Martin Marietta Materials, Inc. (MLM)

Updated July 6th, 2022, by Ian Bezek

Key Metrics

Current Price:	$308	**5 Year CAGR Estimate:**	4.5%	**Market Cap:**	$19.1 B
Fair Value Price:	$275	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	08/30/22[1]
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Dividend Payment Date:**	09/29/22[1]
Dividend Yield:	0.8%	**5 Year Price Target**	$368	**Years Of Dividend Growth:**	7
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Martin Marietta Materials is a materials company focused primarily on building and infrastructure products generally sourced from local mines and quarries. Some leading products include cement, asphalt, paving, and concrete. The company has a focus of operations in the South, Texas, and Florida. These regions have generally enjoyed strong demand for building materials in recent years.

The company's core aggregates business faces limited competition and thus can prosper during periods of high demand such as now. The company's specialty chemical business is also enjoying an unusually strong operating environment.

However, Martin Marietta Materials' resiliency is being put to the test. The company's Q1 earnings, released May 3rd, fell far short of expectations. While the company grew sales 25% year-over-year to $1.15 billion, expenses accelerated faster than that, leading to a sharp decline in earnings-per-share; $0.39 versus $1.04 in the prior year period. The company is pushing through price increases to stabilize its profit margins. But, as its operations are energy-hungry, persistently high oil and natural gas prices could cause continuing pressure on the firm's results throughout 2022. On the demand side, a slowing housing market could limit revenue growth. However, increased demand from the Infrastructure Investment and Jobs Act should offset weaker housing.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.85	$2.65	$2.71	$4.26	$6.63	$7.16	$8.08	$9.74	$11.54	$12.28	***$12.50***	***$16.73***
DPS	$1.60	$1.60	$1.60	$1.60	$1.64	$1.72	$1.84	$2.06	$2.24	$2.36	***$2.44***	***$3.59***
Shares[2]	46	46	67	64	63	63	63	62	62	62	***62***	***62***

Martin Marietta Materials has achieved a strong earnings growth track record over the past decade. It jumpstarted its expansion in 2014 with the $2.7 billion purchase of Texas Industries. This gave the company its foothold in that fast-growing state. Martin Marietta Materials issued a large amount of stock to pay for that deal. Since then, however, it has repurchased some stock to bring its share count back down slightly.

Additionally, while the company had paused its dividend growth in the early 2010s, Martin Marietta Materials started to increase its dividend annually once it started to benefit from the Texas Industries acquisition. Following a small dividend bump in 2016, the company has been giving its shareholders more substantial increases. Over the past five years, it has managed a respectable 7.2% compounded annualized dividend growth rate. Earnings growth of nearly 12% annualized over the past five years has more than covered those dividend increases.

While the strong housing and infrastructure markets of late have undoubtedly helped the company's growth rates, the firm was already achieving steady earnings increases even prior to 2020. We forecast that after a relatively flat 2022, the company will be able to support 6% annualized earnings growth through 2027, and that this will pave the way for dividend growth at an 8% annual rate.

[1] Estimated date.

[2] 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	44.2	37.9	45.0	34.4	26.9	30.2	25.2	23.7	19.7	29.4	***24.6***	***22.0***
Avg. Yld.	2.0%	1.6%	1.3%	1.1%	0.9%	0.8%	0.9%	0.9%	1.0%	0.7%	***0.8%***	***1.0%***

Martin Marietta Materials started off the 2010s with a high P/E ratio due to depressed earnings coming out of the 2008 housing bust. Following the Texas Industries acquisition, the company's P/E ratio started to move to more normal levels. While the company's P/E has been highly variable, we project that it will settle around 22 going forward.

Though the company's dividend yield has been as high as 2% in the past, the stock has been a growth equity in recent years and has ended up with a correspondingly lower yield. Investors should not expect a current yield much above 1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	86%	60%	59%	38%	25%	24%	23%	21%	19%	19%	***20%***	***21%***

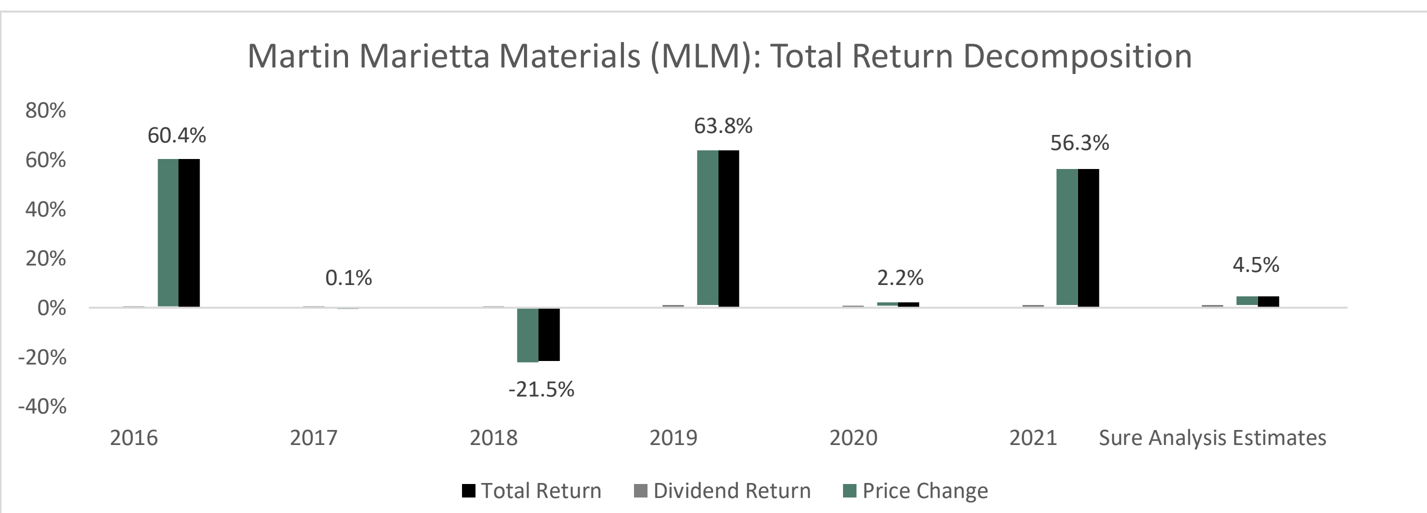
The building materials industry has a spotty track record in terms of consistent earnings growth and strong capital allocation. However, Martin Marietta Materials has historically exceeded its peers by a wide margin. That, combined with its favorable geographic positioning, has given the company a sustainable competitive advantage.

The company has $5.1 billion of total debt, which is not inconsiderable compared to the size of its asset base. However, little of this debt comes due within the next five years. Meanwhile, the company's consistent earnings and strong interest coverage should keep the company on fine financial footing. The dividend is also safe, as the company has consistently settled on a payout ratio of around 20% in recent years, leaving it well-covered by earnings.

Final Thoughts & Recommendation

Martin Marietta Materials has done a fine job delivering superior results in what's generally viewed to be a challenging industry. The company's purchases of Texas Industries and other firms have earned agreeable returns on investment. That said, we aren't convinced it can support a P/E ratio above 25 for this sort of business. That's particularly true with the economy and building materials industry facing headwinds in 2022. We expect reasonable earnings and dividend growth from the company, but multiple compression could be a headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,032	2,156	2,958	3,540	3,819	3,966	4,244	4,739	4,730	5,414
Gross Profit	327	364	522	727	912	972	967	1,179	1,253	1,348
Gross Margin	16.1%	16.9%	17.7%	20.5%	23.9%	24.5%	22.8%	24.9%	26.5%	24.9%
SG&A Exp.	138	150	169	211	242	262	281	303	306	351
Operating Profit	191	219	358	501	678	709	704	885	1,007	1,032
Op. Margin	9.4%	10.1%	12.1%	14.1%	17.8%	17.9%	16.6%	18.7%	21.3%	19.1%
Net Profit	84	121	156	289	425	713	470	612	721	703
Net Margin	4.2%	5.6%	5.3%	8.2%	11.1%	18.0%	11.1%	12.9%	15.2%	13.0%
Free Cash Flow	72	154	149	262	302	247	329	573	690	715
Income Tax	17	44	95	125	182	(95)	106	136	168	153

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,161	3,260	7,220	6,958	7,301	8,993	9,551	10,132	10,581	14,393
Cash & Equivalents	25	42	109	168	50	1,446	45	21	207	258
Acc. Receivable	224	245	421	411	458	487	523	574	575	774
Inventories	332	347	485	469	522	601	663	691	709	753
Goodwill & Int.	667	665	2,664	2,579	2,671	2,667	2,900	2,884	2,922	4,559
Total Liabilities	1,711	1,685	2,867	2,897	3,158	4,310	4,602	4,778	4,688	7,855
Accounts Payable	84	104	202	165	179	184	211	230	208	356
Long-Term Debt	1,048	1,033	1,586	1,579	1,686	3,027	3,120	2,774	2,626	5,101
Total Equity	1,411	1,538	4,351	4,057	4,140	4,680	4,946	5,351	5,891	6,535
LTD/E Ratio	0.74	0.67	0.36	0.39	0.41	0.65	0.63	0.52	0.45	0.78

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.7%	3.8%	3.0%	4.1%	6.0%	8.8%	5.1%	6.2%	7.0%	5.6%
Return on Equity	6.0%	8.2%	5.3%	6.9%	10.4%	16.2%	9.8%	11.9%	12.8%	11.3%
ROIC	3.4%	4.8%	3.6%	5.0%	7.4%	10.5%	6.0%	7.6%	8.7%	7.0%
Shares Out.	46	46	67	64	63	63	63	62	62	62
Revenue/Share	44.20	46.57	51.81	52.81	59.80	62.75	67.26	75.58	75.80	86.49
FCF/Share	1.56	3.32	2.62	3.91	4.72	3.91	5.22	9.13	11.06	11.42

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