Mueller Industries (MLI)

Updated July 24th, 2024, by Derek English

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	-2.5%	**Market Cap:**	$7.60 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	08/30/24[1]
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	09/16/24
Dividend Yield:	1.2%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	3
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

Mueller Industries (MLI) manufactures and sells metal and plastic products around the world through its three segments: Piping Systems, Industrial Metals, and Climate. The Piping Systems segment offers copper tubes and plumbing-related fittings, and it also resells steel pipes, brass, and other metal products to wholesalers in various industries. The Industrial Metals segment manufactures brass, bronze, and copper alloy rods and other metal products for OEMs in the industrial, construction, HVAC, plumbing, and refrigeration markets. Finally, the Climate segment offers valves, protection devices, and brass fittings for various OEMs in the commercial HVAC and refrigeration markets, high-pressure components, and accessories for the air-conditioning and refrigeration markets. Mueller strives to be an industry leader, as it follows the approach of competing where it can be first or second in its core products and key markets. Mueller has averaged an 24% return on invested capital over the past five years and aims to produce double-digit annual growth in operating income.

The company reported second quarter earnings results on July 23rd, 2024. Net sales for the quarter totaled $997.7 million, up from $897.0 million the previous year, largely due to increased shipments, higher copper prices, and the inclusion of sales from the newly acquired Nehring Electrical Works business. Additionally, the company's operating income remained relatively stable at $210.0 million compared to $210.7 million last year. Adjusted for a prior year insurance settlement gain, operating income actually improved by 9.8%. The balance sheet remained strong at the end of the year, as the company generated $100.8 million in net cash from operations and ended the quarter with $825.7 million in cash, after deploying $566.6 million for acquisitions and $15.1 million for stock repurchases.The current ratio indicates a healthy financial position of 4.7 to 1.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.90	$0.77	$0.87	$0.75	$0.91	$0.90	$1.24	$4.13	$5.82	$5.30	***$5.25***	***$5.52***
DPS	$0.15	$0.15	$0.19	$0.20	$0.20	$0.20	$0.20	$0.26	$0.50	$0.60	***$0.80***	***$0.86***
Shares[2]	114	114	114	116	114	114	114	114	114	113	***113.7***	***113***

Since 2014, earnings-per-share grew at an impressive average of 21.9% annually, with even higher growth of 42.2% for the last five years. The company experiecened the extraordinary growth in 2021, which well above the yearly earnings-per-share growth rate of 9.9% for the 2012 to 2020 period. However, we expect earnings to slow in 2024 due to weakening product demand. Combined with a high starting base, we expect a lower earnings-per-share growth rate of 1% annually going forward. Our EPS target for 2024 has been adjusted based on the stock split and the results over the last year as we foresee a continued trend of lower demand.

In relation to dividends, the company saw significant growth, with an average annual rate of 16.7% over the past nine years and 24.6% over the last five years. Recently, the company raised the quarterly dividend by 33% to $0.20. However, we anticipate a slower dividend growth rate of 1.5% annually over the next five years due to the expected return to pre-2021 earnings levels and the company's history of maintaining dividends.

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[1] Estimated dates based on MLI's past dividend dates

[2] 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	16.9	21.3	18.1	22.7	15.7	16.4	11.6	5.5	11.2	8.9	***12.8***	***10.0***
Avg. Yld.	1.0%	0.9%	1.2%	1.2%	1.4%	1.4%	1.4%	1.1%	1.4%	1.4%	***1.2%***	***1.6%***

Since 2014, the stock has averaged a P/E ratio of 14.8; over the past five years, the stock has averaged a P/E ratio of 10.7. We estimate that a P/E ratio of about 10 is fair for the business as the company's earnings-per-share growth is expected to slow. In addition, the stock offers a 1.2% dividend yield today, which is low for investors who prioritize dividend income. The company's share price has surged since March 2020, and it is 128% of our fair value estimate of $53.

Safety, Quality, Competitive Advantage, & Recession Resiliency

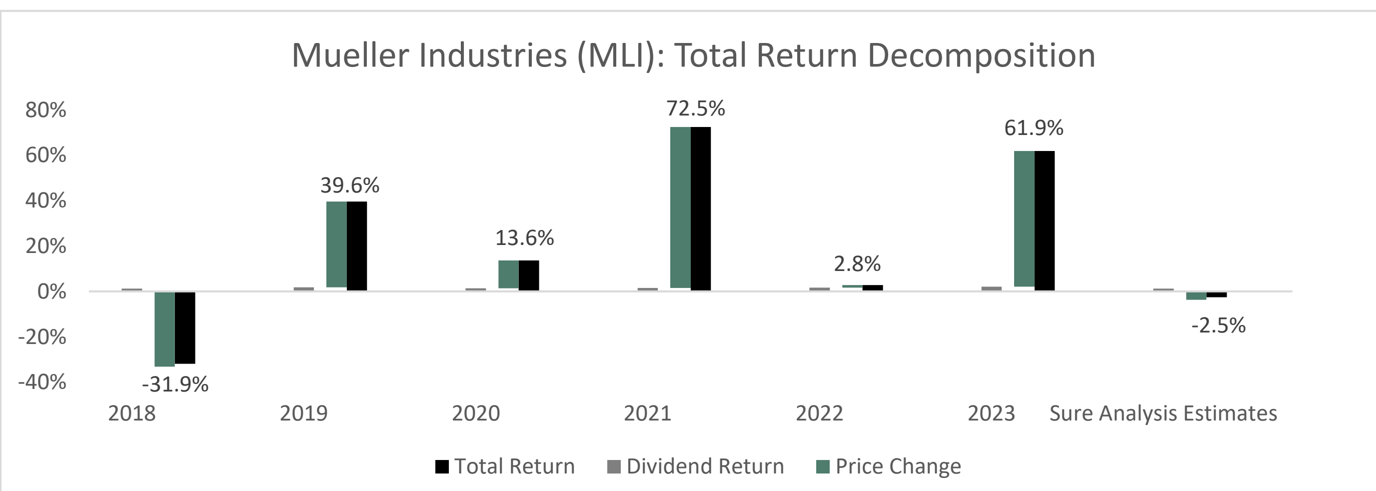
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	17%	19%	22%	27%	22%	22%	16%	6%	9%	11%	***15%***	***16%***

Since 2014, the business has demonstrated a conservative dividend policy, with the payout ratio typically below 22%. We expect the payout ratio to remain around low as earnings stabilize. Mueller balance sheet is reasonably strong, with a current ratio of 4.7 and a little over $1 million in long-term debt. While we project that the dividend is safe from being cut, the company has a history of maintaining the dividend for several years and rewarding shareholders with significant increases as earnings improve. Mueller Industries' competitive advantages are found in its strong global presence and brand reputation for quality and reliability. The company is the second-largest metal fabrication company by market cap. It offers a wide range of products in different industries, which helps mitigate the impact of market volatility in any specific market. This type of diversification helps keep the company resilient during a recession, where they typically maintain its dividend.

Final Thoughts & Recommendation

Mueller Industries is a metal fabrication business that has delivered high returns on capital for a long period of time. We predict a negative total return annually over the next five years based on the current share price. This return is driven by a 1.2% dividend yield, an expected 1% annual growth in earnings-per-share, and a negative headwind from an expanding multiple. Due to weakening demand and the total return potential, we rate Mueller Industries as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,364	2,100	2,056	2,266	2,508	2,431	2,398	3,769	3,982	3,420
Gross Profit	321	290	332	325	357	395	432	830	1,118	987
Gross Margin	13.6%	13.8%	16.2%	14.4%	14.3%	16.3%	18.0%	22.0%	28.1%	28.9%
SG&A Exp.	132	130	136	141	149	162	159	184	203	208
D&A Exp.	34	35	35	34	40	43	45	45	44	40
Operating Profit	154	125	160	143	168	189	223	596	869	738
Op. Margin	6.5%	6.0%	7.8%	6.3%	6.7%	7.8%	9.3%	15.8%	21.8%	21.6%
Net Profit	102	88	100	86	104	101	139	469	658	603
Net Margin	4.3%	4.2%	4.9%	3.8%	4.2%	4.2%	5.8%	12.4%	16.5%	17.6%
Free Cash Flow	51	131	120	(2)	129	169	201	280	686	619
Income Tax	45	43	48	38	31	35	55	166	223	221

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,328	1,339	1,447	1,320	1,370	1,371	1,529	1,729	2,242	2,759
Cash & Equivalents	352	275	351	120	73	98	119	88	461	1,171
Acc. Receivable	275	252	256	245	273	270	358	472	380	352
Inventories	257	239	242	328	330	292	315	430	449	380
Goodwill & Int.	121	161	160	172	212	213	245	233	212	198
Total Liabilities	533	479	511	784	806	709	728	472	428	401
Accounts Payable	101	88	103	103	104	86	148	181	128	120
Long-Term Debt	241	216	227	465	497	386	328	2	2	1
Total Equity	762	827	899	522	548	643	777	1,222	1,791	2,337
LTD/E Ratio	0.32	0.26	0.25	0.89	0.91	0.60	0.42	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.9%	6.6%	7.2%	6.2%	7.8%	7.4%	9.6%	28.8%	33.2%	24.1%
Return on Equity	13.9%	11.1%	11.6%	12.0%	19.5%	16.9%	19.6%	46.9%	43.7%	28.9%
ROIC	10.1%	8.3%	8.9%	7.9%	10.1%	9.6%	12.8%	39.2%	42.8%	28.9%
Shares Out.	57	57	57	58	57	57	57	57	56.6	113.7
Revenue/Share	41.65	36.86	35.96	39.42	43.79	43.14	42.53	66.36	70.42	30.09
FCF/Share	0.91	2.30	2.10	(0.04)	2.26	3.01	3.57	4.93	12.14	5.44

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