

Valmont Industries(VMI)

\$148.00 (As of 01/29/20)

Price Target (6-12 Months): **\$155.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Earnings estimates for Valmont for the fourth quarter and 2019 have been declining lately. The company is ramping up productivity and improving cost structure through restructuring actions. These actions are likely to support margins in 2019. Also, the company is focused on pursuing acquisitions and expanding capacity to boost growth. Moreover, it is witnessing solid demand in transportation markets in North America. The company is also seeing strong growth in wireless communication sales on solid demand. Also, Valmont has outperformed the industry over a year. However, it is facing certain challenges in the Irrigation business. Challenges in agricultural market and trade tensions are affecting the unit's performance. Bleak outlook for the Coatings unit, high debt-levels and stretched valuation are other concerns.

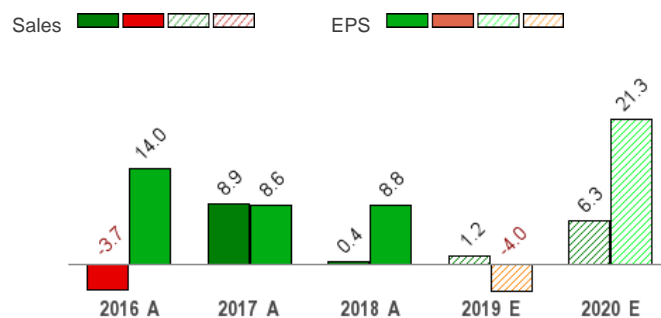
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$153.67 - \$112.94
20 Day Average Volume (sh)	86,479
Market Cap	\$3.2 B
YTD Price Change	-1.2%
Beta	1.42
Dividend / Div Yld	\$1.50 / 1.0%
Industry	Steel - Pipe and Tube
Zacks Industry Rank	Top 44% (113 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.3%
Last Sales Surprise	-7.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	2.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	718 E	736 E	737 E	752 E	2,965 E
2019	692 A	701 A	690 A	706 E	2,789 E
2018	699 A	682 A	679 A	697 A	2,757 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.78 E	\$2.23 E	\$2.42 E	\$2.30 E	\$8.83 E
2019	\$1.84 A	\$2.10 A	\$2.09 A	\$1.88 E	\$7.28 E
2018	\$1.87 A	\$1.98 A	\$1.82 A	\$1.87 A	\$7.58 A

*Quarterly figures may not add up to annual.

P/E TTM	18.7
P/E F1	16.8
PEG F1	1.7
P/S TTM	1.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/29/2020. The reports text is as of 01/30/2020.

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:

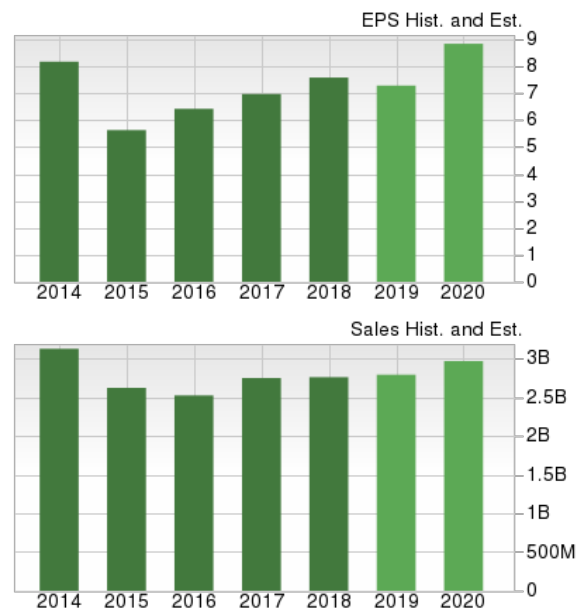
Engineered Support Structures/ESS (35% of 2018 sales and includes inter-segment sales): The division is engaged in manufacturing and marketing of engineered metal structures and components for lighting and traffic, wireless communication, roadway safety and access systems applications. It offers steel 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 (31%): 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 (23%): 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 (10%): 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 up 14.7% in the past year, outperforming the industry's decline of 4.6%. 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. Notably, the company's international ESS poll operations reported improved results on year-over-year basis in third-quarter 2019, partly owing to these restructuring actions.

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.

▲ Owing to solid sales volume in North America transportation market and higher sales of lighting and traffic products, 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 2019, driven by improved wireless communications demand along with general infrastructure growth. In the last reported quarter, wireless communication structures and components sales increased globally by 30% year-over-year and more than 25% on year-to-date basis. The growth is driven by strong demand in North America markets supported by continued buildout of 4G networks and 5G site preparation. 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 2018, supporting acquisitions and other capital deployment activities. The company deployed \$143 million toward six acquisitions in 2018. It returned \$149 million of capital to shareholders through dividends and share repurchases. It ended the year with roughly \$313 million of cash. Moreover, it repurchased 70,400 shares of common stock for roughly \$9.4 million in the first quarter of 2019 and 236,300 shares for \$28.9 million in the second quarter. Revenues from acquisitions also supported margins in the Coatings and ESS units in the last reported quarter. Notably, the buyout of Larson Camouflage and Connect-It Wireless partly boosted global sales of wireless communication structures and components in the third quarter.

▲ 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.

Reasons To Sell:

- ▼ The company is facing certain challenges in the Irrigation business. So far this year, the segment has continued to perform below the company's expectations. As the growing season comes to an end, Valmont is not seeing a significant turnaround in demand. Also, the company expects Irrigation unit's revenues to remain flat year over year in 2019. Moreover, challenges in agricultural market, trade environment as well as lower industrial tubing sales and the usual seasonal market slowdown has impacted the unit's performance in the third quarter. Going forward, the company is expecting unfavorable results in the segment on a year-over-year basis in the fourth quarter due to the absence of international project sales.
- ▼ The company's bleak outlook for the Coatings segment is another concern. Valmont witnessed a slowdown in the unit during the third quarter and the trend is likely to have continued into the fourth quarter. As such, the company expects to register lower sales for the Coating unit in the fourth quarter on a year-over-year basis.
- ▼ The company's high debt level is a concern. The debt-to-equity ratio of the company is 67.6%, much higher than industry's average of 1.5%. Also, its long-term debt at the end of the third quarter rose around 3.1% year over year to \$764.5 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 10.42 while its industry's trailing 12-month EV/EBITDA multiple is lower at 8.02. 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 Coatings segment is another concern. High debt-levels and stretched valuation are other concerns.

Last Earnings Report

Valmont Misses on Q3 Earnings & Sales, Lowers '19 View

Valmont registered profits of \$40.1 million or \$1.85 per share in third-quarter 2019, up from \$4.4 million or 20 cents in the year-ago quarter.

Barring one-time items, adjusted earnings in the reported quarter came in at \$2.09 per share, which trailed the Zacks Consensus Estimate of \$2.28.

Revenues in the quarter were \$690.3 million, up around 1.7% year over year. The figure missed the Zacks Consensus Estimate of \$744.1 million.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	-7.22%
EPS Surprise	-8.33%
Quarterly EPS	2.09
Annual EPS (TTM)	7.90

Segment Highlights

Infrastructure-Related

Sales in the Engineered Support Structures segment totaled \$268.1 million, up around 6.6% year over year. Sales were driven by higher volumes in North America, favorable pricing and acquisitions.

Sales in the Utility Support Structures fell nearly 6.1% year over year to \$205 million, as favorable pricing was offset by lower volumes, particularly China. A plant closure in North America earlier this year also affected volumes. Profitability was hurt by modestly lower production levels in North American facilities.

Sales in the Coatings segment rose around 2.8% year over year to \$93 million. It was supported by recent acquisitions and pricing discipline, offset by slightly lower volumes in external markets.

Agriculture-Related

Sales in the Irrigation unit amounted to \$144.1 million, up around 2.9% year over year. Sales in North America were \$82.8 million, up 6% from the year-ago quarter's figure. Per the company, higher sales of systems, technology solutions and aftermarket parts were offset by lower industrial tubing sales.

International irrigation sales fell around 1% year over year to \$61.3 million. Significantly lower volumes in New Zealand and Australia offset the benefits of solid demand from Brazil as well as higher Middle East project sales.

Financial Position

Valmont ended the quarter with cash and cash equivalents of \$327.2 million, up roughly 10.7% year over year. Long-term debt at the end of the quarter was \$764.5 million, up around 3.1% year over year.

During the first nine months of 2019, operating cash flow rose more than three-folds to \$239.2 million.

The company bought back 126,700 shares for \$16.8 million in the reported quarter.

Outlook

The company lowered earnings per share expectation for 2019 in the range of \$7.05-\$7.45 from its prior view of \$8.10-\$8.70.

Valmont now expects revenue growth of 1-2% year over year in 2019 (down from prior growth expectation of 6-7%).

Capital spending guidance for the year is unchanged from previous forecast of \$90-\$100 million.

Per the company, North American market demand in Engineered Support Structures and Utility Support Structures unit remains robust. However, Irrigation unit sales are trending roughly 10% below its earlier expectations for 2019.

Moreover, the company expects the recent slowdown in U.S. industrial production to hurt Coatings unit volumes in the fourth quarter. Considering shipment schedules, it does not expect wireless communication sales in the fourth quarter to grow rapidly. However, the company expects continued growth in 2020.

Recent News

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 up 14.7% over the trailing 12-month period. Stocks in the Zacks Steel - Pipe and Tube industry and the Industrial Products sector are down 4.6% and 6.2% over the past year, respectively.

The S&P 500 index is up 20.2% in the past year.

The stock is currently trading at 16.52X forward 12-month earnings, which compares to 17.06X for the Zacks sub-industry, 12.98X for the Zacks sector and 18.81X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$155 price target reflects 17.3X 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	16.52	17.06	12.98	18.81
	5-Year High	23.97	79.7	21.12	19.34
	5-Year Low	12.24	11.99	9.77	15.18
	5-Year Median	17.61	22.48	13.77	17.45
EV/EBITDA TTM	Current	11.14	8.76	9.4	12.25
	5-Year High	13.54	41.87	18.17	12.86
	5-Year Low	6.75	4.93	7.34	8.48
	5-Year Median	9.4	14.61	10.56	10.68
P/B TTM	Current	2.82	1.15	2.23	4.48
	5-Year High	3.66	1.88	3.54	4.55
	5-Year Low	1.94	0.97	1.33	2.85
	5-Year Median	2.74	1.37	2.18	3.62

As of 01/29/2020

Industry Analysis Zacks Industry Rank: Top 44% (113 out of 255)



Top Peers

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

Industry Comparison Industry: Steel - Pipe And Tube				Industry Peers		
	VMI Neutral	X Industry	S&P 500	LNN Outperform	MLI Neutral	MRC Outperform
VGM Score	A	-	-	F	A	B
Market Cap	3.19 B	788.20 M	23.91 B	1.10 B	1.71 B	955.02 M
# of Analysts	3	6	13	3	1	7
Dividend Yield	1.01%	1.03%	1.77%	1.22%	1.33%	0.00%
Value Score	B	-	-	F	B	B
Cash/Price	0.10	0.09	0.04	0.11	0.06	0.03
EV/EBITDA	12.66	10.46	14.07	53.44	9.61	10.28
PEG Ratio	1.68	1.73	2.00	NA	NA	1.05
Price/Book (P/B)	2.82	2.06	3.27	4.02	2.75	1.42
Price/Cash Flow (P/CF)	12.15	12.15	13.48	36.89	11.83	7.20
P/E (F1)	16.76	16.88	18.76	37.73	16.02	15.70
Price/Sales (P/S)	1.15	0.86	2.61	2.48	0.70	0.24
Earnings Yield	5.97%	5.92%	5.32%	2.65%	6.24%	6.37%
Debt/Equity	0.68	0.68	0.72	0.52	0.73	1.18
Cash Flow (\$/share)	12.18	1.83	6.88	2.75	2.55	1.61
Growth Score	A	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	3.84%	6.67%	10.68%	-10.42%	NA	-21.93%
Proj. EPS Growth (F1/F0)	21.29%	6.93%	7.73%	85.29%	23.68%	21.03%
Curr. Cash Flow Growth	10.52%	22.62%	12.29%	-38.41%	22.50%	50.26%
Hist. Cash Flow Growth (3-5 yrs)	-6.90%	-6.55%	8.78%	-14.87%	4.27%	-9.58%
Current Ratio	2.62	2.98	1.23	3.73	2.96	2.47
Debt/Capital	40.33%	40.33%	43.16%	34.08%	42.24%	43.53%
Net Margin	4.88%	4.22%	11.59%	2.11%	4.07%	1.87%
Return on Equity	15.28%	11.80%	17.38%	7.33%	20.22%	11.80%
Sales/Assets	1.05	1.16	0.54	0.87	1.73	1.52
Proj. Sales Growth (F1/F0)	4.59%	2.29%	4.05%	3.24%	NA	-3.02%
Momentum Score	C	-	-	D	D	D
Daily Price Chg	-0.80%	-0.34%	-0.21%	-0.56%	-0.79%	-0.68%
1 Week Price Chg	-1.27%	-0.63%	-1.09%	-1.61%	-4.40%	-10.37%
4 Week Price Chg	-1.19%	0.86%	-0.01%	5.62%	-5.17%	-14.81%
12 Week Price Chg	2.25%	0.90%	4.14%	6.83%	-3.46%	-21.43%
52 Week Price Chg	15.79%	9.62%	17.24%	17.20%	18.22%	-26.08%
20 Day Average Volume	86,479	53,598	1,824,613	122,418	142,002	606,650
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.05%	-1.29%	0.00%	4.68%	0.00%	-2.63%
(F1) EPS Est 12 week change	0.13%	-8.04%	-0.11%	4.54%	0.00%	-11.20%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.23%	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
Growth Score	A
Momentum Score	C
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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