

Valmont Industries(VMI)

\$126.62 (As of 08/07/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Valmont's earnings and sales for the second quarter surpassed the respective Zacks Consensus Estimate. The company is looking to improve productivity and its overall cost structure through restructuring actions. It expects the ESS segment to see improved sales and operating profit. The segment is witnessing solid sales volume in North America transportation market and also in the wireless communication market. Further, it is seeing strong sales growth in lighting and traffic products in North America. Government investments in infrastructure development is expected to provide additional support to the ESS unit. Moreover, Valmont remains focused on pursuing acquisitions and expand capacity to boost growth. The buyout of Larson Camouflage and Connect-It Wireless is also supporting sales of wireless communication structures and components.

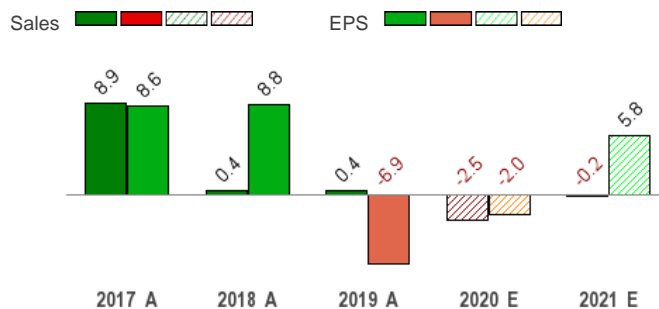
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$154.86 - \$82.60
20 Day Average Volume (sh)	131,563
Market Cap	\$2.7 B
YTD Price Change	-15.5%
Beta	1.27
Dividend / Div Yld	\$1.80 / 1.4%
Industry	Steel - Pipe and Tube
Zacks Industry Rank	Top 11% (28 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.1%
Last Sales Surprise	6.2%
EPS F1 Est- 4 week change	8.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	16.4
P/E F1	18.3
PEG F1	1.8
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,691 E
2020	674 A	689 A	690 E	686 E	2,697 E
2019	692 A	701 A	690 A	684 A	2,767 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$7.32 E
2020	\$1.99 A	\$2.00 A	\$1.71 E	\$1.64 E	\$6.92 E
2019	\$1.84 A	\$2.10 A	\$2.09 A	\$1.66 A	\$7.06 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 08/07/2020. The reports text is as of 08/10/2020.

Overview

Headquartered in Omaha, NE, Valmont Industries, Inc. is primarily engaged in the production of fabricated metal products, metal and concrete pole and tower structures and mechanized irrigation systems in the United States and abroad. The company operates through five segments:

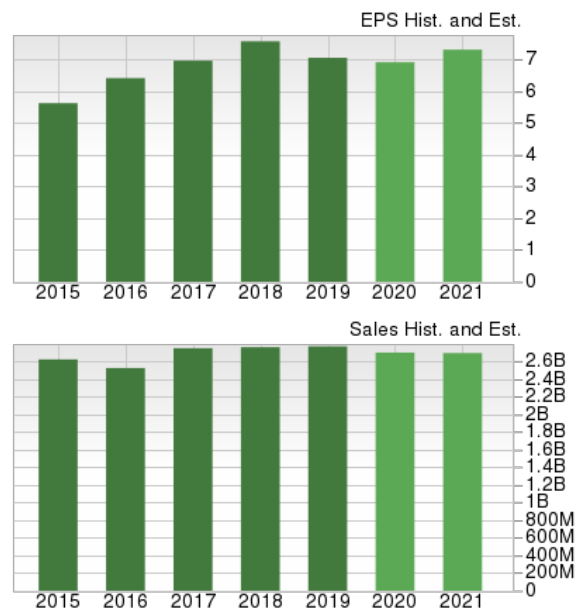
Engineered Support Structures/ESS (33% of 2019 sales and includes inter-segment sales): The division is engaged in manufacturing and marketing of engineered metal structures and components for lighting and traffic, wireless communication, roadway safety and access systems applications. It offers steel and aluminum poles and structures, which carry lighting and traffic control fixtures at outdoor lighting locations such as streets, highways, parking lots, sports stadiums, and commercial and residential development sites.

Utility Support Structures (34%): This segment manufactures engineered steel and concrete structures for the global utility industry. It also produces hybrid structures with a concrete base section and upper sections of steel. These products are used for supporting the lines that transmit power for electrical distribution, transmission and substation applications. Sales in the segment are mainly in the North American market. The key drivers of the division are significant upgrades in electrical grid.

Irrigation (19%): Under this segment, the company manufactures and distributes mechanical irrigation equipment and related service parts used to water crops and deliver soluble chemical fertilizers and pesticides. The company has majority ownership in AgSense LLC, through which it produces and markets remote monitoring technology for pivot irrigation systems on subscription basis.

Coatings (13%): This segment provides metal coating services such as hot-dipped galvanizing, anodizing, and powder coating and e-coating (where paint is applied through an electrical charge). Galvanizing is used in various applications where resistance from corrosion of steel is required. The technology enables growers to remotely operate and monitor irrigation equipment along with other farm implements.

Other (1%): Consists of activities including manufacture of forged steel grinding media for the mining industry.



Reasons To Buy:

- ▲ Valmont remains on track with its restructuring actions and continue to reap benefits from it. In 2018, it initiated a new restructuring activity in order to drive productivity improvements and simplify its operating structure. The company sees positive results from these actions that will contribute to its future growth. Cost-savings stemming from restructuring actions should support its operating income.
- ▲ Owing to solid sales volume in North America transportation market and higher sales of wireless communication, the company expects the ESS segment to see improved sales and operating profit. The company is witnessing solid demand in transportation markets in North America. It saw a solid sales growth in lighting and traffic products in North America during the second quarter on account of benefit from ongoing investments that bolsters demand in transportation markets. Moreover, Valmont expects sales growth in the segment to be supported by continued government investments in infrastructure development. Further, through the Walpar acquisition at the ESS segment, the company expanded participation in the signs structures market and expects margins to be higher.
- ▲ Valmont continues to grow through acquisitions. The company witnessed stronger cash flow in 2019, supporting acquisitions and other capital deployment activities. The company deployed \$82 million toward three strategic acquisitions in 2019. It also deployed \$7 million for two acquisitions in the last reported quarter. The company increased its ownership stake in AgSense and Convert Italia by paying \$54 million during the first quarter of 2020. Notably, the buyout of Larson Camouflage and Connect-It Wireless is supporting sales of wireless communication structures and components. Also, the acquisition of AgSense is in sync with its strategy of consolidating leadership position in global technology.

Valmont is looking to improve productivity and its overall cost structure through restructuring actions. It also remains focused on pursuing acquisitions and expand capacity to boost growth.

Risks

- The company is facing certain challenges in the Irrigation business. In 2019, the segment performed below the company's expectations. Valmont is not witnessing a significant turnaround in demand as net farm income levels remain muted. Moreover, the lack of sales of the international project impacted the unit's performance in 2019. Valmont anticipates revenues from the Irrigation segment to be down 3% year over year for the third quarter as a result of disruptions in ethanol demand and food supply chains, and unfavorable currency translation impacts. Also, the company expects sustained weakness in agriculture commodity prices, mainly soybean and corn.
 - The company's bleak outlook for the Access Systems business is another concern. Valmont witnessed a slowdown in the business from sustained challenging construction environment in Australia during the first quarter of 2020. Moreover, the company initiated a focused restructuring plan in the business as it does not anticipate meaningful changes to the market demand environment in Australia. Further, sales of access systems products were lower year over year in the most recent quarter mainly due to the decision to exit certain product lines, and impacts from coronavirus pandemic-led factory shutdowns. Notably, revenues for the Access Systems for the third quarter are anticipated to be similar to the first two quarters of 2020.
 - The company's high debt levels remain concerning. Its long-term debt was \$778.3 million at the end of the second quarter of 2020, up from \$776.1 million in the sequentially prior quarter and \$765.6 million recorded in the year-ago period. Further, its time-interest-earned ratio of 5.9 at the end of the second quarter fell from 6.4 in the prior quarter. As such, the company appears to have a higher default risk.
-

Last Earnings Report

Valmont's Earnings & Revenues Surpass Estimates in Q2

Valmont registered profits of \$22.6 million or \$1.06 per share in second-quarter 2020, down from \$39.7 million or \$1.82 per share in the year-ago quarter. Barring one-time items, adjusted earnings were \$2.00 per share for the reported quarter, beating the Zacks Consensus Estimate of \$1.47.

Revenues in the quarter were \$688.8 million, down 1.7% year over year. The figure, however, surpassed the Zacks Consensus Estimate of \$648.8 million. Strong growth in Utility Support Structures was more than offset by reduced sales in the Coatings segment due to the impacts of the coronavirus outbreak.

Segment Highlights

Infrastructure-Related

Sales in the Engineered Support Structures segment fell 2.1% year over year to \$253.4 million due to unfavorable currency impacts of \$6.1 million.

Sales in the Utility Support Structures segment rose 10.2% year over year to \$231.3 million on account of substantially larger volumes from strong market demand, capacity additions and favorable pricing.

Sales in the Coatings segment declined 18.7% year over year to \$80 million as higher internal volumes were more than offset by lower external volumes due to the coronavirus outbreak's effects on end customers and temporary international facility closures.

Agriculture-Related

Sales in the Irrigation unit amounted to \$150.6 million, down 3% year over year. Sales in North America were \$99 million, down 3.7% year over year. Higher sales of irrigation products and pricing were offset by lower industrial tubing sales.

International irrigation sales fell 1.5% year over year to \$51.6 million.

Financial Position

Valmont ended the second quarter with cash and cash equivalents of \$353.3 million, up 37.5% year over year. Long-term debt stood at \$778.3 million, up 1.6% year over year.

Cash flows from operating activities were \$150.7 million for the year-to-date period (as of Jun 27, 2020), up from \$113.4 million for the same period a year ago (as of Jun 29, 2019).

Outlook

The company expects net sales of \$680-700 million for third-quarter 2020. It also expects operating profit margins of 8-9% for the third quarter.

Valmont anticipates revenues from the Utility Support Structures segment to increase around 20% year over year for the third quarter.

Quarter Ending 06/2020

Report Date	Jul 22, 2020
Sales Surprise	6.17%
EPS Surprise	36.05%
Quarterly EPS	2.00
Annual EPS (TTM)	7.74

Valuation

Valmont's shares are down 15.4% in the year-to-date period and down 3.2% over the trailing 12-month period. Stocks in the Zacks Steel - Pipe and Tube industry and Zacks Basic Materials sector are down 34.4% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 29.5% and up 10.8%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and up 16.4% in the past year.

The stock is currently trading at 17.67X forward 12-month earnings, which compares to 95.76X for the Zacks sub-industry, 15.21X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.97X and as low as 10.98X, with a 5-year median of 17.37X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$146 price target reflects 20.37X forward 12-month earnings per share.

The table below shows summary valuation data for VMI:

Valuation Multiples - VMI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.67	95.76	15.21	22.77
	5-Year High	23.97	115.63	21.05	22.77
	5-Year Low	10.98	11.99	9.86	15.25
	5-Year Median	17.37	25.73	13.53	17.58
EV/EBITDA TTM	Current	8.95	7.89	15.21	22.77
	5-Year High	13.6	42.41	21.05	22.77
	5-Year Low	6.55	4.34	9.86	15.25
	5-Year Median	9.41	14.4	13.53	17.58
P/B TTM	Current	2.35	0.83	2.43	4.67
	5-Year High	3.66	1.88	3.07	4.67
	5-Year Low	1.6	0.58	1.23	2.83
	5-Year Median	2.74	1.36	2.2	3.73

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 11% (28 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AZZ Inc. (AZZ)	Neutral	3
LeggettPlatt, Incorporated (LEG)	Neutral	2
Lindsay Corporation (LNN)	Neutral	3
MRC Global Inc. (MRC)	Neutral	3
MUELLER WATER PRODUCTS (MWA)	Neutral	3
Tenaris S.A. (TS)	Neutral	3
United States Steel Corporation (X)	Neutral	4
Olympic Steel, Inc. (ZEUS)	Neutral	3

Industry Comparison Industry: Steel - Pipe And Tube				Industry Peers		
	VMI	X Industry	S&P 500	LNN	MRC	MWA
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	B	-	-	B	A	B
Market Cap	2.70 B	572.62 M	23.30 B	1.12 B	485.02 M	1.78 B
# of Analysts	4	5.5	14	2	6	6
Dividend Yield	1.42%	0.45%	1.76%	1.24%	0.00%	1.86%
Value Score	B	-	-	D	A	C
Cash/Price	0.14	0.05	0.07	0.12	0.04	0.07
EV/EBITDA	9.42	11.54	13.32	53.17	8.52	13.65
PEG Ratio	1.83	2.19	2.94	NA	NA	2.69
Price/Book (P/B)	2.35	1.89	3.19	3.95	1.42	2.94
Price/Cash Flow (P/CF)	11.55	9.02	12.51	37.50	3.77	11.79
P/E (F1)	18.30	22.58	22.02	31.71	NA	26.86
Price/Sales (P/S)	0.99	0.69	2.53	2.49	0.16	1.84
Earnings Yield	5.47%	0.95%	4.37%	3.15%	-5.92%	3.72%
Debt/Equity	0.68	0.50	0.77	0.41	1.84	0.74
Cash Flow (\$/share)	10.97	1.34	6.94	2.75	1.57	0.96
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	7.32%	9.13%	10.46%	-5.44%	-11.52%	10.57%
Proj. EPS Growth (F1/F0)	-1.95%	-75.45%	-6.80%	16,350.00%	-170.75%	-31.15%
Curr. Cash Flow Growth	-12.25%	-12.60%	5.39%	-38.41%	-11.49%	17.29%
Hist. Cash Flow Growth (3-5 yrs)	-4.76%	-4.76%	8.55%	-14.87%	-12.82%	7.36%
Current Ratio	2.45	2.54	1.33	3.16	2.48	3.87
Debt/Capital	40.31%	32.35%	44.50%	29.03%	47.39%	42.39%
Net Margin	5.17%	2.05%	10.13%	5.68%	-8.86%	8.85%
Return on Equity	14.67%	5.28%	14.39%	10.81%	5.28%	14.08%
Sales/Assets	0.99	1.10	0.51	0.85	1.38	0.73
Proj. Sales Growth (F1/F0)	-2.54%	-1.27%	-1.51%	0.38%	-31.97%	-6.06%
Momentum Score	C	-	-	B	C	B
Daily Price Chg	1.86%	1.35%	0.90%	2.85%	-2.15%	2.45%
1 Week Price Chg	-3.60%	-0.83%	0.14%	-2.36%	-2.94%	1.00%
4 Week Price Chg	13.48%	4.12%	8.95%	13.44%	17.03%	26.32%
12 Week Price Chg	23.58%	16.53%	18.90%	19.35%	34.62%	42.07%
52 Week Price Chg	-6.22%	-17.86%	1.18%	12.82%	-58.29%	11.13%
20 Day Average Volume	131,563	42,480	2,057,775	57,246	669,507	656,892
(F1) EPS Est 1 week change	0.00%	1.63%	0.00%	0.00%	22.44%	0.00%
(F1) EPS Est 4 week change	8.63%	6.47%	1.36%	17.47%	15.94%	-4.56%
(F1) EPS Est 12 week change	8.80%	-3.77%	1.57%	23.89%	-27.45%	-16.33%
(Q1) EPS Est Mthly Chg	19.35%	-24.48%	0.54%	0.00%	-48.96%	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
Growth Score	C
Momentum Score	C
VGM Score	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.