Tetra Tech (TTEK)

Updated September 1st, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$238	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$12.7 B
Fair Value Price:	$163	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	11/29/2024[1]
% Fair Value:	146%	**5 Year Valuation Multiple Estimate:**	-7.3%	**Dividend Payment Date:**	12/13/2024
Dividend Yield:	0.5%	**5 Year Price Target**	$286	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Tetra Tech is a leading provider of consulting and engineering services, specializing in water, environment, sustainable infrastructure, and renewable energy. The company operates through two business segments: Government Services Group (GSG) and Commercial/International Services Group (CIG). GSG offers consulting and engineering solutions to federal, state, and local governments, while CIG serves private sector clients and international development agencies. Tetra Tech's diverse client base, including U.S. federal and state governments, multinational corporations, and global development organizations, positions it as a trusted partner for complex projects worldwide. Tetra Tech is based in Pasadena, California. It generated nearly $3.75 billion in revenues last year.

On July 29th, 2024, Tetra Tech posted its fiscal Q3 results for the period ending June 30th, 2024. Note that the company's fiscal year ends every October 1st. For the quarter, the company posted record quarterly revenues of $1.34 billion, up 11% compared to last year. The company's adjusted EBITDA margin expanded to 13.3%, up from 12.1% last year. Thus, adjusted EPS came in at $1.59, up 38.3% compared to last year. We expect adjusted EPS of $6.25 for FY2024. All past figures in our table reflect GAAP figures. The company's shares will trade at a 5:1 split starting September 9th.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.68	$0.64	$1.44	$2.07	$2.46	$2.89	$3.21	$4.31	$4.91	$5.14	***$6.25***	***$11.01***
DPS	$0.14	$0.30	$0.34	$0.38	$0.44	$0.54	$0.64	$0.74	$0.86	$0.98	***$1.16***	***$2.04***
Shares[2]	65.1	61.5	59.0	57.9	56.6	55.9	55.0	54.7	54.2	53.6	***53.9***	***50.0***

Tetra Tech's EPS growth over the past decade was driven by several key factors, including acquisitions, expanding service offerings, and capitalizing on growing market demands. EPS dropped to $0.64 in 2015 due to restructuring costs that the company incurred as it realigned its operations by exiting low-margin businesses and focusing on high-growth industries such as water management, environmental consulting, and renewable energy. This shift paid off in the coming years.

In 2016, Tetra Tech's EPS rebounded in the absence of restructuring costs. It was also aided by the acquisition of Coffey International, an Australian consulting firm focusing on geotechnical, environmental, and project management services. This acquisition expanded Tetra Tech's international presence, particularly in the Asia-Pacific region. The lasting growth in EPS from 2017 to 2020 was driven by Tetra Tech's involvement in large-scale government contracts, including disaster recovery efforts in the U.S. following hurricanes and wildfires. Tetra Tech also benefited from the higher global demand for its services in renewable energy and sustainable infrastructure. In 2021, EPS rose to $4.31, reflecting the impact of acquiring the U.K.-based engineering firm Hoare Lea, which improved Tetra Tech's capabilities in sustainable building design and energy efficiency projects. Tetra Tech also secured significant contracts with the U.S. Department of Defense and the Environmental Protection Agency, which boosted its earnings.

By 2023, Tetra Tech's EPS reached $5.14, with further growth expected ahead. Specifically, Tetra Tech's growth is set to be driven by increasing demand for renewable energy and water management solutions fueled by global sustainability

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[1] Estimated dates based on past dividend dates.

[2] Share count is in millions.

efforts and rising U.S. infrastructure spending. Accordingly, we have applied a 12% annual growth rate through 2029. Note that buybacks have historically contributed to EPS growth. We expect this trend to endure.

Tetra Tech started paying a dividend in 2014 and has since grown it quite rapidly. Over the past decade, the dividend has grown at a CAGR of about 24%. We expect the dividend to grow match EPS growth over the medium-term. Hence, we have applied a 12% growth rate here as well.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.9	40.3	19.6	19.0	20.9	22.6	25.5	26.4	29.5	28.3	***38.0***	***26.0***
Avg. Yld.	0.5%	1.2%	1.2%	1.0%	0.9%	0.8%	0.8%	0.6%	0.6%	0.7%	***0.5%***	***0.7%***

Tetra Tech has consistently traded at premium valuation multiples over the past decade, reflecting investors' confidence in the company's potential for exceptional earnings growth—a potential that Tetra Tech has indeed fulfilled. The stock has skyrocketed recently, currently trading at 38 times this fiscal year's expected EPS. Despite Tetra Tech's admittedly strong EPS growth prospects, we believe this multiple overvalues the stock. We have set our fair multiple at 26 times, closer to its historical average. This implies a natural valuation headwind. The dividend yield is set to remain negligible.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	8%	47%	24%	18%	18%	19%	20%	17%	18%	19%	***19%***	***19%***

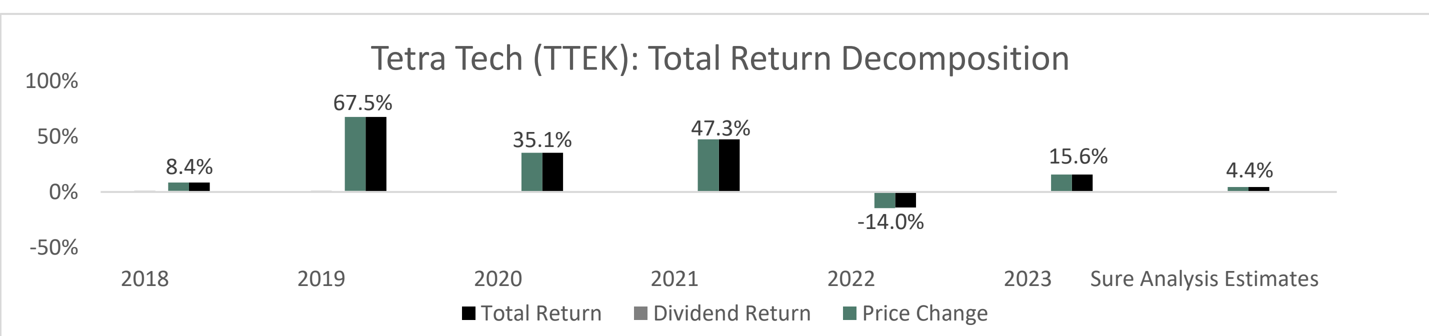
Tetra Tech's competitive advantages include its expertise in water management and environmental consulting that have made it a go-to partner for government agencies and multinational corporations. The company's moat is bolstered by its strategic acquisitions, such as Hoare Lea and Coffey International, which have expanded its global reach and capabilities.

We also believe Tetra Tech is poised to perform well during economic downturns. During the Great Financial Crisis, Tetra Tech maintained stability by focusing on government contracts for critical infrastructure projects, which remained online despite the challenges. Similarly, during the COVID-19 pandemic, the company's resilience was evident as it sustained growth through critical contracts with the U.S. Department of Defense and EPA, demonstrating its ability to thrive even in uncertain times. Still, economic downturns could slow private sector projects, impacting short-term growth. In any case, we believe that Tetra Tech's dividend remained extremely safe, making up a low chunk of its earnings.

Final Thoughts & Recommendation

Tetra Tech's features a strong track record, while its focus on high-demand industries like environmental consulting and renewable energy position it for lasting growth. That said, we believe the stock is too expensive, which could hamper its total returns prospects. We forecast annualized returns of just 4.4% through 2029, powered be robust earnings growth and the dividend, offset by a significant valuation headwind. Accordingly, Tetra Tech stock earns a sell rating.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,484	2,299	2,583	2,753	2,964	3,107	2,995	3,214	3,504	4,523
Gross Margin	282	316	330	354	384	408	447	498	576	725
Gross Profit	11.4%	13.7%	12.8%	12.8%	13.0%	13.1%	14.9%	15.5%	16.4%	16.0%
SG&A Exp.	187	170	172	177	190	200	205	223	235	305
D&A Exp.	55	44	46	46	39	29	25	24	27	61
Operating Profit	95	145	158	176	194	208	242	275	341	420
Operating Margin	3.8%	6.3%	6.1%	6.4%	6.6%	6.7%	8.1%	8.6%	9.7%	9.3%
Net Profit	108	39	84	118	137	159	174	233	263	273
Net Margin	4.4%	1.7%	3.2%	4.3%	4.6%	5.1%	5.8%	7.2%	7.5%	6.0%
Free Cash Flow	108	139	130	132	176	192	250	296	326	342
Income Tax	36	41	41	54	38	16	54	34	86	128

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,776	1,559	1,801	1,903	1,959	2,147	2,379	2,577	2,623	3,820
Cash & Equivalents	122	135	160	190	146	121	158	167	185	169
Accounts Receivable	352	331	364	376	464	497	403	433	492	673
Goodwill & Int. Ass.	777	642	767	768	815	941	1,007	1,146	1,140	2,054
Total Liabilities	763	702	931	974	992	1,158	1,341	1,342	1,440	2,417
Long-Term Debt	204	193	347	357	277	276	292	213	259	880
Shareholder's Equity	1,012	856	869	928	967	989	1,037	1,234	1,183	1,403
LTD/E Ratio	0.20	0.23	0.40	0.38	0.29	0.28	0.28	0.17	0.22	0.63

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.1%	2.3%	5.0%	6.4%	7.1%	7.7%	7.7%	9.4%	10.1%	8.5%
Return on Equity	10.8%	4.2%	9.7%	13.1%	14.4%	16.2%	17.2%	20.5%	21.8%	21.1%
ROIC	8.9%	3.4%	7.4%	9.4%	10.8%	12.6%	13.4%	16.8%	18.2%	14.7%
Shares Out.	65.1	61.5	59.0	57.9	56.6	55.9	55.0	54.7	54.2	53.6
Revenue/Share	38.13	37.37	43.81	47.54	52.37	55.55	54.43	58.77	64.69	84.32
FCF/Share	1.66	2.25	2.21	2.27	3.11	3.44	4.55	5.41	6.01	6.37

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