



Vulcan Materials Company (VMC)

Updated May 7th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$170	5 Year CAGR Estimate:	0.1%	Market Cap:	\$23 billion
Fair Value Price:	\$126	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/27/22 ¹
% Fair Value:	134%	5 Year Valuation Multiple Estimate:	-5.8%	Dividend Payment Date:	06/10/22 ²
Dividend Yield:	0.9%	5 Year Price Target	\$161	Years Of Dividend Growth:	9
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Sell

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 \$7.2 billion.

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

On February 11th, 2022, the company increased its quarterly dividend 8.1% to \$0.40.

On May 4th, 2022, Vulcan Materials reported first quarter results for the period ending March 31st, 2022. For the quarter, revenue grew 43.9% to \$1.54 billion, which was \$100 million above estimates. Adjusted earnings-per-share of \$0.73 compared favorably to adjusted earnings-per-share of \$0.69 in the prior year and was \$0.10 better than expected.

Much of the growth came from the company's addition of U.S. Concrete. Same-store aggregate pricing improved 6%. Average price for asphalt and concrete grew 13% and 9%, respectively. Aggregates gross profit per ton increased 9% to \$4.58 while total shipments were up 14% overall and 7% on a same-store basis. Average selling prices for asphalt mix grew 13% to \$7.28 per ton. Volume improved 5% due to growth in Arizona, California, and Tennessee. Unit price for liquid asphalt grew 33%. Concrete demand was strong in the legacy business.

Vulcan Materials is expected to earn \$6.32 per share in 2022, which would be a 25% increase from the prior year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	-\$0.42	\$0.16	\$1.56	\$1.72	\$3.11	\$2.38	\$3.87	\$4.67	\$4.41	\$5.05	\$6.32	\$8.07
DPS	\$0.04	\$0.04	\$0.22	\$0.40	\$0.80	\$1.00	\$1.12	\$1.24	\$1.36	\$1.48	\$1.60	\$2.04
Shares³	130	131	132	133	132	132	132	132	133	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 more than 16% since 2017. 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 2027 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 10% since 2017.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	40.6	---	35.9	---	30.1	28	28.6	41.4	26.9	20.0
Avg. Yld.	0.1%	0.1%	0.3%	0.5%	0.7%	0.8%	1.0%	0.9%	1.1%	0.7%	0.9%	1.3%

Shares have decreased \$15, or 8.1%, since our February 19th, 2022 report. 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 26.9. This implies that valuation reversion could be a headwind. Returning to our target valuation by 2027 would reduce annual returns by 5.8% per year during this time.

Vulcan Materials yields 0.9% today, which is less than the average yield of S&P 500 index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	-10%	25%	14%	23%	26%	42%	29%	27%	31%	29%	25%	25%

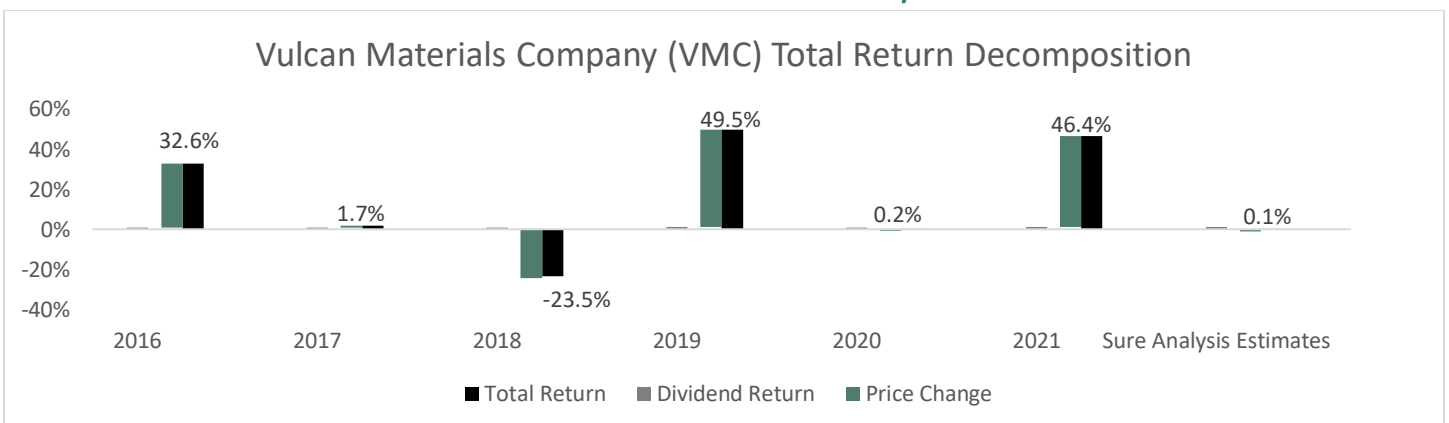
Vulcan Materials' business is highly correlated to the state of the economy. Earnings-per-share declined 63% from 2007 to 2008. The following year, earnings-per-share fell 91%. The company then posted three consecutive years of earnings-per-share losses as it struggled to rebound from the last recession.

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 return 0.1% annually through 2027, compared to our prior estimate of a loss of 1.6%. Our projected return stems from a 5% earnings growth rate and starting yield of 0.9% that are nearly offset by a mid-single-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. The company's business segments performed well during the quarter, but the stock's valuation leaves a lot to be desired. We continue to rate Vulcan Materials as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,567	2,771	2,994	3,422	3,593	3,890	4,383	4,929	4,857	5,552
Gross Profit	334	427	588	858	989	994	1,101	1,256	1,281	1,373
Gross Margin	13.0%	15.4%	19.6%	25.1%	27.5%	25.5%	25.1%	25.5%	26.4%	24.7%
SG&A Exp.	259	259	272	287	317	325	333	371	360	418
Operating Profit	26	153	297	540	650	621	733	854	892	891
Op. Margin	1.0%	5.5%	9.9%	15.8%	18.1%	16.0%	16.7%	17.3%	18.4%	16.0%
Net Profit	(53)	24	205	221	419	601	516	618	584	671
Net Margin	-2.0%	0.9%	6.8%	6.5%	11.7%	15.5%	11.8%	12.5%	12.0%	12.1%
Free Cash Flow	145	81	36	230	294	185	364	600	708	561
Income Tax	(66)	(24)	92	95	125	(232)	105	135	156	200

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	8,127	8,259	8,041	8,302	8,471	9,505	9,832	10,649	11,687	13,683
Cash & Equivalents	275	194	141	284	259	142	40	272	1,197	235
Acc. Receivable	278	323	355	397	398	434	512	532	513	833
Inventories	335	345	322	347	346	384	429	458	449	521
Goodwill & Int.	3,779	3,779	3,853	3,861	3,864	4,186	4,261	4,259	4,296	5,446
Total Liabilities	4,366	4,321	3,864	3,847	3,899	4,536	4,629	5,027	5,660	7,115
Accounts Payable	113	139	145	176	145	197	216	265	273	
Long-Term Debt	2,677	2,522	1,985	1,980	1,983	2,855	2,912	2,784	3,288	3,880
Total Equity	3,761	3,938	4,177	4,454	4,572	4,969	5,203	5,622	6,027	6,545
LTD/E Ratio	0.71	0.64	0.48	0.44	0.43	0.57	0.56	0.50	0.55	0.59

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-0.6%	0.3%	2.5%	2.7%	5.0%	6.7%	5.3%	6.0%	5.2%	5.3%
Return on Equity	-1.4%	0.6%	5.1%	5.1%	9.3%	12.6%	10.1%	11.4%	10.0%	10.7%
ROIC	-0.8%	0.4%	3.2%	3.5%	6.5%	8.4%	6.5%	7.5%	6.6%	6.8%
Shares Out.	130	131	132	133	132	132	132	132	133	133
Revenue/Share	19.79	21.08	22.51	25.33	26.46	28.84	32.73	36.95	36.45	41.59
FCF/Share	1.12	0.62	0.27	1.70	2.17	1.37	2.72	4.50	5.31	4.20

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

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