

Vulcan Materials

Keep on Rocking

Reiterate Rating: BUY | PO: 285.00 USD | Price: 255.15 USD

Strong finish to the year: ‘flow through’ a bright spot

Vulcan Materials (VMC) shares rose +5% (vs SPX flat) on a better than expected Q4 (EBITDA 6% ahead) and FY24 outlook (EBITDA of \$2.15-\$2.30bn, +7-14% YoY vs consensus \$2.196bn). Q4 EBITDA of \$476mn increased 27% YoY on a 6% sales gain. Bright spots: aggregates cash gross profit per ton of \$9.92 supported by strong pricing (+13.9%, FY pricing of +15.9% came in ahead of +15% guide) and moderating inflationary costs (i.e., over 60% flow through). 2024 outlook was a bit better than the preliminary guide around pricing, cost inflation, and in general, reassuring to see the volume outlook not take a step down.

2024: aggregates the real ‘price vs cost’ winner

VMC guided pricing of +10-12% (excluding mid years), a slight step up from preliminary expectations (high single digit to low double digit) given firming pricing in the backlog. 2024 marks the third consecutive year of double-digit price growth. While we be careful (nervous) if expectations rise for another double-digit figure in 2025, we are encouraged i) price cadence is likely smooth in 2024 (i.e., not front-end loaded, thus decent pricing exiting the year), ii) strong pricing occurring with weak-ish volumes (again), iii) price vs cost spread matters more – 2024 upside to cost inflation if diesel and other areas hold.

Volumes: mix of volumes matters – public vs private

VMC guided flat to -4% volumes in 2024. As we discussed in our [2024 year-ahead](#) construction analysis, construction is too bifurcated to call a clear direction. VMC cites: resi flat (single family up vs multi down), non-res down (warehouses weak, light soft vs manuf up), infrastructure up mid-single digits (i.e., some state DOT budgets up 13%). In our view, volume mix matters with public allowing higher visibility (operations, pricing).

Buy: \$1bn of FCF on the table soon? Feels similar to waste

VMC reported a record cash from ops of \$1.5bn, up 34% YoY. In our view, VMC is closing in on ~\$1bn of FCF, at a time when aggregate shipments remain below peak. We see similarities to waste coverage: price over volume, local oligopolies, M&A bolt-ons, etc. We raise our estimates following a strong Q4. We raise our PO to \$285 (\$260) based on 17.5x 2024 EBITDA (vs 17x prior), as the strong pricing warrants a slightly higher multiple. We reiterate our Buy rating – compounding price, rising FCF, leverage is low (1.5x vs range 2-2.5x) for optionality.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.11	7.01	8.85	10.13	11.04
GAAP EPS	4.45	7.07	8.85	10.13	11.04
EPS Change (YoY)	1.4%	37.2%	26.2%	14.5%	9.0%
Consensus EPS (Bloomberg)			8.28	9.56	10.85
DPS	1.60	1.72	1.84	1.97	2.11
Valuation (Dec)					
P/E	49.9x	36.4x	28.8x	25.2x	23.1x
GAAP P/E	57.3x	36.1x	28.8x	25.2x	23.1x
Dividend Yield	0.6%	0.7%	0.7%	0.8%	0.8%
EV / EBITDA*	24.7x	20.0x	17.6x	16.1x	15.0x
Free Cash Flow Yield*	1.6%	2.0%	2.8%	3.2%	3.5%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 20 February 2024 05:30AM EST

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	260.00	285.00
2024E Rev (m)	8,362.1	7,998.0
2025E Rev (m)	8,964.8	8,545.2
2026E Rev (m)	NA	9,047.7
2024E EPS	8.16	8.85
2025E EPS	9.46	10.13
2026E EPS	NA	11.04

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Stock Data

Price	255.15 USD
Price Objective	285.00 USD
Date Established	20-Feb-2024
Investment Opinion	B-1-7
52-Week Range	159.76 USD - 260.81 USD
Mkt Val (mn) / Shares Out (mn)	34,041 USD / 133.4
Free Float	97.9%
Average Daily Value (mn)	205.67 USD
BofA Ticker / Exchange	VMC / NYS
Bloomberg / Reuters	VMC US / VMC.N
ROE (2024E)	14.9%
Net Dbt to Eqty (Dec-2023A)	39.0%
ESGMeter™	Medium

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Resi = Residential, Non-resi = Non-residential, Manuf = Manufacturing, DOT = Department of Transportation

iQprofileSM Vulcan Materials

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.5%	8.0%	9.2%	9.7%	9.9%
Return on Equity	10.1%	13.0%	14.9%	15.3%	15.2%
Operating Margin	13.0%	18.3%	20.9%	21.6%	22.0%
Free Cash Flow	536	664	966	1,102	1,181

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.6x	1.4x	1.3x	1.3x
Asset Replacement Ratio	1.0x	1.4x	1.1x	1.0x	0.9x
Tax Rate	24.5%	24.0%	22.5%	22.5%	22.5%
Net Debt-to-Equity Ratio	54.9%	39.0%	30.7%	21.9%	13.7%
Interest Cover	5.7x	7.9x	10.8x	12.3x	13.7x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,315	7,782	7,998	8,545	9,048
% Change	31.8%	6.4%	2.8%	6.8%	5.9%
Gross Profit	1,558	1,949	2,220	2,431	2,610
% Change	13.4%	25.1%	13.9%	9.5%	7.4%
EBITDA	1,626	2,011	2,280	2,500	2,680
% Change	12.0%	23.7%	13.4%	9.6%	7.2%
Net Interest & Other Income	(163)	(182)	(155)	(150)	(145)
Net Income (Adjusted)	683	937	1,171	1,314	1,431
% Change	1.5%	37.3%	25.0%	12.2%	8.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	595	946	1,172	1,315	1,431
Depreciation & Amortization	588	617	612	653	688
Change in Working Capital	(156)	(5)	(204)	(251)	(324)
Deferred Taxation Charge	58	(43)	0	0	0
Other Adjustments, Net	64	22	35	35	35
Capital Expenditure	(613)	(873)	(650)	(650)	(650)
Free Cash Flow	536	664	966	1,102	1,181
% Change	-4.5%	24.0%	45.4%	14.1%	7.2%
Share / Issue Repurchase	0	0	(300)	(300)	(300)
Cost of Dividends Paid	(213)	(228)	(244)	(256)	(273)
Change in Debt	92	(101)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	162	949	1,371	1,918	2,526
Trade Receivables	1,045	890	1,074	1,264	1,487
Other Current Assets	695	686	751	824	899
Property, Plant & Equipment	6,624	6,729	6,767	6,764	6,725
Other Non-Current Assets	5,709	5,291	5,291	5,291	5,291
Total Assets	14,235	14,546	15,254	16,061	16,929
Short-Term Debt	101	1	1	1	1
Other Current Liabilities	856	797	842	854	829
Long-Term Debt	3,875	3,877	3,877	3,877	3,877
Other Non-Current Liabilities	2,451	2,363	2,363	2,363	2,363
Total Liabilities	7,282	7,038	7,083	7,095	7,070
Total Equity	6,952	7,508	8,172	8,966	9,859
Total Equity & Liabilities	14,235	14,546	15,254	16,061	16,929

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Engineering & Construction

Company Description

Vulcan Materials is one of the largest producers of construction aggregates (crushed stone, sand and gravel) in the U.S. and a significant producer of aggregates-based construction materials (ready-mixed concrete and asphalt mix). Vulcan's largest revenue-generating states in 2020 were Texas, California, Tennessee, Georgia, Virginia, Florida, Arizona, Alabama, North Carolina, and South Carolina.

Investment Rationale

We rate shares of Vulcan Materials (VMC) at Buy. We see structural and cyclical factors underpinning a sustained growth period. We believe investors are likely to appreciate VMC's high quality traits, including rising gross margin per ton and near record FCF in spite of shipment units below peak levels. Additionally, Infrastructure stimulus provides multi-year visibility in an uncertain macro backdrop.

Stock Data

Average Daily Volume 806,064

Quarterly Earnings Estimates

	2023	2024
Q1	0.95A	1.08E
Q2	2.29A	2.76E
Q3	2.29A	2.95E
Q4	1.46A	2.07E

Price objective basis & risk

Vulcan Materials (VMC)

Our \$285/share price objective is based on 17.5x 2024E EV/EBITDA, which is near the middle of the historical average (12-21x). Vulcan Materials is exposed to construction markets that are vulnerable to an economic slowdown and higher rates. In our view, there several factors are likely to underpin Vulcan's multiple from trading at the very bottom of its range: i) Infrastructure stimulus provides funding visibility over the next few years even as the economic recovery matures, ii) BofA Strategists prefer high quality firms with strong cash flow characteristics and inflation protection, and iii) minimal exposure to the more uncertain themes facing Industrials (China, supply chains, capacity constraints). Additionally, VMC is a much more profitable and cash generative company in the past on a unit shipment basis.

Downside risks are: 1) aggregates prices and volumes fail to rise as we forecast, 2) bottlenecks (labor, supply chain, COVID) push out the volume recovery, 3) dislocation in rates slow down housing and non-residential construction recovery, 4) price-cost dynamics struggle to improve, limiting operating leverage, 5) Mexico quarry issues unresolved.

Analyst Certification

I, Michael Feniger, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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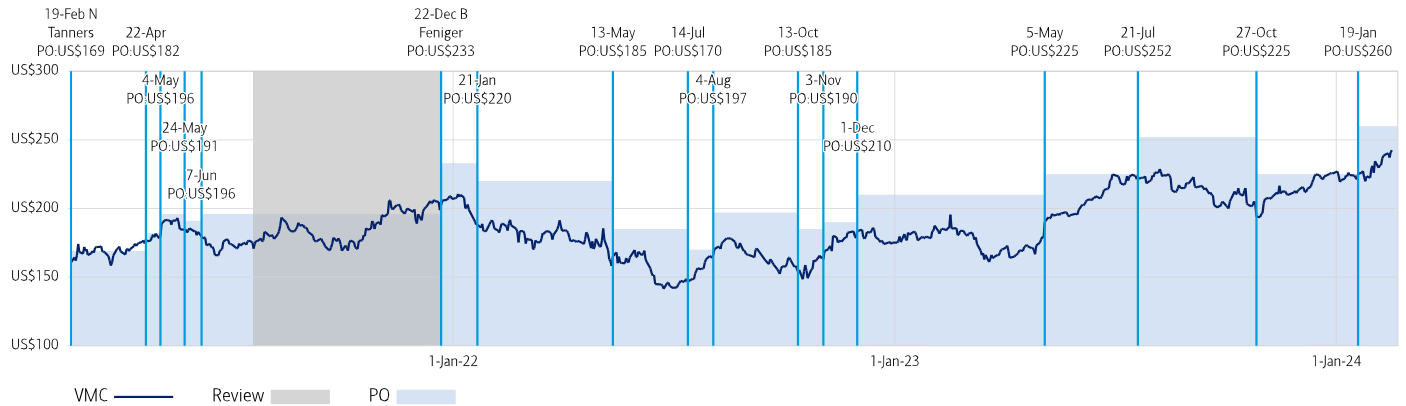
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Important Disclosures

Vulcan Materials (VMC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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