Vulcan's Aggregates Business Reaps Record Results

Published: Wednesday, 02 August 2017 10:53 Written by Rock Products News

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Vulcan Materials Co. announced results for the second quarter ended June 30, 2017. Total revenues increased $74 million, or 8 percent, to $1.03 billion. Gross profit was $292 million, in line with the prior year. Net earnings were $120 million and Adjusted EBITDA was $288 million.

The company said its second quarter results reflect record unit profitability in its Aggregates segment despite wet weather and difficult operating conditions across many of its Southeastern and Mid-Atlantic markets. Extreme wet weather across the Southeast and weaker demand in Illinois and coastal Texas contributed to a 3 percent decline in same-store aggregates shipments compared to the prior year. Same-store pricing in aggregates improved 5 percent.

> *Tom Hill, chairman and chief executive officer, said, "Aggregates shipments in the quarter were hit hard by prolonged and extremely wet weather in the Southeast, particularly in May and June, and the absence or delayed timing of large project work in Illinois and coastal Texas compared to last year. This shortfall in second quarter aggregates shipments drove most of the difference in our reported results versus our plan.*

"Despite the volume shortfall in the quarter, I am very encouraged by what I see happening behind the reported numbers," Hill continued. "Private demand in our markets continued to strengthen. Highway project starts accelerated in the second quarter, signaling an end to the softness in starts that we have been working through for the last year. Our shipment backlog for public highway work hasn't been this high in at least three years. California and Virginia, important states for us, have returned to shipment growth. Our recent acquisitions are performing well. And, our core profitability in aggregates continues to improve. Aggregates unit gross profit was a second quarter record despite the wet weather we experienced in some of our strongest markets. Aggregates pricing, adjusted for mix, was consistent with full year expectations. These results are a good indication of the market's visibility to further demand recovery.

"Our business remains on track with our longer-term goals and expectations, Hill concluded. "We remain confident in the sustained, multi-year recovery in materials demand across our markets and in the further, compounding improvements to our unit profitability. We anticipate 5 to 10 percent growth in shipments from August through the end of the year. However, given the shortfall in shipments to date, we now expect full-year aggregates shipments of 182 to 187 million tons and full year Adjusted EBITDA of $1.05 to $1.13 billion."

Shipment trends in aggregates varied widely across the company's footprint, largely due to weather and the timing of large projects. Aggregates shipments decreased 2 percent versus the prior year's quarter and same-store shipments declined 3 percent.

Alabama, Florida, Georgia, Louisiana and Mississippi combined saw shipments decline 12 percent versus the prior year's second quarter. Severe wet weather and flooding slowed construction activity and impaired shipments in May and June, two key months of the construction season.

- Aggregates shipments in Florida and Georgia declined double-digits in June despite very strong underlying market conditions.
- Coastal Texas and Illinois also experienced significant shipment declines.
- In Illinois, shipments declined 19 percent versus the prior year due in part to the absence of a state budget to support public construction.
- Coastal Texas shipments in the quarter were impacted by a softer local economy and the relative timing of DOT spending and other large project activity; however, backlogs for that market remain strong.

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- Markets outside of these areas combined to grow 6 percent versus the prior year's second quarter – more in line with trend and despite weather challenges in Virginia, the Carolinas and Tennessee.
- Shipments in California grew 10 percent, driven by private construction activity and the catch-up on work deferred from the very wet first quarter. California's passage of a long-term transportation bill resolved Caltrans' funding uncertainty and should, along with other factors, support sustained shipping rate improvements over the coming years.

Fundamental demand drivers and leading indicators for shipment growth continued to strengthen in the quarter for Vulcan-served markets. Trailing 12-month construction starts in its markets have steadily improved from a year ago, outpacing non-Vulcan markets by a wide margin.

Private construction starts remain strong, led by continued growth in both residential and nonresidential buildings. Importantly, public construction starts have turned positive due to growth in highway and road spending.

Additionally, the pre-construction pipeline of projects continues to grow across the company's footprint. State and local governments have continued to pass funding measures to increase public infrastructure investment significantly, and more projects supported by federal FAST Act funding have moved further toward the active construction stage.

Broad pricing momentum continued across the company's footprint with substantially all markets realizing price growth in the second quarter. For the quarter, same-store freight-adjusted average sales price for aggregates increased 5 percent versus the prior year, or $0.59 per ton, despite a negative mix impact.

The overall pricing climate remains favorable as visibility to a sustained recovery improves and as construction materials producers stay focused on earning adequate returns on capital. California and Georgia each realized high-single digit price growth, again supported by clear and improving visibility to sustained growth in demand.

Second quarter Aggregates segment gross profit was $253 million, or $5.27 per ton. Segment results in the quarter were negatively impacted by product shipment mix, acquisition-related integration costs, a 15 percent increase in the unit cost of diesel fuel and costs related to the transition to two new, more efficient ships to transport aggregates from a quarry in Mexico. In total, these items negatively impacted segment gross profit by $16 million in comparison to the prior year.

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