



# Vulcan Materials Company (VMC)

Updated May 24<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$195	<b>5 Year CAGR Estimate:</b>	-1.9%	<b>Market Cap:</b>	\$26 billion
<b>Fair Value Price:</b>	\$131	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	05/25/23
<b>% Fair Value:</b>	149%	<b>5 Year Valuation Multiple Estimate:</b>	-7.6%	<b>Dividend Payment Date:</b>	06/09/23
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$167	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	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 10<sup>th</sup>, 2023, the company increased its quarterly dividend 7.5% to \$0.43.

On May 4<sup>th</sup>, 2023, Vulcan Materials reported first quarter results for the period ending March 31<sup>st</sup>, 2023. For the quarter, revenue grew 7.1% to \$1.65 billion, which was \$80 million more than expected. Adjusted earnings-per-share of \$0.95 compared favorably to adjusted earnings-per-share of \$0.73 in the prior year and was \$0.33 above expectations.

Aggregates gross profit per ton increased 27.7% to \$5.85 while total shipments were down by 2.5%. Average selling prices for asphalt mix was higher by 15% to \$9.38 per ton, though volume decreased 11% due to lower shipments in California and Arizona. Unit price paid for liquid asphalt increased 7%. Concrete volume was lower by 30%, 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 \$6.55 in 2023, up from \$5.88 previously. This would be a 28.2% 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
<b>EPS</b>	\$0.16	\$1.56	\$1.72	\$3.11	\$2.38	\$3.87	\$4.67	\$4.41	\$5.04	\$5.11	<b>\$6.55</b>	<b>\$8.36</b>
<b>DPS</b>	\$0.04	\$0.22	\$0.40	\$0.80	\$1.00	\$1.12	\$1.24	\$1.36	\$1.48	\$1.60	<b>\$1.72</b>	<b>\$2.20</b>
<b>Shares<sup>1</sup></b>	131	132	133	132	132	132	132	133	133	134	<b>134</b>	<b>134</b>

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, typically 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.

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.

<sup>1</sup> Share count in millions

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## 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	29.8	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%	1.3%

Shares have increased \$7, or 3.7%, since our February 19<sup>th</sup>, 2023 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 nearly 30. This implies that valuation reversion could be a sizeable headwind. Returning to our target valuation by 2028 would reduce annual returns by 7.6% 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%	26%	26%

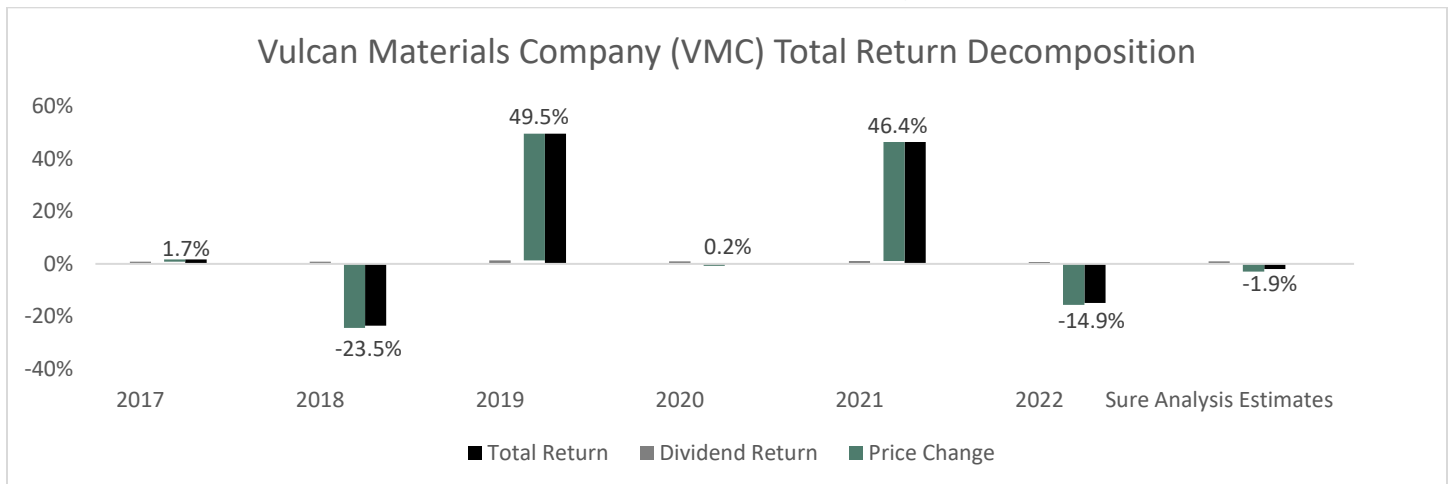
Vulcan Materials' business is highly correlated to the state of the economy. Earnings-per-share declined 63% from 2007 to 2008. The following year, earnings-per-share fell 91%. The company then posted three consecutive years of earnings-per-share losses as it struggled to rebound from the last recession.

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 -1.9% annually through 2028, compared to our prior estimate of a return of -3.2%. Our projected return stems from a 5% earnings growth rate and a 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
<b>Revenue</b>	2,771	2,994	3,422	3,593	3,890	4,383	4,929	4,857	5,552	7,315
<b>Gross Profit</b>	427	588	858	989	994	1,101	1,256	1,281	1,373	1,558
<b>Gross Margin</b>	15.4%	19.6%	25.1%	27.5%	25.5%	25.1%	25.5%	26.4%	24.7%	21.3%
<b>SG&amp;A Exp.</b>	259	272	287	317	325	333	371	360	418	515
<b>Operating Profit</b>	153	297	540	650	621	733	854	892	891	1,009
<b>Op. Margin</b>	5.5%	9.9%	15.8%	18.1%	16.0%	16.7%	17.3%	18.4%	16.0%	13.8%
<b>Net Profit</b>	24	205	221	419	601	516	618	584	671	576
<b>Net Margin</b>	0.9%	6.8%	6.5%	11.7%	15.5%	11.8%	12.5%	12.0%	12.1%	7.9%
<b>Free Cash Flow</b>	81	36	230	294	185	364	600	708	561	536
<b>Income Tax</b>	(24)	92	95	125	(232)	105	135	156	200	193

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	8,259	8,041	8,302	8,471	9,505	9,832	10,649	11,687	13,683	14,235
<b>Cash &amp; Equivalents</b>	194	141	284	259	142	40	272	1,197	235	161
<b>Acc. Receivable</b>	323	355	397	398	434	512	532	513	833	1,045
<b>Inventories</b>	345	322	347	346	384	429	458	449	521	579
<b>Goodwill &amp; Int.</b>	3,779	3,853	3,861	3,864	4,186	4,261	4,259	4,296	5,446	5,392
<b>Total Liabilities</b>	4,321	3,864	3,847	3,899	4,536	4,629	5,027	5,660	7,115	7,282
<b>Accounts Payable</b>	139	145	176	145	197	216	265	273	366	
<b>Long-Term Debt</b>	2,522	1,985	1,980	1,983	2,855	2,912	2,784	3,288	3,880	3,976
<b>Total Equity</b>	3,938	4,177	4,454	4,572	4,969	5,203	5,622	6,027	6,545	6,929
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	0.3%	2.5%	2.7%	5.0%	6.7%	5.3%	6.0%	5.2%	5.3%	4.1%
<b>Return on Equity</b>	0.6%	5.1%	5.1%	9.3%	12.6%	10.1%	11.4%	10.0%	10.7%	8.5%
<b>ROIC</b>	0.4%	3.2%	3.5%	6.5%	8.4%	6.5%	7.5%	6.6%	6.8%	5.4%
<b>Shares Out.</b>	131	132	133	132	132	132	132	133	133	134
<b>Revenue/Share</b>	21.08	22.51	25.33	26.46	28.84	32.73	36.95	36.45	41.59	54.75
<b>FCF/Share</b>	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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