



Vulcan Materials Company (VMC)

Updated November 11th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$292	5 Year CAGR Estimate:	0.1%	Market Cap:	\$38.6 B
Fair Value Price:	\$192	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/04/24
% Fair Value:	152%	5 Year Valuation Multiple Estimate:	-8.0%	Dividend Payment Date:	11/27/24
Dividend Yield:	0.6%	5 Year Price Target	\$282	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Sell

Overview & Current Events

Vulcan Materials is a leading producer and distributor of crushed stone. The company has 380 aggregate production facilities across 20 U.S. states as well as the District of Columbia, the Bahamas and Mexico. The company shipped more than 234 million tons of aggregates in 2023. In addition, Vulcan Materials employees more than 12,000 people across 400 facilities. The company has annual revenues of nearly \$8 billion.

On February 9th, 2024, the company increased its quarterly dividend 7% to \$0.46.

On October 30th, 2024, Vulcan Materials reported third quarter results for the period ending June 30th, 2024. For the quarter, revenue fell 8.7% to \$2 billion, which was \$20 million below estimates. Adjusted earnings-per-share of \$2.22 compared unfavorably to adjusted earnings-per-share of \$2.29 in the prior year and was \$0.09 less than expected.

For the quarter, Aggregates gross profit per ton grew 8.6% to \$8.63 despite total shipments falling 9.8% to 57.7 million tons. Revenue for the category was down 3.4% to \$1.57 billion. Asphalt gross profit of \$60 million was a 12% increase from the prior year. Revenue for this category was higher by 9.8% to \$381 million. Concrete revenue decreased 52.2% to \$174.4 million, mostly due to the company's divestiture of its operations in Texas last year.

Vulcan Materials is expected to earn \$7.12 in 2024, down from \$7.83, \$8.70, and \$8.24 previously. This would be an 1.7% increase from the prior year. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.56	\$1.72	\$3.11	\$2.38	\$3.87	\$4.67	\$4.41	\$5.04	\$5.11	\$7.00	\$7.12	\$10.46
DPS	\$0.22	\$0.40	\$0.80	\$1.00	\$1.12	\$1.24	\$1.36	\$1.48	\$1.60	\$1.72	\$1.84	\$2.35
Shares¹	132	133	132	132	132	132	133	133	134	134	133	133

Vulcan Materials' earnings-per-share have been highly erratic over the last decade. The company struggled during the 2007 to 2009 time period and earnings-per-share turned negative at the start of the previous decade. On the plus side, earnings-per-share have a compound annual growth rate of more than 16% since 2014. We believe that this growth rate can largely be attributed to the strength of the overall economy and the resulting demand for products as well as the low starting base. For additional context, earnings-per-share have increased at 8.4% since 2019.

Product prices are very low for much of the company's business. For example, aggregates, which account for three-quarters of all revenue, typically sell for approximately \$7 to \$8 per ton. This does not leave much margin for error for Vulcan Materials if demand were to decline. We have raised our earnings-per-share growth rate to 8% from 5% annually through 2029 as we feel this takes into account the robust demand for products recently, but is below the medium- and long-term average growth rates.

Vulcan Materials cut its dividend every year from 2009 to 2012 as the company grappled with the recession's impact on business. The company has so aggressively raised its dividend in recent years that the compound annual growth rate is 8.2% since 2019. We project 5% dividend annual dividend growth through 2029.

¹ Share count 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	40.6	---	35.9	---	30.1	28	28.6	41.4	34.3	32.4	41.0	27.0
Avg. Yld.	0.3%	0.5%	0.7%	0.8%	1.0%	0.9%	1.1%	0.7%	0.9%	0.8%	0.6%	0.8%

Shares have increased \$48, or 19.7%, since our August 10th, 2024 report. With unpredictable earnings growth comes an unpredictable valuation. Shares of Vulcan Materials have traded with extremely high valuations over the last decade and that is when earnings-per-share have steadily increased. We have raised our target multiple to 27 times earnings from 20 as we feel this considers the unpredictability of the stock, but moves the target valuation closer the stock’s long-term average. Using expected earnings-per-share for the year, Vulcan Materials has a price-to-earnings ratio of 41.0. This implies that valuation reversion could be a headwind for total returns. Returning to our target valuation by 2029 would reduce annual returns by -8.0% per year during this time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	14%	23%	26%	42%	29%	27%	31%	29%	31%	25%	26%	22%

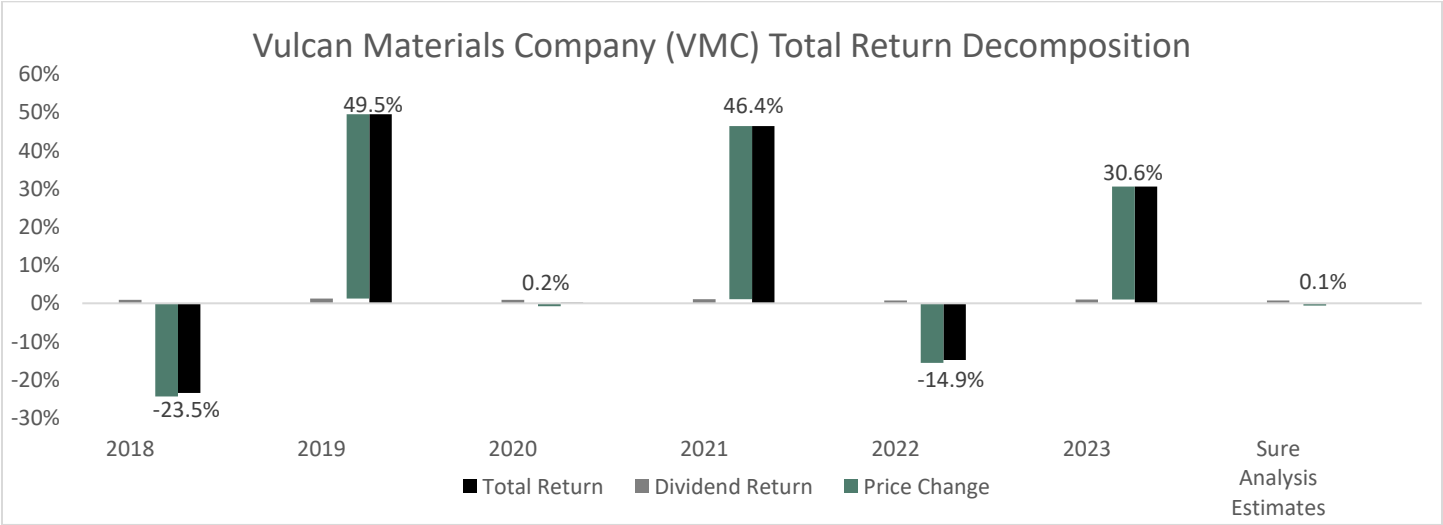
Vulcan Materials’ business is highly correlated to the state of the economy. Earnings-per-share declined 63% from 2007 to 2008. The following year, earnings-per-share fell 91%. The company then posted three consecutive years of earnings-per-share losses as it struggled to rebound from the last recession.

Vulcan Materials is one of the larger names in its industry, which gives it some advantages against peers. However, the company is far from immune to downturns in the market. We do find the company’s acquisition of U.S. Concrete a positive as this should enhance Vulcan Materials’ presence in California, Texas, and the Northeast. This should slightly reduce the company’s reliance on the Gulf Coast for much of its revenues.

Final Thoughts & Recommendation

Vulcan Materials is now forecasted to produce an annual return of just 0.1% through 2029, down from our prior estimate of 5.7%. Our projected return stems from an 8% earnings growth rate and a starting yield of 0.6% that are nearly offset by a high single-digit headwind from valuation reversion. Vulcan Materials is a name that can perform extremely well when the economy is growing. On the other hand, the company struggles considerably when a recession takes place. We now view shares of Vulcan Materials as a sell 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	2,994	3,422	3,593	3,890	4,383	4,929	4,857	5,552	7,315	7,782
Gross Profit	588	858	989	994	1,101	1,256	1,282	1,373	1,558	1,949
Gross Margin	19.6%	25.1%	27.5%	25.5%	25.1%	25.5%	26.4%	24.7%	21.3%	25.0%
SG&A Exp.	272	287	317	325	333	371	360	418	515	543
Operating Profit	251	245					397	463	588	617
Op. Margin	297	540	650	621	733	854	892	895	1,009	1,379
Net Profit	9.9%	15.8%	18.1%	16.0%	16.7%	17.3%	18.4%	16.1%	13.8%	17.7%
Net Margin	205	221	419	601	516	618	585	671	576	933
Free Cash Flow	6.8%	6.5%	11.7%	15.5%	11.8%	12.5%	12.0%	12.1%	7.9%	12.0%
Income Tax	36	230	294	185	364	600	708	561	536	664

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8,041	8,302	8,471	9,505	9,832	10,649	11,687	13,683	14,235	14,546
Cash & Equivalents	141	284	259	142	40	272	1,197	235	161	931
Acc. Receivable	355	397	398	434	512	532	513	783	846	890
Inventories	322	347	346	384	429	458	449	521	579	616
Goodwill & Int.	3,853	3,861	3,864	4,186	4,261	4,259	4,296	5,446	5,392	4,992
Total Liabilities	3,864	3,847	3,899	4,536	4,629	5,027	5,660	7,115	7,282	7,038
Accounts Payable	145	176	145	197	216	265	273	366	455	
Long-Term Debt	1,985	1,980	1,983	2,855	2,912	2,784	3,288	3,880	3,976	3,878
Total Equity	4,177	4,454	4,572	4,969	5,203	5,622	6,027	6,545	6,929	7,483
LTD/E Ratio	0.48	0.44	0.43	0.57	0.56	0.50	0.55	0.59	0.57	0.52

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.5%	2.7%	5.0%	6.7%	5.3%	6.0%	5.2%	5.3%	4.1%	6.5%
Return on Equity	5.1%	5.1%	9.3%	12.6%	10.1%	11.4%	10.0%	10.7%	8.5%	12.9%
ROIC	3.2%	3.5%	6.5%	8.4%	6.5%	7.5%	6.6%	6.8%	5.4%	8.4%
Shares Out.	132	133	132	132	132	132	133	133	134	134
Revenue/Share	22.51	25.33	26.46	28.84	32.73	36.95	36.46	41.59	54.75	58.20
FCF/Share	0.27	1.70	2.17	1.37	2.72	4.50	5.32	4.20	4.01	4.97

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

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