



Vulcan Materials Company (VMC)

Updated February 19th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$188	5 Year CAGR Estimate:	-3.2%	Market Cap:	\$24.7 billion
Fair Value Price:	\$118	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/03/23
% Fair Value:	160%	5 Year Valuation Multiple Estimate:	-9.0%	Dividend Payment Date:	03/20/23
Dividend Yield:	0.9%	5 Year Price Target	\$150	Years Of Dividend Growth:	10
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 more than \$7 billion.

On February 10th, 2023, the company increased its quarterly dividend 7.5% to \$0.43.

On February 16th, 2023, Vulcan Materials reported fourth quarter and full year results for the period ending December 31st, 2022. For the quarter, revenue grew 7.5% to \$1.73 billion, which was \$110 million below estimates. Adjusted earnings-per-share of \$1.08 compared unfavorably to adjusted earnings-per-share of \$1.54 in the prior year and was \$0.08 less than expected. For the year, revenue grew 31.8% to \$7.3 billion while adjusted earnings-per-share of \$5.11 was up slightly from \$5.04 in the prior year.

Aggregates gross profit per ton was up 7.1% to \$6.04 while total shipments were down 6%. Average selling prices for asphalt mix grew 24% to \$14.56. Volume declined 2% despite growth in Arizona and California. Unit price paid for liquid asphalt increased 24%. Concrete volume was lower by 15%, partially due to a slowdown in residential construction activity. The divestiture of the concrete operations in New York, New Jersey, and Pennsylvania also impacted results.

Vulcan Materials is expected to earn \$5.88 in 2023. This would be a 15.1% increase from the prior year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.16	\$1.56	\$1.72	\$3.11	\$2.38	\$3.87	\$4.67	\$4.41	\$5.04	\$5.11	\$5.88	\$7.50
DPS	\$0.04	\$0.22	\$0.40	\$0.80	\$1.00	\$1.12	\$1.24	\$1.36	\$1.48	\$1.60	\$1.72	\$2.20
Shares¹	131	132	133	132	132	132	132	133	133	134	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 41% since 2013. We believe that this growth rate can largely be attributed to the strength of the overall economy and the resulting demand for products as well as the low starting base. For additional context, earnings-per-share have increased at just under 6% since 2018.

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 2028 accounts for the robust demand for products recently with the likelihood of extreme weakness in a recession.

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.



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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 7.4% since 2018.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	40.6	---	35.9	---	30.1	28	28.6	41.4	34.3	32.0	20.0
Avg. Yld.	0.1%	0.3%	0.5%	0.7%	0.8%	1.0%	0.9%	1.1%	0.7%	0.9%	0.9%	1.5%

Shares have increased \$18, or 10.6%, since our November 5th, 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. This implies that valuation reversion could be a sizeable headwind. Returning to our target valuation by 2028 would reduce annual returns by 9.0% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	25%	14%	23%	26%	42%	29%	27%	31%	29%	31%	29%	29%

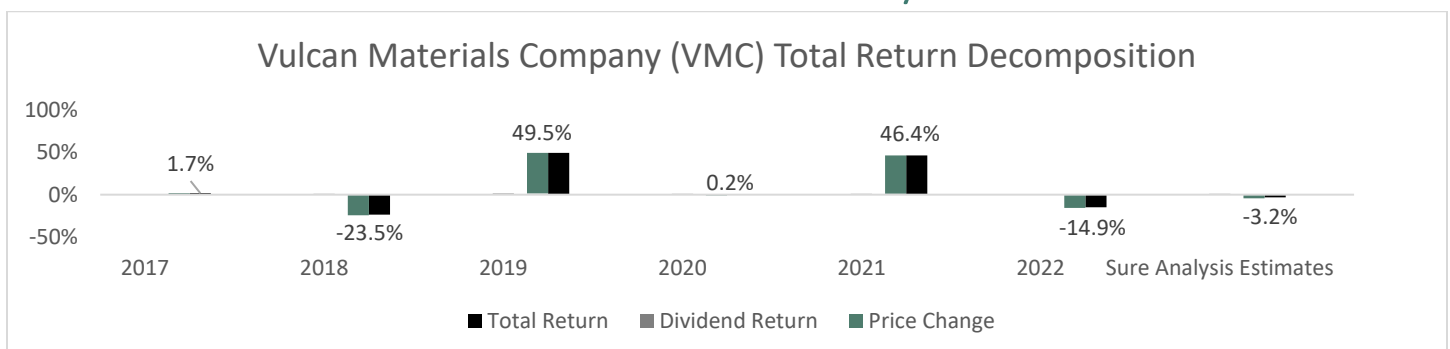
Vulcan Materials' business is highly correlated to the state of the economy. Earnings-per-share declined 63% from 2007 to 2008. The following year, earnings-per-share fell 91%. The company then posted three consecutive years of earnings-per-share losses as it struggled to rebound from the last recession.

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 return of -3.2% annually through 2028, compared to our prior estimate of a return of -3.3%. 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. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,771	2,994	3,422	3,593	3,890	4,383	4,929	4,857	5,552	7,315
Gross Profit	427	588	858	989	994	1,101	1,256	1,281	1,373	1,558
Gross Margin	15.4%	19.6%	25.1%	27.5%	25.5%	25.1%	25.5%	26.4%	24.7%	21.3%
SG&A Exp.	259	272	287	317	325	333	371	360	418	515
Operating Profit	153	297	540	650	621	733	854	892	891	1,009
Op. Margin	5.5%	9.9%	15.8%	18.1%	16.0%	16.7%	17.3%	18.4%	16.0%	13.8%
Net Profit	24	205	221	419	601	516	618	584	671	576
Net Margin	0.9%	6.8%	6.5%	11.7%	15.5%	11.8%	12.5%	12.0%	12.1%	7.9%
Free Cash Flow	81	36	230	294	185	364	600	708	561	536
Income Tax	(24)	92	95	125	(232)	105	135	156	200	193

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	8,259	8,041	8,302	8,471	9,505	9,832	10,649	11,687	13,683	14,235
Cash & Equivalents	194	141	284	259	142	40	272	1,197	235	161
Acc. Receivable	323	355	397	398	434	512	532	513	833	1,045
Inventories	345	322	347	346	384	429	458	449	521	579
Goodwill & Int.	3,779	3,853	3,861	3,864	4,186	4,261	4,259	4,296	5,446	5,392
Total Liabilities	4,321	3,864	3,847	3,899	4,536	4,629	5,027	5,660	7,115	7,282
Accounts Payable	139	145	176	145	197	216	265	273	366	
Long-Term Debt	2,522	1,985	1,980	1,983	2,855	2,912	2,784	3,288	3,880	3,976
Total Equity	3,938	4,177	4,454	4,572	4,969	5,203	5,622	6,027	6,545	6,929
LTD/E Ratio	0.64	0.48	0.44	0.43	0.57	0.56	0.50	0.55	0.59	0.57

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.3%	2.5%	2.7%	5.0%	6.7%	5.3%	6.0%	5.2%	5.3%	4.1%
Return on Equity	0.6%	5.1%	5.1%	9.3%	12.6%	10.1%	11.4%	10.0%	10.7%	8.5%
ROIC	0.4%	3.2%	3.5%	6.5%	8.4%	6.5%	7.5%	6.6%	6.8%	5.4%
Shares Out.	131	132	133	132	132	132	132	133	133	134
Revenue/Share	21.08	22.51	25.33	26.46	28.84	32.73	36.95	36.45	41.59	54.75
FCF/Share	0.62	0.27	1.70	2.17	1.37	2.72	4.50	5.31	4.20	4.01

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

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