Mueller Industries (MLI)

Updated May 6th, 2023, by Derek English

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	1.4%	**Market Cap:**	$4.25 B
Fair Value Price:	$70	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	06/01/23
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	06/16/23
Dividend Yield:	1.6%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	3
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

Mueller Industries (MLI) is a company that manufactures and sells metal and plastic products around the world through its three 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 various 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. Finally, 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 key markets. Mueller has averaged an impressive 45.4% return on invested capital over the past five years and aims to see double-digit annual growth in operating income.

On May 6th, 2023, Mueller Industries reported its Q1 results. In the first quarter, the business saw diluted earnings-per-share of $3.07, up 10.4% from Q1 2022. Net sales decreased 3.3% year-over-year to $971.2 million due to lower copper prices and a reduction in volume from the companies' mil business, with their international operations feeling the most significant impact. Value-added enterprises helped offset some of the sales declines, particularly in its climate segment, which saw 8% growth yearly. Operating income increased 7.7% year-over-year thanks mainly to a lower cost of goods. The balance sheet remains strong, with virtually no long-term debt and a strong cash flow generation of $111.6 million this quarter.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2027
EPS	$1.53	$1.79	$1.54	$1.74	$1.49	$1.82	$1.79	$2.47	$8.25	$11.64	***$7.00***	***$7.36***
DPS	$0.25	$0.30	$0.30	$0.38	$0.40	$0.40	$0.40	$0.40	$0.52	$1.00	***$1.20***	***$1.29***
Shares	57.0	57.0	57.0	57.0	58.0	57.0	57.0	57.0	57.0	57.0	***58.0***	***60.0***

Over the past nine years, earnings-per-share have grown at 25.3% annually; over the past five years, earnings-per-share have grown at 50.9% annually. These growth results are slightly skewed from the sharp growth in 2021 and 2022, where we saw much higher revenue and profits. In contrast to the 24.4% annual earnings-per-share growth from 2012 to 2021, when 2021 is excluded, the yearly 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. However, we expected earnings to slow down in 2023 as demands for Mueller Industries' products weaken, and we had an initial target of $7 EPS for 2023. Over the past nine years, dividends have grown at 16.7% annually; over the past five years, dividends have grown at 20.1% annually. The company has continued this impressive growth rate with a quarterly dividend increase of 20% to $0.3, payable on June 16th. However, we forecast a slower dividend growth rate in the future, with dividends growing at 1.5% annually over the next five years. We expect around 1.5% annual dividend growth because the companies' earnings are expected to fall back to pre-2021 levels, and there is a history of maintaining the dividend.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.0	16.9	21.3	18.1	22.7	15.7	16.4	11.6	5.5	8.3	***10.6***	***10.0***
Avg. Yld.	0.9%	1.0%	0.9%	1.2%	1.2%	1.4%	1.4%	1.4%	1.1%	1.4%	***1.6%***	***1.8%***

Over the past nine years, the stock has averaged a P/E ratio of 15.5; over the past five years, the stock has averaged a P/E ratio of 11.5. We estimate that a P/E ratio of about 10 is fair for the business as the company's earnings-per-share growth is expected to slow down. In addition, the stock offers a 1.6% dividend yield today, which is low for investors who prioritize dividend income. The company's share price has rocketed since March 2020, and it now sits 6% above our fair value estimate of $70.

Safety, Quality, Competitive Advantage, & Recession Resiliency

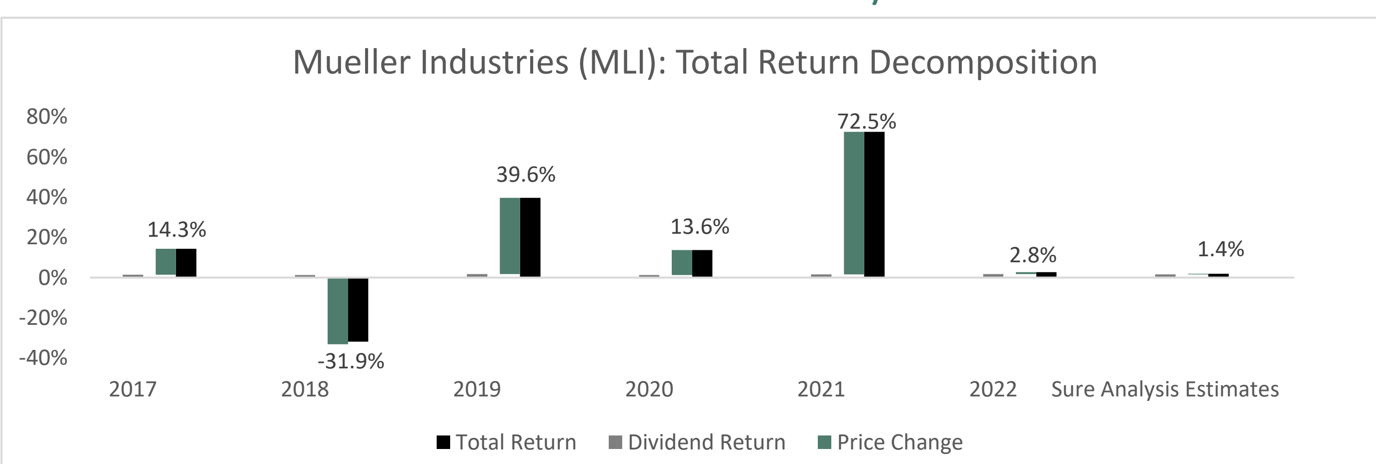
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	17%	19%	22%	27%	22%	22%	16%	6%	9%	***17%***	***18%***

Over the past nine years, the business has demonstrated a conservative dividend policy, with the payout ratio typically below 22%. We expect the payout ratio to remain around 16% as earnings stabilize. Mueller balance sheet is reasonably strong, with a current ratio of 4.3 and a little over $1 million in long-term debt. While we project that the dividend is safe from being cut, the company has a history of maintaining the dividend for several years and rewarding shareholders with significant increases as earnings improve. Mueller Industries' competitive advantages lie in its strong global presence and brand reputation for quality and reliability. The company is the second-largest metal fabrication company by market cap. It offers a wide range of products in different industries, which helps mitigate the impact of market volatility in any specific market. This type of diversification helps keep the company resilient during a recession, where they typically maintain its dividend.

Final Thoughts & Recommendation

Mueller Industries is a metal fabrication business that has delivered high returns on capital from various acquisitions. However, earnings are expected to slow down, and we predict a 1.4% return annually over the next five years. The low return is driven by a 1.6% dividend yield, an expected 1% annual growth in earnings-per-share, and no gain from the stock's valuation multiple. At today's price, we would rate MLI as a sell and would consider taking profits after the share price has more than doubled since 2020.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,159	2,364	2,100	2,056	2,266	2,508	2,431	2,398	3,769	3,982
Gross Profit	296	321	290	332	325	357	395	432	830	1,118
Gross Margin	13.7%	13.6%	13.8%	16.2%	14.4%	14.3%	16.3%	18.0%	22.0%	28.1%
SG&A Exp.	135	132	130	136	141	149	162	159	184	203
D&A Exp.	32	34	35	35	34	40	43	45	45	44
Operating Profit	128	154	125	160	143	168	189	223	596	869
Op. Margin	5.9%	6.5%	6.0%	7.8%	6.3%	6.7%	7.8%	9.3%	15.8%	21.8%
Net Profit	173	102	88	100	86	104	101	139	469	658
Net Margin	8.0%	4.3%	4.2%	4.9%	3.8%	4.2%	4.2%	5.8%	12.4%	16.5%
Free Cash Flow	87	51	131	120	(2)	129	169	201	280	686
Income Tax	98	45	43	48	38	31	35	55	166	223

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,248	1,328	1,339	1,447	1,320	1,370	1,371	1,529	1,729	2,242
Cash & Equivalents	312	352	275	351	120	73	98	119	88	461
Acc. Receivable	272	275	252	256	245	273	270	358	472	380
Inventories	252	257	239	242	328	330	292	315	430	449
Goodwill & Int.	94	121	161	160	172	212	213	245	233	212
Total Liabilities	512	533	479	511	784	806	709	728	472	428
Accounts Payable	81	101	88	103	103	104	86	148	181	128
Long-Term Debt	235	241	216	227	465	497	386	328	2	2
Total Equity	703	762	827	899	522	548	643	777	1,222	1,791
LTD/E Ratio	0.33	0.32	0.26	0.25	0.89	0.91	0.60	0.42	0.00	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	14.7%	7.9%	6.6%	7.2%	6.2%	7.8%	7.4%	9.6%	28.8%	33.2%
Return on Equity	28.5%	13.9%	11.1%	11.6%	12.0%	19.5%	16.9%	19.6%	46.9%	43.7%
ROIC	19.8%	10.1%	8.3%	8.9%	7.9%	10.1%	9.6%	12.8%	39.2%	42.8%
Shares Out.	57	57	57	57	58	57	57	57	57	56.6
Revenue/Share	38.22	41.65	36.86	35.96	39.42	43.79	43.14	42.53	66.36	70.42
FCF/Share	1.54	0.91	2.30	2.10	(0.04)	2.26	3.01	3.57	4.93	12.14

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