

Valmont Industries(VMI)

\$113.38 (As of 05/28/20)

Price Target (6-12 Months): **\$119.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Earnings estimates for Valmont for the second quarter have been stable over the past month. Valmont is looking to improve productivity and its overall cost structure through restructuring actions. The company expects the ESS segment to see improved sales and operating profit. Valmont also remains focused on pursuing acquisitions and expand capacity to boost growth. The company has also outperformed the industry in the past year. However, the company is facing certain challenges in the Irrigation business. The company expects the Irrigation unit's revenues in the second quarter to decline year over year, partly due to disruptions in ethanol demand. Also, the company expects sustained weakness in agriculture commodity prices. A bleak outlook for the Access Systems business and the company's high debt level are other concerns.

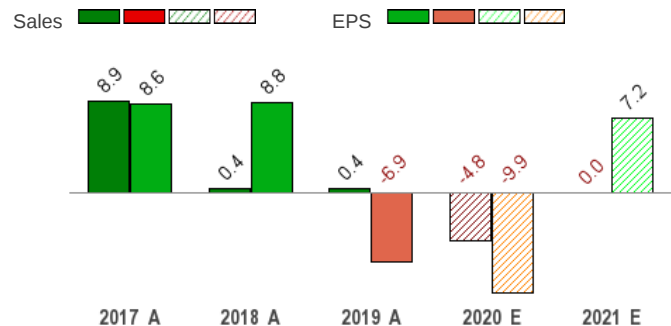
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$154.86 - \$82.60
20 Day Average Volume (sh)	188,320
Market Cap	\$2.4 B
YTD Price Change	-24.3%
Beta	1.29
Dividend / Div Yld	\$1.80 / 1.6%
Industry	Steel - Pipe and Tube
Zacks Industry Rank	Top 35% (88 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	41.1%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/28/2020
Earnings ESP	0.0%
P/E TTM	14.5
P/E F1	17.8
PEG F1	1.8
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,633 E
2020	674 A	647 E	653 E	667 E	2,633 E
2019	692 A	701 A	690 A	684 A	2,767 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.82 E
2020	\$1.99 A	\$1.47 E	\$1.42 E	\$1.58 E	\$6.36 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 05/28/2020. The reports text is as of 05/29/2020.

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:

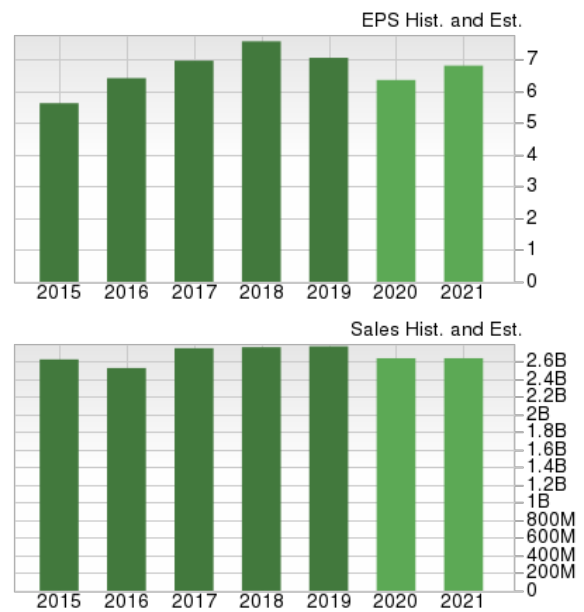
Engineered Support Structures/ESS (33% of 2019 sales and includes inter-segment sales): The division is engaged in manufacturing and marketing of engineered metal structures and components for lighting and traffic, wireless communication, roadway safety and access systems applications. It offers steel 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's shares are down 2% in the past year, outperforming the industry's decline of 34.6%. 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. The company had a solid sales growth in lighting and traffic products in North America during the first quarter. 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. Reportedly, it deployed \$8.8 million toward acquisition 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.

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. 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 5-10% year over year for the second 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. 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.
- ▼ The company's high debt levels remain a concern. The company's total debt was \$1,533.1 million at the end of the first quarter of 2020, up from \$1,524.9 million in the sequentially prior quarter and \$1,515.6 million recorded in the year-ago period. Its total debt-to-total capital stood at 41.2% as of Mar 31, 2020, higher than its industry's 8.9%. As such, the company appears to have a higher default risk.

The company is facing certain challenges in the Irrigation business. Bleak outlook for the Access Systems business and the company's high debt level are other concerns.

Last Earnings Report

Valmont's Earnings & Revenues Surpass Estimates in Q1

Valmont registered profits of \$42.9 million or \$1.99 per share in first-quarter 2020, up from \$36.1 million or \$1.64 per share in the year-ago quarter. Moreover, its earnings per share topped the Zacks Consensus Estimate of \$1.41.

Revenues in the quarter were \$674.2 million, down 2.6% year over year. The figure, however, surpassed the Zacks Consensus Estimate of \$671.8 million. Strong sales in North America were more than offset by reduced sales in the Utility Support Structures segment.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	0.36%
EPS Surprise	41.13%
Quarterly EPS	1.99
Annual EPS (TTM)	7.84

Segment Highlights

Infrastructure-Related

Sales in the Engineered Support Structures segment totaled \$230.7 million, in line with the year-ago quarter figure, as higher sales in North America markets were offset by reduced sales in the Asia Pacific region, mainly in the Access Systems product line.

Sales in the Utility Support Structures segment fell 7.6% year over year to \$225.5 million largely due to a major solar tracker project in 2019 that did not repeat this year.

Sales in the Coatings segment rose 1.5% year over year to \$88.1 million. It was supported by larger volumes in North American markets, partly offset by unfavorable currency translation impacts.

Agriculture-Related

Sales in the Irrigation unit amounted to \$156.7 million, up 2.6% year over year. Sales in North America were \$106.6 million, down 1.8% year over year. Higher sales of systems, aftermarket parts and advanced technology solutions were offset by lower industrial tubing sales.

International irrigation sales rose 13.1% year over year to \$50.1 million. Higher sales in most regions offset unfavorable currency translation impacts.

Financial Position

Valmont ended the first quarter with cash and cash equivalents of \$294.6 million, up 39.5% year over year. Long-term debt stood at \$776.1 million, up 4.7% year over year.

Cash flows from operating activities were \$62.4 million for the quarter, up from \$7.9 million a year ago.

The company bought back 190,500 shares for \$20.5 million in the reported quarter.

Outlook

Valmont has withdrawn its guidance for 2020 due to the unknown duration and impacts of the coronavirus pandemic.

The company expects net sales of \$645-665 million for second-quarter 2020. It also expects operating margins to be 7-8.5% of net sales for the second quarter.

Valmont anticipates revenues from the Irrigation segment to be down 5-10% year over year for the second quarter as a result of recent disruptions to ethanol demand, food supply chains and unfavorable currency translation impacts.

The Coatings segment's revenues are anticipated to be down 20-25% year over year for the second quarter due to GDP trends and recent industrial production levels.

Moreover, the company expects positive operating cash flows for the second quarter.

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 was 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.

Valuation

Valmont's shares are down 24.3% in the year-to-date period and 2% over the trailing 12-month period. Stocks in the Zacks Steel - Pipe and Tube industry and Zacks Basic Materials sector are down 35.7% and 12.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 34.6% and 3.9%, respectively.

The S&P 500 index is down 5.8% in the year-to-date period and up 8.4% in the past year.

The stock is currently trading at 17.32X forward 12-month earnings, which compares to 778.67X for the Zacks sub-industry, 16.48X for the Zacks sector and 22.02X 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 17.52X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$119 price target reflects 18.18X 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	17.32	778.67	16.48	22.02
	5-Year High	23.97	778.67	21.06	22.02
	5-Year Low	10.98	11.99	9.79	15.23
	5-Year Median	17.52	23.27	13.49	17.49
EV/EBITDA TTM	Current	8.62	6.3	8.85	11.21
	5-Year High	13.6	42.41	18.31	12.86
	5-Year Low	6.55	4.34	6.48	8.26
	5-Year Median	9.4	14.4	10.5	10.8
P/B TTM	Current	2.18	0.81	2.66	4.14
	5-Year High	3.66	1.88	3.43	4.56
	5-Year Low	1.6	0.58	1.22	2.83
	5-Year Median	2.74	1.36	2.18	3.65

As of 05/28/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
AZZ Inc. (AZZ)	Neutral	3
Lindsay Corporation (LNN)	Neutral	3
Mueller Industries, Inc. (MLI)	Neutral	3
MRC Global Inc. (MRC)	Neutral	3
Tenaris S.A. (TS)	Neutral	3
United States Steel Corporation (X)	Neutral	3
Olympic Steel, Inc. (ZEUS)	Neutral	3
LeggettPlatt, Incorporated (LEG)	Underperform	5

Industry Comparison Industry: Steel - Pipe And Tube				Industry Peers		
	VMI	X Industry	S&P 500	LNN	MLI	MRC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	A	D
Market Cap	2.42 B	523.92 M	21.49 B	1.03 B	1.54 B	494.43 M
# of Analysts	4	5.5	14	3	1	5
Dividend Yield	1.59%	0.54%	1.98%	1.35%	1.47%	0.00%
Value Score	B	-	-	D	B	C
Cash/Price	0.13	0.07	0.06	0.12	0.11	0.06
EV/EBITDA	8.74	10.18	12.50	50.26	7.96	8.82
PEG Ratio	1.78	1.82	2.87	NA	NA	NA
Price/Book (P/B)	2.18	1.51	2.95	3.70	2.31	0.80
Price/Cash Flow (P/CF)	10.34	9.10	11.81	34.54	9.27	3.84
P/E (F1)	17.84	18.82	21.33	36.18	14.13	NA
Price/Sales (P/S)	0.88	0.61	2.28	2.31	0.64	0.14
Earnings Yield	5.61%	0.68%	4.50%	2.76%	7.08%	-8.46%
Debt/Equity	0.70	0.51	0.76	0.51	0.73	1.10
Cash Flow (\$/share)	10.97	1.34	6.96	2.75	2.92	1.57
Growth Score	A	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	6.96%	9.13%	10.87%	-8.38%	12.11%	-9.94%
Proj. EPS Growth (F1/F0)	-9.88%	-81.59%	-10.48%	80.92%	-12.33%	-203.67%
Curr. Cash Flow Growth	-12.25%	-12.60%	5.39%	-38.41%	13.44%	-11.49%
Hist. Cash Flow Growth (3-5 yrs)	-4.76%	-4.76%	8.55%	-14.87%	3.93%	-12.82%
Current Ratio	2.52	2.68	1.29	3.70	3.37	2.35
Debt/Capital	41.15%	32.73%	44.54%	33.81%	42.03%	41.09%
Net Margin	5.83%	2.43%	10.59%	4.09%	4.86%	0.86%
Return on Equity	15.00%	8.61%	16.26%	9.23%	16.99%	8.61%
Sales/Assets	1.00	1.10	0.55	0.86	1.72	1.43
Proj. Sales Growth (F1/F0)	-4.86%	0.00%	-2.53%	1.33%	-4.02%	-24.40%
Momentum Score	B	-	-	A	A	F
Daily Price Chg	-0.59%	-0.29%	-0.65%	-3.16%	-3.97%	-1.79%
1 Week Price Chg	4.29%	3.49%	4.99%	8.50%	12.55%	15.54%
4 Week Price Chg	-3.29%	-2.15%	4.28%	5.47%	4.71%	12.50%
12 Week Price Chg	-3.28%	-22.19%	-3.05%	-3.97%	-0.51%	-25.65%
52 Week Price Chg	-2.01%	-21.08%	0.01%	17.49%	-0.88%	-60.46%
20 Day Average Volume	188,320	61,842	2,425,602	72,683	240,619	1,121,244
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-102.36%	-1.70%	0.00%	0.00%	-661.54%
(F1) EPS Est 12 week change	-16.50%	-82.73%	-16.00%	4.10%	0.00%	-227.86%
(Q1) EPS Est Mthly Chg	0.00%	-103.95%	-3.25%	0.00%	NA	-725.21%

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	A
Momentum Score	B
VGM Score	A

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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