Mueller Water Products, Inc. (MWA)

Updated May 29th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$14.47	**5 Year CAGR Estimate:**	4.2%	**Market Cap:**	$2.29B
Fair Value Price:	$12.98	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	08/07/2021[1]
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	08/20/2021
Dividend Yield:	1.5%	**5 Year Price Target**	$16.51	**Years Of Dividend Growth:**	7
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.8%

Overview & Current Events

Mueller Water Products is a leading manufacturer and marketer of products and services used to transmit, distribute, and measure water in North America. The company's products and services are used by municipalities and the residential and non-residential construction industries. The majority of its revenues (>90%) are derived from spending on water and wastewater infrastructure upgrades, repairs, and replacements, typically associated with the construction of new residential communities. Management estimates it has one of the largest installed bases of Iron Gate valves and fire hydrants in the United States. The company generates nearly $1 billion in annual sales and is based in Atlanta, Georgia.

On May 3rd, 2021, Mueller Water Products reported its FQ2 results for the quarter ended March 31st, 2021. For the quarter, revenues came in at $267.5 million, 3.8% higher YoY. The sales increase was primarily due to the one-time benefit of eliminating Krausz Industries' (its manufacturer of pipe coupling subsidiary) one-month reporting lag, higher pricing, and increased volumes at its "technologies" segment (<10% of revenues). Excluding Krausz Industries' benefit, revenue growth would have been 1.5%. Adjusted EPS came in at $0.14, a cent lower than the comparable period last year, due to higher costs associated with inflation, primarily for raw materials.

Despite the current operational challenges from the pandemic, accelerating inflation, and global supply chain disruptions, the company continues to believe that end-market demand will sustain further growth this year. Specifically, strong growth in the residential construction end market is expected to more than offset any temporary delays in the project-related portions of the municipal market caused by the pandemic. Based on this and the more recent result, we estimate FY2021 EPS of $0.59 and FY2021 DPS of $0.22, subject to a potential dividend increase in October.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	($0.25)	($0.69)	$0.26	$0.35	$0.19	$0.40	$0.77	$0.67	$0.40	$0.46	***$0.59***	***$0.75***
DPS	$0.07	$0.07	$0.07	$0.07	$0.08	$0.10	$0.15	$0.19	$0.20	$0.21	***$0.22***	***$0.27***
Shares[2]	155.3	156.5	157.7	159.2	160.5	161.3	160.1	158.2	157.8	157.8	***157.8***	***155.0***

Despite Mueller's revenue modestly growing over the past few years, they are still on the same levels they were a decade ago. The company has sustained a positive bottom line since 2013, though also lagging over the past few years. Its industry is very mature, with little to no expansion prospects. Hence apart from acquisitions, the company has few growth avenues. Further, the currently accelerated inflation could hurt the company if it isn't able to match higher costs with adequate price increases.

Still, amid management's positive comments, we estimate EPS growth of 5% in the medium-term. Mueller has never cut its dividend since its IPO. It has grown annually over the past 7 years, though at a humble rate since 2018. We expect DPS growth of around 4% going forward, amid limited profitability growth catalysts ahead.

[1] Estimated dates based on past dividend dates

[2] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	29.8	26.1	48.5	29.7	15.6	17.2	26.2	22.5	***24.5***	***22.0***
Avg. Yld.	2.8%	2.0%	0.9%	0.8%	0.9%	0.8%	1.3%	1.7%	1.9%	2.0%	***1.5%***	***1.6%***

Over the past decade, Mueller's valuation multiple has hovered to various levels based on the company's profitability expectations. Shares are currently trading at around 24.5 times our expected FY2021 EPS, close to its historical average. Due to lagged financials, we believe that shares would be more fairly valued at lower multiple. The stock's yield average, both over the past 5 and 10 years, has been 1.5%, similar to the current one. We expect it to remain stable going forward, providing a tiny tangible capital return to Mueller's shareholders.

Safety, Quality, Competitive Advantage, & Recession Resiliency

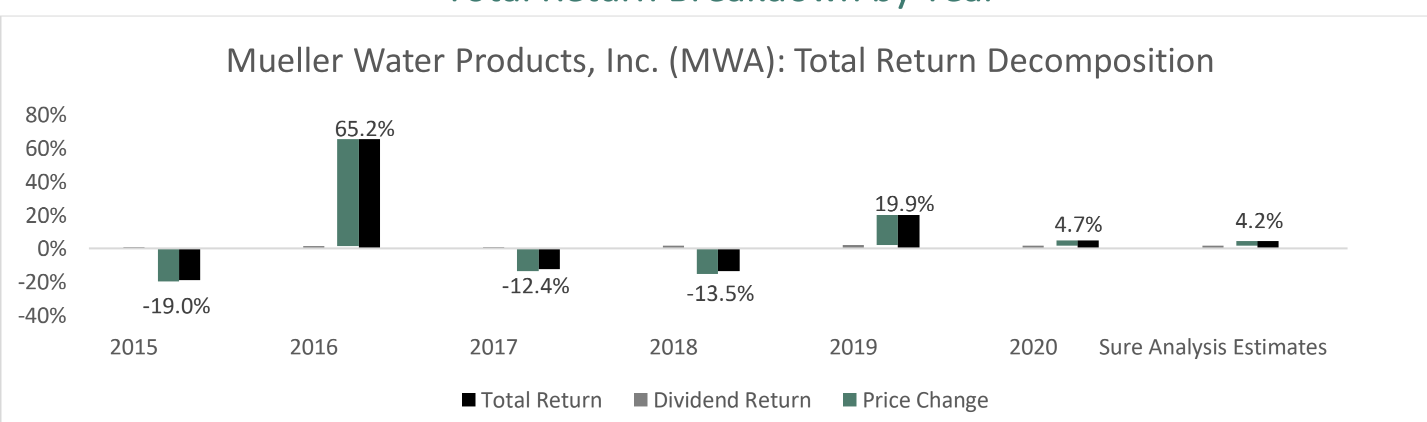
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	27%	20%	42%	25%	19%	28%	50%	46%	***37%***	***36%***

We consider the stock's dividend relatively safe, with the payout ratio gradually improving over the past few years. The company is a market leader in water and wastewater infrastructure upgrades that see relatively stable annual demand. Water utility companies must modernize their facilities every a certain time period; hence robust demand should remain. The company claims that while the valve and hydrant products industry is competitive, it is a mature one and many end users are slow to transition to brands other than their historically preferred brand. Hence sales should not fluctuate wildly. Sales should remain relatively stable under a recession as well, as was the case during the Great Financial Crisis. However, the company still has little to no competitive advantages and is subject to limited growth catalysts ahead. On the positive side, Mueller's net debt position has been declining consistently, from $1.5 billion in 2006 to $247.2 million as of the latest quarter. The company also has no outstanding debt repayments until 2026, which should allow for flexible capital allocation in the medium term.

Final Thoughts & Recommendation

Mueller Water Products' shares have lagged over the past few years, as the company's profitability prospects appear relatively restrained. We believe that the company possesses certain qualities such as robust revenues, an improving balance sheet, and a healthy payout ratio. However, due to humble growth projections and the potential for valuations headwinds ahead, we forecast annualized returns of around 4.2% in the medium term. We believe there are better opportunities around water-related stocks. Consequently, we rate shares a Sell at their current levels.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	965	1,024	1,121	1,185	793	801	826	916	968	964
Gross Profit	248	271	313	348	246	269	268	290	321	328
Gross Margin	25.7%	26.5%	27.9%	29.4%	31.0%	33.6%	32.4%	31.6%	33.2%	34.0%
SG&A Exp.	192	204	214	221	147	150	155	167	183	198
D&A Exp.	63	61	59	57	43	40	42	44	53	58
Operating Profit	56	67	99	124	80	112	102	113	122	117
Operating Margin	5.8%	6.5%	8.8%	10.5%	10.0%	14.0%	12.4%	12.3%	12.6%	12.1%
Net Profit	(38)	(108)	41	56	31	64	123	106	64	72
Net Margin	-3.9%	-10.6%	3.6%	4.7%	3.9%	8.0%	14.9%	11.5%	6.6%	7.5%
Free Cash Flow	17	2	73	111	61	114	(25)	77	6	73
Income Tax	(3)	8	9	18	8	24	24	(10)	18	22

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,485	1,241	1,282	1,313	1,230	1,281	1,258	1,292	1,337	1,395
Cash & Equivalents	61	83	124	161	113	195	362	347	177	209
Accounts Receivable	147	166	165	182	175	132	145	164	173	181
Inventories	176	183	209	198	219	131	139	157	191	163
Goodwill & Int. Ass.	602	581	553	534	507	435	439	420	529	509
Total Liabilities	1,106	1,010	954	961	862	861	769	727	745	754
Accounts Payable	59	85	101	116	99	74	83	90	85	67
Long-Term Debt	678	623	601	541	489	484	481	445	446	448
Shareholder's Equity	379	231	328	350	366	418	488	563	590	641
D/E Ratio	1.79	2.69	1.83	1.55	1.34	1.16	0.98	0.79	0.76	0.70

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-2.5%	-8.0%	3.2%	4.3%	2.4%	5.1%	9.7%	8.3%	4.9%	5.3%
Return on Equity	-9.7%	-35.5%	14.6%	16.4%	8.6%	16.3%	27.2%	20.1%	11.1%	11.7%
ROIC	-3.5%	-11.3%	4.6%	6.1%	3.5%	7.3%	13.2%	10.7%	6.2%	6.8%
Shares Out.	155.3	156.5	157.7	159.2	160.5	161.3	160.1	158.2	157.8	157.8
Revenue/Share	6.21	6.54	6.99	7.30	4.86	4.90	5.11	5.74	6.09	6.08
FCF/Share	0.11	0.01	0.45	0.68	0.37	0.70	(0.15)	0.48	0.04	0.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.