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'Records' tumble

The bearish case on MasTec, Inc. (MTZ on the Big Board) featured in the June 1 issue of *Grant's*. Now in progress is the really bearish case. Receivables growth in excess of revenue growth is concern in any company, but especially in an engineering and construction business that can't seem to decide how to recognize revenue. Yet news from the June quarter tops even that.

For instance, the top line—it shrank. Year-over-year, revenues fell by 14% vs. growth of 21% in the first quarter and 29% in the full year of 2017. Of course, engineering and construction is a lumpy business, and CEO José Mas, addressing dialers-in on the conference call, blamed "delays in the ramp-up of our work associated with the Mountain Valley Pipeline," a 303-mile pipe to carry gas between West Virginia and Virginia.

Curiously, despite the drop in sales, accounts receivable surged by 32%. You know it was bad when management, never diffident, could find only four opportunities to drop the word "record" into the press release. There were 12 such instances in the first-quarter release and 15 in the fourth.

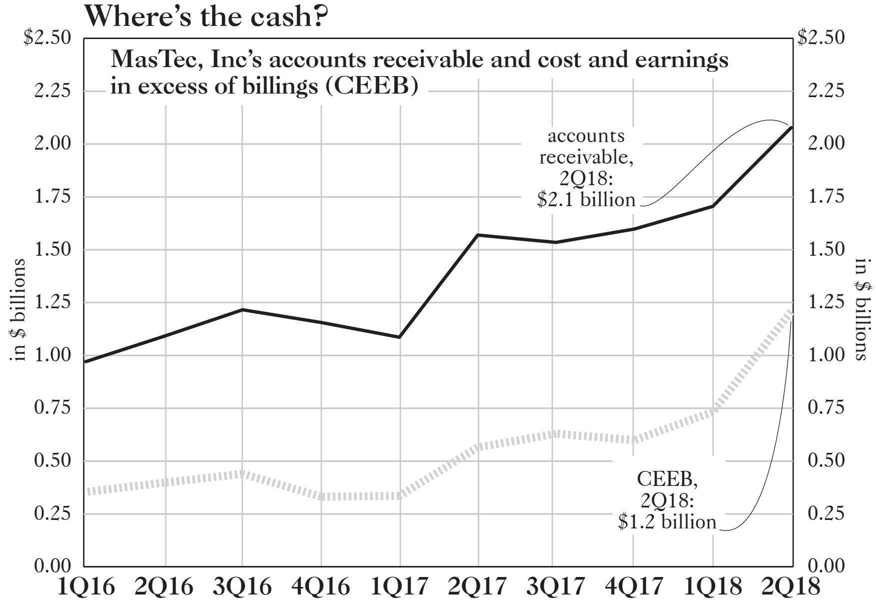
It was worse beneath the headlines. Bear with us while we tell you about "cost and earnings in excess of billings" (CEEB). It's the largest component of accounts receivable. It's money that MasTec has recognized on its P&L but which the customer has not yet remitted. Indeed, the customer has not yet been invoiced. While accounts receivable grew by the aforementioned 32%, to $2.1 billion, the CEEB receivables sub-component leapt by 114%, to $1.2 billion.

Then there are billings in excess of costs (BIEC), i.e., customer payments for work that MasTec has not completed. Think of them as deferred revenue. Management nudges analysts to deduct this item from overall results. Receivables netted against BIEC grew by 25%, resulting in a jump in days-sales-outstanding to 103 from 71 in the second quarter of 2017.

"However," observes Deputy Editor Evan Lorenz, "digging through past 10-Qs, it looks like MasTec is also reaching to report better deferred revenue. In the first-quarter report, management says it records a BIEC balance when the company receives 'payments in advance of performing the related contract work.' In the second-quarter report, 'receive payments' is changed to 'invoice the customer.' Could MasTec be recording deferred revenue without actually receiving revenue? That is one explanation for the 136% year-over-year rise in the BIEC balance to $243.2 million. My call for comment went unreturned."

On Aug. 3, MasTec announced that it had entered into a contract with LifeShield LLC to install the wireless home-security devices in which LifeShield is the market leader. The possessor of the largest third-party installation workforce in the United States, MasTec is always happy to find ways to amortize its payroll costs over more customers.

Where's the cash?



source: company reports

Of interest is that LifeShield is no ordinary customer, but a spinoff from a subsidiary of MasTec's top client, AT&T, Inc. Nor is LifeShield just any ordinary spinoff. In the spinning, LifeShield sold a 38.5% equity interest to MasTec, a fact that MasTec omitted in announcing the happy news of the contract signing. To find that piece of information, you have to thumb through the MasTec 10-Q report.

"I think what you're also going to see from us is other announcements like these," MasTec crowed. "In other words," Lorenz translates, "expect the already lengthy related-party-transactions section in MasTec's financial reports to grow even longer."

As a result of slow customer payments, MasTec's net debt balance jumped by 16% in the second quarter, to $1.6 billion. Debt in relation to trailing earnings before interest, taxes, depreciation and amortization, or EBITDA, climbed to 2.8 times, up from 2.2 in the second quarter of 2017. Debt in relation to EBIT rose to 4.3 from 3. Shares trade at 17.4 times trailing adjusted earnings per share.

Strange to report, there's been no insider selling in MTZ of late. What is the C-suite thinking?

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