



Mueller Water Products, Inc. (MWA)

Updated February 5th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	2.1%	Market Cap:	\$4.00 B
Fair Value Price:	\$21.06	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/10/25
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	02/21/25
Dividend Yield:	1.0%	5 Year Price Target	\$27	Years Of Dividend Growth:	10
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Mueller Water Products is a leading manufacturer and marketer of products and services used to transmit, distribute, and measure water in North America. Mueller's products and services are used by municipalities and the residential and non-residential construction industries. The majority of its revenues (>90%) are derived from spending on water and wastewater infrastructure upgrades, repairs, and replacements, typically associated with the construction of new residential communities. Management estimates it has one of the largest installed bases of Iron Gate valves and fire hydrants in the United States. The company generates around \$1.3 billion in annual sales and is based in Atlanta, Georgia. Mueller's fiscal year ends every September 30th.

On February 4th, 2025, Mueller Water reported its fiscal Q1 results for the period ending December 31st, 2024. For the quarter, revenues came in at \$304.3 million, which was a year-over-year increase of 18.7%. The Water Management Solutions segment posted sales of \$129.7 million that were up 12.7% year-over-year. This increase was primarily due to higher volumes of hydrants as well as higher pricing across most product lines. The Water Flow Solutions segment posted sales of \$174.6 million, up 23.6% compared to last year. This increase was primarily due to higher volumes of iron gate and specialty valves as well as higher pricing across most product lines. Following higher sales and notably higher margins, EPS came in at \$0.25 compared to \$0.13 last year.

For fiscal 2025, the company expects sales growth between 4.2% and 5.7% compared to fiscal 2024. The company also expects its full-year adjusted EBITDA, to be between \$310 million and \$315 million. The company expects free cash flow as a percentage of adjusted net income to be more than 80% this year as well. Based on these estimates, we forecast EPS of \$1.17 for fiscal 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.19	\$0.40	\$0.77	\$0.67	\$0.40	\$0.45	\$0.44	\$0.49	\$0.55	\$0.74	\$1.17	\$1.49
DPS	\$0.08	\$0.10	\$0.15	\$0.19	\$0.20	\$0.21	\$0.22	\$0.23	\$0.24	\$0.26	\$0.27	\$0.33
Shares¹	160.5	161.3	160.1	158.2	157.8	157.8	158.4	158.0	156.8	156.9	157.5	152.0

Despite Mueller's revenues modestly growing over the past few years, they are still near the same levels they were a decade ago. The company has sustained a positive bottom line since 2015, but growth has lagged. The industry in which Mueller operates is very mature, with little to no expansion prospects. Hence apart from acquisitions, the company has few growth avenues. Further, the currently accelerated inflation could hurt the company if it isn't able to match higher costs with adequate price increases. Still, powered by growing revenues, we estimate EPS growth of 5% in the medium-term.

Mueller has never cut its dividend since its IPO. It has grown annually over the past 10 years, though at a humble rate since over the last five years. We expect DPS growth of around 4% going forward, considering Mueller's limited

¹ Share count is in millions.

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profitability growth catalysts ahead. Continuous buybacks could contribute to EPS growth, but only \$10 million worth of stock was bought in both fiscal 2023 and fiscal 2024.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	48.5	29.7	15.6	17.2	26.2	22.5	48.0	25.1	22.8	21.3	21.9	18.0
Avg. Yld.	0.9%	0.8%	1.3%	1.7%	1.9%	2.0%	1.5%	1.9%	1.9%	1.6%	1.0%	1.2%

Over the past decade, Mueller's valuation multiple has fluctuated based on profitability expectations. Currently, shares trade at 21.9 times our expected FY2025 EPS, despite limited growth prospects. We believe a fair valuation would be 18 times EPS. This is especially justified in a high-interest rate environment, as the company's thin growth prospects do not warrant a premium. The historical stock premium is attributed to water-related investments attracting investor interest for their mature and mission-critical business models. We believe the stock's yield will likely remain soft overall as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

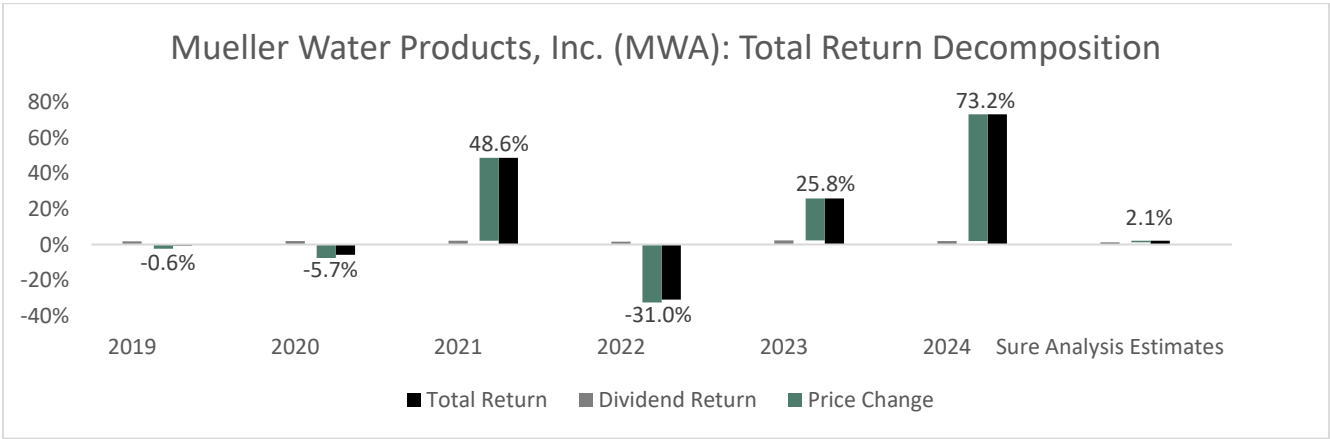
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	42%	25%	19%	28%	50%	47%	50%	47%	44%	35%	23%	22%

We consider the stock's dividend relatively safe even as the payout ratio has moved higher over the past few years. The company is a market leader in water and wastewater infrastructure upgrades that see relatively stable annual demand. Water utility companies must modernize their facilities every a certain time period; hence robust demand should remain. The company claims that while the valve and hydrant products industry is competitive, it is a mature one and many end users are slow to transition to brands other than their historically preferred brand. Hence sales should not fluctuate wildly. Sales should remain relatively stable under a recession as well, as was the case during the Great Financial Crisis. However, the company still has little to no competitive advantages and is subject to limited growth catalysts ahead. On the positive side, Mueller's total debt position has been declining consistently, from \$1.3 billion in 2006 to \$449.5 million as of the latest quarter. The company also has no outstanding debt maturities prior to June 2029, which should allow for flexible capital allocation in the medium-term.

Final Thoughts & Recommendation

Mueller Water Products possesses certain attractive qualities, such as robust revenues, an improving balance sheet, and a healthy dividend payout ratio. Still, we believe the stock lacks prospects to deliver meaningful returns in the coming years. This is due to the possibility of valuation headwinds largely offsetting gains from growth in Mueller's financials. Thus, we rate the stock a sell at its current levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	801	826	916	968	964	1111	1247	1276	1,351
Gross Profit	269	268	290	321	328	359	364	380	459
Gross Margin	33.6%	32.4%	31.6%	33.2%	34.0%	32.3%	29.2%	29.8%	34.0%
SG&A Exp.	150	155	167	183	198	219	239	242	245
D&A Exp.	40	42	44	53	58	60	61	63	66
Operating Profit	112	102	113	122	117	140	126	138	214
Operating Margin	14.0%	12.4%	12.3%	12.6%	12.1%	12.6%	10.1%	10.8%	15.8%
Net Profit	64	123	106	64	72	70	77	86	116
Net Margin	8.0%	14.9%	11.5%	6.6%	7.5%	6.3%	6.2%	7.6%	8.6%
Free Cash Flow	114	(25)	77	6	73	94	(2.4)	61	191
Income Tax	24	24	(10)	18	22	25	22	24	48

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,281	1,258	1,292	1,337	1,395	1,518	1,498	1,505	1,636
Cash & Equivalents	195	362	347	177	209	228	147	160	310
Accounts Receivable	132	145	164	173	181	212	228	218	213
Inventories	131	139	157	191	163	185	279	302	311
Goodwill & Int. Ass.	435	439	420	529	509	508	460	428	390
Total Liabilities	861	769	727	745	754	823	829	794	826
Accounts Payable	74	83	90	85	67	92	123	103	110
Long-Term Debt	484	481	445	446	448	447	447	447	450
Shareholder's Equity	418	488	563	590	641	695	669	712	810
LTD/E Ratio	1.16	0.98	0.79	0.76	0.70	0.64	0.67	0.63	0.55

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.1%	9.7%	8.3%	4.9%	5.3%	4.8%	5.1%	5.7%	7.4%
Return on Equity	16.3%	27.2%	20.1%	11.1%	11.7%	10.5%	11.2%	12.4%	15.2%
ROIC	7.3%	13.2%	10.7%	6.2%	6.8%	6.3%	6.8%	7.5%	9.6%
Shares Out.	161.3	160.1	158.2	157.8	157.8	159.2	158	157	157
Revenue/Share	4.90	5.11	5.74	6.09	6.08	6.98	7.90	8.14	8.38
FCF/Share	0.70	(0.15)	0.48	0.04	0.46	0.59		0.39	1.22

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

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