Martin Marietta Materials, Inc. (MLM)

Updated November 15th, 2023, by Ian Bezek

Key Metrics

Current Price:	$457	**5 Year CAGR Estimate:**	2.6%	**Market Cap:**	$28.3 B
Fair Value Price:	$374	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	11/30/23
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	12/29/23
Dividend Yield:	0.6%	**5 Year Price Target**	$500	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Martin Marietta Materials is a materials company focused primarily on building and infrastructure products generally sourced from local mines and quarries. Some leading products include cement, asphalt, paving, and concrete. The company has a focus of operations in the South, Texas, and Florida. These regions have generally enjoyed strong demand for building materials in recent years.

The company's core aggregates business faces limited competition and thus can prosper during periods of high demand such as now. The company's specialty chemical business is also enjoying an unusually strong operating environment.

Martin Marietta posted strong results in recent times as it was able to raise prices aggressively amid strong demand. The company's favorable trend continued with its Q3 results, which it released on November 1st, 2023. Sales jumped 10% year-over-year to $1.99 billion. That'd be upbeat on its own, however what really stands out is profitability. The company's gross profit rose 39% year-over-year. Earnings per share soared from $4.67 to $6.94 year-over-year, as the combination of rising volumes and sharply improved margins led to a tremendous increase in net income.

The company is maintaining an upbeat outlook going forward, and we have raised our earnings per share outlook as a result. The company sees strong demand in manufacturing and large infrastructure projects as trends such as reshoring are driving positive activity, though the company noted a slowdown in other areas such as warehouses and residential construction. Higher interest rates in theory should serve as a drag on demand for the company's products, but the firm has posted much stronger-than-expected earnings this year despite the prevailing macroeconomic conditions.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.65	$2.71	$4.26	$6.63	$7.16	$8.08	$9.74	$11.54	$12.28	$12.07	***$17.00***	***$22.75***
DPS	$1.60	$1.60	$1.60	$1.64	$1.72	$1.84	$2.06	$2.24	$2.36	$2.54	***$2.96***	***$4.15***
Shares[1]	46	67	64	63	63	63	62	62	62	62	***62***	***62***

Martin Marietta Materials has achieved a strong earnings growth track record over the past decade. It jumpstarted its expansion in 2014 with the $2.7 billion purchase of Texas Industries. This gave the company its foothold in that fast-growing state. Martin Marietta Materials issued a large amount of stock to pay for that deal. Since then, however, it has repurchased some stock to bring its share count back down slightly.

Additionally, while the company had paused its dividend growth in the early 2010s, Martin Marietta Materials started to increase its dividend annually once it began to benefit from the Texas Industries acquisition. Following a small dividend bump in 2016, the company has been giving its shareholders more substantial increases. Over the past five years, it has managed a 10% compound annualized dividend growth rate. On August 10th, 2023, Martin Marietta Materials raised its dividend 12% to 74 cents per quarter.

Earnings growth of more than 11% annualized over the past five years has given MLM wide latitude for dividend increases. That said, we believe future growth will slow as demand for construction materials begins to level off.

[1] 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	37.9	45.0	34.4	26.9	30.2	25.2	23.7	19.7	29.4	24.2	***26.9***	***22.0***
Avg. Yld.	1.6%	1.3%	1.1%	0.9%	0.8%	0.9%	0.9%	1.0%	0.7%	0.8%	***0.6%***	***0.8%***

Martin Marietta Materials started off the 2010s with a high P/E ratio due to depressed earnings coming out of the 2008 housing bust. Following the Texas Industries acquisition, the company's P/E ratio started to move to more normal levels. While the company's P/E has been highly variable, we project that it will settle around 22 going forward.

Though the company's dividend yield has been as high as 1.6% in the past, the stock has been a growth equity in recent years and has ended up with a correspondingly lower yield. Investors should not expect a current yield much above 1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	60%	59%	38%	25%	24%	23%	21%	19%	19%	21%	***17%***	***18%***

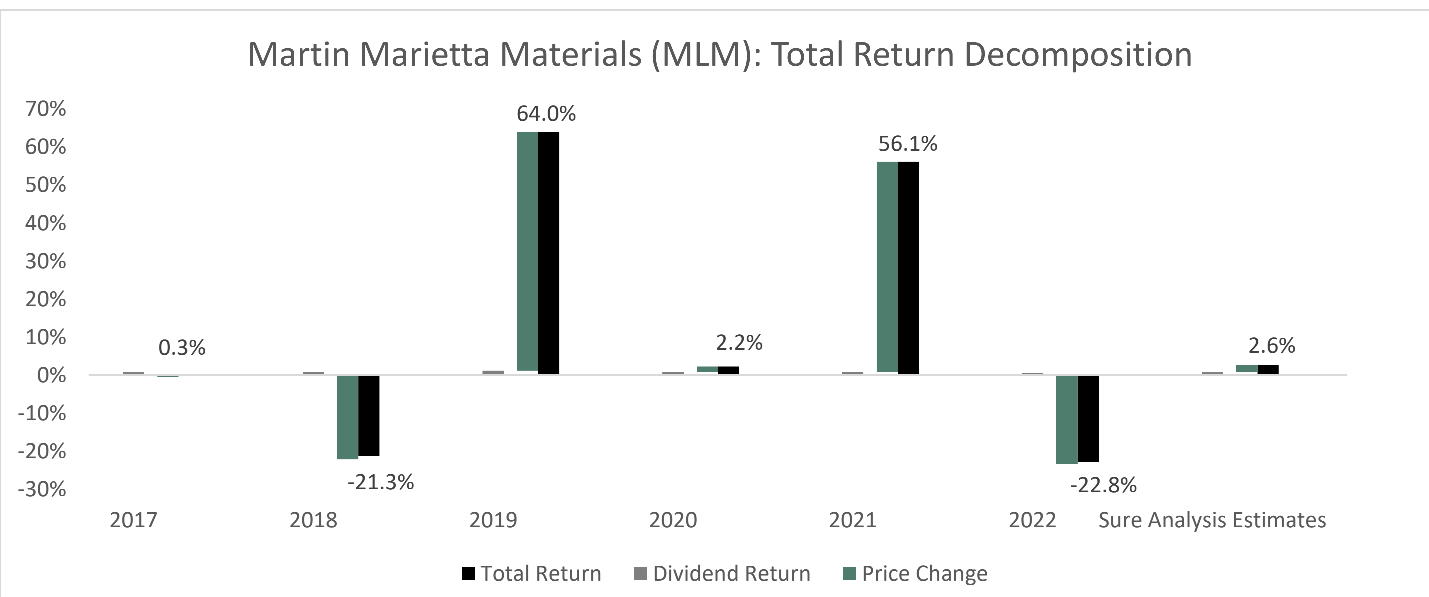
The building materials industry has a spotty track record in terms of consistent earnings growth and strong capital allocation. However, Martin Marietta Materials has historically exceeded its peers by a wide margin. That, combined with its favorable geographic positioning, has given the company a sustainable competitive advantage.

The company has $3.9 billion of long-term debt which is not inconsiderable compared to the size of its asset base. However, little of this debt comes due within the next five years. Meanwhile, the company's consistent earnings and strong interest coverage should keep the company on fine financial footing. The dividend also seems safe, as the company has consistently settled on a payout ratio of around 20% in recent years, leaving it well-covered by earnings.

Final Thoughts & Recommendation

Martin Marietta Materials has done a fine job delivering superior results in what's generally viewed to be a challenging industry. However, shares have risen sharply in 2023 and are now trading far above our fair value estimate. With a 2.6% total annualized return forecast, shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,156	2,958	3,540	3,819	3,966	4,244	4,739	4,730	5,414	6,161
Gross Profit	364	522	727	912	972	967	1,179	1,253	1,348	1,423
Gross Margin	16.9%	17.7%	20.5%	23.9%	24.5%	22.8%	24.9%	26.5%	24.9%	23.1%
SG&A Exp.	150	169	211	242	262	281	303	306	351	397
Operating Profit	219	358	501	678	709	704	885	1,007	1,032	1,216
Op. Margin	10.1%	12.1%	14.1%	17.8%	17.9%	16.6%	18.7%	21.3%	19.1%	19.7%
Net Profit	121	156	289	425	713	470	612	721	703	867
Net Margin	5.6%	5.3%	8.2%	11.1%	18.0%	11.1%	12.9%	15.2%	13.0%	14.1%
Free Cash Flow	154	149	262	302	247	329	573	690	715	509
Income Tax	44	95	125	182	(95)	106	136	168	153	235

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,260	7,220	6,958	7,301	8,993	9,551	10,132	10,581	14,393	14,994
Cash & Equivalents	42	109	168	50	1,446	45	21	207	258	358
Acc. Receivable	245	421	411	458	487	523	574	575	774	786
Inventories	347	485	469	522	601	663	691	709	753	874
Goodwill & Int.	665	2,664	2,579	2,671	2,667	2,900	2,884	2,922	4,559	4,497
Total Liabilities	1,685	2,867	2,897	3,158	4,310	4,602	4,778	4,688	7,855	7,821
Accounts Payable	104	202	165	179	184	211	230	208	356	---
Long-Term Debt	1,033	1,586	1,579	1,686	3,027	3,120	2,774	2,626	5,101	5,040
Total Equity	1,538	4,351	4,057	4,140	4,680	4,946	5,351	5,891	6,535	7,173
LTD/E Ratio	0.67	0.36	0.39	0.41	0.65	0.63	0.52	0.45	0.78	0.70

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.8%	3.0%	4.1%	6.0%	8.8%	5.1%	6.2%	7.0%	5.6%	5.9%
Return on Equity	8.2%	5.3%	6.9%	10.4%	16.2%	9.8%	11.9%	12.8%	11.3%	12.6%
ROIC	4.8%	3.6%	5.0%	7.4%	10.5%	6.0%	7.6%	8.7%	7.0%	7.3%
Shares Out.	46	67	64	63	63	63	62	62	62	62
Revenue/Share	46.57	51.81	52.81	59.80	62.75	67.26	75.58	75.80	86.49	98.57
FCF/Share	3.32	2.62	3.91	4.72	3.91	5.22	9.13	11.06	11.42	8.15

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