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Investors Love Vulcan Materials' Results Like A Rock



JAMES DETAR | 7/05/2016



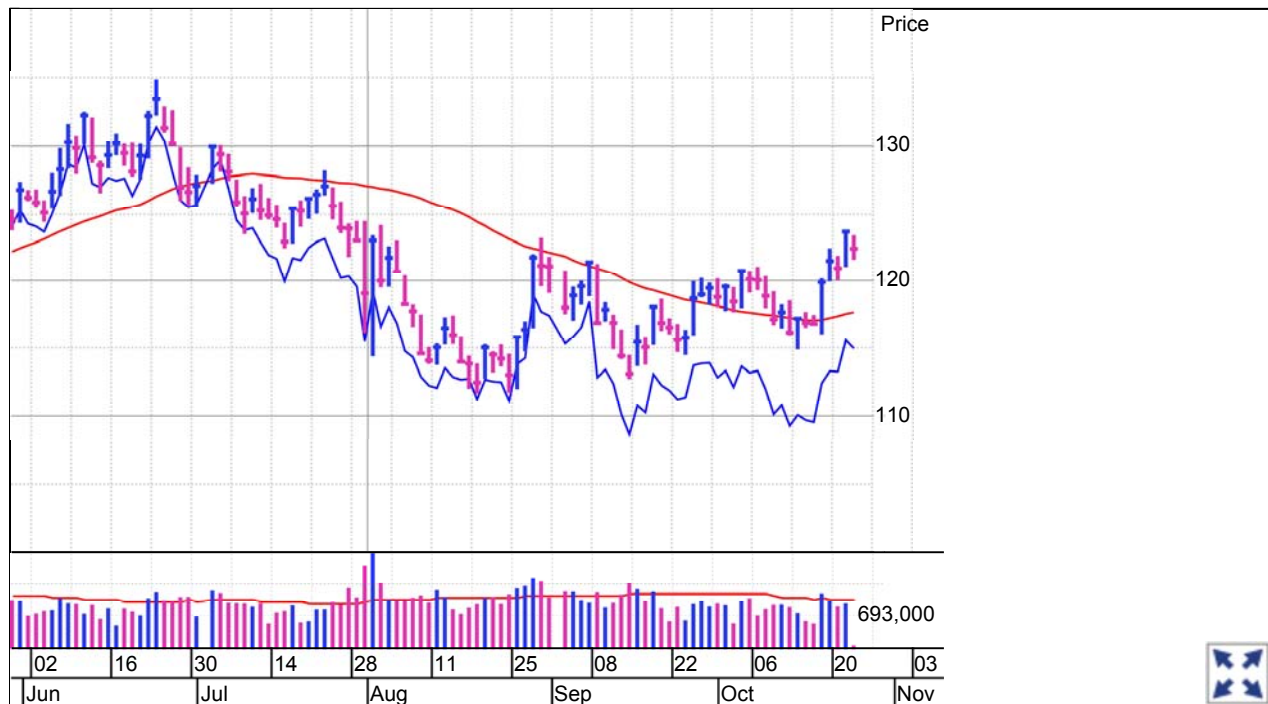
When President Obama signed a \$305 billion highway bill into law last December, it was good news for **Vulcan Materials** (VMC).

For one, it meant Vulcan stood to gain more than any other building materials company from the legislation. But it also was one of many signs that the provider of aggregates -- crushed stone, sand and gravel -- is now paving a path to prosperity, a year after it was losing money.

Another positive sign came late last month, when Britain decided to exit the European Union. The move rattled global markets, but Vulcan was among a handful of stocks that stood up well during the selling frenzy. Showing strength, its stock dipped just 0.4% on June 24, while the Dow industrials fell 611 points.

Chief Executive Tom Hill told analysts on a recent earnings call that several things have come together for the company, most notably a long-term housing recovery. There also has been better execution on customer deliveries, fixed-cost leveraging and lower costs of goods sold. Meanwhile, prices continue to migrate upward toward longer-term higher return on capital.

Vulcan Materials Co (VMC) \$122.51 ↓ 1.25 (1.01%)



Real-time prices by BATS®. Volume delayed. Last Update: 11:12 AM EST 10/25/2017
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Hill also said the housing recovery still has legs.

"I want to emphasize that we continue to believe that the recovery in our markets still has a long way to go. Our business is in the midst of a long, gradual recovery in demand," he said. "This is, to our way of thinking, a recovery with real staying power."

Market Leader

Vulcan is the nation's largest pure-play maker of aggregate building materials. Public works account for about 50% of construction materials spending, and the Fixing America's Surface Transportation (FAST) Act allocated funds for work on U.S. roads, bridges, public transit and rail transportation systems over the next five years.

Of the remainder, commercial buildings account for 30% of construction materials spending, and housing makes up the final 20%. With incomes slowly rising and housing recovery steady, driven by low interest rates and unemployment, Vulcan's prospects are bright, according to BB&T Capital Markets analyst Adam Thalhimer.

"When I talk to private aggregates companies, they point to Vulcan as the best-run company in the space. They are the most consistent," Thalhimer said in an interview with IBD.

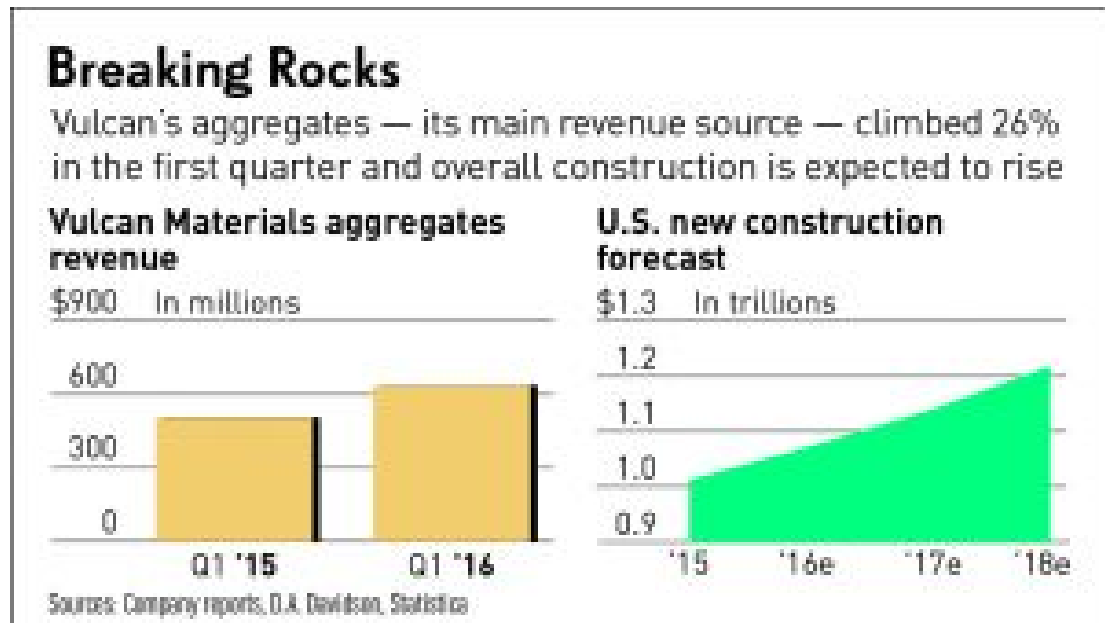
Thalhimer said it's really not a complicated business. Vulcan's sales are all domestic.

"Their cash cow is turning big rocks into little rocks" and selling them, he said. He has a buy rating on Vulcan with a 135 price target.

Crushing Estimates

Birmingham, Ala.-based Vulcan, also a major producer of aggregates-based construction materials such as asphalt and ready-mixed concrete, crushed profit estimates in its most recent quarter, reporting 26 cents fiscal-first-quarter earnings per share on May 3, swinging from a 16-cent loss in the same quarter a year earlier. That was more than triple the analyst consensus estimate of 7 cents a share.

The



company recorded a 20% hike in first-quarter revenue to \$755 million, easily beating forecasts for \$711 million, while gross profit climbed 112%.

"It is certainly true that you can't extrapolate the full picture from a single quarter's results, but when you look at our results in the context of the last several quarters, you see very solid and improving fundamentals," Hill said on the May 3 call with analysts.

Analysts polled by Thomson Reuters call for earnings per share to climb 52% in the current quarter vs. the same quarter in 2015, to \$1. Revenue is projected to grow 13% to \$1.1 billion.

Vulcan operates 315 sites that produce construction aggregates and more than 100 facilities that produce asphalt and/or concrete. It's costly to transport rocks and other construction materials, so Vulcan's nationwide quarry-to-construction-site reach gives it a defensible market position, according to D.A. Davidson analyst Brent Thielman.

"It does come down to local domination," Thielman told IBD. "You're not going to get outsiders in your end markets once you're in there and serving addressable areas," because it's just too costly for smaller companies to ship rocks long distances.

Thielman has a neutral rating on Vulcan, based on its strong stock valuation, with a 115 price target.

Top Performer

RBC Capital Markets analyst Robert Wetenhall called out Vulcan in a June 17 client note as a top performer in its markets. Wetenhall noted that housing starts for the month of May increased by 9.5% to a seasonally adjusted annualized rate of 1.167 million units, topping estimates of 1.15 million.

"From an investment standpoint, we remain confident that a healthy labor market will continue supporting a slow and steady recovery in the housing market," Wetenhall said. He has an outperform rating on Vulcan with a 114.08 price target.

In February, Vulcan expanded its management team, including creating new positions. Stan Bass, who was a vice president with responsibility for the company's Western and Mountain West divisions, was named to the newly created post of chief growth officer.

Vulcan Materials

www.vulcanmaterials.com

Ticker	VMC
Share price	Near 120
12-month sales	\$3.55 bil
5-year profit growth rate	n.a.

IBD SmartSelect Corporate Ratings

Composite Rating	99
Earnings Per Share	79
Relative Price Strength	91
Industry Group Rank	13
Rank Within Industry Group	1
Sales+Profit Margins+ROE	B
Accumulation/Distribution	C+

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CEO Hill said in making the announcement that an executive growth officer was needed because "our company is poised for a new era of strategic growth, building on our unparalleled positions in recovering and growing markets across the United States."

Additionally, former general counsel Michael Mills was named to the newly created chief administrative officer post. Former assistant counsel Jerry Perkins stepped up to the general counsel position. Brock Lodge, who

previously was manager of Vulcan's Western division, including its strategic California operations, was promoted to president of that division.

Rivals

Although Vulcan is the 800-pound gorilla of construction aggregates in the U.S., it has competition. **Martin Marietta Materials** (MLM) is the other large, publicly traded aggregates supplier. But the Raleigh, N.C.-based company also sells specialty chemicals such as magnesia and has aggressively pursued the cement market.

Like Vulcan, Martin Marietta boasts a best-possible 99 IBD Composite Rating, meaning its stock has outperformed at least 99% of all stocks on key metrics such as sales and profit growth in recent quarters.

Large international companies also have a toehold in the U.S. market, including Ireland's **CRH** (CRH), the largest company in the building materials group, with nearly \$26 billion annual sales vs. about \$3.6 billion each for Vulcan and Martin Marietta. However, CRH also sells security gates and fencing, bricks, shutters, awnings and other items.

It's a fragmented market, and large local aggregate materials suppliers also vie in some regional markets, though they're much smaller than Vulcan and Martin Marietta.

Vulcan's stock price reached a new intraday high of 120.83 Thursday and matched it again on Friday, its highest point since June 2007, just before the start of the 2007-2009 recession. Shares ended trading on both days around 120, and shares were down slightly Tuesday after the holiday weekend to end the day at 119.66.

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