



Martin Marietta Materials, Inc. (MLM)

Updated May 25th, 2024, by Ian Bezek

Key Metrics

Current Price:	\$579	5 Year CAGR Estimate:	1.9%	Market Cap:	\$35.9 B
Fair Value Price:	\$462	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/03/24
% Fair Value:	125%	5 Year Valuation Multiple Estimate:	-4.4%	Dividend Payment Date:	06/28/24
Dividend Yield:	0.5%	5 Year Price Target	\$618	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 has posted strong results in recent times as it was able to raise prices aggressively amid strong demand. The company's favorable trend slowed with its Q1 results, which it released on April 30th, 2024. Revenues fell 7% year-over-year to \$1.25 billion. Adjusted earnings per share of \$1.77 fell from \$1.96 in the prior year and slightly missed expectations. The company continued to post strong profit margins and there is certainly a silver lining in these results, however this was the first quarter in quite a while where the company's top- and bottom-line numbers fell year-over-year.

While this quarter was underwhelming, the company reiterated its prior upbeat guidance for full-year 2024. In management's view, industry conditions remain robust and the summer construction season should show record demand. We are maintaining our prior earnings-per share-guidance for now, as the company has earned the benefit of the doubt for the time being. However, Martin Marietta Materials has enjoyed unusually favorable operating conditions over the past couple of years, and the good times are bound to end sooner or later. We fear there is little margin of safety in the company's current valuation, regardless of how 2024 earnings shake out.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.71	\$4.26	\$6.63	\$7.16	\$8.08	\$9.74	\$11.54	\$12.28	\$12.07	\$18.82	\$21.00	\$28.10
DPS	\$1.60	\$1.60	\$1.64	\$1.72	\$1.84	\$2.06	\$2.24	\$2.36	\$2.54	\$2.80	\$2.96	\$4.15
Shares¹	67	64	63	63	63	62	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.

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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Earnings growth of more than 16% annualized over the past five years has given the company wide latitude for dividend increases. That said, we believe future growth will slow as demand for construction materials begins to level off.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	45.0	34.4	26.9	30.2	25.2	23.7	19.7	29.4	24.2	23.9	27.6	22.0
Avg. Yld.	1.3%	1.1%	0.9%	0.8%	0.9%	0.9%	1.0%	0.7%	0.8%	0.6%	0.5%	0.7%

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 over 1% in the past, the stock has been a growth equity in recent years and has ended up with a correspondingly lower yield. We expect the yield to remain well below 1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	59%	38%	25%	24%	23%	21%	19%	19%	21%	15%	14%	15%

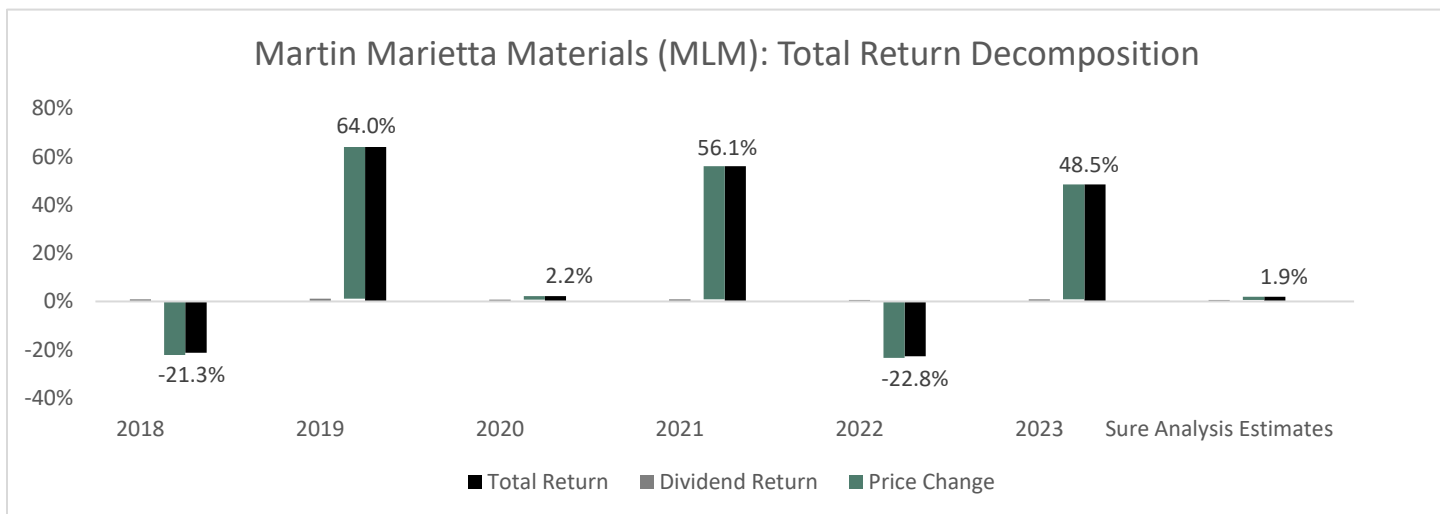
The building materials industry has a spotty track record in terms of consistent earnings growth and strong capital allocation. However, Martin Marietta Materials has historically exceeded its peers by a wide margin. That, combined with its favorable geographic positioning, has given the company a sustainable 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 it on fine financial footing. The dividend also seems safe, as the company has consistently settled on a payout ratio of 20% or less 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 skyrocketed over the past year and are now trading far above our fair value estimate. With a 1.9% total annualized return forecast, shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,958	3,540	3,819	3,966	4,244	4,739	4,730	5,414	6,161	6,777
Gross Profit	522	727	912	972	967	1,179	1,253	1,348	1,423	2,023
Gross Margin	17.7%	20.5%	23.9%	24.5%	22.8%	24.9%	26.5%	24.9%	23.1%	29.9%
SG&A Exp.	169	211	242	262	281	303	306	351	397	443
Operating Profit	358	501	678	709	704	885	1,007	1,032	1,216	1,608
Op. Margin	12.1%	14.1%	17.8%	17.9%	16.6%	18.7%	21.3%	19.1%	19.7%	23.7%
Net Profit	156	289	425	713	470	612	721	703	867	1,169
Net Margin	5.3%	8.2%	11.1%	18.0%	11.1%	12.9%	15.2%	13.0%	14.1%	17.2%
Free Cash Flow	149	262	302	247	329	573	690	715	509	878
Income Tax	95	125	182	(95)	106	136	168	153	235	293

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,220	6,958	7,301	8,993	9,551	10,132	10,581	14,393	14,994	15,120
Cash & Equivalents	109	168	50	1,446	45	21	207	258	358	1,272
Acc. Receivable	421	411	458	487	523	574	575	774	786	747
Inventories	485	469	522	601	663	691	709	753	874	989
Goodwill & Int.	2,664	2,579	2,671	2,667	2,900	2,884	2,922	4,559	4,497	4,087
Total Liabilities	2,867	2,897	3,158	4,310	4,602	4,778	4,688	7,855	7,821	7,089
Accounts Payable	202	165	179	184	211	230	208	356	---	343
Long-Term Debt	1,586	1,579	1,686	3,027	3,120	2,774	2,626	5,101	5,040	4,345
Total Equity	4,351	4,057	4,140	4,680	4,946	5,351	5,891	6,535	7,173	8,033
LTD/E Ratio	0.36	0.39	0.41	0.65	0.63	0.52	0.45	0.78	0.70	0.54

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.0%	4.1%	6.0%	8.8%	5.1%	6.2%	7.0%	5.6%	5.9%	7.8%
Return on Equity	5.3%	6.9%	10.4%	16.2%	9.8%	11.9%	12.8%	11.3%	12.6%	15.4%
ROIC	3.6%	5.0%	7.4%	10.5%	6.0%	7.6%	8.7%	7.0%	7.3%	9.5%
Shares Out.	67	64	63	63	63	62	62	62	62	62
Revenue/Share	51.81	52.81	59.80	62.75	67.26	75.58	75.80	86.49	98.57	109.13
FCF/Share	2.62	3.91	4.72	3.91	5.22	9.13	11.06	11.42	8.15	14.14

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

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