

## Vulcan Materials (VMC)

**\$141.78** (As of 01/21/20)

Price Target (6-12 Months): **\$149.00**

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

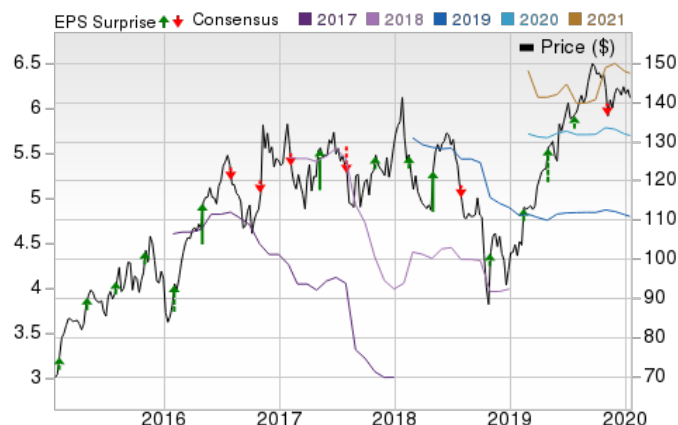
Growth: B

Momentum: D

### Summary

Shares of Vulcan Materials have outperformed its industry in the past year. The outperformance is primarily attributed to strong aggregate shipments and pricing, underpinned by growing public demand and operational discipline. Notably, the company is benefiting from strong public and private construction activities. Moreover, cost-saving initiatives along with operational disciplines have added to the upside. However, higher liquid asphalt costs and seasonal influences pose concerns. Also, the dependency on federal and local funding for infrastructure work raises concern. Moreover, its earnings estimates for 2020 have declined over the past seven days, depicting analysts' concern surrounding the company's earnings growth potential.

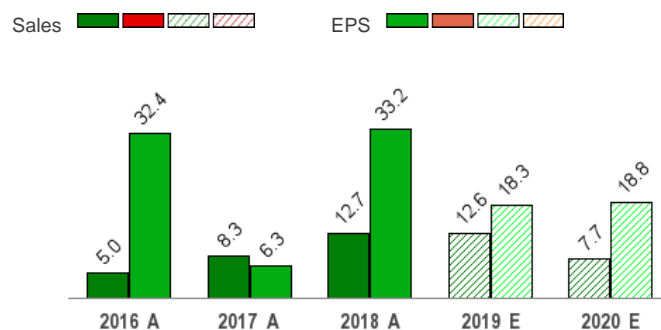
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$152.49 - \$97.45</b>
20 Day Average Volume (sh)	<b>682,754</b>
Market Cap	<b>\$18.8 B</b>
YTD Price Change	<b>-1.5%</b>
Beta	<b>0.88</b>
Dividend / Div Yld	<b>\$1.24 / 0.9%</b>
Industry	<b><u>Building Products - Concrete and Aggregates</u></b>
Zacks Industry Rank	<b>Top 46% (117 out of 255)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-1.2%</b>
Last Sales Surprise	<b>3.7%</b>
EPS F1 Est- 4 week change	<b>-0.3%</b>
Expected Report Date	<b>02/13/2020</b>
Earnings ESP	<b>-5.6%</b>

P/E TTM	<b>30.8</b>
P/E F1	<b>24.9</b>
PEG F1	<b>1.4</b>
P/S TTM	<b>3.9</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,065 E	1,432 E	1,522 E	1,284 E	5,312 E
2019	997 A	1,328 A	1,419 A	1,191 E	4,934 E
2018	854 A	1,200 A	1,240 A	1,088 A	4,383 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.56 E	\$1.72 E	\$1.94 E	\$1.32 E	\$5.69 E
2019	\$0.46 A	\$1.48 A	\$1.68 A	\$1.15 E	\$4.79 E
2018	\$0.44 A	\$1.23 A	\$1.40 A	\$0.99 A	\$4.05 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 01/21/2020. The reports text is as of 01/22/2020.

## 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.

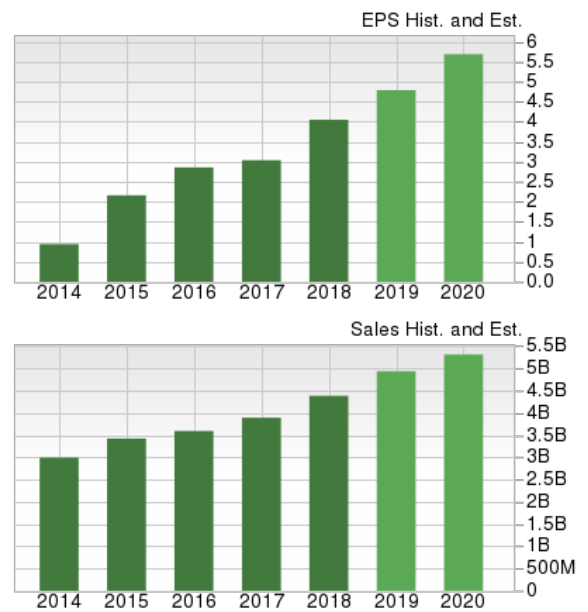
**Aggregates** (80.2% of 2018 total revenues): The segment produces and sells aggregates like crushed stone, sand and gravel and other aggregates. The segment serves markets in 20 U.S. states, Washington D.C., the Bahamas and Mexico. The end uses of Vulcan's aggregates include public construction (such 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** (9.2%): 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** (16.7%): 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 6.3% of its total revenues in 2018.



---

## Reasons To Buy:

▲ **Public Sector Construction Expected to Grow:** Shares of Vulcan Materials have outperformed its industry in the past year. The trend is expected to continue, post its solid performance through the first nine months of 2019. 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.

Large transportation projects and growth in contract work for highways have steadily increased demand for Vulcan Materials' products in the public construction market. As of 2018, Nine Vulcan Materials states that almost 80% of its revenues have passed infrastructure legislation over the past three years. These laws have raised funding by almost 60% from 2015 levels. The company is witnessing public construction demand while private consumer demand in Vulcan Materials-served markets has also been recovering steadily.

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 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.

▲ **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 the first nine months of 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.

▲ **Aggressive Cost Control:** The company focuses on reducing controllable costs and maximizing operating efficiency across the organization to generate higher earnings and cash flow. Strong local operating disciplines, production efficiency and a commitment to continuous improvement have led to considerable cost savings at Vulcan Materials. Moreover, the company's weighted average cost of capital has declined significantly since the recovery began, due to improving financial performance and credit position as well as the divestiture of cement and concrete assets.

During 2018, the company has managed to increase revenues (12.7%), earnings from continuing operations before taxes (up 72.5%), and adjusted EBITDA (up 15.3%), while decreasing overhead expenses as a percent of total revenues, despite higher diesel fuel and liquid asphalt costs. Vulcan Materials has managed to exhibit solid performances even when diesel costs increased 25% and that of liquid asphalt rose 32% in 2018. In 2018, gross profit in its Aggregates segment grew 16%, unit profitability advanced 6% and margins expanded, given solid growth in shipments, compounding pricing improvements and operating efficiencies.

In the first nine months of 2019, the company's revenues were up 13.6%, earnings from continuing operations before taxes grew 26.1% and adjusted EBITDA advanced 14.8% from the corresponding period last year.

▲ **Enhancing Shareholders' Return:** Vulcan Materials has been actively managing cash flows, returning considerable free cash to investors through share repurchases and dividends. In third-quarter 2019, the company returned \$41 million to its shareholders through dividends and share buybacks, reflecting an increase of 11% from the year-ago period. Notably, in 2018, the company returned \$282 million to shareholders (versus \$193 million in 2017) through dividends and share repurchases.

---

---

## Reasons To Sell:

▼ **Rising Costs:** 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.

Currently, the company is experiencing higher liquid asphalt costs. Third-quarter 2019 average unit cost of liquid asphalt was 6% higher than the prior-year period. As a result, asphalt material unit margins were slightly lower than the prior year. In the first and second quarters 2019, liquid asphalt costs increased 29% and 16% from the prior-year period, respectively. These headwinds might impact the company's profitability going forward.

▼ **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.

---

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

## Last Earnings Report

### Vulcan Materials' Q3 Earnings Miss Estimates, Revenues Beat

Vulcan Materials Company reported mixed third-quarter 2019 results, wherein earnings missed the Zacks Consensus Estimate but revenues beat 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 \$1.68 per share, lagging the consensus mark of \$1.70 by 1.2%. However, the company's bottom line improved 20% from the year-ago level. Total revenues of \$1,418.8 million outpaced the consensus mark of \$1,368.3 million by 3.7% and increased 14.4% year over year.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	3.69%
EPS Surprise	-1.18%
Quarterly EPS	1.68
Annual EPS (TTM)	4.61

### Segments in Detail

#### Aggregates

Revenues from the segment increased 15% year over year to \$1,133.1 million. Freight-adjusted revenues also rose 14.5% from the prior-year quarter to \$858.5 million. The upside was mainly driven by shipment growth, higher pricing, and solid execution of operating disciplines and efficiencies.

Aggregate shipments (volumes) were up 8.4% year over year, reflecting solid underlying demand, mainly arising from public funding for highways, and employment and population growth. The company registered double-digit growth in certain markets in the Mid-Atlantic, Southeast and Texas. All the markets served by Vulcan Materials recorded pricing improvement on a year-over-year basis. Gross profit of \$357.2 million was up 17.6% year over year. Also, gross margin — as a percentage of segment sales — expanded 60 basis points (bps) to 31.5% on the back of solid growth in shipments and price improvements.

#### Asphalt, Concrete and Calcium

Revenues from the Asphalt Mix segment were \$270.2 million, up 16.6% year over year. The segment recorded gross profit of \$27.6 million versus \$23.9 million a year ago. Asphalt mix selling prices increased 3% or \$1.62 per ton and shipments grew 18% from the prior-year quarter. Unit cost of liquid asphalt recorded a 6% year-over-year increase in the third quarter.

Total revenues from the Concrete segment were \$113 million, up 11.1% year over year. Moreover, gross profit totaled \$15 million, up 3% year over year. Same-store shipments were up 12.5% year over year and average selling prices grew 1%.

Moreover, total revenues from the Calcium segment were up 10.8% from the prior-year figure to \$2.1 million. The segment reported gross profit of \$0.8 million versus \$0.9 million in the prior-year quarter.

#### Operating Highlights

Selling, Administrative and General or SAG expenses were \$88.8 million, increasing 8.8% year over year. As a percentage of revenues, the metric improved 30 bps year over year. Also, adjusted EBITDA was up 15.1% year over year to \$406.8 million, driven by strong shipments and pricing.

#### Financials

As of Sep 30, 2019, cash and cash equivalents were \$90.4 million, up from \$40 million at the end of 2018, and \$38 million in the comparable year-ago period. In third-quarter 2019, Vulcan Materials returned \$41 million to its shareholders through dividends, which increased 11% from the year-ago level. Vulcan Materials repurchased \$3 million worth of shares during the quarter. At the end of the quarter, total debt — which amounted to \$2.8 billion — was 2.2 times of its trailing 12-month adjusted EBITDA.

#### 2019 Guidance Reiterated

Vulcan Materials expects double-digit earnings growth in 2019. Its earnings from continuing operations for the full year are expected within \$4.55-\$5.05 and adjusted EBITDA is projected in the range of \$1.250-\$1.330 billion.

#### 2020 Guidance

The company expects 2020 to be a year with strong earnings growth, led by improvement in aggregates unit margins. It expects aggregates shipments to register low-to-mid-single-digit growth. Vulcan-served markets should continue to benefit from public construction demand, led by significantly higher levels of highway funding in key states. Private construction shipment momentum remains positive across most of its markets. It expects this shipment momentum to continue into 2020. Demand fundamentals, including population and employment growth, continue to support longer-term growth in residential and nonresidential construction. Current construction trends are expected to be supportive of low mid-single digit price growth into 2020.

---

## Valuation

Vulcan Materials' shares are up 42.5% in the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 32% and 36.1%, respectively.

The S&P 500 index is up 25.4% in the past year.

The stock is currently trading at 24.74X forward 12-month price to earnings, which compares to 21.43X for the Zacks sub-industry, 16.11X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.5X and as low as 17.23X, with a 5-year median of 27.03X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$149 price target reflects 26X 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 F 12M	Current	24.74	21.43	16.11	19.18
	5-Year High	44.5	39.36	18.83	19.34
	5-Year Low	17.23	12.88	10.63	15.17
	5-Year Median	27.03	20.57	16.11	17.44
P/S F12M	Current	3.52	2.27	1.94	3.57
	5-Year High	4.62	2.66	2.23	3.57
	5-Year Low	2.35	1.51	1.25	2.54
	5-Year Median	3.55	2.11	1.63	3
EV/EBITDA TTM	Current	17.38	16.7	19.57	12.38
	5-Year High	28	25.14	22.86	12.86
	5-Year Low	14.32	13.22	14.6	8.48
	5-Year Median	18.8	17.97	19.38	10.67

As of 01/21/2020

## Industry Analysis Zacks Industry Rank: Top 46% (117 out of 255)



## Top Peers

Arcosa, Inc. (ACA)	Outperform
CRH PLC (CRH)	Outperform
Eagle Materials Inc (EXP)	Neutral
FORTERRA INC (FRTA)	Neutral
Martin Marietta Materials, Inc. (MLM)	Neutral
Summit Materials, Inc. (SUM)	Neutral
U S Concrete, Inc. (USCR)	Neutral
Granite Construction Incorporated (GVA)	Underperform

Industry Comparison Industry: Building Products - Concrete And Aggregates				Industry Peers		
	VMC Neutral	X Industry	S&P 500	EXP Neutral	MLM Neutral	SUM Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Market Cap	18.77 B	3.10 B	24.43 B	3.89 B	16.74 B	2.58 B
# of Analysts	5	3.5	13	3	6	3
Dividend Yield	0.87%	0.00%	1.75%	0.43%	0.82%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>B</b>	<b>D</b>	<b>B</b>
Cash/Price	0.00	0.05	0.04	0.01	0.00	0.07
EV/EBITDA	19.73	10.38	14.00	20.91	18.78	10.15
PEG Ratio	1.42	1.45	2.06	1.45	2.06	NA
Price/Book (P/B)	3.39	1.67	3.39	3.85	3.15	1.86
Price/Cash Flow (P/CF)	21.08	10.50	13.69	11.93	19.64	20.16
P/E (F1)	24.91	17.55	19.00	17.44	22.99	25.57
Price/Sales (P/S)	3.88	0.67	2.68	2.77	3.59	1.21
Earnings Yield	4.01%	5.70%	5.26%	5.74%	4.35%	3.92%
Debt/Equity	0.57	0.60	0.72	0.98	0.60	1.35
Cash Flow (\$/share)	6.73	1.28	6.94	7.83	13.64	1.14
<b>Growth Score</b>	<b>B</b>	-	-	<b>B</b>	<b>A</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	31.53%	13.23%	10.60%	10.48%	21.26%	-39.82%
Proj. EPS Growth (F1/F0)	18.77%	18.13%	7.57%	6.07%	17.49%	107.31%
Curr. Cash Flow Growth	24.06%	9.13%	14.00%	12.70%	13.52%	-23.09%
Hist. Cash Flow Growth (3-5 yrs)	19.15%	19.15%	9.00%	13.09%	23.65%	62.80%
Current Ratio	2.47	1.79	1.23	2.50	2.29	2.34
Debt/Capital	36.42%	37.40%	42.99%	49.41%	37.40%	57.53%
Net Margin	12.43%	4.39%	11.15%	3.07%	12.35%	0.20%
Return on Equity	11.55%	8.08%	17.16%	18.87%	11.52%	1.40%
Sales/Assets	0.47	0.54	0.55	0.62	0.47	0.54
Proj. Sales Growth (F1/F0)	7.67%	5.04%	4.05%	2.56%	7.41%	5.52%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>F</b>
Daily Price Chg	0.47%	-0.37%	-0.27%	0.25%	0.38%	-1.92%
1 Week Price Chg	-1.43%	0.00%	2.29%	2.44%	-3.66%	-3.86%
4 Week Price Chg	-0.61%	0.00%	2.13%	3.44%	-2.47%	-4.69%
12 Week Price Chg	-1.73%	0.00%	6.99%	1.09%	-0.15%	-1.16%
52 Week Price Chg	39.22%	9.08%	21.25%	37.26%	48.56%	56.90%
20 Day Average Volume	682,754	16,416	1,415,064	216,967	436,490	629,708
(F1) EPS Est 1 week change	-0.25%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.25%	0.00%	0.00%	0.00%	-0.01%	0.00%
(F1) EPS Est 12 week change	-1.48%	-2.59%	-0.34%	3.22%	4.52%	-6.62%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

---

## 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	<b>D</b>
Growth Score	<b>B</b>
Momentum Score	<b>D</b>
VGM Score	<b>C</b>

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

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.