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Jun 05, 2020

Vulcan Materials (VMC)

$120.64 (As of 06/04/20)

Price Target (6-12 Months): **$127.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/17/18) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D | Momentum: B	

Summary

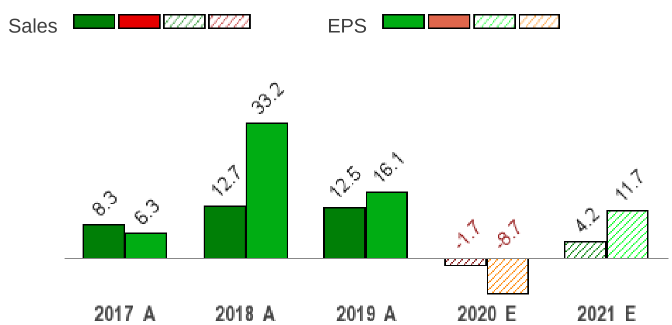
Vulcan reported impressive results for first-quarter 2020. Both the top and bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year on the back of solid segmental performance, despite wet weather in certain key markets in Southeast and Southwest. Solid public demand, operational discipline and enhanced liquidity bode well for Vulcan. Again, resilient public construction activity, given highway projects, is expected to drive growth. Vulcan has outperformed the industry in the past year. However, owing to uncertainty in aggregates demand caused by COVID-19, the company withdrew its previously announced financial guidance for 2020. Although it has been witnessing healthy bookings in public construction, Vulcan has experienced project delays and cancellations on the private construction side.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$152.49 - $65.56**
20 Day Average Volume (sh)	**1,482,598**
Market Cap	**$16.0 B**
YTD Price Change	**-16.2%**
Beta	**0.82**
Dividend / Div Yld	**$1.36 / 1.1%**
Industry	**Building Products - Concrete and Aggregates**
Zacks Industry Rank	**Bottom 19% (206 out of 253)**
Last EPS Surprise	**14.6%**
Last Sales Surprise	**4.1%**
EPS F1 Est- 4 week change	**-4.6%**
Expected Report Date	**07/23/2020**
Earnings ESP	**0.0%**
P/E TTM	**25.6**
P/E F1	**28.1**
PEG F1	**1.6**
P/S TTM	**3.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,045 E	1,340 E	1,448 E	1,225 E	5,051 E
2020	1,049 A	1,279 E	1,363 E	1,157 E	4,847 E
2019	997 A	1,328 A	1,419 A	1,186 A	4,929 A

EPS Estimates

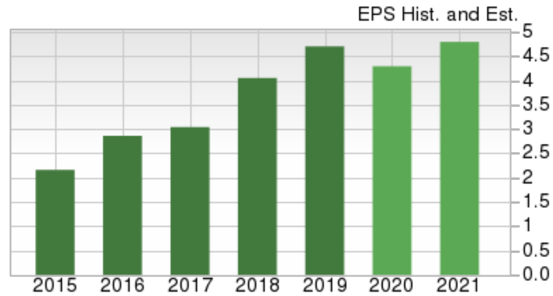
	Q1	Q2	Q3	Q4	Annual*
2021	$0.49 E	$1.58 E	$1.80 E	$1.08 E	$4.79 E
2020	$0.47 A	$1.30 E	$1.56 E	$1.01 E	$4.29 E
2019	$0.46 A	$1.48 A	$1.68 A	$1.08 A	$4.70 A

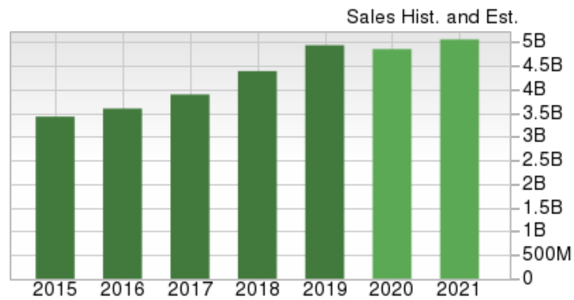
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/04/2020. The reports text is as of 06/05/2020.

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:

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

▲ **Rising Construction Activity in Public & Residential Sectors:** Shares of Vulcan 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. Even projects that were paused at the onset of the coronavirus pandemic have started executing on their backlog of projects.

Vulcan 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' 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.

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 my companies like Vulcan.

The FAST Act increases the Federal-Aid Highway Program's funding from $41 billion in the federal fiscal year (FFY) 2015 to $47 billion in FFY 2020. In addition, the Bipartisan Budget Act of 2018 had added approximately $2 billion per year to base highway programs in 2018 and 2019. The multi-year highway bill — five-year 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-served markets has also been recovering steadily. In 2019, privately-funded construction accounted for approximately 56% of total aggregate shipments.

▲ **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).

The company believes that these four strategic disciplines implemented over the last few years will help the business to combat COVID-19 impacts in the future.

▲ **Expansion Via Acquisitions:** Since becoming a public company in 1956, Vulcan 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 first-quarter 2020, Vulcan completed two acquisitions — one aggregate operation in Tennessee and another ready-mixed concrete operation in Virginia — in the said period. Notably, Vulcan 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.

Prior to the coronavirus outbreak, Vulcan had expected to spend approximately $200 million for internal growth projects that are already underway in 2020. Of late, it has reduced some of the capex that it had planned to spend on internal growth projects. 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. In first-quarter 2020, the company invested $45.8 million in internal growth projects to enhance distribution capabilities, develop new production sites, and enhance existing production facilities and other growth opportunities.

▲ **Stable Balance Sheet & Enhancing Shareholders' Return:** Of late, Vulcan has bolstered its liquidity to manage the coronavirus pandemic. In April 2020, it enhanced its liquidity with the $750-million delayed term loan. Resultantly, its available liquidity is $1.6 billion, with no short-term obligations. The liquidity comprises the term loan, undrawn revolving credit facility ($750 million) and cash on hand ($120 million) as of first quarter-end. At first quarter-end, total long-term debt (including lease liabilities) of $3,185 million was slightly down from $3,172 million at 2019-end. Encouragingly, the company's times interest earned ratio stands at 6.9, better than 6.8 at 2019-end. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on current income.

Meanwhile, Vulcan has been actively managing cash flows, returning considerable free cash to investors through share repurchases and dividends. In first-quarter 2020, the company returned $45.1 million to shareholders through dividends, reflecting a 10% increase year over year. It also invested $26.1 million in share repurchases in the quarter. In 2019, the company returned $167 million to its shareholders through dividends and share buybacks. The company will take a disciplined approach to M&A, given the virus-induced uncertainty and pause of share repurchases on a temporary basis.

Reasons To Sell:

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

- **Coronavirus-Related Woes:** Although the company's shipments remained relatively strong in many of its markets amid the pandemic, it has acknowledged the fact that the timeline of projects may get altered. Because of uncertainty in aggregates demand caused by COVID-19, the company withdrew its previously announced financial guidance for 2020. Vulcan — which is one of the largest producers of construction aggregates — also reduced 2020 capital spending projection to $275-$325 million from $475 million expected earlier.

  Management has started witnessing project delays and cancellations on the private construction side, as customers are pushing out the construction of office buildings, dormitories, as well as residential subdivisions. This can be witnessed more prominently in areas that are heavily impacted by COVID-19, as customers' ability to complete projects depends largely on the withdrawal of shelter-in-place restrictions. Per management, for private construction, the Bay Area and Houston are the areas to watch out for.

- **Higher Repair & Maintenance Costs:** In first-quarter 2020, unit cost of sales increased 4% from the prior-year period. The company continues to be negatively impacted by higher repairs, maintenance and stripping. Wet weather inefficiencies also have an adverse impact on the cost profile in certain markets served.

  Also, 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.

  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 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.

  First-quarter 2020 aggregates shipments were down 1.3% (1.3% same-store) year over year. Many markets in the Southeast and Southwest were negatively impacted by wet weather.

- **Uncertainty in Aggregates Demand in Public Construction:** Though Vulcan 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's 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.

Last Earnings Report

Vulcan Materials (VMC) Beats on Q1 Earnings, Revokes '20 View

Quarter Ending	03/2020
Report Date	May 06, 2020
Sales Surprise	4.14%
EPS Surprise	14.63%
Quarterly EPS	0.47
Annual EPS (TTM)	4.71

Vulcan Materials Company reported impressive results for first-quarter 2020. Both the top and bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year on the back of solid segmental performance, despite wet weather in certain key markets in Southeast and Southwest.

Inside the Headlines

Adjusted earnings of 47 cents per share surpassed the consensus mark of 41 cents by 14.6%. Also, the company's bottom line improved 2.2% from the year-ago level.

Total revenues of $1,049.2 million topped the consensus mark of $1,008 million by 4.1% and increased 5.3% year over year.

Segments in Detail

Aggregates

Revenues from the segment increased 4% year over year to $868.2 million owing to higher shipments in certain key markets and pricing.

Aggregate shipments (volumes) were down 1% year over year. The decline in shipments in the quarter and wet weather in Southeast and Southwest regions were partially offset by growth in California, Florida, Illinois, and Virginia markets.

During the quarter, freight-adjusted average sales price increased 4.5% (4.8% on a mix-adjusted basis) from the prior-year quarter. Freight-adjusted revenues also rose 3.1% from the prior-year quarter to $648 million.

Gross profit of $194 million was up 5% year over year, backed by improvement in shipments in certain key markets and widespread growth in pricing. Gross margin — as a percentage of segment sales — improved 20 basis points (bps) to 22.4%. Higher repairs, maintenance and stripping costs, as well as wet weather in certain markets served were partially offset by modestly low unit cost of diesel fuel in the quarter.

Asphalt, Concrete and Calcium

Revenues from the Asphalt segment were $139.8 million, up 5.8% year over year. The segment recorded gross loss of $2 million, narrower than the year-ago loss of $3 million. Asphalt mix selling prices increased 5% and shipments grew 2% from the prior-year quarter. The company's largest asphalt market — California — reported solid volume growth, which offset the lower volumes in Texas. The average unit cost for liquid asphalt was 6% lower than the prior-year quarter.

Total revenues from the Concrete segment were $94.8 million, up 13.3% year over year. Moreover, gross profit totaled $9 million, up 8% year over year. Shipments were up 10% year over year, backed by growth in its two largest concrete markets — Northern Virginia and Northern California. Average selling prices grew 3% year over year.

Total revenues from the Calcium segment were up 3.8% from the prior-year figure to $2 million. The segment reported gross profit of $0.8 million, up 21.9% from the prior-year quarter.

Operating Highlights

Selling, Administrative and General or SAG expenses — as a percentage of total revenues — improved 90 bps to 8.2%. The improvement was mainly driven by cost-reduction initiatives and adjustments to stock-based compensation to reflect a lower share price. Adjusted EBIT grew 1.9% from the prior-year quarter to $105.5 million. Adjusted EBITDA was also up 9.3% year over year to $201 million.

Financials

As of Mar 31, 2020, cash and cash equivalents were $120 million, up from $30.8 million in the comparable year-ago period but down from $271.6 million at 2019-end. Long-term debt was 2.8 billion, slightly up from the year-ago quarter and 2019-end.

Trailing-12 month total debt-to-adjusted EBITDA was 2.2. Notably, its weighted average debt maturity is 14 years. Also, the effective weighted average interest rate was 4.2%.

At the end of the quarter, it entered into a $750-million 364-day delayed-draw term loan to enhance its liquidity position. On Mar 31, 2020, there were no borrowings outstanding under the existing $750-million revolving credit facility.

Vulcan returned $45 million to shareholders through dividends, up 10% from the prior-year quarter. Share repurchases were $26 million in the quarter.

Valuation

Vulcan Materials' shares are down 16.2% in the year-to-date period and 10.7% in the and trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Construction sector are down 21.2% and 7.4% in the year-to-date period, respectively. Over the past year, the Zacks subindustry is down 12.4% but sector is up 7.5%.

The S&P 500 index is down 3.6% in the year-to-date period but up 9.4% in the past year.

The stock is currently trading at 26.78X forward 12-month earnings, which compares to 27.35X for the Zacks sub-industry, 19.45X for the Zacks sector and 22.48X 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 26.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $127 price target reflects 28.2X 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	26.78	27.35	19.45	22.48
	5-Year High	44.5	32.04	19.45	22.48
	5-Year Low	13.41	12.88	10.75	15.23
	5-Year Median	26.42	20.3	15.87	17.49
P/S F12M	Current	3.24	2.08	1.89	3.5
	5-Year High	4.62	2.66	2.12	3.5
	5-Year Low	1.9	1.52	1.17	2.53
	5-Year Median	3.56	2.11	1.6	3.02
EV/EBITDA TTM	Current	14.9	16.25	17.47	11.51
	5-Year High	28	23.32	21.19	12.86
	5-Year Low	10.36	13.02	12.39	8.26
	5-Year Median	18.64	17.98	17.87	10.81

As of 06/04/2020

Industry Analysis **Zacks Industry Rank:** Bottom 19% (206 out of 253)

Top Peers

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

Industry Comparison Industry: Building Products - Concrete And Aggregates

	VMC	X Industry	S&P 500	EXP	MLM	SUM
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	D	-	-	A	C	C
Market Cap	15.98 B	2.49 B	22.58 B	3.06 B	13.16 B	1.91 B
# of Analysts	7	3	14	7	7	5
Dividend Yield	1.13%	0.00%	1.87%	0.54%	1.04%	0.00%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.14	0.06	0.04	0.04	0.11
EV/EBITDA	15.08	7.64	12.93	23.08	12.64	8.59
PEG Ratio	1.67	7.41	3.06	NA	11.69	NA
Price/Book (P/B)	2.86	1.36	3.09	3.17	2.48	1.37
Price/Cash Flow (P/CF)	15.95	6.03	12.17	8.77	13.44	5.73
P/E (F1)	29.26	18.88	22.17	15.18	23.49	37.12
Price/Sales (P/S)	3.21	0.85	2.41	2.11	2.77	0.85
Earnings Yield	3.56%	4.34%	4.27%	6.59%	4.26%	2.68%
Debt/Equity	0.57	0.71	0.76	1.67	0.58	1.34
Cash Flow ($/share)	7.56	2.71	7.01	8.39	15.73	2.93
Growth Score	D	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	22.74%	10.52%	10.87%	9.99%	18.74%	-26.31%
Proj. EPS Growth (F1/F0)	-8.69%	-20.94%	-10.79%	-12.95%	-7.57%	-51.91%
Curr. Cash Flow Growth	12.71%	15.68%	5.48%	-2.83%	15.01%	46.64%
Hist. Cash Flow Growth (3-5 yrs)	19.87%	15.48%	8.55%	5.82%	17.98%	27.62%
Current Ratio	2.68	2.21	1.29	4.00	1.70	2.41
Debt/Capital	36.29%	41.53%	44.75%	62.56%	36.55%	57.31%
Net Margin	12.34%	3.67%	10.59%	4.89%	12.51%	3.67%
Return on Equity	11.38%	7.80%	16.26%	24.46%	11.30%	7.89%
Sales/Assets	0.47	0.60	0.55	0.60	0.46	0.56
Proj. Sales Growth (F1/F0)	-1.67%	-0.53%	-2.61%	2.40%	-0.39%	-0.67%
Momentum Score	B	-	-	A	A	B
Daily Price Chg	1.95%	0.45%	-0.08%	1.41%	0.75%	2.38%
1 Week Price Chg	8.49%	4.98%	4.60%	1.38%	6.90%	9.05%
4 Week Price Chg	18.07%	17.70%	12.07%	30.28%	17.70%	26.55%
12 Week Price Chg	12.62%	20.50%	25.17%	37.56%	13.88%	35.98%
52 Week Price Chg	-10.68%	-10.68%	0.34%	-17.95%	-7.80%	9.74%
20 Day Average Volume	1,482,598	58,278	2,537,324	452,816	624,085	1,228,100
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.57%	0.71%	-0.08%	0.71%	1.32%	18.95%
(F1) EPS Est 12 week change	-22.84%	-40.81%	-16.19%	-22.30%	-20.53%	-45.21%
(Q1) EPS Est Mthly Chg	1.52%	3.11%	0.00%	4.70%	7.38%	72.00%

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	D
Growth Score	D
Momentum Score	B
VGM Score	D

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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