



Vulcan Materials Company (VMC)

Updated November 5th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$170	5 Year CAGR Estimate:	-3.3%	Market Cap:	\$22.6 billion
Fair Value Price:	\$106	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/14/22
% Fair Value:	161%	5 Year Valuation Multiple Estimate:	-9.1%	Dividend Payment Date:	12/05/22
Dividend Yield:	0.9%	5 Year Price Target	\$135	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 \$7.4 billion.

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

On November 2nd, 2022, Vulcan Materials reported third quarter results for the period ending September 30th, 2022. For the quarter, revenue grew 37.5% to \$2.09 billion, which was \$80 million above estimates. Adjusted earnings-per-share of \$1.78 compared favorably to adjusted earnings-per-share of \$1.54 in the prior year and was \$0.07 more than expected.

Much of the growth came from the company's addition of U.S. Concrete, but legacy operations were up double-digits. Same-store aggregate pricing improved 12%. Average price for asphalt and concrete grew 26% and 13%, respectively. Aggregates gross profit per ton was up 7.8% to \$6.67 while total shipments were up 8.6% overall. Average selling prices for asphalt mix grew 26% to \$15.37. Volume improved 13% due to growth in Arizona and California. Unit price paid for liquid asphalt increased 42%. Concrete demand was strong in the legacy business.

Vulcan Materials is expected to earn \$5.28 in 2022, down from \$5.43 previously. This would be a 4.6% 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	\$5.28	\$6.74
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
Shares¹	130	131	132	133	132	132	132	132	133	133	134	134

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 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.



Vulcan Materials Company (VMC)

Updated November 5th, 2022 by Nathan Parsh

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	32.2	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%	1.5%

Shares have decreased \$8, or 4.5%, since our August 15th, 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 32.2. This implies that valuation reversion could be a sizeable headwind. Returning to our target valuation by 2027 would reduce annual returns by 9.1% 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%	30%	30%

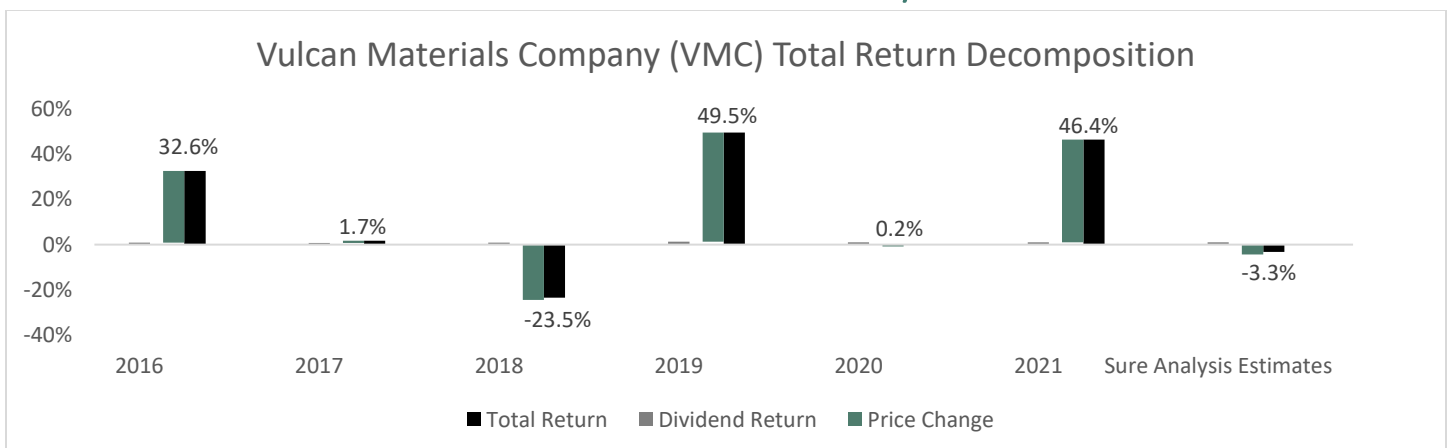
Vulcan Materials' business is highly correlated to the state of the economy. Earnings-per-share declined 63% from 2007 to 2008. The following year, earnings-per-share fell 91%. The company then posted three consecutive years of earnings-per-share losses as it struggled to rebound from the last recession.

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 produce a negative return of -3.3% annually through 2027, compared to our prior estimate of a negative return of -3.6%. Our projected return stems from a 5% earnings growth rate and starting yield of 0.9% that are more than offset by a high 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



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Vulcan Materials Company (VMC)

Updated November 5th, 2022 by Nathan Parsh

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.