs and seasonal influences on construction activity, including weather, could weigh on the company's performance.

Meanwhile, the company uses large amounts of electricity, diesel fuel, liquid asphalt and other petroleum-based resources, subject to potential supply constraints and significant price fluctuation, which could affect operating results and profitability. The availability and pricing of these resources are subject to market forces. Variability in the supply and prices of these resources could affect the company's operating costs and the rising costs could erode profitability. In 2019, the unit cost of liquid asphalt grew 6% from a year ago.

- ▼ **Weather Woes:** Vulcan Materials is susceptible to bad weather conditions, including hurricanes, tornadoes and other weather events, as most of its products are used outdoors in the public or private construction industry. Also, the company's production and distribution facilities are located outdoors. Inclement weather affects both the company's ability to produce and distribute products and affects demand as construction work can be hampered by weather.

Inclement weather impacted the company's first-half 2019 performance to some extent. Wet weather delayed shipments across Illinois, Tennessee and Texas regions during the second quarter of 2019.

- ▼ **Uncertainty in Aggregates Demand in Public Construction:** Though Vulcan Materials has been witnessing a sharp increase in aggregates shipments due to growing demand in the public and private construction markets, the dependency on the timing of and amount of federal and local funding for infrastructure work for its business is a cause of concern. Vulcan Materials' products are used in a variety of public infrastructure projects that are funded and financed by federal, state and local governments. Notably, public construction activities were disappointing in 2017. In 2016, the company also witnessed a lull in large project activity in parts of California, Texas and Illinois.
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Last Earnings Report

Vulcan Materials Q4 Earnings Miss Estimates, Up Y/Y

Vulcan Materials Company reported fourth-quarter 2019 results, wherein earnings missed the Zacks Consensus Estimate but revenues almost met the same.

Earnings and revenues improved on a year-over-year basis, given solid shipment growth and strong pricing in the aggregates business. Also, robust growth in public construction demand and continued improvement in private demand added to the positives.

Vulcan Materials — which is one of the largest producers of construction aggregates — reported adjusted earnings of \$1.08 per share, lagging the consensus mark of \$1.12 by 3.6%. However, the company's bottom line improved 9.1% from the year-ago level.

Total revenues of \$1,186.2 million almost matched the consensus mark of \$1,191 million and increased 9% year over year.

Segments in Detail

Aggregates

Revenues from the segment increased 9.9% year over year to \$960.2 million owing to higher shipments and pricing. During the quarter, freight-adjusted average sales price increased 5.5% (4.8% on mix-adjusted basis) from the prior-year quarter. Freight-adjusted revenues also rose 9.6% from the prior-year quarter to \$720.6 million.

Aggregate shipments (volumes) were up 4% year over year, reflecting strong shipment growth in Southeast and Southwest markets, including double-digit improvement in Florida and along the Gulf Coast.

Gross profit of \$274.5 million was up 7.1% year over year. However, gross margin — as a percentage of segment sales — contracted 70 basis points (bps) to 28.6%. Profitability was negatively impacted by higher repair and maintenance costs, geographic volume mix including higher sales volumes in rail-served remote markets, as well as lower tipping fees for clean fill.

Asphalt, Concrete and Calcium

Revenues from the Asphalt Mix segment were \$206.3 million, up 11% year over year. The segment recorded gross profit of \$11.1 million, which grew 67.1% from a year ago. Asphalt mix selling prices increased 3% and shipments grew 10% from the prior-year quarter. The company's largest asphalt market — California — reported volume growth in the fourth quarter, after a soft first half of 2019 due in part to weather. The average unit cost for liquid asphalt was 12% lower than the prior-year quarter. Total revenues from the Concrete segment were \$95.3 million, up 2.9% year over year. Moreover, gross profit totaled \$6.6 million, down 43.5% year over year. Same-store shipments were up 1% year over year and average selling prices grew 2%. Project delays and higher repair and maintenance costs resulted in the year-over-year decline in gross profit. Total revenues from the Calcium segment were up 7.3% from the prior-year figure to \$2.1 million. The segment reported gross profit of \$0.8 million, up 69.7% from the prior-year quarter.

Operating Highlights

Selling, Administrative and General or SAG expenses were \$96 million, increasing 14.3% year over year due to compensation-related expense as well as higher professional fees. As a percentage of revenues, the metric increased 30 bps year over year. Also, adjusted EBITDA was up 4.5% year over year to \$298.5 million, driven by strong shipments and pricing.

Financials

As of Dec 31, 2019, cash and cash equivalents were \$271.6 million, up from \$40 million at the end of 2018. In 2019, Vulcan Materials returned \$167 million to its shareholders through dividends and share repurchases. At the end of 2019, total debt — which amounted to \$2.8 billion — was 2.2 times of its trailing 12-month adjusted EBITDA.

2019 Highlights

Adjusted earnings came in at \$4.70 per share, up 16% from the 2018 level. Total revenues of \$4,929.1 million grew 12.5% from the 2018 level. Adjusted EBITDA increased 12% from a year ago to \$1.27 billion.

2020 Guidance

Vulcan Materials expects double-digit earnings growth in 2020. Its earnings from continuing operations for the full year are expected within \$5.20-\$5.80 and adjusted EBITDA is projected in the range of \$1.385-\$1.485 billion. It expects aggregates shipments to register 2-4% growth from a year ago. Freight-adjusted price is expected to increase 4-6% for aggregates. The company expects aggregate gross profit in Asphalt, Concrete and Calcium to increase 10-15% year over year. It expects SAG expenses of \$365 million; interest expense to be \$125 million; depreciation, depletion, accretion and amortization expense of \$385 million; and an effective tax rate of 20%.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-0.39%
EPS Surprise	-3.57%
Quarterly EPS	1.08
Annual EPS (TTM)	4.70

Valuation

Vulcan Materials' shares are down 25% in the year-to-date period and 10.3% in the and trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 32% and 31.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 20.3% and 18.9%, respectively.

The S&P 500 index is down 18.5% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 18.8X forward 12-month earnings, which compares to 14.83X for the Zacks sub-industry, 11.22X for the Zacks sector and 16.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.5X and as low as 13.41X, with a 5-year median of 26.71X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$113 price target reflects 19.65X forward 12-month earnings.

The table below shows summary valuation data for VMC

Valuation Multiples - VMC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.8	14.83	11.22	16.12
	5-Year High	44.5	35.99	18.55	19.34
	5-Year Low	13.41	12.88	10.71	15.18
	5-Year Median	26.71	20.3	15.92	17.44
P/S F12M	Current	2.67	1.65	1.32	2.85
	5-Year High	4.62	2.66	2.23	3.43
	5-Year Low	1.9	1.52	1.25	2.54
	5-Year Median	3.56	2.11	1.65	3
EV/EBITDA TTM	Current	13.67	16.04	15.42	9.72
	5-Year High	28	23.32	22.73	12.88
	5-Year Low	10.36	13.35	13.17	8.27
	5-Year Median	18.79	18.13	19.43	10.78

As of 03/31/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 254)



Top Peers

NCI Building Systems, Inc. (CNR)	Outperform
FORTERRA INC (FRTA)	Outperform
Cementos Pacasmayo S.A.A. (CPAC)	Neutral
Eagle Materials Inc (EXP)	Neutral
Martin Marietta Materials, Inc. (MLM)	Neutral
Summit Materials, Inc. (SUM)	Neutral
U S Concrete, Inc. (USCR)	Underperform
China Resources Cement Holdings Ltd. Unsponsored ADR (CARCY)	NA

Industry Comparison Industry: Building Products - Concrete And Aggregates				Industry Peers		
	VMC Neutral	X Industry	S&P 500	EXP Neutral	MLM Neutral	SUM Neutral
VGM Score	C	-	-	A	C	B
Market Cap	14.33 B	1.70 B	17.97 B	2.43 B	11.77 B	1.70 B
# of Analysts	6	2	13	3	6	5
Dividend Yield	1.26%	0.34%	2.37%	0.68%	1.16%	0.00%
Value Score	D	-	-	C	D	B
Cash/Price	0.02	0.15	0.06	0.06	0.00	0.24
EV/EBITDA	13.64	7.63	10.93	14.26	11.70	7.82
PEG Ratio	1.21	1.72	1.74	NA	2.11	NA
Price/Book (P/B)	2.54	1.20	2.39	2.71	2.21	1.18
Price/Cash Flow (P/CF)	14.29	5.38	9.48	7.46	12.03	5.12
P/E (F1)	21.20	8.67	14.84	10.99	17.90	24.51
Price/Sales (P/S)	2.91	0.77	1.91	1.71	2.48	0.77
Earnings Yield	4.77%	11.54%	6.65%	9.11%	5.59%	4.07%
Debt/Equity	0.56	0.83	0.70	1.09	0.54	1.30
Cash Flow (\$/share)	7.56	2.61	7.01	7.83	15.73	2.93
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	27.18%	9.68%	10.89%	9.68%	20.03%	-32.51%
Proj. EPS Growth (F1/F0)	9.75%	7.29%	1.29%	0.00%	8.55%	-34.89%
Curr. Cash Flow Growth	12.71%	13.86%	6.03%	12.70%	15.01%	46.64%
Hist. Cash Flow Growth (3-5 yrs)	19.87%	15.48%	8.55%	13.09%	17.98%	27.62%
Current Ratio	2.58	2.05	1.24	3.11	1.70	2.66
Debt/Capital	36.07%	45.12%	42.36%	52.27%	34.88%	56.50%
Net Margin	12.53%	2.69%	11.64%	-9.11%	12.91%	2.69%
Return on Equity	11.55%	8.82%	16.74%	21.81%	11.81%	8.01%
Sales/Assets	0.47	0.61	0.54	0.64	0.47	0.55
Proj. Sales Growth (F1/F0)	4.30%	0.32%	1.61%	0.00%	4.89%	4.30%
Momentum Score	F	-	-	A	D	F
Daily Price Chg	6.10%	1.70%	-2.05%	7.13%	5.41%	20.10%
1 Week Price Chg	17.20%	12.63%	12.32%	16.11%	17.97%	32.31%
4 Week Price Chg	-15.62%	-24.56%	-18.09%	-28.36%	-20.80%	-23.31%
12 Week Price Chg	-22.95%	-32.63%	-24.90%	-35.42%	-31.44%	-36.09%
52 Week Price Chg	-10.37%	-24.55%	-18.55%	-30.03%	-7.89%	-7.64%
20 Day Average Volume	1,997,285	80,334	4,222,189	571,956	1,070,511	1,828,300
(F1) EPS Est 1 week change	-3.85%	0.00%	-0.18%	0.00%	-2.48%	-13.31%
(F1) EPS Est 4 week change	-7.86%	-0.26%	-3.16%	-0.26%	-7.03%	-26.12%
(F1) EPS Est 12 week change	-9.59%	-2.07%	-4.36%	-2.07%	-9.23%	-31.87%
(Q1) EPS Est Mthly Chg	-4.98%	-7.49%	-2.63%	-1.54%	-10.92%	-1.42%

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	A
Momentum Score	F
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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