

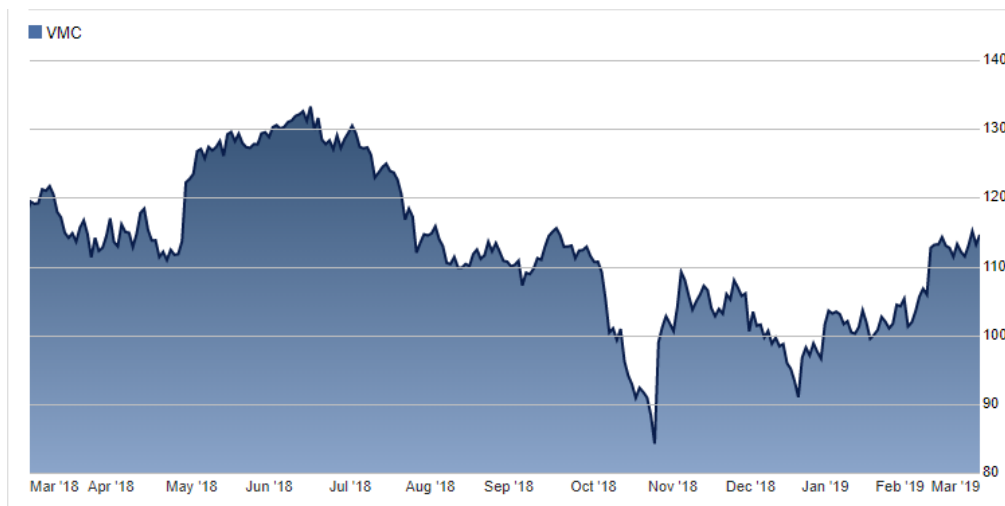
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### Introduction

Vulcan Materials Company (NYSE:VMC) is the largest producer of construction aggregates in the United States. Aggregates are materials such as sand, gravel, crushed stone, slag, recycled concrete and geosynthetic aggregates. Vulcan Materials is a company part of the S&P 500 under the materials sector. Vulcan Materials was founded in 1909 at its headquarters in Birmingham, Alabama. Currently, they have 8,373 employees. Vulcan Materials operates in 21 States throughout the U.S., all located in the south. Vulcan Materials can be considered a national company as 99.6% of its revenue is from the United States, while the other 0.4% is from Asia, mainly China. 99.8% of the revenue comes from construction materials while 0.2% is from minerals.

### Stock Chart of Past Year Performance



The stock price reached a high of \$133.59 in June of 2018. It dropped around \$15 in July. This is due to hurricanes Beryl and Chris and the company's announcement of the resignation of former CFO John McPherson. The price stayed consistent for the next few months until the entire market took a hit in the end of October. The drop in October is also due to Hurricane Michael. Since then, the stock has been overall increasing and is currently selling around \$115. We believe that the stock will continue to rise back up to its previous high of around \$130.

### Recommendation

We recommend a BUY for Vulcan Materials Company. The company is expected to have a very good year because of backlogs from 2018 and price increases they implemented in Q4 of 2018. Their stock is currently selling at \$113.83. After combining DCF and multiples valuation, we arrived at a target price of \$128 which results in a 69% upside.

### Investment Thesis

We are optimistic about Vulcan Materials Company for the next 12 months. There are many key drivers that will impact the company's forecasted performance, but the following seemed to have the most impact in the near future:

- Government spending

- 50% of Vulcan Materials' business is with the government. Government spending for infrastructure is expected to be high for 2019. Alabama, which is one of Vulcan Materials' highest performing states, will pass a gas tax increase of 10 cents, starting with a six cent increase in 2019. This gas tax will directly provide funding at the state and local level for infrastructure improvements. Additionally, at the national level, Trump proposed a budget that includes \$200 billion for infrastructure. The chances of the full amount of spending being passed are not good, but it is likely there will be some type of increase in infrastructure spending for 2019.
- Interest rates and residential housing strength
  - 50% of Vulcan Materials Company's business is conducted in the residential housing sector. The demand for housing is high when the interest rate is low, as the cost of borrowing is lower while. An increase in the interest rate will increase the cost of borrowing, which will decrease the housing demand. It will also set a limitation for the company to raise funds for their high capital intensity business. However, currently, interest rates are low so there is still a high demand for mortgages.

### **Risks**

- Environmental & Governmental Regulation
  - Vulcan Materials Company is subject to federal and state laws and regulations that include regulation of facility air emissions, water discharges, waste management, protection of wetlands, noise and dust exposure control for workers, as well as safety regulations under the Mine Safety and Health Administration (MSHA). Vulcan Materials Company is identified as a potentially responsible party (RRP) at a limited number of sites under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). This indicates that the company is required to share the cost of remediation at sites which can change drastically as more information about the site becomes available.
- Cost of Energy
  - In the process of production, Vulcan Materials Company consumes a significant amount of petroleum, electricity, diesel fuel and liquid asphalt. The uncertainty of the supply and pricing will affect the cost of production that will erode the profitability of the company.
- Weather
  - Weather has a major impact on the operations of Vulcan Materials. 2018 had record amounts of natural disasters occurring in the United States. The highest sales and earnings are usually in the third quarter while the lowest are in the first quarter due to seasonal weather conditions in the region the Vulcan operates. However, if 2019 sees the weather trends that 2018 saw, it is expected that the company will not have the growth they are expecting.

### **Valuation**

To value Vulcan's stock, we computed a target price using a discounted cash flow model and a multiples analysis approach.

We started with a DCF model in our absolute analysis. Bloomberg's WACC for the company was 8.5%, Factset's was 15.5% and our calculated WACC was 9.8%. We took an average of all three values to compute a WACC of 11.3%. We used a 12% growth rate for the first two years and a 3% growth rate for the subsequent years. We expect the company to have a higher growth rate for the first two years, but we wanted to be conservative in finding a target price. Since the growth rate for sales from 2017 to 2018 was 13%, we assigned a 12% growth rate for the next two years. We thought that 12% was a reasonable growth rate because the company has backlogs from 2018 that will guarantee growth for 2019. From this, we calculated a target price of \$140.79.

For multiple analysis, we compared Vulcan Materials Company with its competitors: Martin Marietta Materials, Owens Corning, USG Corporation and Summit Materials, Class A. EV/Sales, EV/EBITDA, EV/EBIT and P/E ratios were calculated and we found the average and median between the 5 companies in order to get a target price. We decide to use the median of EV/EBITDA among the 5 companies, due to an outlier skewing the mean. We got a target price of \$120.40.

When we take an average of the two target prices, giving the DCF price a weight of .4 and the multiples price a weight of .6, we find a final target price of \$128.56. We weighted DCF lower than the multiples analysis because it is more based on assumptions.

We also incorporated a sensitivity analysis using a Monte Carlo simulation. We used an expected growth rate of 12% because it is the long term growth rate for the company given by Factset. We used a volatility of 28% based on the volatility of the stock over the last 30 days given by Bloomberg. We conducted a worst case, base case, and best case scenario for the following factors: weather, interest rates, government spending, residential housing strength, and acquisition impact. Based on our assumptions for each case, the total change for worst case was -1%, base case was 3%, and best case was 8%. We found that in a sample of 10,000 random variables, 60% of the stock prices generated would indicate a BUY recommendation.

### **Management**

J. Thomas Hill is Vulcan Materials' President and Chief Executive Officer. He has worked at the company for 40 years. He became CEO in 2014. His long term commitment to Vulcan Materials makes the company a more reliable one, because it indicates the CEO has a great passion for the company's goals. Hill is also on the board of directors, which consists of him and eight independent directors. The structure of the board ensures that management will not greatly affect the decisions made by the board. The company's average age is 57. The average tenure of management at Vulcan Materials Company is 12 years. The average tenure for a CEO is six years, so this company has lower turnover in management than most companies. This is an indicator of a strong, reliable company.

### **Peer Analysis**

Company	ROE	Sales Growth	EBITDA Growth	Net Income Change	EPS Change	EV/EBITDA	P/E
Vulcan Materials Company	10%	13%	13%	-13%	-14%	15.5	27.5
Martin Marietta Materials	10%	7%	5%	-34%	-34%	13.5	23.7
Owens Corning	13%	11%	3%	89%	92%	6.28	8.99
USG Corporation	10%	4%	-14%	99%	129%	13.73	31.04
Summit Materials, Class A	3%	9%	-14%	-72%	-73%	8.9	44

Vulcan Materials makes up 48% of the Construction Materials sector. Martin Marietta makes up 39%. Since they are the two major competitors of the sector, we took a deeper look at their financials. Vulcan's sales growth was higher than Martin Marietta's, and their net income decreased less than Martin Marietta's did as well. It can be assumed that Vulcan was able to deal with the weather anomaly of 2018 better than Martin Marietta Materials. Vulcan's P/E is higher than Martin Marietta's. We are forecasting 2019 growth for Vulcan Materials to be much higher than for Martin Marietta, and overall growth leads to EPS growth. Therefore, the expected growth in EPS for VMC will lower the 2019 P/E to below Martin Marietta Materials' P/E.

## Ownership of Shares

The chart below shows the percentage breakdown of ownership type between institutional ownership and insider ownership. The table shows the top five shareholders of Vulcan Materials Company.

Shareholder Institution	%OS	Position	Position Change
The Vanguard Group, Inc.	10.57	13,951	186
State Farm Investment Management Corp.	9.60	12,681	0
BlackRock Fund Advisors	4.73	6,240	117
SSgA Funds Management, Inc.	4.04	5,336	-184
Massachusetts Financial Services Co.	3.11	4,108	609

