Mueller Water Products, Inc. (MWA)

Updated February 9th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$15.23	**5 Year CAGR Estimate:**	-0.7%	**Market Cap:**	$2.38 B
Fair Value Price:	$10.40	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/08/24
% Fair Value:	146%	**5 Year Valuation Multiple Estimate:**	-7.3%	**Dividend Payment Date:**	02/20/24
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 February 8th, 2024, the company reported its fiscal Q1 results for the period ending December 31st, 2023. For the quarter, revenues came in at $256.4 million, an 18.6% decline year-over-year. The Water Management Solutions segment posted sales of $115.1 million, down 22.9% year-over-year, while the Water Flow Solutions segment's sales declined by 14.7% to $141.3 million. The declines were offset by higher pricing across most product lines.

Following lower sales and modestly lower margins, EPS came in at $0.09 compared to $0.14 last year. The decline in EPS can also be attributed to additional expenses incurred regarding the previously reported cyber-security incidents.

For the year, the company expects consolidated net sales to fall between 2% and 6% as compared with fiscal 2023. The company also introduced guidance full-year adjusted EBITDA, which expects to increase between 3% and 7% compared to last year. The company expects free cash flow as a percentage of adjusted net income to be more than 65% this year as well. Based on these estimates, we forecast EPS of about $0.65 for fiscal 2024.

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[1]	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 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.

[1] 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.

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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	***23.4***	***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 fluctuated based on profitability expectations. Currently, shares trade at 23.4 times our expected FY2024 EPS, despite limited growth prospects. We believe a fair valuation would be 16 times EPS. This is especially justified in a high-interest rate environment, as the company's thin growth prospects do not warrant a premium. The historical stock premium is attributed to water-related investments attracting investor interest for their mature and mission-critical business models. We anticipate the stock's yield to increase with a reasonable valuation compression, though it will likely remain soft overall.

Safety, Quality, Competitive Advantage, & Recession Resiliency

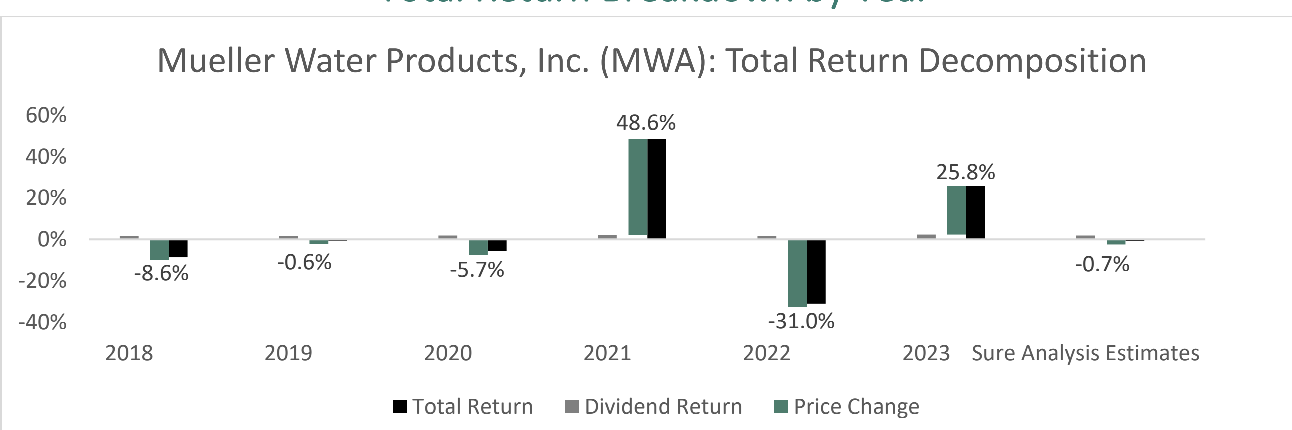
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	42%	25%	19%	28%	50%	47%	50%	47%	44%	***39%***	***38%***

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 $231 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 more than offsetting gains from growth in Mueller's financials. Thus, we rate the stock a sell at its current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	793	801	826	916	968	964	1111	1247	1276
Gross Profit	246	269	268	290	321	328	359	364	380
Gross Margin	31.0%	33.6%	32.4%	31.6%	33.2%	34.0%	32.3%	29.2%	29.8%
SG&A Exp.	147	150	155	167	183	198	219	239	242
D&A Exp.	43	40	42	44	53	58	60	61	63
Operating Profit	80	112	102	113	122	117	140	126	138
Operating Margin	10.0%	14.0%	12.4%	12.3%	12.6%	12.1%	12.6%	10.1%	10.8%
Net Profit	31	64	123	106	64	72	70	77	86
Net Margin	3.9%	8.0%	14.9%	11.5%	6.6%	7.5%	6.3%	6.2%	7.6%
Free Cash Flow	61	114	(25)	77	6	73	94	(2.4)	61
Income Tax	8	24	24	(10)	18	22	25	22	24

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,230	1,281	1,258	1,292	1,337	1,395	1,518	1,498	1,505
Cash & Equivalents	113	195	362	347	177	209	228	147	160
Accounts Receivable	175	132	145	164	173	181	212	228	218
Inventories	219	131	139	157	191	163	185	279	302
Goodwill & Int. Ass.	507	435	439	420	529	509	508	460	428
Total Liabilities	862	861	769	727	745	754	823	829	794
Accounts Payable	99	74	83	90	85	67	92	123	103
Long-Term Debt	489	484	481	445	446	448	447	447	447
Shareholder's Equity	366	418	488	563	590	641	695	669	712
LTD/E Ratio	1.34	1.16	0.98	0.79	0.76	0.70	0.64	0.67	0.63

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.4%	5.1%	9.7%	8.3%	4.9%	5.3%	4.8%	5.1%	5.7%
Return on Equity	8.6%	16.3%	27.2%	20.1%	11.1%	11.7%	10.5%	11.2%	12.4%
ROIC	3.5%	7.3%	13.2%	10.7%	6.2%	6.8%	6.3%	6.8%	7.5%
Shares Out.	160.5	161.3	160.1	158.2	157.8	157.8	159.2	158	157
Revenue/Share	4.86	4.90	5.11	5.74	6.09	6.08	6.98	7.90	8.14
FCF/Share	0.37	0.70	(0.15)	0.48	0.04	0.46	0.59		0.39

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