Mueller Water Products, Inc. (MWA)

Updated December 14th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$14.73	**5 Year CAGR Estimate:**	0.0%	**Market Cap:**	$2.31 B
Fair Value Price:	$10.40	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/09/2024[1]
% Fair Value:	142%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Dividend Payment Date:**	02/21/2024
Dividend Yield:	1.7%	**5 Year Price Target**	$13.27	**Years Of Dividend Growth:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

Mueller Water Products is a leading manufacturer and marketer of products and services used to transmit, distribute, and measure water in North America. The company's products and services are used by municipalities and the residential and non-residential construction industries. The majority of its revenues (>90%) are derived from spending on water and wastewater infrastructure upgrades, repairs, and replacements, typically associated with the construction of new residential communities. Management estimates it has one of the largest installed bases of Iron Gate valves and fire hydrants in the United States. The company generates around $1.3 billion in annual sales and is based in Atlanta, Georgia.

On October 24th, 2023, Mueller Water Products raised its dividend by 4.9% to a quarterly rate of $0.064.

On December 13th, the company reported its fiscal Q4 and full-year results for the period ending September 30th, 2023. The report's release was delayed by a month due to a cyber-security incident, which is now mostly resolved.

For the quarter, revenues came in at $301.4 million, a 9.1% decline year-over-year. Specifically, the Water Management Solutions segment posted sales of $139.9 million, down 8% year-over-year, while the Water Flow Solutions segment's sales declined by 10% to $161.5 million. The declines were offset by higher pricing.

Following lower sales and modestly lower margins, EPS came in at $0.19 compared to $0.10 last year. For the year, EPS landed at $0.55, up from $0.49 last year. The company repurchased $10 million worth of stock during the year, which slightly boosted these figures.

Mueller withheld fiscal 2024 profitability guidance due to an ongoing cyber-security impact assessment. The company anticipates improved margins in H2, driven by operational and supply chain productivity enhancements. Still, for FY2024, we forecast EPS of about $0.65.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.35	$0.19	$0.40	$0.77	$0.67	$0.40	$0.45	$0.44	$0.49	$0.55	***$0.65***	***$0.83***
DPS	$0.07	$0.08	$0.10	$0.15	$0.19	$0.20	$0.21	$0.22	$0.23	$0.24	***$0.26***	***$0.31***
Shares[2]	159.2	160.5	161.3	160.1	158.2	157.8	157.8	158.4	158.0	156.8	***156.8***	***155.0***

Despite Mueller's revenues modestly growing over the past few years, they are still near the same levels they were a decade ago. The company has sustained a positive bottom line since 2014, but growth has lagged. The industry in which Mueller operates is very mature, with little to no expansion prospects. Hence apart from acquisitions, the company has few growth avenues. Further, the currently accelerated inflation could hurt the company if it isn't able to match higher costs with adequate price increases. Still, powered by growing revenues, we estimate EPS growth of 5% in the medium-term. Mueller has never cut its dividend since its IPO. It has grown annually over the past 9 years, though at a humble rate since 2018. We expect DPS growth of around 4% going forward, considering Mueller's limited profitability growth

[1] Estimated dates based on past dividend dates.
[2] Share count is 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.

catalysts ahead. Continuous buybacks should contribute to EPS growth, but only $10 million worth of stock was bought back during fiscal 2023, down from $35 million repurchased in fiscal 2022.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	26.1	48.5	29.7	15.6	17.2	26.2	22.5	48.0	25.1	22.8	***22.7***	***16.0***
Avg. Yld.	0.8%	0.9%	0.8%	1.3%	1.7%	1.9%	2.0%	1,5%	1.9%	1.9%	***1.7%***	***2.3%***

Over the past decade, Mueller's valuation multiple has hovered at various levels based on the company's profitability expectations. Shares are currently trading at 22.7 times our expected FY2024 EPS, despite the company's limited growth prospects. We believe that shares would be more fairly valued at a lower multiple of 16. A lower multiple is even further justified in a rising rates environment, with the company's thin growth prospects hardly deserving a premium. The only catalyst behind the stock's historical premium, in our view, lies in all water-related investments attracting significant investor interest due to their mature and mission-critical business models. We expect the stock's yield to move up, assuming a reasonable valuation compression, though it is to remain rather soft overall.

Safety, Quality, Competitive Advantage, & Recession Resiliency

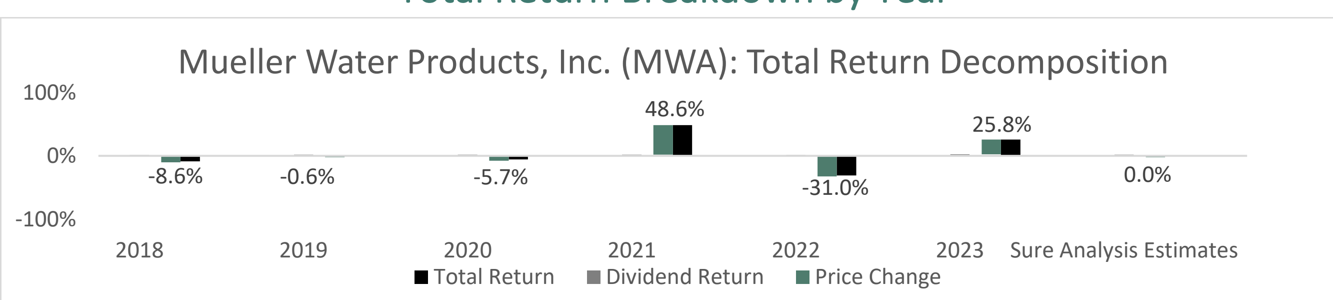
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	42%	25%	19%	28%	50%	47%	50%	47%	44%	***39%***	***38%***

We consider the stock's dividend relatively safe even as the payout ratio has moved higher over the past few years. The company is a market leader in water and wastewater infrastructure upgrades that see relatively stable annual demand. Water utility companies must modernize their facilities every a certain time period; hence robust demand should remain. The company claims that while the valve and hydrant products industry is competitive, it is a mature one and many end users are slow to transition to brands other than their historically preferred brand. Hence sales should not fluctuate wildly. Sales should remain relatively stable under a recession as well, as was the case during the Great Financial Crisis. However, the company still has little to no competitive advantages and is subject to limited growth catalysts ahead. On the positive side, Mueller's net debt position has been declining consistently, from $1.5 billion in 2006 to $287 million as of the latest quarter. The company also has no outstanding debt maturities prior to June 2029, which should allow for flexible capital allocation in the medium-term.

Final Thoughts & Recommendation

Mueller Water Products possesses certain attractive qualities, such as robust revenues, an improving balance sheet, and a healthy dividend payout ratio. However, we believe the stock lacks prospects to deliver meaningful returns in the coming years. This is due to the possibility of valuation headwinds offsetting gains from growth in the company's financials. Thus, we rate the stock a sell at their current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,185	793	801	826	916	968	964	1111	1247
Gross Profit	348	246	269	268	290	321	328	359	364
Gross Margin	29.4%	31.0%	33.6%	32.4%	31.6%	33.2%	34.0%	32.3%	29.2%
SG&A Exp.	221	147	150	155	167	183	198	219	239
D&A Exp.	57	43	40	42	44	53	58	60	61
Operating Profit	124	80	112	102	113	122	117	140	126
Operating Margin	10.5%	10.0%	14.0%	12.4%	12.3%	12.6%	12.1%	12.6%	10.1%
Net Profit	56	31	64	123	106	64	72	70	77
Net Margin	4.7%	3.9%	8.0%	14.9%	11.5%	6.6%	7.5%	6.3%	6.2%
Free Cash Flow	111	61	114	(25)	77	6	73	94	(2.4)
Income Tax	18	8	24	24	(10)	18	22	25	22

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,313	1,230	1,281	1,258	1,292	1,337	1,395	1,518	1,498
Cash & Equivalents	161	113	195	362	347	177	209	228	147
Accounts Receivable	182	175	132	145	164	173	181	212	228
Inventories	198	219	131	139	157	191	163	185	279
Goodwill & Int. Ass.	534	507	435	439	420	529	509	508	460
Total Liabilities	961	862	861	769	727	745	754	823	829
Accounts Payable	116	99	74	83	90	85	67	92	123
Long-Term Debt	541	489	484	481	445	446	448	447	447
Shareholder's Equity	350	366	418	488	563	590	641	695	669
LTD/E Ratio	1.55	1.34	1.16	0.98	0.79	0.76	0.70	0.64	0.67

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.3%	2.4%	5.1%	9.7%	8.3%	4.9%	5.3%	4.8%	5.1%
Return on Equity	16.4%	8.6%	16.3%	27.2%	20.1%	11.1%	11.7%	10.5%	11.2%
ROIC	6.1%	3.5%	7.3%	13.2%	10.7%	6.2%	6.8%	6.3%	6.8%
Shares Out.	159.2	160.5	161.3	160.1	158.2	157.8	157.8	159.2	158
Revenue/Share	7.30	4.86	4.90	5.11	5.74	6.09	6.08	6.98	7.90
FCF/Share	0.68	0.37	0.70	(0.15)	0.48	0.04	0.46	0.59	

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