

Valmont Industries(VMI)

\$121.05 (As of 02/26/20)

Price Target (6-12 Months): **\$103.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

Valmont's profits increased year over year in fourth-quarter 2019. However, its earnings and sales missed the respective Zacks Consensus Estimate. Valmont is facing certain challenges in the Irrigation business. In 2019, the segment performed below Valmont's expectations. The lack of sales from the international project impacted the unit's performance in 2019. Also, the company expects Irrigation unit's revenues in 2020 to be flat to down 3% from the level reported in 2019. A bleak outlook for the Access Systems business is another concern. Valmont witnessed a slowdown in the Access Systems business during the fourth quarter and the trend is likely to continue in 2020. The company expects to register lower sales in this business in 2020 on a year-over-year basis. High debt-levels and stretched valuation are other concerns.

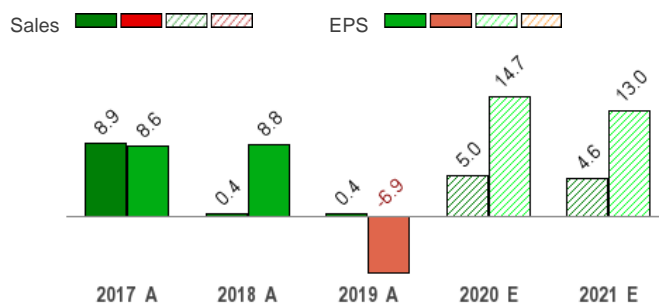
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$154.86 - \$112.94
20 Day Average Volume (sh)	98,992
Market Cap	\$2.6 B
YTD Price Change	-19.2%
Beta	1.43
Dividend / Div Yld	\$1.50 / 1.2%
Industry	Steel - Pipe and Tube
Zacks Industry Rank	Bottom 6% (240 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.8%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	-13.7%
Expected Report Date	04/28/2020
Earnings ESP	-4.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,038 E
2020	678 E	732 E	751 E	743 E	2,904 E
2019	692 A	701 A	690 A	684 A	2,767 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$9.15 E
2020	\$1.53 E	\$1.96 E	\$2.26 E	\$2.27 E	\$8.10 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.

P/E TTM	15.7
P/E F1	14.9
PEG F1	1.5
P/S TTM	0.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/26/2020. The reports text is as of 02/27/2020.

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:

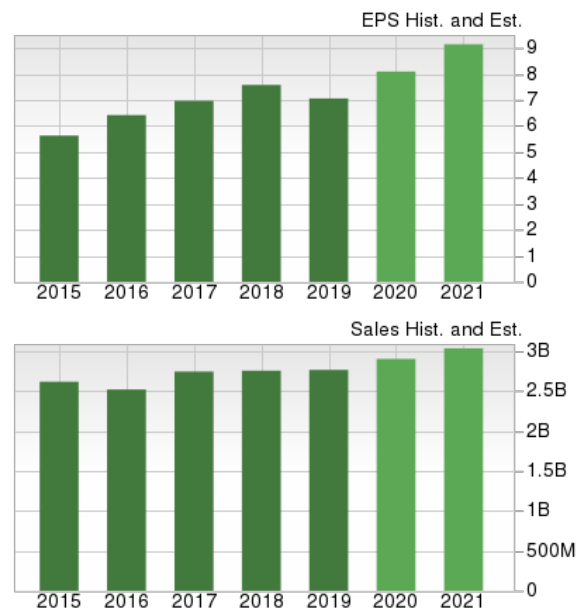
Engineered Support Structures/ESS (33% of 2019 sales and includes inter-segment sales): The division is engaged in manufacturing and marketing of engineered metal structures and components for lighting and traffic, wireless communication, roadway safety and access systems applications. It offers steel 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 Sell:

- ▼ 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. Also, the company expects Irrigation unit's revenues in 2020 to be flat to down 3% from the level reported in 2019. Moreover, the lack of sales of the international project impacted the unit's performance in 2019.
- ▼ The company's bleak outlook for the Access Systems business is another concern. Valmont witnessed a slowdown in the business (from lower volumes and unfavorable pricing on account of a substantial downturn in Australia construction markets) during the fourth quarter and the trend is likely to continue in 2020. As such, the company expects to register lower sales in 2020 on a year-over-year basis.
- ▼ The company's high debt level is a concern. The debt-to-equity ratio of the company is 66.1%, much higher than the industry's average of 2.5%. Also, its long-term debt at the end of 2019 rose 3.1% year over year to \$764.9 million.
- ▼ The company's stretched valuation is another concern. In case of Valmont, the trailing 12-month EV/EBITDA multiple (a preferred valuation metric for cyclical industries) is 10.07x while its industry's trailing 12-month EV/EBITDA multiple is lower at 8.22x. As such, investors might not want to pay more for the stock at present.

The company is facing certain challenges in the Irrigation business. Bleak outlook for the Access Systems business is another concern. High debt-levels and stretched valuation are other concerns.

Risks

- Valmont's shares are down 11.3% in the past year, outperforming the industry's decline of 22.2%. 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. Also, the company is witnessing solid demand in transportation markets in North America. Moreover, it expects accelerated sales growth in India throughout 2020, driven by improved wireless communications demand along with general infrastructure growth. In the last reported quarter, wireless communication structures' sales increased globally by more than 25% year over year. This was driven by strong demand in North America markets, supported by carriers' ongoing expansion of 4G networks and site preparation in advance of 5G rollouts. Also, Valmont expects sales growth in the segment to be supported by continued government investments in infrastructure development. Moreover, 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. Notably, the buyout of Larson Camouflage and Connect-It Wireless is supporting sales of wireless communication structures and components. Also, the acquisition of the remaining 49% stake in AgSense will be accretive to earnings per share in fiscal 2020.
 - Despite increases in raw material costs over the last year, the company has managed uncertainties related to trade policy and raw material prices through pricing actions along with supply chain and operational actions. Also, it was able to successfully recover from inflation through effective supply chain, operational and pricing actions despite volatile steel cost environment.
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Last Earnings Report

Valmont's Earnings & Revenues Miss Estimates in Q4

Valmont registered profits of \$35.7 million or \$1.66 per share in fourth-quarter 2019, up from \$17.7 million or 80 cents per share in the year-ago quarter. Earnings per share, however, lagged the Zacks Consensus Estimate of \$1.86.

Revenues in the quarter were \$683.6 million, down 2% year over year. The figure missed the Zacks Consensus Estimate of \$705.8 million. Lower sales in international markets were mostly offset by gains in North American markets.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	-3.14%
EPS Surprise	-10.75%
Quarterly EPS	1.66
Annual EPS (TTM)	7.69

Segment Highlights

Infrastructure-Related

Sales in the Engineered Support Structures segment totaled \$255.2 million, down 1.7% year over year, as higher wireless communication sales and revenues from the recent buyout were offset by lower revenues from Access Systems and unfavorable currency impact.

Sales in the Utility Support Structures segment fell 0.6% year over year to \$231.9 million, as favorable pricing was offset by modestly lower production levels due to a plant closure in North America in early 2019.

Sales in the Coatings segment rose around 3.8% year over year to \$89.7 million. It was supported by recent acquisitions and sustained pricing discipline, offset by lower volumes to external customers.

Agriculture-Related

Sales in the Irrigation unit amounted to \$133 million, down 6.7% year over year. Sales in North America were \$84.5 million, in line with the year-ago quarter figure. Per the company, higher sales of systems, aftermarket parts and advanced technology solutions were offset by lower industrial tubing sales.

International irrigation sales fell 16.1% year over year to \$48.5 million. Significantly lower project sales in the EMEA region offset increased sales in Brazil.

2019 Highlights

For 2019, profits were \$153.8 million or \$7.06 per share, up 62.9% from \$94.4 million or \$4.20 per share recorded in 2018.

Net sales for the year inched up 0.4% year over year to roughly \$2,767 million.

Financial Position

Valmont ended 2019 with cash and cash equivalents of \$353.5 million, up 12.9% year over year. Long-term debt stood at \$764.9 million at the end of 2019, up 3.1% year over year.

Cash flows from operating activities were \$307.6 million for the year, up from \$153 million a year ago.

The company returned \$95.5 million to shareholders through share repurchases and dividends in 2019.

Outlook

Valmont expects earnings per share of \$7.30-\$8.00 for 2020. It also envisions revenue growth of 4-7% year over year in 2020. Capital spending for the year has been forecast to be \$100-\$125 million. Valmont expects sales and earnings growth to be driven by infrastructure businesses.

Per the company, growth at the Engineered Support Structures segment will likely be supported by transportation market demand from continued government investments in infrastructure development.

Valmont anticipates wireless communication sales to reach 10% growth rate in 2020. Construction end-markets in Australia are not expected to substantially improve in 2020, thus impacting its Access Systems business.

Utility segment sales are forecast to be driven by strong market demand from ongoing investments in grid hardening and renewable energy sources. Moreover, coatings segment revenues are expected to be similar to 2019 due to a relatively stable global industrial production levels.

The company also noted that in the Irrigation segment it does not anticipate a meaningful turnaround in demand as net farm income levels remain muted. It envisions segment sales to be flat to down around 3% from the level reported in 2019.

Recent News

Valmont Announces Hike of 20% in Quarterly Dividend – Feb 25, 2020

Valmont announced that its board approved an increase in its quarterly cash dividend. The revised dividend of 45 cents per share is 20% higher than the previous quarterly dividend of 37.5 cents. The increased dividend will be paid out on Apr 15, 2020, to its shareholders of record as of Mar 27, 2020. Following the hike, the company's new annualized dividend amounted to \$1.80 per share. Notably, it previously hiked the dividend in May 2014.

Per management, the dividend hike is in recognition of the company's healthy balance sheet and confidence in its capacity to deliver good cash flows throughout its business cycles.

Notably, Valmont aims to strike a prudent balance between the return of excess capital to shareholders and maintaining the ability to finance sustained growth, both organically and through strategic acquisitions. This is in accordance with the philosophy of capital allocation adopted by the board in 2014.

Valmont to Purchase Remaining 49% Stake in AgSense – Jan 2, 2020

Valmont has inked a deal to acquire the remaining 49% interest in AgSense for a purchase price of roughly \$42 million. The acquisition will be financed with cash on hand and is anticipated to be concluded later in January.

The company's consolidated financial statements include the operating results for AgSense since the purchase of a 51% stake in August 2014.

The deal is not expected to impact operating income or net revenues. However, it will be accretive to earnings per share (EPS) in fiscal 2020 primarily due to change in earnings attributable to noncontrolling interests.

Per Valmont's management, complete ownership of AgSense complements its strategic priority to strengthen leadership position in global technology. Further, AgSense's profitable and recurring revenue service model has created a technology sales growth engine that will benefit Valmont's shareholders and customers.

Acquiring 100% stake in AgSense marks another important milestone as Valmont continues to carry out its technology strategy.

Valuation

Valmont's shares are down 11.3% over the trailing 12-month period. Stocks in the Zacks Steel - Pipe and Tube industry and the Industrial Products sector are down 22.2% and 12.9% over the past year, respectively. The S&P 500 index is up 11.5% in the past year.

The stock is currently trading at 13.34X forward 12-month earnings, which compares to 16.28X for the Zacks sub-industry, 12.79X for the Zacks sector and 17.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.97X and as low as 12.24X, with a 5-year median of 17.61X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$103 price target reflects 11.35X 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	13.34	16.28	12.79	17.88
	5-Year High	23.97	79.7	21.15	19.34
	5-Year Low	12.24	11.99	9.82	15.18
	5-Year Median	17.61	22.48	13.63	17.47
EV/EBITDA TTM	Current	10.07	8.22	9.39	12
	5-Year High	13.54	41.87	18.15	12.87
	5-Year Low	6.75	4.93	7.41	8.48
	5-Year Median	9.4	14.86	10.59	10.77
P/B TTM	Current	2.25	1	2.11	4.52
	5-Year High	3.66	1.88	3.54	4.9
	5-Year Low	1.94	0.97	1.34	2.85
	5-Year Median	2.74	1.36	2.19	3.62

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (240 out of 254)



Top Peers

Mueller Industries, Inc. (MLI)	Outperform
Lindsay Corporation (LNN)	Neutral
MRC Global Inc. (MRC)	Neutral
AZZ Inc. (AZZ)	Underperform
Leggett & Platt, Incorporated (LEG)	Underperform
Tenaris S.A. (TS)	Underperform
United States Steel Corporation (X)	Underperform
Olympic Steel, Inc. (ZEUS)	Underperform

Industry Comparison Industry: Steel - Pipe And Tube				Industry Peers		
	VMI Underperform	X Industry	S&P 500	LNN Neutral	MLI Outperform	MRC Neutral
VGM Score	D	-	-	D	A	D
Market Cap	2.61 B	700.46 M	22.59 B	1.10 B	1.73 B	721.28 M
# of Analysts	5	6	13	3	1	8
Dividend Yield	1.24%	0.62%	1.92%	1.22%	1.31%	0.00%
Value Score	D	-	-	F	B	D
Cash/Price	0.12	0.07	0.04	0.11	0.05	0.04
EV/EBITDA	9.09	10.34	13.29	53.53	8.68	10.34
PEG Ratio	1.47	1.63	1.93	NA	NA	1.33
Price/Book (P/B)	2.25	1.77	3.03	4.02	2.62	1.13
Price/Cash Flow (P/CF)	11.04	11.04	12.33	36.95	10.41	5.64
P/E (F1)	14.68	17.54	17.79	40.30	15.86	20.02
Price/Sales (P/S)	0.94	0.75	2.47	2.49	0.71	0.20
Earnings Yield	6.69%	5.73%	5.60%	2.48%	6.31%	4.97%
Debt/Equity	0.66	0.66	0.70	0.52	0.61	1.11
Cash Flow (\$/share)	10.97	1.81	7.02	2.75	2.92	1.57
Growth Score	C	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	5.71%	5.83%	10.85%	-10.42%	13.90%	-16.35%
Proj. EPS Growth (F1/F0)	14.67%	-5.40%	6.79%	73.79%	-12.33%	-9.69%
Curr. Cash Flow Growth	-12.25%	-11.87%	6.53%	-38.41%	13.44%	-11.49%
Hist. Cash Flow Growth (3-5 yrs)	-4.76%	-4.76%	8.38%	-14.87%	3.93%	-12.82%
Current Ratio	2.70	3.18	1.22	3.73	2.96	2.51
Debt/Capital	39.80%	39.80%	42.37%	34.08%	37.72%	41.73%
Net Margin	5.56%	4.56%	11.57%	2.11%	4.15%	1.07%
Return on Equity	14.71%	9.76%	16.80%	7.33%	19.63%	9.76%
Sales/Assets	1.02	1.16	0.54	0.87	1.72	1.45
Proj. Sales Growth (F1/F0)	4.96%	1.82%	4.06%	1.97%	-4.02%	-7.05%
Momentum Score	C	-	-	D	C	F
Daily Price Chg	-0.77%	0.00%	-0.98%	-2.70%	-0.29%	-3.59%
1 Week Price Chg	-11.74%	-1.51%	-0.94%	-3.82%	1.53%	-6.88%
4 Week Price Chg	-18.21%	-7.94%	-6.27%	0.17%	1.13%	-23.75%
12 Week Price Chg	-15.33%	-5.82%	-3.33%	11.96%	-3.27%	-33.83%
52 Week Price Chg	-11.42%	-3.85%	6.81%	10.38%	-8.09%	-48.22%
20 Day Average Volume	98,992	45,679	2,109,774	68,457	181,654	1,176,829
(F1) EPS Est 1 week change	-0.39%	-0.20%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-13.74%	-11.75%	-0.08%	-6.20%	2.13%	-47.68%
(F1) EPS Est 12 week change	-13.92%	-15.02%	-0.22%	-1.95%	NA	-48.81%
(Q1) EPS Est Mthly Chg	-14.33%	-17.16%	-0.61%	-9.32%	NA	-132.23%

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	C
Momentum Score	C
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.

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