

February 29, 2024

EMCOR GROUP INC. | EME

BUY

Beats our 2024 EPS Estimate in 2023! Raising Estimates, Target to \$350

PRICE \$308.30

PRICE TARGET \$350.00

KEY TAKEAWAY

EMCOR delivered a 26% EPS beat for Q4'23 (\$4.47 vs. consensus of \$3.55), driven by much higher margins. The company generated a record quarterly operating margin in Q4 (8.4% vs. our 6.7%). Total 2023 EPS came in at \$13.36, which exceeded our prior 2024 estimate of \$13.27. Total remaining performance obligations increased sequentially for the 13th straight quarter, ending the year at a record \$8.8B (+19% yr/yr, +3% sequentially). Rounding out the good news, the company beat our Q4 free cash flow forecast (\$403M vs. our \$225M) and ended the year with record net cash (of \$784M). We are increasing our 2024 EPS estimate by 9% (to \$14.45). Our 12-month price target goes from \$250 to \$350.

Engineering & Construction

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KEY POINTS

Reports big Q4'23 beat. EMCOR reported Q4'23 EPS of \$4.47 (+70% yr/yr) versus our estimate of \$3.44 and consensus of \$3.55. Total revenue exceeded our forecast (\$3.44B versus our \$3.36B); however, the beat was mostly driven by higher margins. Operating margin reached a quarterly record (at 8.4%) versus our estimate of 6.7% and the year-ago result of 6.0%.

U.S. construction shines again. Fourth-quarter operating income handily exceeded our forecast at both Electrical Construction (\$76M vs. \$64M) and Mechanical Construction (\$186M vs. \$131M). Industrial Services reported a slight beat (\$13M vs. \$8M), as did U.K. Building Services (\$6M vs. \$5M). U.S. Building Services reported a slight miss (\$42M vs. \$50M), due to lower sales and margins.

Steady backlog growth continues. Total remaining performance obligations ended Q4'23 at \$8.8B, up 19% yr/yr and 3% sequentially. RPOs increased yr/yr at Electrical (+19%), Mechanical (+23%), and Building Services (+10%); however, it declined yr/yr at Industrial Services (-9%) and U.K. Building Services (-12%).

Total RPOs have increased sequentially for 13 quarters. Our sense is that EMCOR's backlog will continue to grow in 2024. The company noted strong underlying demand and bidding activity in most end markets, including Network & Communication, Manufacturing & Industrial, Healthcare, and High-Tech Manufacturing. These four markets accounted for 62% of EMCOR's 2023 sales.

The United Bank of EME. EMCOR ended 2023 with \$790M in cash and \$5M in total debt, a record level of net cash, we believe. The company generated free cash flow of \$403M in Q4'23 versus our \$225M forecast. After investing \$97M in acquisitions during 2023, EMCOR is off to a fast start in 2024. Yesterday, it announced three deals YTD for an upfront consideration of \$137M. We forecast free cash flow of \$774M in 2024 (\$16/sh) and \$850M in 2025 (\$18/sh).

Raising estimates; price target to \$350. EMCOR beat our 2024 EPS estimate in 2023. The company delivered 2023 EPS of \$13.36 versus our prior 2024 forecast of \$13.27. We are raising our 2024 estimate to \$14.45 versus guidance of \$14.00–\$15.00. For 2025, we are initiating an EPS forecast of \$15.40. For both years, we believe that we are making conservative margin assumptions. Given the Q4 beat and higher estimates, we are increasing our 12-month price target from \$250 to \$350. Our new target is based on 13.9x 2025 EV/EBITDA.

COMPANY STATISTICS

52-Week Range	\$151.52-\$318.20
Market Capitalization (M)	\$14,592
Average Daily Volume (000s)	396
Debt/Total Cap	0%
Dividend	\$1.00
Shares Outstanding (M) fd	47.3
Estimated 3-yr EPS Growth	24%
Enterprise Value (M)	\$13,808
Float (M)	46.6

FINANCIALS

FYE Dec	2022A	2023A	2024E	2025E
P/E Ratio	37.8x	23.1x	21.3x	20.0x
EV/EBITDA	20.5x	13.8x	13.0x	12.3x
Revenue (M)	\$11,076	\$12,583	\$13,600	\$14,235
Op Inc (M)	\$565	\$878	\$930	\$983
EBITDA (M)	\$674	\$997	\$1,059	\$1,121
Adj. EPS Q1	\$1.39	\$2.32	\$2.58	\$2.70
Q2	\$1.99	\$2.95	\$3.28	\$3.63
Q3	\$2.16	\$3.61	\$4.06	\$4.46
Q4	\$2.63	\$4.47	\$4.54	\$4.61
Total	\$8.16	\$13.36	\$14.45	\$15.40
Consensus	—	—	\$14.50	\$15.75

Consensus estimates from Visible Alpha

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Please see analyst certification and important disclosures on page 4 of this report.

Valuation. EME is currently trading at 13.0x our 2024 EV/EBITDA estimate. Our 12-month price target of \$350 is based on 13.9x our 2025 EV/EBITDA estimate, thus assuming modest multiple expansion. Over the past two years, EMCOR has traded at 9.5x forward EV/EBITDA, on average. We believe that multiple expansion is justified by the company's strong earnings growth, backlog gains, free cash flow, solid balance sheet, and high ROIC in 2023 (of 26%).

Risks. Risks to the stock and to the achievement of our price target include macroeconomic conditions and project execution risks. While we believe that recent multiple expansion is warranted, it also makes the stock more susceptible to disappointing news, in our view. For example, at some point EMCOR will report a quarter when backlog declines on a sequential basis. It would not surprise us to see the Street have a strong negative action to such news.

EMCOR Group
Earnings Model

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(\$ millions)	2023A					2024E					2025E				
	Mar	Jun	Sep	Dec	Dec	Mar	Jun	Sep	Dec	Dec	Mar	Jun	Sep	Dec	Dec
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenue	\$2,890.4	\$3,045.6	\$3,207.6	\$3,439.2	\$12,582.9	\$3,160.0	\$3,335.0	\$3,485.0	\$3,620.0	\$13,600.0	\$3,270.0	\$3,510.0	\$3,685.0	\$3,770.0	\$14,235.0
Cost of sales	2,454.4	2,555.6	2,662.1	2,821.5	10,493.5	2,694.1	2,804.0	2,893.9	2,978.4	11,370.3	2,782.3	2,943.3	3,050.4	3,106.1	11,882.0
Gross profit	436.1	490.1	545.5	617.7	2,089.3	465.9	531.0	591.1	641.6	2,229.7	487.7	566.7	634.6	664.0	2,353.0
SG&A	281.2	293.4	308.1	328.5	1,211.2	300.0	320.0	330.0	350.0	1,300.0	315.0	335.0	350.0	370.0	1,370.0
Operating income	154.9	196.7	237.3	289.2	878.1	165.9	211.0	261.1	291.6	929.7	172.7	231.7	284.6	294.0	983.0
Interest expense, net	(2.1)	(3.0)	(0.4)	2.6	(2.9)	2.0	2.0	2.0	2.0	8.0	2.0	2.0	2.0	2.0	8.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	152.8	193.7	237.0	291.7	875.2	167.9	213.0	263.1	293.6	937.7	174.7	233.7	286.6	296.0	991.0
Income tax provision	41.3	53.1	65.5	80.2	240.2	46.2	58.6	72.4	80.8	257.9	48.0	64.3	78.8	81.4	272.5
Net income (cont. ops.)	111.5	140.6	171.4	211.5	635.0	121.7	154.4	190.8	212.9	679.8	126.7	169.4	207.8	214.6	718.5
Net income from disc. ops.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income attrb. to noncont. int.	0.0	0.0	0.3	(0.0)	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	111.5	140.6	171.1	211.5	634.7	121.7	154.4	190.8	212.9	679.8	126.7	169.4	207.8	214.6	718.5
Adjusted EPS (cont. ops.)	\$2.32	\$2.95	\$3.61	\$4.47	\$13.36	\$2.58	\$3.28	\$4.06	\$4.54	\$14.45	\$2.70	\$3.63	\$4.46	\$4.61	\$15.40
Shares outstanding (diluted)	47.9	47.6	47.4	47.3	47.6	47.2	47.1	47.0	46.9	47.1	46.8	46.7	46.6	46.5	46.7
D&A	28.5	29.0	30.3	31.2	119.0	31.7	32.2	32.7	33.2	129.7	33.7	34.2	34.7	35.2	137.7
EBITDA	183.4	225.7	267.6	320.4	997.1	197.6	243.2	293.8	324.8	1,059.4	206.4	265.9	319.3	329.1	1,120.7
Percent of sales:															
Gross margin	15.1%	16.1%	17.0%	18.0%	16.6%	14.7%	15.9%	17.0%	17.7%	16.4%	14.9%	16.1%	17.2%	17.6%	16.5%
EBITDA margin	6.3%	7.4%	8.3%	9.3%	7.9%	6.3%	7.3%	8.4%	9.0%	7.8%	6.3%	7.6%	8.7%	8.7%	7.9%
Operating margin	5.4%	6.5%	7.4%	8.4%	7.0%	5.3%	6.3%	7.5%	8.1%	6.8%	5.3%	6.6%	7.7%	7.8%	6.9%
Pre-tax margin	5.3%	6.4%	7.4%	8.5%	7.0%	5.3%	6.4%	7.6%	8.1%	6.9%	5.3%	6.7%	7.8%	7.9%	7.0%
Net margin (cont. ops.)	3.9%	4.6%	5.3%	6.2%	5.0%	3.9%	4.6%	5.5%	5.9%	5.0%	3.9%	4.8%	5.6%	5.7%	5.0%
SG&A as a % of sales	9.7%	9.6%	9.6%	9.6%	9.6%	9.5%	9.6%	9.5%	9.7%	9.6%	9.6%	9.5%	9.5%	9.8%	9.6%
D&A as a % of sales	1.0%	1.0%	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	1.0%	1.0%	1.0%	0.9%	0.9%	1.0%
Tax rate	27.0%	27.4%	27.6%	27.5%	27.4%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%
YOY change:															
Revenue	11.5%	12.5%	13.5%	16.6%	13.6%	9.3%	9.5%	8.6%	5.3%	8.1%	3.5%	5.2%	5.7%	4.1%	4.7%
Gross profit	23.7%	28.0%	32.0%	35.8%	30.3%	6.8%	8.4%	8.4%	3.9%	6.7%	4.7%	6.7%	7.4%	3.5%	5.5%
SG&A	11.3%	19.6%	17.1%	18.3%	16.6%	6.7%	9.1%	7.1%	6.5%	7.3%	5.0%	4.7%	6.1%	5.7%	5.4%
EBITDA	44.3%	37.9%	50.7%	56.2%	48.0%	7.7%	7.8%	9.8%	1.4%	6.3%	4.4%	9.3%	8.7%	1.3%	5.8%
Operating income	55.0%	42.9%	58.1%	63.2%	55.5%	7.1%	7.3%	10.0%	0.8%	5.9%	4.1%	9.8%	9.0%	0.8%	5.7%
Net income	51.9%	39.7%	62.1%	67.5%	56.4%	9.2%	9.8%	11.3%	0.6%	7.1%	4.0%	9.7%	8.9%	0.8%	5.7%
EPS	67.6%	48.8%	67.4%	69.6%	63.6%	10.9%	10.9%	12.4%	1.5%	8.1%	4.9%	10.7%	9.9%	1.7%	6.6%

Source: Company reports and Thompson Davis & Co. estimates

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Buy: Company/Industry has strong fundamentals, attractive valuation; outperforms the relevant indices in over the next 12–18 months

Hold: Stock is fairly valued; no compelling reason to buy or sell stock today; cautious about prospects over the next 6–12 months for industry or company; neutral performance relative to the relevant indices.

Sell: Fundamentals of industry or company are deteriorating; company not expected to have consistent earnings growth over next 12–18 months or business model is questionable; underperforms the relevant indices in the next 12–18 months.

Price Targets

Price targets, when established, represent our best estimate of the market price of a stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

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DISTRIBUTION OF RATINGS

Thompson Davis & Co., Inc., rating distribution by percentage (as of February 29, 2024):

	#	%
BUY	24	96
SELL	0	0
HOLD	1	4
TOTAL	25	100.0%

Rating and Price Target History for EMCOR Group, Inc. (EME) as of December 29, 2023

Date	Rating	Price	Target
2/26/2021	Buy	\$100.00	\$120
4/30/2021	Buy	\$121.66	\$140
6/17/2021	Buy	\$125.71	\$145
10/29/2021	Buy	\$124.45	\$150
10/28/2022	Buy	\$134.44	\$160
2/24/2023	Buy	\$162.12	\$200
7/28/2023	Buy	\$200.56	\$250

