



Vulcan Materials Company (VMC)

Updated November 6th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$196	5 Year CAGR Estimate:	-7.6%	Market Cap:	\$26 billion
Fair Value Price:	\$97	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/15/2021
% Fair Value:	203%	5 Year Valuation Multiple Estimate:	-13.2%	Dividend Payment Date:	12/2/2021
Dividend Yield:	0.8%	5 Year Price Target	\$123	Years Of Dividend Growth:	8
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	8.8%

Overview & Current Events

Vulcan Materials is a leading producer and distributor of crushed stone. The company has 380 aggregate production facilities across 20 U.S. states as well as the District of Columbia, the Bahamas and Mexico. The company shipped nearly 210 million tons of aggregates in 2020. In addition, Vulcan Materials operates 70 asphalt facilities and 46 concrete plants. Vulcan Materials has annual revenues of about \$5.5 billion.

On 8/26/2021, Vulcan Materials completed its \$1.3 billion purchase of U.S. Concrete.

Vulcan Materials reported third quarter earnings results on 11/4/2021. Revenue grew 16% to \$1.52 billion, \$40 million above estimates. Adjusted earnings-per-share of \$1.54 compared unfavorably to adjusted earnings-per-share of \$1.56 in the prior year and was \$0.11 below expectations.

The third quarter saw a 7.7% improvement in aggregates volumes while cash gross profit per ton increased 2.5% to \$7.74. Gross profit margin contracted 30 basis points due to higher transportation and employee costs. Asphalt volumes fell 8% as volume growth in California was more than offset by weakness in Arizona and Tennessee. Unit price for liquid asphalt did grow 2%. Concrete volume declined 7% once again as there were fewer larger projects compared to the prior year. Prices improved 2%.

Vulcan Materials is expected to earn \$4.83 per share in 2021, down from \$5.07 previously. This which would still be a 9.5% improvement from the prior year. We have adjusted our forecast accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-\$0.58	-\$0.42	\$0.16	\$1.56	\$1.72	\$3.11	\$2.38	\$3.87	\$4.67	\$4.41	\$4.83	\$6.16
DPS	\$0.76	\$0.04	\$0.04	\$0.22	\$0.40	\$0.80	\$1.00	\$1.12	\$1.24	\$1.36	\$1.48	\$1.89
Shares¹	129	130	131	132	133	132	132	132	132	133	133	133

Vulcan Materials' earnings-per-share have been highly erratic over the last decade. The company struggled during the 2007 to 2009 time period and earnings-per-share turned negative at the start of the previous decade. On the plus side, earnings-per-share have a compound annual growth rate of almost 21% since 2016. We believe that this growth rate can largely be attributed to the strength of the overall economy and the resulting demand for products. Product prices are very low for much of the company's business. For example, aggregates, which account for three-quarters of all revenue, typical sell for approximately \$15 per ton. This doesn't leave much margin for error for Vulcan Materials if demand were to decline. We believe an earnings-per-share growth rate of 5% annually through 2026 accounts for the robust demand for products recently with the likelihood of extreme weakness in a recession.

Vulcan Materials cut its dividend every year from 2009 to 2012 as the company grappled with the recession's impact on business. The company has so aggressively raised its dividend in recent years that the compound annual growth rate is above 11% since 2016.

¹ Share count in millions

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	---	---	---	40.6	---	35.9	---	30.1	28	28.6	40.6	20.0
Avg. Yld.	2.0%	0.1%	0.1%	0.3%	0.5%	0.7%	0.8%	1.0%	0.9%	1.1%	0.8%	1.5%

Shares have increased \$26, or 15.3%, since our 10/1/2021 update. With unpredictable earnings growth comes an unpredictable valuation. Shares of Vulcan Materials have traded with extremely high valuations over the last decade and that is when earnings-per-share have steadily increased. We believe a multiple of 20 times earnings is a fair valuation for such a volatile stock. Using expected earnings-per-share for the year, Vulcan Materials has a price-to-earnings ratio of 40.6. This implies that valuation reversion could be a significant headwind. Returning to our target valuation by 2026 would reduce annual returns by 13.2% per year during this time.

Vulcan Materials yields 0.8% today, which is less than the average yield of S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	-131%	-10%	25%	14%	23%	26%	42%	29%	27%	31%	31%	31%

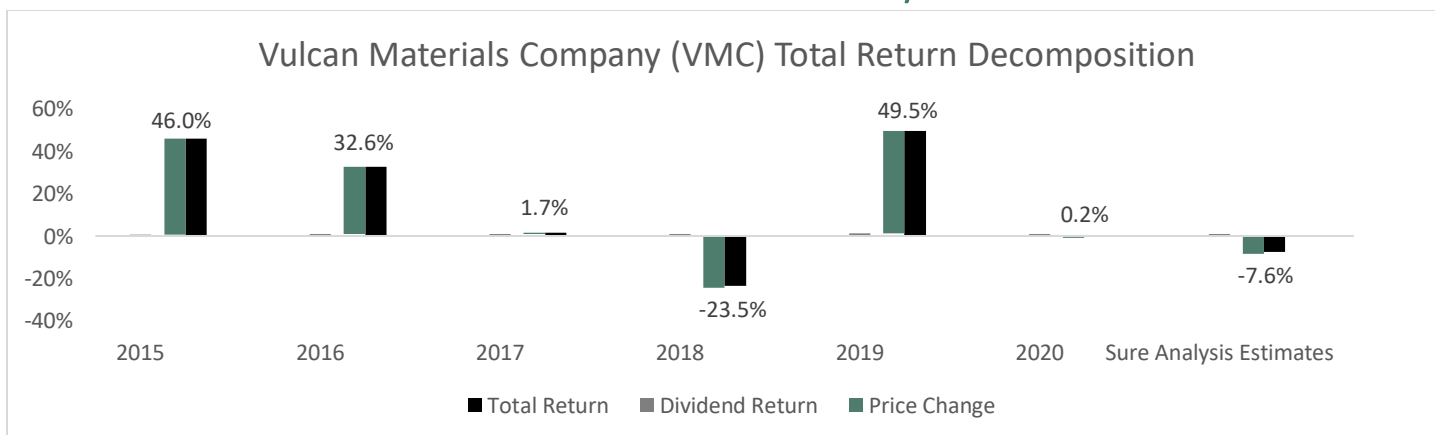
Vulcan Materials' business is highly correlated to the state of the economy. Earnings-per-share declined 63% from 2007 to 2008. The following year, earnings-per-share fell 91%. The company then posted three consecutive years of earnings-per-share losses as it struggled to rebound from the last recession.

Vulcan Materials is one of the larger names in its industry, which gives it some advantages against peers. However, the company is far from immune to downturns in the market. We do find the company's acquisition of U.S. Concrete a positive as this should enhance Vulcan Materials' presence in California, Texas and the Northeast. This should slightly reduce the company's reliance on the Gulf Coast for much of its revenues.

Final Thoughts & Recommendation

Vulcan Materials is now expected to lose 7.6% annually through 2026, compared to our prior estimate of a loss of 4.1%. Our projected return stems from a 5% earnings growth rate and starting yield of 0.8% that are more than offset by a low double-digit headwind from valuation reversion. Vulcan Materials is a name that can perform extremely well when the economy is growing. On the other hand, the company struggles considerably when a recession takes place. We feel that the stock should only be considered by those investors with a higher tolerance for risk. Due to projected returns, we continue to rate Vulcan Materials as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,565	2,567	2,771	2,994	3,422	3,593	3,890	4,383	4,929	4,857
Gross Profit	284	334	427	588	858	989	994	1,101	1,256	1,281
Gross Margin	11.1%	13.0%	15.4%	19.6%	25.1%	27.5%	25.5%	25.1%	25.5%	26.4%
SG&A Exp.	290	259	259	272	287	317	325	333	371	360
Operating Profit	(18)	26	153	297	540	650	621	733	854	892
Op. Margin	-0.7%	1.0%	5.5%	9.9%	15.8%	18.1%	16.0%	16.7%	17.3%	18.4%
Net Profit	(71)	(53)	24	205	221	419	601	516	618	584
Net Margin	-2.8%	-2.0%	0.9%	6.8%	6.5%	11.7%	15.5%	11.8%	12.5%	12.0%
Free Cash Flow	70	145	81	36	230	294	185	364	600	708
Income Tax	(78)	(66)	(24)	92	95	125	(232)	105	135	156

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	8,229	8,127	8,259	8,041	8,302	8,471	9,505	9,832	10,649	11,687
Cash & Equivalents	156	275	194	141	284	259	142	40	272	1,197
Acc. Receivable	299	278	323	355	397	398	434	512	532	513
Inventories	328	335	345	322	347	346	384	429	458	449
Goodwill & Int.	3,784	3,779	3,779	3,853	3,861	3,864	4,186	4,261	4,259	4,296
Total Liabilities	4,438	4,366	4,321	3,864	3,847	3,899	4,536	4,629	5,027	5,660
Accounts Payable	104	113	139	145	176	145	197	216	265	273
Long-Term Debt	2,815	2,677	2,522	1,985	1,980	1,983	2,855	2,912	2,784	3,288
Total Equity	3,792	3,761	3,938	4,177	4,454	4,572	4,969	5,203	5,622	6,027
D/E Ratio	0.74	0.71	0.64	0.48	0.44	0.43	0.57	0.56	0.50	0.55

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.9%	-0.6%	0.3%	2.5%	2.7%	5.0%	6.7%	5.3%	6.0%	5.2%
Return on Equity	-1.8%	-1.4%	0.6%	5.1%	5.1%	9.3%	12.6%	10.1%	11.4%	10.0%
ROIC	-1.1%	-0.8%	0.4%	3.2%	3.5%	6.5%	8.4%	6.5%	7.5%	6.6%
Shares Out.	129	130	131	132	133	132	132	132	132	133
Revenue/Share	19.82	19.79	21.08	22.51	25.33	26.46	28.84	32.73	36.95	36.45
FCF/Share	0.54	1.12	0.62	0.27	1.70	2.17	1.37	2.72	4.50	5.31

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

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