Masco Corporation (MAS)

Updated October 29th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$81	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$17.7 B
Fair Value Price:	$79	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/08/24
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	11/25/24
Dividend Yield:	1.4%	**5 Year Price Target**	$116	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Masco Corporation is a world leader in the design, manufacture, and distribution of a wide variety of home improvement and building products. The company's leading brands include Behr paint, Hotspring spas, Kichler decorative and outdoor lighting, and Delta faucets, bath, and shower fixtures. Masco also sells branded decorative and functional hardware and waterproofing products. The company has two reportable segments, including Plumbing Products and Decorative Architectural Products. Masco's customers include plumbing, heating, and hardware wholesalers as well as hardware stores, home centers, and online retailers.

On February 8th, 2023, Masco announced that it was raisings its quarterly dividend 1.7% to $0.29.

On October 29th, 2024, Masco reported third quarter earnings results for the period ending September 30th, 2024. Revenue of $1.98 billion was unchanged from last year, but was $20 million less than expected. Adjusted earnings-per-share of $1.08 compared to $1.00 in the prior year, but this was $0.01 below estimates.

Revenue for the Plumbing Products segment increased 2% to $1.22 billion, partially aided by acquisitions. Decorative Architectural Products fell 3% to $764 million. By region, North America sales of $1.6 billion were unchanged from the prior year while international was up 3% to $388 million. Gross margin declined 100 basis points to 36.6% and the operating margin fell 140 basis points to 18.0%. The company repurchased 2.5 million shares during the period at an average price of $76.80.

Masco provided updated guidance for 2024 as well. The company now expects adjusted earnings-per-share of $4.15 for the year, up from a range of $4.05 to $4.20 previously.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.30	$1.03	$1.46	$1.75	$2.36	$2.22	$3.06	$1.86	$3.66	$4.08	***$4.15***	***$6.10***
DPS	$0.33	$0.37	$0.39	$0.41	$0.44	$0.50	$0.55	$0.85	$1.12	$1.14	***$1.16***	***$1.70***
Shares[1]	352	341	330	318	307	288	264	251	232	226	***218***	***210***

Masco's earnings-per-share have a compound annual growth rate of 6.6% since 2014, but this growth rate expands to 13.2% when looking at the last five years. Earnings growth has been somewhat erratic over the last decade, but the company has experienced a sharp rise in its profitability over this period. Given the higher starting base for EPS and the long-term growth rate, we are comfortable projecting earnings-per-share growth of 8% annually through 2024.

The company has aggressively repurchased its own stock over the last decade, retiring almost 5% annually of its share count from 352 million in 2014 to the current float of 220 million. Future repurchases should aid EPS growth as well.

Masco has increased its dividend for 11 consecutive years, a strong showing given the ups and downs of the company's historical performance. Dividend growth had been robust for much of this period, with the company growing its dividend by 14.8% and 18.3% annually since 2014 and 2019, respectively. However, dividend growth has slowed substantially in recent years. Masco's last two dividend increases have been for less than 2%.

[1] In millions of shares.

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	9.4	27.8	21.5	26	12.3	14.8	12.1	42.9	12.9	16.7	***19.5***	***19.0***
Avg. Yld.	1.5%	1.3%	1.2%	0.9%	1.5%	1.0%	1.0%	1.0%	1.2%	1.7%	***1.4%***	***1.5%***

Shares of Masco are unchanged since our August 23rd, 2024 report. As a result, Masco trades at 19.5 times our expected earnings-per-share for 2024. This is slightly ahead of our target P/E of 19. Valuation could reduce annual returns by 0.5% if the stock were to reach our target multiple by 2029.

Masco has never been a high yielding name, but the current yield is above the long-term average yield of 1.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	14%	36%	27%	23%	19%	23%	18%	46%	31%	28%	***28%***	***28%***

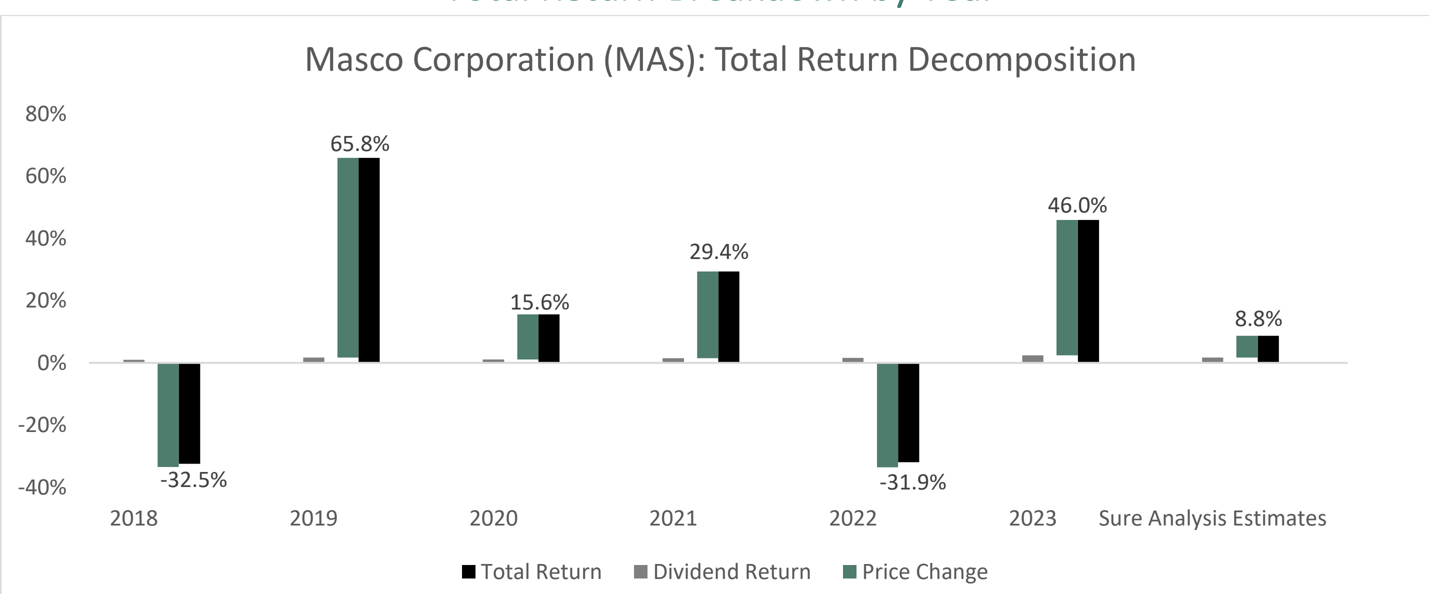
Masco performed poorly during the 2007 to 2009 period, with the company posting an earnings-per-share loss each year of the Great Recession. It also took the company several years to return to profitability. More recently, Masco performed much better under adverse economic conditions. The company's earnings-per-share grew 38% in 2020 even in the face of the global pandemic, though results did fall significantly the following year. The company benefits from market leading products that consumers trust. We expect that Masco would suffer declines during the next recession, though it's likely the weakness would not be as extreme as during the Great Recession given the turmoil of that period.

Masco's dividend can be considered safe, though the slowing growth rate is something to monitor. The company's payout ratio provides evidence that the dividend is well covered.

Final Thoughts & Recommendation

Following third quarter earnings results, Masco is expected to offer a total annual return of 8.8% through 2029, up slightly from our prior estimate of 8.7%. Our projected return stems from an 8% earnings growth rate and a starting yield of 1.4% that are partially offset by a small valuation headwind. Masco can be a volatile name, but the company's long-term track record is one of growth. We have raised our five-year price target $1 to $116 for Masco, but continue to rate the stock as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7,006	7,142	7,361	6,014	6,654	6,707	7,188	8,375	8,680	7,967
Gross Profit	2,060	2,253	2,462	2,220	2,327	2,371	2,587	2,863	2,713	2,836
Gross Margin	29.4%	31.5%	33.4%	36.9%	35.0%	35.4%	36.0%	34.2%	31.3%	35.6%
SG&A Exp.	1,347	1,339	1,407	1,217	1,264	1,295	1,327	1,843	1,400	1,481
D&A Exp.	167	133	134	127	156	159	133	151	145	149
Operating Profit	713	914	1,055	1,003	1,063	1,076	1,260	1,020	1,313	1,355
Operating Margin	10.2%	12.8%	14.3%	16.7%	16.0%	16.0%	17.5%	12.2%	15.1%	17.0%
Net Profit	856	355	493	533	734	935	1,224	410	844	908
Net Margin	12.2%	5.0%	6.7%	8.9%	11.0%	13.9%	17.0%	4.9%	9.7%	11.4%
Free Cash Flow	474	652	609	578	813	671	839	802	616	1,170
Income Tax	(361)	293	296	245	221	230	269	210	288	278

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,208	5,664	5,137	5,534	5,393	5,027	5,777	5,575	5,187	5,363
Cash & Equivalents	1,379	1,468	990	1,194	552	697	1,326	926	452	634
Acc. Receivable	820	853	917	1,066	990	997	1,138	1,171	1,149	1,090
Inventories	712	687	712	784	798	754	876	1,216	1,236	1,022
Goodwill & Int.	982	999	986	1,028	799	768	920	956	887	980
Total Liabilities	6,080	5,606	5,240	5,351	5,324	5,083	5,356	5,497	5,429	5,247
Accounts Payable	721	749	800	824	736	697	893	1,045	877	840
Long-Term Debt	3,424	3,407	2,997	3,085	2,979	2,773	2,795	2,959	3,151	2,948
Total Equity	924	(135)	(298)	(53)	(111)	(235)	195	(179)	(480)	(126)
LTD/E Ratio	3.71	(25.24)	(10.06)	(58.21)	(26.84)	(11.80)	14.33	(16.53)	(6.56)	(23.40)

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.1%	5.5%	9.1%	10.0%	13.4%	17.9%	22.7%	7.2%	15.7%	17.2%
Return on Equity	89.4%	59.9%		1332%	583%	---	671%	164%		
ROIC	19.5%	8.9%	15.5%	17.3%	23.2%	32.4%	41.3%	13.1%	28.4%	30.4%
Shares Out.	352	341	330	318	307	288	264	251	232	226
Revenue/Share	19.90	20.94	22.31	18.91	21.67	23.29	27.23	33.37	37.41	35.25
FCF/Share	1.35	1.91	1.85	1.82	2.65	2.33	3.18	3.20	2.66	5.18

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