Mueller Water Products, Inc. (MWA)

Updated November 16th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$11.43	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$1.78 B
Fair Value Price:	$10.44	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	11/09/2022
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	11/21/2022
Dividend Yield:	2.1%	**5 Year Price Target**	$13.32	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 around $1.2 billion in annual sales and is based in Atlanta, Georgia.

On October 21st, 2022, Mueller Water Products increased its dividend by 5.2% to a quarterly rate of $0.061.

On November 7th, 2022, Mueller Water Products reported its Q4 and full year results for the year ending September 30th, 2022. For the quarter, revenues came in at $331.4 million, 12.1% higher year-over-year. This increase was primarily due to higher pricing across Mueller's product lines, which was partially offset by a decrease in volumes primarily in its service brass products. The Water Flow Solutions segment delivered sales growth of 8.8% to $179.4 million, while the Water Management Solutions was the stronger growth contributor, posting sales of $152.0 million, up 16.4% year-over-year. Net income per diluted share came in at $0.05 as compared with $0.12 last year. The notable decline was due to operating expenses jumping 26.5%. Still for the full-year, EPS grew from $0.44 to $0.49.

Mueller's initial fiscal 2023 outlook targets revenue growth between 6% and 8%, adjusted EBITDA growth of 10% to 14%, and adjusted operating income to grow by about 20% compared to fiscal 2022. Based on these figures, our initial estimates suggest fiscal 2023 EPS to land close to $0.58.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.26	$0.35	$0.19	$0.40	$0.77	$0.67	$0.40	$0.45	$0.44	$0.49	***$0.58***	***$0.74***
DPS	$0.07	$0.07	$0.08	$0.10	$0.15	$0.19	$0.20	$0.21	$0.22	$0.23	***$0.24***	***$0.30***
Shares[1]	157.7	159.2	160.5	161.3	160.1	158.2	157.8	157.8	158.4	157.4	***156.3***	***145.0***

Despite Mueller's revenue modestly growing over the past few years, they are still near the same levels they were a decade ago. The company has sustained a positive bottom line since 2013, but with no growth success, nonetheless. 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, powered by growing revenues, 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 8 years, though at a humble rate since 2018. We expect DPS growth of around 4% going forward, considering Mueller's limited profitability growth catalysts ahead. The company repurchased $35 million worth of stock in fiscal 2022. Continuous buybacks should contribute to EPS growth.

[1] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	29.8	26.1	48.5	29.7	15.6	17.2	26.2	22.5	48.0	25.1	***19.7***	***18.0***
Avg. Yld.	0.9%	0.8%	0.9%	0.8%	1.3%	1.7%	1.9%	2.0%	1,5%	1.9%	***2.1%***	***2.2%***

Over the past decade, Mueller's valuation multiple has hovered at various levels based on the company's profitability expectations. Shares are currently trading at 19.7 times our expected FY2023 EPS. Despite the promising outlook, due to its overall lagged financials, we believe that shares would be more fairly valued at a lower multiple of around 18. A lower multiple is even further justified in a rising rates environment, with the company's thin growth prospects hardly deserving a premium. The only catalyst behind the stock's historical premium, in our view, lies in all water-related investments attracting significant investor interest due to their mature and mission-critical business models. We expect the stock's yield to move up, assuming a reasonable valuation compression, though it is to remain rather soft overall.

Safety, Quality, Competitive Advantage, & Recession Resiliency

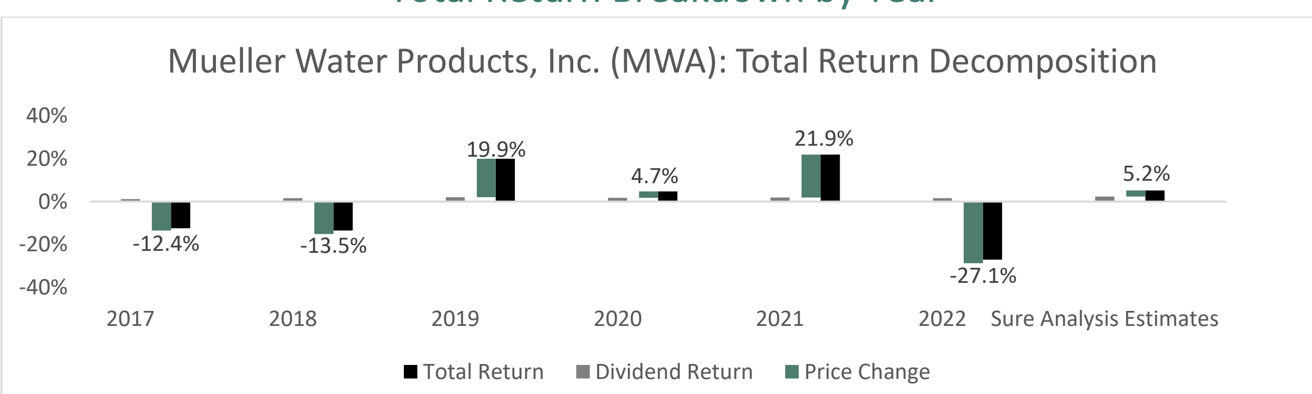
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	20%	42%	25%	19%	28%	50%	47%	50%	47%	***42%***	***40%***

We consider the stock's dividend relatively safe even as the payout ratio has moved higher 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 $300 million as of the latest quarter. The company also has no outstanding debt maturities prior to June 2029, which should allow for flexible capital allocation in the medium-term.

Final Thoughts & Recommendation

Mueller Water Products possesses certain attractive qualities, such as robust revenues, an improving balance sheet, and a healthy dividend payout ratio. However, we forecast the stock will deliver relatively humble returns in the coming years. This is due to the possibility of valuation headwinds offsetting gains from growth in the company's financials. Our annualized total return potential through 2028 comes out at 5.2%. Thus, we rate the stock a hold 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	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,185	793	801	826	916	968	964	1111	1247
Gross Profit	348	246	269	268	290	321	328	359	364
Gross Margin	29.4%	31.0%	33.6%	32.4%	31.6%	33.2%	34.0%	32.3%	29.2%
SG&A Exp.	221	147	150	155	167	183	198	219	239
D&A Exp.	57	43	40	42	44	53	58	60	61
Operating Profit	124	80	112	102	113	122	117	140	126
Operating Margin	10.5%	10.0%	14.0%	12.4%	12.3%	12.6%	12.1%	12.6%	10.1%
Net Profit	56	31	64	123	106	64	72	70	77
Net Margin	4.7%	3.9%	8.0%	14.9%	11.5%	6.6%	7.5%	6.3%	6.2%
Free Cash Flow	111	61	114	(25)	77	6	73	94	(2.4)
Income Tax	18	8	24	24	(10)	18	22	25	22

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,313	1,230	1,281	1,258	1,292	1,337	1,395	1,518	1,498
Cash & Equivalents	161	113	195	362	347	177	209	228	147
Accounts Receivable	182	175	132	145	164	173	181	212	228
Inventories	198	219	131	139	157	191	163	185	279
Goodwill & Int. Ass.	534	507	435	439	420	529	509	508	460
Total Liabilities	961	862	861	769	727	745	754	823	829
Accounts Payable	116	99	74	83	90	85	67	92	123
Long-Term Debt	541	489	484	481	445	446	448	447	447
Shareholder's Equity	350	366	418	488	563	590	641	695	669
LTD/E Ratio	1.55	1.34	1.16	0.98	0.79	0.76	0.70	0.64	0.67

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.3%	2.4%	5.1%	9.7%	8.3%	4.9%	5.3%	4.8%	5.1%
Return on Equity	16.4%	8.6%	16.3%	27.2%	20.1%	11.1%	11.7%	10.5%	11.2%
ROIC	6.1%	3.5%	7.3%	13.2%	10.7%	6.2%	6.8%	6.3%	6.8%
Shares Out.	159.2	160.5	161.3	160.1	158.2	157.8	157.8	159.2	158
Revenue/Share	7.30	4.86	4.90	5.11	5.74	6.09	6.08	6.98	7.90
FCF/Share	0.68	0.37	0.70	(0.15)	0.48	0.04	0.46	0.59	

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