|  |  |  |  |
| --- | --- | --- | --- |
| **Company: Martin Marietta Materials** | Ticker: MLM Current Price: $135.62 | Industry: Materials | Sub Industry: Construction Materials |
| Target Price: $166  Stop Loss: $108  52 Week High/ Low: $108.31 -$178.67 | TTM P/E: 31.0  Forward P/E: 19.0  EPS: $4.29 | Beta: 1.10  Credit Rating: Ba1  Rating Outlook: Stable | Market Cap: $8.99(B)  Avg Vol (12 Month): 1.221 mil  Dividend Yield: 1.18% |

|  |
| --- |
| **Company Background:** |
| Martin Marietta Materials, Inc. is the second largest U.S. producer of aggregates for the construction industry, including highway, infrastructure, commercial, and residential applications. The company also produces some specialty products, accounting for 12% of revenues, while the aggregate business accounts for 88%. Its largest markets include California, Texas, Florida, Colorado, Georgia, and Iowa. 44% of aggregates were used in highway and public infrastructure projects. |
| **Industry Outlook:** |
| The constructions industry has entered a gradual recovery that should continue over the next several years. This includes the private residential housing market and public infrastructure projects. In 2014, construction spending rose 5.6% and in the first 8 months of 2015, spending was again up 9.8%. The House of Representatives recently passed a new transportation funding bill covering the next three years and it is expected to be finalized by the end of the year. The need to improve public infrastructure, especially highways, will provide steady demand for aggregates. |
| **Investment Thesis:** |
| Martin Marietta Materials is well positioned to benefit from the housing market recovery while more stable government projects provide steady growth. They are well protected from new entrants to the market since it is very hard to open new quarries due to zoning and environmental regulations. They also have larger exposures to the higher growth markets in the South and West of the U.S. Their management has deployed capital well in recent years, selling off less desirable businesses and acquiring new ones to access better markets. |
| **Investment Risks:** |
| * Private sector construction is highly cyclical, depending on employment growth and availability of financing. * While public construction is more stable, politics could endanger funding sources. * Higher fuel and energy costs can cut into margins. |
| **3-5 take away from last quarter investor call transcript:** |
| * Increased outlook guidance for 2016 in terms of sales and margins * They are seeing a lot of increased activity due to the passing of the federal highway bill and state government initiatives * Disruptions due to weather last year may increase sales early in year as projects try to get back on schedule * 3.3 million shares repurchased with board authorization to repurchase up to 20 million shares |

|  |  |
| --- | --- |
| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2013 | 2014 | Q1-2015 | Q2-2015 | Q3-2015 | Q4-2015 | | Revenue | 2,155.6 | 2,958.0 | 691.3 | 921.4 | 1,082.2 | 844.6 | | Operating Profit | 218.0 | 314.9 | 25.6 | 137.0 | 179.5 | 137.4 | | Net Income | 121.3 | 155.6 | 6.1 | 81.9 | 117.5 | 83.2 | | Revenue Growth % | 6.09 | 37.22 | 61.29 | 37.68 | 7.82 | -1.37 | | EBITDA% | 18.17 | 18.18 | 13.43 | 22.21 | 22.59 | 23.81 | | Operating Profit % | 10.11 | 10.65 | 3.70 | 14.87 | 16.59 | 16.27 | | Net Income Margin | 5.6 | 7.0 | 1.5 | 9.1 | 12.8 |  | | D/E | 65.62 | 36.43 | 36.41 | 38.46 | 40.10 | 38.74 | | Interest Coverage | 3.94 | 4.25 | 1.32 | 7.18 | 9.48 | 7.27 | | EPS | 2.62 | 2.73 | 0.07 | 1.23 | 1.75 | 1.27 | | PE Ratio | 38.23 | 30.50 | 37.52 | 39.01 | 34.21 | 29.5 | | Current Ratio | 3.59 | 3.25 | 3.73 | 4.85 | 2.85 | 2.95 | | ROE | 8.23 | 5.28 | 6.22 | 6.99 | 6.23 | 6.84 | | ROA | 3.78 | 2.90 | 3.44 | 3.79 | 3.65 | 4.00 | | Dividend Per share | 1.60 | 1.60 | 0.40 | 0.40 | 0.40 | 0.40 | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | |  |  |  | | --- | --- | --- | |  | 2011-2015 | 2016-20 | | Avg Revenue growth | 14% | 12% | | Avg EBITDA Margin | 21% | 28% | | Cost of Debt | | 1.74% | | Tax Rate | | 30.18% | | Cost of Equity | | 10.5% | | WACC | | 9.2% | | Terminal EBITDA Multiple | | 10.0x | |  | |  |   Analyst Opinion   |  |  |  | | --- | --- | --- | | Buy: 11 | Hold: 3 | Sell: 0 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P Net Advantage | 4 Star | $161 | | Morning Star |  | $ | | Value Line | Timeliness3 | $175-$265 | |

|  |  |
| --- | --- |
| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | FY2014 | VULCAN | VICAT | LAFARGE | HEIEDELBERG | Industry | Company | | P/E | 54.99 | 21.31 | 10.06 | 15.60 | 38.37 | 29.21 | | P/B | 2.81 | 1.03 | 0.69 | 0.88 | 2.52 | 2.15 | | Dividend Yield | 0.43 | - | - | - | 0.73 | 1.18 | | PEG Ratio | 1.02 | 1.36 | 1.23 | 1.52 | 1.24 | 0.93 | | EPS | 1.74 | 3.22 | 1.47 | 5.25 | 1.99 | 4.66 | | Rev Growth (3 Yr) | 10.09 | 2.30 | -2.63 | -0.27 | 14.85 | 20.99 | | NI Growth (1 Yrs) | 133.78 | - | 66.22 | 30.45 | 21.49 | 30.00 | | Operating Margin | 20.18 | 7.51 | 7.29 | 16.80 | 16.69 | 16.27 | | Debt / Equity | 44.46 | 55.79 | 60.21 | 45.61 | 45.13 | 38.74 | | Market Cap | 12.54B | 2.64B | 23.54B | 13.96B | 5.44B | 8.95B | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  | MLM | Sector | S&P 500 | | YTD | -0.83 | -5.22 | -5.74 | | Last 3 Years | 39.33 | 11.50 | 34.11 | | Last 5 Years | 59.23 | 13.94 | 58.21 |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | Company | Industry | | ESG Disclosure Score | 16.53 | 30.37 | | Governance Disclosure Score | 51.79 | 50.60 | | Social Disclosure Score | 19.30 | 39.65 | | Environmental Disclosure Score | -- | 30.62 | |