

Dycom Industries, Inc.

4Q preview: Wireline investments continue, BEAD progressing at state level

Maintain Rating: BUY | PO: 125.00 USD | Price: 121.90 USD

Customers progressing toward fiber deployment goals

DY is scheduled to report FY4Q24 on Wednesday, February 28th, before market open and plans to host its quarterly call at 9am ET. We expect DY management to discuss 1) FY1Q25 guidance, 2) the overall outlook for telco/cable wireline buildout initiatives, 3) the prospect for adj. EBITDA margin expansion, and 4) the current state of the BEAD funding as we enter CY2024. Our estimates are at the higher end of DY's FY4Q24 guidance range and slightly above the Street for 2025 (see [Exhibit 1](#)). We continue to highlight DY as our 2024 top sector SMID cap pick (see our [2024 Telecom Year-Ahead report here](#)). We believe DY is well positioned to monetize incremental telecom and cable company wireline buildout initiatives in 2024+ and capture a portion of BEAD funding activity as that program manifests itself beginning (gradually) this year.

What are DY's customers saying?

As of FY3Q24, DY's largest customers were 1) LUMN (16.5% of revenues), 2) T (12.8%), and 3) CMCSA (9.8%). Its estimated project backlog stood at \$6.613bn (+6.5% q/q, +8% y/y). DY's earnings lag large telecom and cable company results which lets us analyze what key customers share at their 4Q23 prints. Overall, we think customers remain positive regarding continued wireline investment throughout 2024+. Fiber locations passed will likely prove flat +/- y/y.

LUMN (#1 Customer as of 3Q24): Announced 2024 capex guide of \$2.7-2.9bn (vs. ~\$3bn in 2023) and expects to hold locations passed flat y/y at +500k locations.

T (#2): Remains on track to hit 30mn locations passed by 2025 (>26mn to date). The company noted there are ~10-15mn additional locations they may build out. The BEAD funding process is progressing at the state level and T noted it will take a 'measured' and 'targeted' approach toward BEAD opportunities.

CMCSA (#3): Comcast passed 850k homes in 2022, 1.1mn in 2023, and expects to pass 1.1mn or 'slightly higher' in 2024. The company plans to participate in BEAD and will do so where it is consistent with business goals.

VZ (#4): Fios wireline investment continues as mgmt. expects to pass >400k homes in 2024 (from ~500k in 2023). 2024 capex is slated to be \$17-17.5bn (vs. ~\$19bn in 2023).

CHTR (#6): Charter expects 450k rural subsidized passings in '24. Non-rural passings are expected to grow in 2024 as they did in 2023. BEAD opportunities will be evaluated in areas that are 'conducive' and these build opportunities are likely in CY2025.

FYBR (#9): Frontier plans to hold fiber passings flat y/y at 1.3mn locations in 2024 and remains on pace to hit its 10mn passings goal (6.5mn today). Capex is down y/y at \$3-3.2bn (before vendor financing). Mgmt. expects CY1Q24 to be the peak spending qtr. with capex falling q/q throughout the year. BEAD money is expected to flow in 2025 and FYBR is 'excited' to be a part of BEAD, especially given its CA and TX footprints.

27 February 2024

Equity

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Stock Data

Price	121.90 USD
Price Objective	125.00 USD
Date Established	4-Dec-2023
Investment Opinion	B-1-9
52-Week Range	78.42 USD - 122.38 USD
Mrkt Val (mn) / Shares Out (mn)	3,576 USD / 29.3
Free Float	96.5%
Average Daily Value (mn)	24.91 USD
BofA Ticker / Exchange	DY / NYS
Bloomberg / Reuters	DY US / DY.N
ROE (2024E)	22.8%
Net Dbt to Eqty (Jan-2023A)	69.1%

BEAD: Broadband Equity, Access, and Deployment

LUMN: Lumen Technologies

T: AT&T

CMCSA: Comcast Corp

VZ: Verizon Communications

CHTR: Charter Communications

FYBR: Frontier Communications

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Timestamp: 27 February 2024 05:00AM EST

Exhibit 1: For FY24 and FY25, we remain relatively in line with Consensus

BofA vs. Consensus

Metric	4Q24			1Q25			2024E			2025E		
	BofA	Cons.	+/-	BofA	Cons.	+/-	BofA	Cons.	+/-	BofA	Cons.	+/-
Revenues	969.4	969.8	0.0%	1,100.1	1,088.5	1.1%	4,192.6	4,192.9	0.0%	4,542.8	4,472.4	1.6%
Adj. EBITDA	98.9	97.9	1.0%	124.3	120.7	3.0%	510.0	509.0	0.2%	545.6	539.3	1.2%
Net Income	27.2	27.9	-2.3%	44.9	42.6	5.4%	222.8	223.4	-0.3%	212.6	211.8	0.4%
EPS	0.92	0.94	-2.4%	1.51	1.44	5.0%	7.50	7.53	-0.3%	7.14	7.19	-0.7%

Source: BofA Global Research estimates, Visible Alpha

BofA GLOBAL RESEARCH

Price objective basis & risk**Dycom Industries, Inc. (DY)**

Our \$125 Price Objective is based on a FY25E EV/EBITDA multiple of approx. 8.5x. An 8.5x EV/EBITDA multiple is slightly above DY's average consensus EV/EBITDA (t+1) multiple of approx. 8x since January 2021. It is also a discount to its largest competitor implied consensus multiple of approx. 9x (current multiple of approx. 8.0x). Since 2021, DY has traded at an approx. 2.0x average discount on an EV/EBITDA(t+1) basis. Going forward, we believe DY should trade at a discount to its peer given exposure to oil and gas sector opportunities, which DY does not possess to the same extent.

Downside risks are: 1) an abrupt slowdown in carrier capex throughout the US, 2) fixed wireless access taking a strong share vs. traditional wireline, 3) adverse weather impacting days in the field, 4) macro events impacting customer financial health, and 5) delays in government funding.

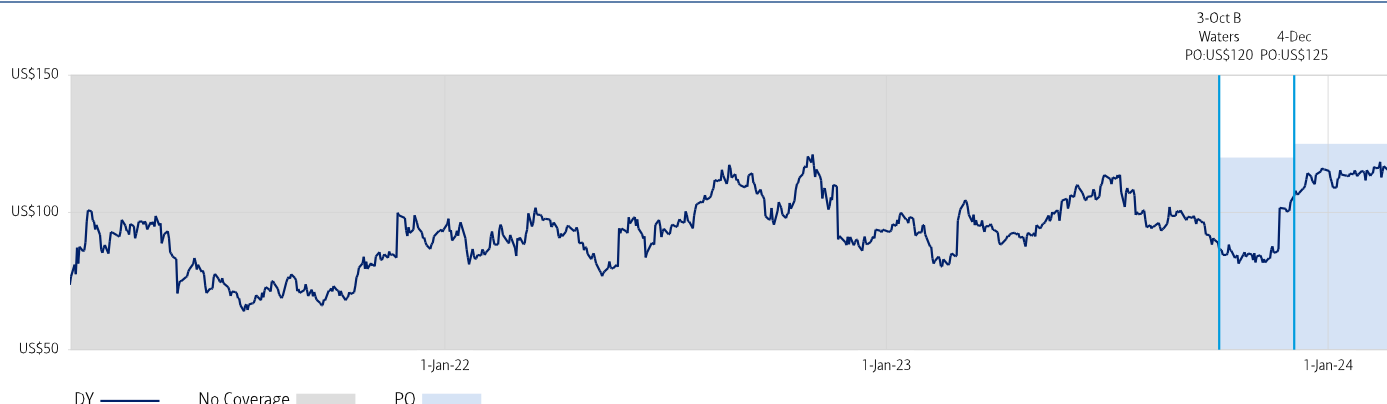
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Dycom (DY) Price Chart



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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

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%

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