Martin Marietta Materials

BofA conference takeaways: Rock & Roll's next act

Reiterate Rating: NEUTRAL | PO: 595.00 USD | Price: 589.95 USD

04 March 2024

Equity

CEO and CFO attend BofA's conference last week

We hosted MLM, a leading supplier of aggregates (i.e., 'rocks' - crushed stone, gravel, sand) at the BofA conference last week. The conference featured C. Howard Nye (Chairman, President, & CEO) and Jim Nickolas (EVP, CFO). MLM struck a confident tone around pricing (i.e., likely higher vs historical levels with mid-year PIs an industry standard), volume support (i.e., mostly due to Infrastructure with some help from resi + mega projects offsetting non-res softness), and M&A (i.e., further runway – MLM in size – out there to fill out density). Other details – Gulf Coast, rail network, leverage - inside.

MLM does not subscribe to 'peak': running ~75% capacity

Management does not view the backdrop as 'peaky'. MLM highlights how EBITDA is at a record, yet volumes remain below peak levels: shipments peaked at ~205mn tons in 2005/06 before plunging to ~125mn tons during the GFC. Shipments are now at ~150mn (or 200mn including $50mn acquired), leaving MLM running at ~75% capacity.

Volumes: is 'flat' really that bad? Infrastructure up in '25

While we did not walk away with strong conviction that shipments accelerate notably in '25 (albeit, likely marginally better), we sense a level of confidence that volumes remain firm to support higher pricing: i) Infrastructure grows in '25 (shipments just started in Q423 – big delay), dollars peak in 2026, ii) resi starting to recover (single family 2x more aggregates intensive vs multi), iii) non-res: pockets of weakness (data, warehouses, light non-res) yet manufacturing continues. Recall, 10-15 year ago, a big box retail store was a 'large project' yet new manufacturing facilities are now 7-9x more 'rock' intensive.

Portfolio: heavy lifting in the past with M&A in focus

MLM's portfolio transformation in recent months is impressive: divesting Cement + Ready Mix assets, replacing EBITDA with aggregates. The risk profile is reduced (bolt-ons) with another 'MLM' of whitespace still out there (~235mn tons). We raise our PO to $595 ($575) on 18x 2024E EBITDA (17.5x) – we believe a higher multiple is warranted given the improving portfolio mix. MLM struck a positive tone yet we reiterate our Neutral rating on balanced risk reward and valuation at the higher end of the range.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	13.87	18.82	21.45	23.00	24.85
EPS Change (YoY)	23.7%	35.7%	14.0%	7.2%	8.0%
Consensus EPS (Bloomberg)			21.19	23.69	26.24
DPS	2.54	2.80	3.08	3.39	3.73
Valuation (Dec)					
P/E	42.5x	31.3x	27.5x	25.7x	23.7x
Dividend Yield	0.4%	0.5%	0.5%	0.6%	0.6%
EV / EBITDA*	26.9x	20.2x	19.0x	17.2x	16.3x
Free Cash Flow Yield*	1.4%	1.7%	2.0%	2.3%	2.6%

* For full definitions of *iQmethod* SM measures, see page 7.

Key Changes

(US$)	Previous	Current
Price Obj.	575.00	595.00

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Stock Data

Price	589.95 USD
Price Objective	595.00 USD
Date Established	4-Mar-2024
Investment Opinion	B-2-7
52-Week Range	317.94 USD - 590.02 USD
Mrkt Val (mn) / Shares Out (mn)	36,872 USD / 62.5
Free Float	99.2%
Average Daily Value (mn)	229.08 USD
BofA Ticker / Exchange	MLM / NYS
Bloomberg / Reuters	MLM US / MLM.N
ROE (2024E)	15.7%
Net Dbt to Eqty (Dec-2023A)	55.4%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

GFC = great financial crisis

Fwd = forward

IIJA = Infrastructure Investment and Jobs Act, DOT = Department of Transportation, EV = Electric Vehicle, OEM = Original Equipment Manufacturer, F = Ford, GM = General Motors, NC = North Carolina, TXI = Texas Industries

Timestamp: 04 March 2024 08:13AM EST

iQprofile[SM] Martin Marietta Materials

iQ**method* [SM] **– Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.8%	8.8%	8.8%	9.3%	9.3%
Return on Equity	12.6%	15.4%	15.7%	15.0%	14.4%
Operating Margin	19.6%	23.7%	25.0%	26.4%	27.4%
Free Cash Flow	509	625	728	861	950

iQ**method* [SM] **– Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.0x	1.2x	1.3x	1.2x	1.2x
Tax Rate	21.5%	19.6%	21.1%	21.0%	21.0%
Net Debt-to-Equity Ratio	65.3%	55.4%	46.6%	35.9%	26.5%
Interest Cover	7.1x	9.7x	10.9x	12.5x	13.8x

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,161	6,777	6,965	7,357	7,580
% Change	21.2%	10.0%	2.8%	5.6%	3.0%
Gross Profit	1,423	2,023	2,208	2,434	2,573
% Change	5.6%	42.1%	9.2%	10.2%	5.7%
EBITDA	1,600	2,128	2,270	2,500	2,645
% Change	4.7%	33.0%	6.7%	10.1%	5.8%
Net Interest & Other Income	(116)	(103)	(60)	(155)	(150)
Net Income (Adjusted)	**867**	**1,169**	**1,326**	**1,414**	**1,520**
% Change	**23.5%**	**34.8%**	**13.4%**	**6.7%**	**7.5%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	856	1,200	1,326	1,414	1,520
Depreciation & Amortization	506	513	530	555	571
Change in Working Capital	(216)	(463)	(453)	(433)	(465)
Deferred Taxation Charge	(1)	0	0	0	0
Other Adjustments, Net	(154)	(1)	0	0	0
Capital Expenditure	(482)	(625)	(675)	(675)	(675)
Free Cash Flow	**509**	**625**	**728**	**861**	**950**
% Change	**-28.7%**	**22.7%**	**16.4%**	**18.3%**	**10.3%**
Share / Issue Repurchase	(179)	(200)	(250)	(100)	(100)
Cost of Dividends Paid	(159)	(174)	(190)	(208)	(228)
Change in Debt	(55)	0	0	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	359	610	897	1,450	2,072
Trade Receivables	786	1,021	1,278	1,613	1,828
Other Current Assets	1,732	1,835	1,966	2,072	2,299
Property, Plant & Equipment	6,317	6,429	6,573	6,693	6,797
Other Non-Current Assets	5,800	5,800	5,800	5,800	5,800
Total Assets	**14,994**	**15,695**	**16,516**	**17,628**	**18,796**
Short-Term Debt	699	699	699	699	699
Other Current Liabilities	747	622	557	564	540
Long-Term Debt	4,341	4,341	4,341	4,341	4,341
Other Non-Current Liabilities	2,034	2,034	2,034	2,034	2,034
Total Liabilities	**7,821**	**7,696**	**7,631**	**7,638**	**7,614**
Total Equity	**7,173**	**7,999**	**8,884**	**9,990**	**11,182**
Total Equity & Liabilities	**14,994**	**15,695**	**16,516**	**17,628**	**18,796**

* For full definitions of *iQmethod*[SM] measures, see page 7.

Company Sector

Engineering & Construction

Company Description

Martin Marietta is an aggregates-led supplier of building materials, including aggregates, cement, ready mixed concrete and asphalt used in all types of construction and infrastructure. Martin Marietta services the market through a network of operations spanning 27 states, Canada, and The Bahamas, Its largest concentration is in Texas. In 2020 total revenues were $4.7B.

Investment Rationale

We rate shares of MLM at Neutral. We see structural and cyclical factors underpinning a positive outlook - pricing power, Infrastructure spending, and a construction recovery. That said, MLM strongly outperformed in 2023 (+48% vs SPX +24%) and valuation is at the higher end of the historical range (10-18x).

Stock Data

Average Daily Volume	388,308

Quarterly Earnings Estimates

	2023	2024
Q1	2.16A	2.62E
Q2	5.61A	6.39E
Q3	6.72A	7.60E
Q4	4.64A	4.84E

Conference Takeaways

Note that the following gives our take on the key points highlighted in our fireside chat and investor meetings. These conversations featured Ward Nye (CEO, Chairman, and President) and Jim Nickolas (EVP, Chief Financial Officer).

'Value over volume' continues to shine - pricing resiliency despite lower volumes

Historically, MLM received 3-4% of price growth YoY on average. However, MLM believes the pricing dynamic has fundamentally changed in recent years following the spike in inflation post the pandemic. Specifically, MLM is guiding to +10-12% price growth in 2024, making it the third consecutive year of double digit price increases. Additionally, the guide does not include mid-year price increases which MLM plans to implement later this year (i.e., from July 1st). According to MLM, these price increases have had a negligible impact on the construction industry as aggregates account for a small portion of total project costs – for example: 10% of the cost of building a road, 2% of building a home, and somewhere between 2-10% for a non-residential project. We sense that there would be a disappointment if MLM's pricing regressed back to the historical 3-4% range and mid-to-high single digits is a new norm (BofA's view).

MLM does not subscribe to 'peak-y' conditions

In 2005-2006, aggregates shipments peaked at ~205mn tons before plunging to ~125mn tons during the Great Financial Crisis (2008-2009). Despite shipments declining by ~40% during this period, aggregates pricing power remained stable. More recently in 4Q23, MLM stated that ~1.2mn tons of their total shipment decline (-2.3% YoY) was attributable to its 'value over volume' strategy, yet pricing remained robust (+15% YoY). Last year, MLM shipments totaled ~200mn tons of which 50mn tons were acquired - suggesting that the company is running at ~75% capacity. Given that aggregates are a depleting resource (~75 years left), MLM stated that it plans to continue pursuing its value over volume strategy going forward and has guided to roughly flat (-/+2%) shipments growth in 2024. While tonnage was initially anticipated to be higher post the IIJA, MLM stated that pricing is expected to take a small bite off volume growth – a positive trade off given that aggregates get increasingly more valuable each day.

Shift in volume mix – infra shipments rising and heavy non-res getting heavier

In the past, infrastructure accounted for low-40% of MLM's shipments, non-res was 30%, residential 15%, with the remaining attributable to chem/rock/rail. Over the past decade, the mix shifted to infrastructure mid-30s, non-res mid-30s, housing low-20s, and rest chem/rock/rail. Going forward, MLM expects infrastructure shipments (more aggregates intensive) in the range of high-30s/low-40s (given rising federal funding and strong state DOT budgets, particularly in MLM states) and non-res shipments of ~35% (with a 55-45% split between heavy non-res and light non-res, respectively).

MLM cited that state DOT budgets in their Top 10 states increased 10% to $82bn in 2024. The company also added that IIJA-related projects only began to flow through their shipments from 4Q23 and is henceforth expected to sequentially step up each year from 2024 (with additional support from carryover effects from the prior year as well) before peaking in 2026 after which MLM expects a potential reauthorization bill to fund infrastructure projects even further into the out years.

On the heavy non-res side, MLM noted that 10-15 years ago, big box retail stores such as Walmart and Best Buy were considered to be large projects for the company – however in recent years, they have been attributed to building EV/battery plants, semiconductor facilities, etc. (which are 7-9x more aggregates intensive). While warehouses have been down since its peak during the pandemic, manufacturing projects have continued to climb. The company also added that demand for battery plants remains robust across their Southeast exposure. Case in point, Toyota recently announced an $8bn expansion of its NC battery plant (given its focus on hybrid vehicles vs pure EVs). Data centers have stepped down from recent highs, but is expected to remain relatively stable going forward given the rise of AI-related projects.

Housing recovery anticipated in 2H24/2025 as interest rate pressures abate
Light non-res has been weak since the onset of the pandemic and typically follows residential (expected to account for mid-to-high teens % of MLM shipments) with a lag of 6-18 months. According to MLM, single family housing is expected to recover as rates ease in 2H24 and into 2025 (note: single family shipments are two times more aggregates intensive than multi-family shipments). In particular, MLM expects a recovery in single family housing in their markets (i.e., in the Southeast, Southwest, and Midwest) as they have been structurally underbuilt for decades and have increasingly been supported by favorable demographics post the pandemic.

Rail network an asset to the portfolio mix
The remaining chem/rock/rail accounts for ~9% of shipments. The rail component includes shipping stone by rail over long distances and MLM stated that they sell 2x more tons by rail than its closest competitor. The chem/rock component includes selling stone to farmers in the Midwest to adjust the pH in the soil. MLM has an extensive rail network (particularly along the East Coast and Gulf Coast) which are relatively stone starved markets where MLM expected high population inflows.

In our view, we sense that stone likely possesses higher pricing power in regions that are 'short rock' and are shipped by rail. This is largely because stone does not travel far by truck given that the cost of haul is almost as much as the product if it exceeds more than 50 miles, and hence needs to be transported by rail. MLM also added that transporting stone by rail has high barriers to entry given the extensive permitting and rezoning process for rail yards which can take around a 5-7 year period for approval. Out of the ~200mn tons sold in 2023, MLM stated that ~30tons were shipped by rail.

Increased focus on aggregates-led portfolio over the coming years
MLM stated that 75% of their gross profit is expected to come from aggregates post the completion of its Blue Water acquisition, with a goal of reaching 80% over the next 5 years and higher during the out years. While MLM may enter a market with a more vertically integrated portfolio, it noted that it would eventually shape the business to become more aggregates-led over time. For example: MLM had acquired TXI's vertically integrated business back in 2014 for $3bn, and then subsequently sold its less profitable cement operations (high imports exposure) and related real estate for essentially TXI's overall acquisition amount.

Additionally, MLM stated that their most high-risk acquisition was Lehigh Hanson which has since been completed. Today, the acquired business is more profitable than Lehigh Hanson as MLM divested its cement and ready-mix segments in California and retained its aggregates and asphalt (made of 95% crushed stone) operations. MLM also added that they expect the degree of difficulty on M&A to be much lower going forward given that they can now focus on more pureplay aggregates bolt-on acquisitions in California with an immediate positive effect on pricing. Specifically, California is the only state in which MLM has already announced mid-year price increases along with its annual (January 1st) price increases due to structurally lower aggregates pricing in those markets (i.e., below company average) and 30 year life of reserves (with not many greenfields left in the state).

M&A pipeline remains robust with ~235mn tons per annum runway ahead
MLM highlighted that M&A is in their DNA and added that there is ~235mn aggregates tons per annum (effectively the size of another MLM) of runway ahead where they could be a good potential acquirer. More recently, MLM announced the completion of the divestiture of its Texas cement assets for $2.1bn (completed: Feb 9th), along with its plan to acquire Blue Water Industries (pure-play aggregates producer in the Southeast) for $2.05bn. MLM also completed the acquisition of another aggregates company (Albert

Frei & Sons) in Colorado on Jan 12th, essentially buying one of the Top 3 primary crushed stone providers in the state - thereby gaining more control of demand across the region.

We estimate that these two pure-play aggregates businesses were acquired at a blended average of ~14x and will add ~1bn tons of reserves. This is expected to more than offset the run-rate EBITDA from their divested cement assets as it swaps cyclical cement and enhances aggregates profitability contribution (i.e., margin accretive). Moreover, these acquisitions provide MLM with geographic diversification along with the opportunity for bolt-on acquisitions in high growth areas (Denver, Nashville, Knoxville, and Miami).

Low leverage provides ample support for projected M&A pipeline

MLM cited that its leverage of 1.4x (1.85x including Alfred, Frei & Sons and Blue Water Industries acquisitions and South Texas cement asset divestitures) is well below MLM's targeted range of 2-2.5x, providing the company ample runway for additional (pure-play aggregates) acquisitions it expects to announce later this year.

Price objective basis & risk

Martin Marietta Materials (MLM)

Our $595/share PO uses 18x 2024E EV/EBITDA, at the higher end of the historical range (10-18x). Several factors underpin MLM's valuation: i) infrastructure stimulus provides funding visibility over the next few years, 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 and Materials (China, supply chains, capacity constraints). That said, we see some risks i) integrating a large transaction in a new territory (i.e, out West), ii) cement exposure: more cyclical operations and now exposure extends out West (cement peers trade at lower valuation ranges) and iii) rates: a faster than expected tightening cycle could weigh on housing and constrain high valuation multiples.

Downside risks are: 1) aggregates prices and volumes fail to rise or fall as we forecast, 2) demand for residential and non-residential construction stalls with rising rates, 3) integration challenges with Lehigh Hanson acquisition, 4) price-cost challenges with rising input costs 5) weather or transportation-related operating disruptions.

Upside risks are: 1) aggregates prices and volumes above forecasts, 2) better demand for residential and non-residential construction than we expect, 3) Infrastructure bill drives higher multiplier effect than previously expected, 4) energy and equipment costs falling, and 5) greater return of cash to shareholders.

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
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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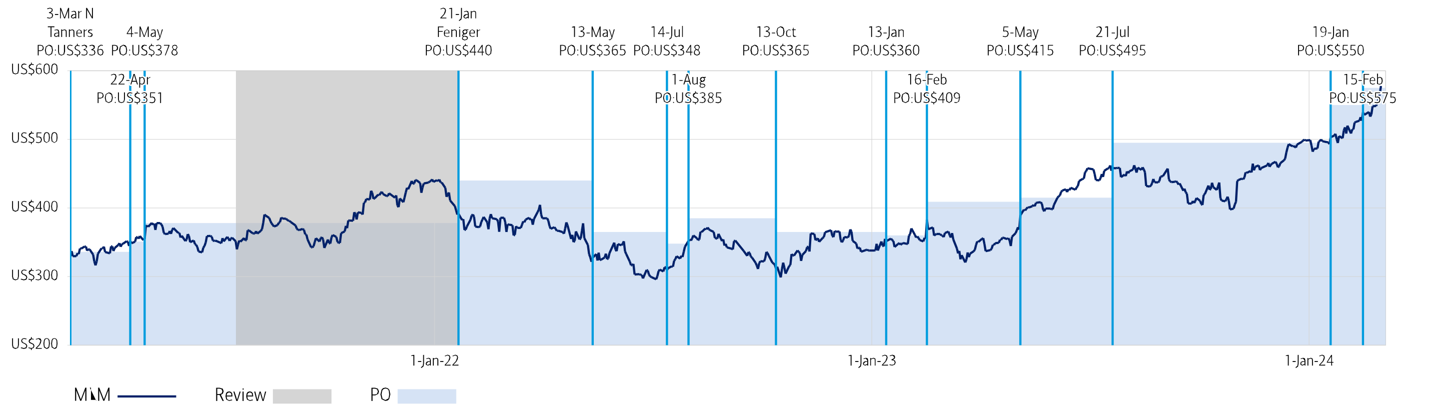
Disclosures

Important Disclosures

Martin Marietta Mate (MLM) 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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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