Quanta Services (PWR)

Updated November 18th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$323	**5 Year CAGR Estimate:**	1.6%	**Market Cap:**	$48 B
Fair Value Price:	$173	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date[1]:**	12/27/2024
% Fair Value:	187%	**5 Year Valuation Multiple Estimate:**	-11.7%	**Dividend Payment Date:**	1/10/2025
Dividend Yield:	0.1%	**5 Year Price Target**	$348	**Years Of Dividend Growth:**	6
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

Quanta Services is a leading specialized contracting services company, which delivers comprehensive solutions to the utility, renewable energy, communications, pipeline and energy industries. The company designs, installs, repairs and maintains energy and communications infrastructure throughout the U.S., Canada, Australia and some other international markets. In 2023, it generated 74% of its revenues from utilities and renewable energy developers. It was formerly known as Fabal Construction and changed its name to Quanta Services in 1997. It is headquartered in Houston, Texas, and has a market capitalization of $48 billion.

Quanta Services self-performs at least 80% of the work of its projects, thus mitigating execution risk. Thanks to the largely non-discretionary nature of its projects across multiple markets, the company enjoys reliable and predictable cash flows.

In late October, Quanta Services reported (10/31/24) financial results for the third quarter of fiscal 2024. It posted double-digit growth in revenues and earnings and reported all-time high backlog of $34.0 billion thanks to strong demand from developers of renewable energy projects, which will help North America execute its energy transition. The company grew its revenue 15% over the prior year's quarter and its adjusted earnings-per-share 21%, from $2.24 to $2.72, beating the analysts' consensus by $0.03. Thanks to its sustained business momentum, Quanta Services has not missed the analysts' estimates for 21 consecutive quarters. It revised its guidance for earnings-per-share this year from $8.60 to $8.50-$8.80 this year and hence we have kept our forecast of $8.65 intact.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.35	$1.59	$1.26	$2.00	$1.90	$2.73	$3.07	$3.34	$6.34	$7.16	***$8.65***	***$17.40***
DPS	---	---	---	---	$0.04	$0.17	$0.21	$0.25	$0.29	$0.33	***$0.36***	***$0.56***
Shares[2]	220	195	157	157	154	148	145	148	148	149	***150***	***155***

Quanta Services is leveraged to favorable secular megatrends, such as utility grid modernization, renewable energy generation and integration, electric vehicles and electrification. This is clearly reflected in the outstanding performance record of the company. Since 2010, Quanta Services has grown its revenues and its earnings per share at an average annual rate of 14% and 18%, respectively. Even better, there is ample room for growth for several more years thanks to a fast-growing addressable market, as the global energy transition is just in its early phases. In addition, management should be praised for not relying solely on sales growth. It has managed to enhance adjusted EBITDA margin from 7.6% in 2016 to 9.5% now and expects further improvement in the upcoming years. Overall, thanks to the strong execution record of Quanta Services and its exciting growth prospects, we expect the company to grow its earnings-per-share by 15% per year on average over the next five years. As a side note, Quanta Services may exceed even these high expectations, but we find it prudent not to assume a higher growth rate in order to have a margin of safety.

[1] Estimated date.
[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	25.0	16.4	19.8	17.8	18.1	13.7	15.1	29.3	20.2	24.9	***37.3***	***20.0***
Avg. Yld.	---	---	---	---	0.1%	0.5%	0.5%	0.3%	0.2%	0.2%	***0.1%***	***0.2%***

Quanta Services has traded at an average price-to-earnings ratio of 20.0 over the last decade and over the last five years. Thanks to its accelerated business performance and its exciting growth potential, the stock is currently trading at a 10-year high price-to-earnings ratio of 37.3. The stock will probably maintain its huge premium as long as the company keeps thriving. However, we find it prudent to assume a fair earnings multiple of 20.0, in line with the 10-year average of the stock, to have a margin of safety whenever the company faces an unexpected headwind, such as a recession. If the stock reverts to its historical valuation level over the next five years, it will incur an -11.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	2%	6%	7%	7%	5%	5%	***4%***	***3%***

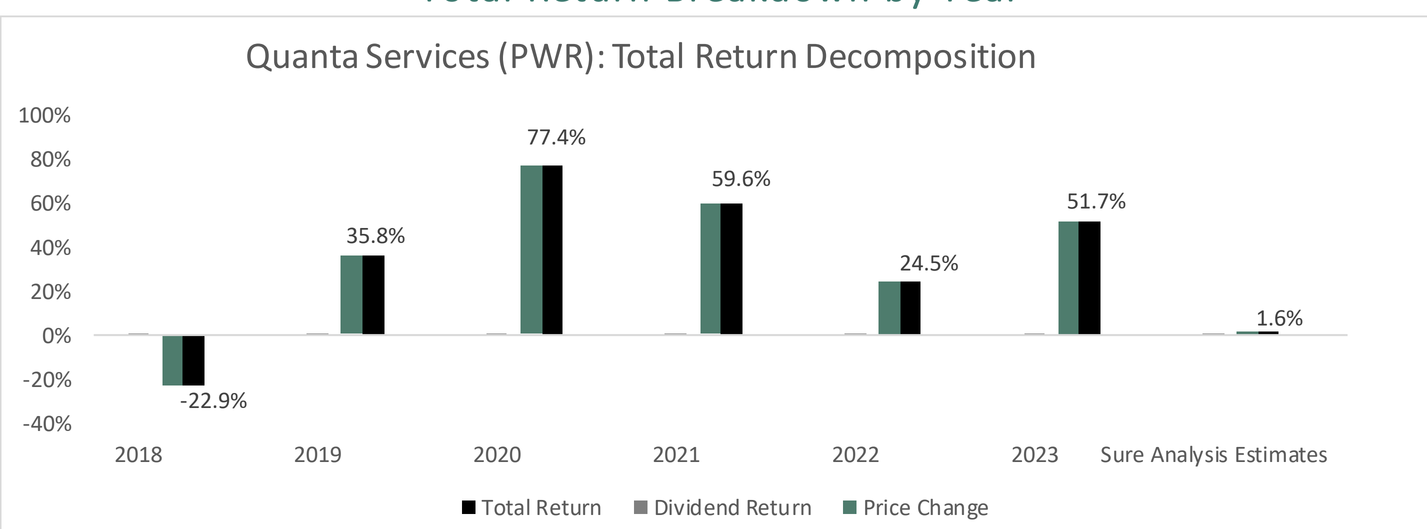
Quanta Services enjoys significant competitive advantages. It is the largest and preferred employer for skilled workforce and a recognized leader in energy projects. It also enjoys recurring cash flows thanks to the long-term nature of its projects and its business relationships. The company generated more than 85% of its revenues from repeatable activity in 2023. It also has a rock-solid balance sheet. It has a strong interest coverage ratio of 6.9 and net debt of $4.4 billion, which is only 9% of the market cap of the stock and approximately 3 times the annual earnings. This is a testament to the strength of the business model of Quanta Services.

The negligible dividend yield (0.1%) should not deter investors, as it has proved far more profitable for the company (and its shareholders) to reinvest earnings in its fast-growing business.

Final Thoughts & Recommendation

Quanta Services is thriving and has exciting growth prospects for the next several years. However, the market has already priced a great portion of future growth in the stock as evidenced by its 76% rally in the last 12 months and its rich valuation. The stock could offer a 1.6% average annual return over the next five years thanks to 15.0% growth of earnings-per-share and its 0.1% dividend, partly offset by an -11.7% valuation drag. It thus receives 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	7,747	7,572	7,651	9,466	11,171	12,112	11,203	12,980	17,074	20,882
Gross Profit	1,169	924	1,014	1,242	1,480	1,600	1,661	1,953	2,529	2,937
Gross Margin	15.1%	12.2%	13.3%	13.1%	13.2%	13.2%	14.8%	15.0%	14.8%	14.1%
SG&A Exp.	705	593	653	778	858	956	975	1,156	1,337	1,555
D&A Exp.	175	198	202	216	247	280	302	421	645	614
Operating Profit	429	296	329	432	578	582	609	632	838	1,093
Operating Margin	5.5%	3.9%	4.3%	4.6%	5.2%	4.8%	5.4%	4.9%	4.9%	5.2%
Net Profit	297	311	198	315	293	402	446	486	491	745
Net Margin	3.8%	4.1%	2.6%	3.3%	2.6%	3.3%	4.0%	3.7%	2.9%	3.6%
Free Cash Flow	63	441	177	127	51	264	855	197	703	1,141
Income Tax	139	97	107	36	162	165	119	131	192	219

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,254	5,214	5,354	6,480	7,076	8,332	8,398	12,855	13,464	16,237
Cash & Equivalents	191	129	112	138	79	165	185	229	429	1,290
Acc. Receivable	1,801	1,621	1,500	1,985	2,355	2,748	2,716	3,400	3,675	4,411
Goodwill & Int.	1,840	1,758	1,790	2,132	2,180	2,436	2,557	5,330	5,045	5,408
Total Liabilities	1,728	2,126	2,011	2,685	3,470	4,278	4,049	7,738	8,066	9,954
Accounts Payable	477	452	530	633	787	799	798	1,251	1,302	2,028
Long-Term Debt	81	482	361	672	1,106	1,367	1,189	3,754	3,730	4,199
Total Equity	4,514	3,085	3,339	3,792	3,604	4,050	4,344	5,112	5,383	6,272
LTD Ratio	0.02	0.16	0.11	0.18	0.31	0.34	0.27	0.73	0.69	0.67

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.9%	5.4%	3.8%	5.3%	4.3%	5.2%	5.3%	4.6%	3.7%	5.0%
Return on Equity	6.8%	8.2%	6.2%	8.8%	7.9%	10.5%	10.6%	10.3%	9.3%	12.7%
Shares Out.	220	195	157	157	154	148	145	148	148	149
Revenue/Share	35.26	38.81	48.65	60.24	72.44	82.10	77.13	89.29	115.37	140.32
FCF/Share	0.29	2.26	1.13	0.81	0.33	1.79	5.89	1.35	4.75	7.67

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