



# Mueller Industries (MLI)

Updated November 23<sup>rd</sup>, 2022, by Thomas Richmond

## Key Metrics

<b>Current Price:</b>	\$69	<b>5 Year CAGR Estimate:</b>	15.9%	<b>Market Cap:</b>	\$3.9 B
<b>Fair Value Price:</b>	\$132	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	12/01/22
<b>% Fair Value:</b>	52%	<b>5 Year Valuation Multiple Estimate:</b>	13.9%	<b>Dividend Payment Date:</b>	12/16/22
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$139	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Mueller Industries (MLI) is a company that manufactures and sells metal and plastic products around the world through its 3 segments: Piping Systems, Industrial Metals, and Climate. The Piping Systems segment offers copper tubes, and plumbing-related fittings and it also resells steel pipes, brass, and other metal products to wholesalers in a variety of industries. The Industrial Metals segment manufactures brass, bronze, and copper alloy rods and other metal products for OEMs in the industrial, construction, HVAC, plumbing, and refrigeration markets. The Climate segment offers valves, protection devices, and brass fittings for various OEMs in the commercial HVAC and refrigeration markets, high-pressure components, and accessories for the air-conditioning and refrigeration markets. Mueller strives to be an industry leader, as it follows the approach of competing where it can be first or second in its core products and its key markets. Mueller has averaged an impressive 45.4% return on invested capital over the past 5 years and has a long-term goal to see double-digit annual growth in operating income.

On October 18<sup>th</sup>, 2022, Mueller Industries reported Q3 2022 results for the period ending September 24<sup>th</sup>, 2022. The business saw diluted earnings-per-share of \$2.74, which beat analysts' estimates by 39 cents. Net sales decreased 3.8% year-over-year to \$944.8 million due to the absence of the businesses the company divested in 2021, and reduced copper prices. Year-over-year sales growth of 22% from the value-added businesses couldn't keep up with copper prices averaging 19% lower than they were last year, and copper tube and brass rod volumes declining 14% year-over-year. The business remains in a strong financial position with zero net debt and strong cash generation.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.16	\$1.53	\$1.79	\$1.54	\$1.74	\$1.49	\$1.82	\$1.79	\$2.47	\$8.25	<b>\$11.00</b>	<b>\$11.56</b>
<b>DPS</b>	\$0.21	\$0.25	\$0.30	\$0.30	\$0.38	\$0.40	\$0.40	\$0.40	\$0.40	\$0.52	<b>\$1.00</b>	<b>\$1.19</b>
<b>Shares</b>	56	57	57	57	57	58	57	57	57	57	<b>58</b>	<b>60</b>

Over the past 9 years, earnings-per-share have grown at 24.4% annually, and over the past 5 years, earnings-per-share have grown at 49.2% annually. These growth results are a little skewed from the sharp growth seen in 2021, where 2021 saw much higher revenue and even higher profits. In contrast to the 24.4% annual earnings-per-share growth from 2012 to 2021, when 2021 is excluded, the annual earnings-per-share growth rate from 2012 to 2020 was 9.9%, which we think is a more accurate way to assess the business's historic earnings-per-share growth. In 2022, we expect Mueller Industries to deliver just about \$11 in earnings-per-share based on strong second and third quarter results. We forecast a 2027 earnings-per-share of about \$11.56, driven by a 1% annual growth in earnings-per-share.

Over the past 9 years, dividends have grown at 10.6% annually, and over the past 5 years, dividends have grown at 20.1% annually. Going forward, we forecast a slower dividend growth rate, with dividends growing at 3.5% annually over the next 5 years. We expect around 3.5% annual dividend growth because this will be slightly higher than the company's forecasted earnings-per-share growth rate.

*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	19.5	18.0	16.9	21.3	18.1	22.7	15.7	16.4	11.6	5.5	<b>6.3</b>	<b>12.0</b>
Avg. Yld.	0.9%	0.9%	1.0%	0.9%	1.2%	1.2%	1.4%	1.4%	1.4%	1.1%	<b>1.4%</b>	<b>0.9%</b>

Over the past 9 years, the stock has averaged a P/E ratio of 16.6, and over the past 5 years, the stock has averaged a P/E ratio of 14.4. Today, we estimate that a P/E ratio of about 12 is fair for the business as the company's earnings-per-share growth is expected to slow down. Today, the stock offers a 1.4% dividend yield, which is low for investors who prioritize dividend income, but investors might consider the stock for its high total return potential.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

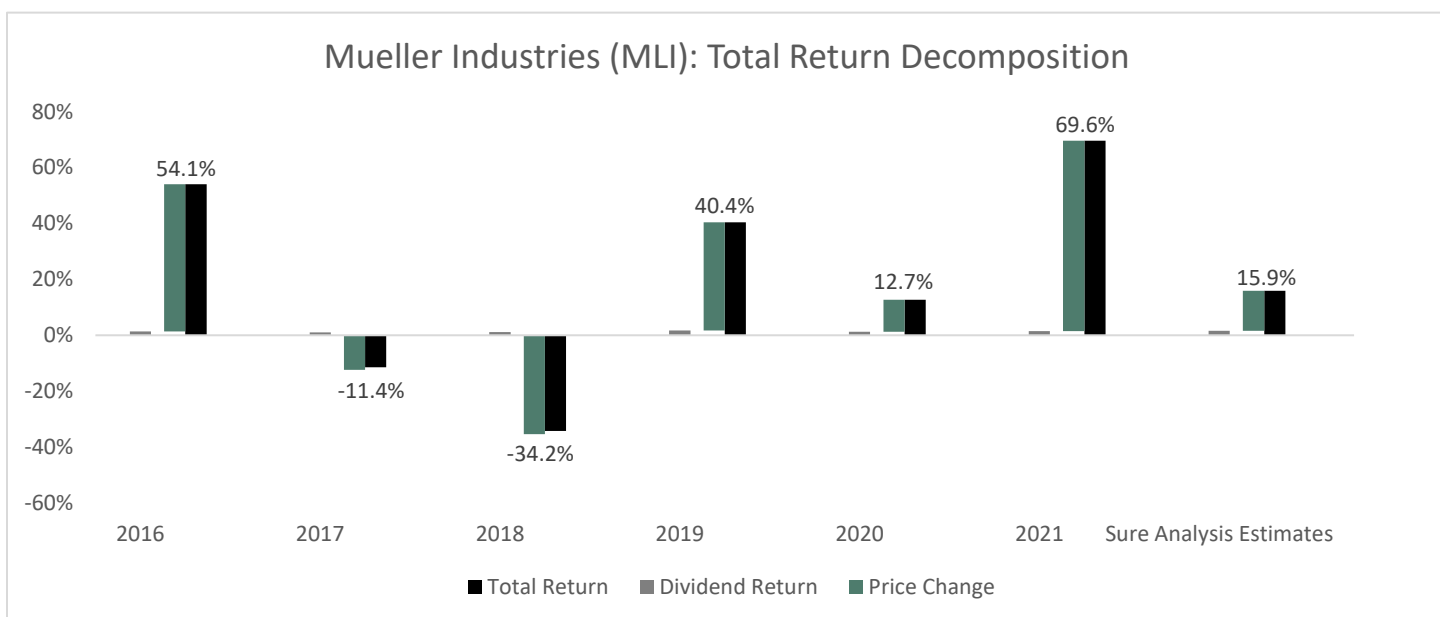
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	18%	16%	17%	19%	22%	27%	22%	22%	16%	6%	<b>9%</b>	<b>10%</b>

Over the past 9 years, the business has averaged just below a 19% payout ratio. Going forward, we expect Mueller Industries to continue to have a low payout ratio. We project that the dividend will be safe from cuts and reductions since the business has a very low payout ratio. Mueller has a very strong balance sheet, with more current assets than total liabilities, and 0 net debt. Mueller has a competitive advantage as the second-largest metal fabrication company by market cap, and the business has a proven history as an acquirer that can deliver high returns on capital.

## Final Thoughts & Recommendation

Mueller Industries is a metal fabrication business that has delivered high returns on capital from various acquisitions. At today's price, we rate the stock as a Buy because total return prospects come in at 15.9% annually over the next five years, driven by a 1.4% dividend yield, an expected 1% annual growth in earnings-per-share, and an estimated 13.9% annual return from the stock's valuation multiple rerating higher. While this stock might not be attractive for income investors due to the low dividend, investors might be interested in this stock for its strong total return prospects and attractive business model.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,190	2,159	2,364	2,100	2,056	2,266	2,508	2,431	2,398	3,769
Gross Profit	285	296	321	290	332	325	357	395	432	830
Gross Margin	13.0%	13.7%	13.6%	13.8%	16.2%	14.4%	14.3%	16.3%	18.0%	22.0%
SG&A Exp.	129	135	132	130	136	141	149	162	159	184
D&A Exp.	31	32	34	35	35	34	40	43	45	45
Operating Profit	123	128	154	125	160	143	168	189	223	596
Op. Margin	5.6%	5.9%	6.5%	6.0%	7.8%	6.3%	6.7%	7.8%	9.3%	15.8%
Net Profit	82	173	102	88	100	86	104	101	139	469
Net Margin	3.8%	8.0%	4.3%	4.2%	4.9%	3.8%	4.2%	4.2%	5.8%	12.4%
Free Cash Flow	51	87	51	131	120	(2)	129	169	201	280
Income Tax	37	98	45	43	48	38	31	35	55	166

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,104	1,248	1,328	1,339	1,447	1,320	1,370	1,371	1,529	1,729
Cash & Equivalents	199	312	352	275	351	120	73	98	119	88
Acc. Receivable	271	272	275	252	256	245	273	270	358	472
Inventories	229	252	257	239	242	328	330	292	315	430
Goodwill & Int.	105	94	121	161	160	172	212	213	245	233
Total Liabilities	566	512	533	479	511	784	806	709	728	472
Accounts Payable	88	81	101	88	103	103	104	86	148	181
Long-Term Debt	235	235	241	216	227	465	497	386	328	2
Total Equity	507	703	762	827	899	522	548	643	777	1,222
LTD/E Ratio	0.46	0.33	0.32	0.26	0.25	0.89	0.91	0.60	0.42	0.00

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.7%	14.7%	7.9%	6.6%	7.2%	6.2%	7.8%	7.4%	9.6%	28.8%
Return on Equity	12.1%	28.5%	13.9%	11.1%	11.6%	12.0%	19.5%	16.9%	19.6%	46.9%
ROIC	8.9%	19.8%	10.1%	8.3%	8.9%	7.9%	10.1%	9.6%	12.8%	39.2%
Shares Out.	56	57	57	57	57	58	57	57	57	57
Revenue/Share	30.63	38.22	41.65	36.86	35.96	39.42	43.79	43.14	42.53	66.36
FCF/Share	0.72	1.54	0.91	2.30	2.10	(0.04)	2.26	3.01	3.57	4.93

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

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