

SOUTHLAND HOLDINGS, INC. | SLND

BUY

Reports Modest Q4'23 Miss; M&P Losses Continue; Lowering Target to \$6

PRICE \$4.36

PRICE TARGET \$6.00

KEY TAKEAWAY

Southland reported a modest EBITDA miss for Q4'23 (\$9M versus consensus of \$15M) due to continued losses in its Materials & Paving business. The incremental M&P loss during Q4'23 was \$16M. Excluding M&P, Southland would have generated Q4'23 gross profit of \$37M versus our \$24M and the year-ago result of \$36M. Unfortunately, M&P backlog finished 2023 at \$241M and the revenue burn will continue into 2025, potentially leading to further losses (versus the company's current expectation of zero profit). We are lowering our 2024 estimates to assume some incremental M&P losses. Our 2024 EBITDA forecast goes from \$86M to \$50M. Our 12-month price target goes from \$9 to \$6.

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KEY POINTS

Reports Q4'23 miss. Southland reported Q4'23 adjusted EBITDA of \$9M versus our \$16M and consensus of \$15M. The miss was due to lower margins. Adjusted EBITDA margin came in at 3% versus our estimate of 5%. Southland generated total sales of \$316M (+7% yr/yr), which was above our \$290M forecast.

Materials & Paving losses persist. Southland announced that it was discontinuing its Materials & Paving business during Q2'23 and booked a \$49M charge. Unfortunately, M&P losses continued (\$11M in Q3 and \$16M in Q4). Excluding M&P losses of \$16M during Q4'23, the company *would* have reported total Q4'23 gross profit of \$37M, up from \$36M last year and versus our \$24M.

When will the M&P losses stop? Potentially, not until 2025. Southland ended 2023 with M&P backlog of \$241M, and it expects M&P revenue to be roughly flat in 2024 (at ~\$188M). This revenue is expected to burn at zero profit. However, this was also the expectation in H2'23, and instead, \$27M of incremental losses were recorded in H2'23. To be conservative, we are assuming continued M&P losses in the Transportation segment in 2024 and early 2025.

Excluding M&P, the business is performing well. For example, in Q4'23, the company generated \$25M of gross profit in the Civil segment, which was up 43% yr/yr and above our \$9M forecast. Excluding M&P, the Transportation segment would have generated gross profit of \$12M versus our \$14M forecast.

Backlog ends the year nearly flat. Southland's backlog finished Q4'23 at \$2.8B, up 12% sequentially, but down 5% yr/yr. Our sense is that the bidding environment remains healthy and management has confidence in the profitability of its non-M&P backlog.

Generates positive Q4 cash flow, debt recedes. Southland generated free cash flow of \$24M in Q4'23, slightly above our \$20M forecast. Net debt ended the year at \$251M, which is down from \$277M at the end of Q3'23.

Lowering estimates; target to \$6. We are lowering our 2024 EBITDA forecast from \$86M to \$50M, largely to include continued incremental M&P losses. We are introducing a 2025 EBITDA forecast of \$60M. Southland is trading at 9.4x our 2024 EV/EBITDA forecast. Our new \$6 target is based on 9.2x 2025 EV/EBITDA. *If incremental M&P losses slow, shares could go materially higher, we believe.*

COMPANY STATISTICS

52-Week Range	\$4.06-\$10.45
Market Capitalization (M)	\$209
Average Daily Volume (000s)	20
Debt/Total Cap	54%
Dividend	NA
Shares Outstanding (M) fd	47.9
Estimated 3-yr EPS Growth	-46%
Enterprise Value (M)	\$471
Float (M)	4.3

FINANCIALS

FYE Jan	2022A	2023A	2024E	2025E	
P/E Ratio	4.3x	NA	74.2x	20.8x	
EV/EBITDA	4.4x	22.3x	9.4x	7.8x	
Revenue (M)	\$1,161	\$1,160	\$1,195	\$1,065	
Op Inc (M)	\$82	(\$31)	\$28	\$39	
EBITDA (M)	\$128	\$2	\$50	\$60	
EPS	Q1	(\$0.31)	(\$0.03)	(\$0.20)	(\$0.14)
	Q2	\$0.44	(\$0.76)	(\$0.06)	(\$0.02)
	Q3	\$0.79	\$0.08	\$0.14	\$0.17
	Q4	\$0.44	(\$0.12)	\$0.18	\$0.20
Total		\$1.36	(\$0.81)	\$0.06	\$0.21
Consensus		---	---	\$0.40	\$0.57

Consensus estimates from FactSet

Note: Forecasts for EBITDA and EPS are adjusted.

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Valuation. SLND is currently trading at 9.4x our 2024 EV/EBITDA forecast. Our \$6 12-month price target is based on 9.2x our 2025 EV/EBITDA forecast. Given the current unpredictability of EBITDA, it is challenging to value Southland shares. However, we see significant upside in the stock if M&P losses slow and the rest of the business performs in line with expectations. Southland is a direct play on U.S. infrastructure construction.

Risks. Southland is a large-project, self-perform, construction business; as such, results could be negatively impacted by problem projects. Historically, Southland's EBITDA margins have been relatively stable; however, problem jobs could arise and cause the company's results to fall short of expectations. After the company reported disappointing Q2'23 results, it could take time for it to rebuild credibility. Additionally, legacy paving jobs could generate additional unanticipated losses. Finally, the company's low public float could lead to increased stock price volatility.

Southland Holdings, Inc.
Earnings Model

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(\$ millions)	2023A					2024E					2025E				
	Mar	Jun	Sept	Dec	Dec	Mar	Jun	Sept	Dec	Dec	Mar	Jun	Sept	Dec	Dec
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenue	\$274.8	\$256.9	\$312.5	\$316.2	\$1,160.4	\$275.0	\$275.0	\$325.0	\$320.0	\$1,195.0	\$250.0	\$250.0	\$285.0	\$280.0	\$1,065.0
Cost of Revenue	255.9	290.7	282.9	295.1	1,124.6	265.6	255.6	293.1	284.5	1,098.8	235.4	226.9	249.9	241.7	953.8
Gross Profit	18.9	(33.8)	29.5	21.1	35.8	9.4	19.4	31.9	35.6	96.2	14.7	23.2	35.1	38.4	111.3
SG&A	15.6	16.4	15.2	19.9	67.2	16.0	17.0	17.0	18.0	68.0	17.0	18.0	18.0	19.0	72.0
Operating Income	3.4	(50.2)	14.3	1.2	(31.4)	(6.6)	2.4	14.9	17.6	28.2	(2.4)	5.2	17.1	19.4	39.3
Interest Expense	3.3	4.3	6.2	5.7	19.5	6.0	6.0	6.3	6.3	24.5	6.5	6.5	6.5	6.5	26.0
Other Expense, Net	2.6	(24.1)	(2.1)	(0.1)	(23.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax Income	(2.5)	(30.5)	10.2	(4.4)	(27.2)	(12.6)	(3.6)	8.6	11.3	3.7	(8.9)	(1.4)	10.6	12.9	13.3
Income Taxes	1.8	(18.6)	5.4	2.9	(8.5)	(2.9)	(0.8)	2.0	2.6	0.8	(2.0)	(0.3)	2.4	3.0	3.0
Net Income (Cont. Ops.)	(4.3)	(11.9)	4.8	(7.3)	(18.7)	(9.7)	(2.8)	6.6	8.7	2.8	(6.8)	(1.0)	8.2	9.9	10.2
Income (loss) attr. to NCI	0.4	0.9	1.0	(1.8)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	(4.7)	(12.8)	3.8	(5.6)	(19.3)	(9.7)	(2.8)	6.6	8.7	2.8	(6.8)	(1.0)	8.2	9.9	10.2
EPS (GAAP)	(\$0.11)	(\$0.27)	\$0.08	(\$0.12)	(\$0.40)	(\$0.20)	(\$0.06)	\$0.14	\$0.18	\$0.06	(\$0.14)	(\$0.02)	\$0.17	\$0.20	\$0.21
Shares Outstanding (Diluted)	44.4	46.9	47.9	47.9	47.5	48.0	48.1	48.2	48.3	48.2	48.4	48.5	48.6	48.7	48.6
Transaction Related Costs	\$1.0	\$0.6	\$0.0	\$0.0	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Contingent Earnout Consideration, Other	2.9	(23.6)	0.0	0.0	(20.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income Tax Impact of Adjustments	(0.8)	0.5	0.0	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 (Adjusted)	(\$1.5)	(\$35.4)	\$3.8	(\$5.6)	(\$38.7)	(\$9.7)	(\$2.8)	\$6.6	\$8.7	\$2.8	(\$6.8)	(\$1.0)	\$8.2	\$9.9	\$10.2
EPS (Adjusted)	(\$0.03)	(\$0.76)	\$0.08	(\$0.12)	(\$0.81)	(\$0.20)	(\$0.06)	\$0.14	\$0.18	\$0.06	(\$0.14)	(\$0.02)	\$0.17	\$0.20	\$0.21
Shares Outstanding (Diluted)	44.4	46.9	47.9	47.9	47.5	48.0	48.1	48.2	48.3	48.2	48.4	48.5	48.6	48.7	48.6
D&A	\$8.6	\$8.2	\$8.0	\$5.8	\$30.5	\$5.5	\$5.5	\$5.5	\$5.5	\$22.0	\$5.3	\$5.3	\$5.3	\$5.3	\$21.0
Interest Income	(0.1)	(0.2)	(1.1)	0.2	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA (GAAP)	\$8.8	(\$19.1)	\$22.3	\$9.1	\$21.1	(\$1.1)	\$7.9	\$20.4	\$23.1	\$50.2	\$2.9	\$10.4	\$22.4	\$24.6	\$60.3
Transaction Related Costs	\$1.0	\$0.6	\$0.0	\$0.0	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Contingent Earnout Consideration, Other	2.9	(23.6)	0.0	0.0	(20.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA (Adjusted)	\$12.7	(\$42.2)	\$22.3	\$9.1	\$2.0	(\$1.1)	\$7.9	\$20.4	\$23.1	\$50.2	\$2.9	\$10.4	\$22.4	\$24.6	\$60.3
Backlog	\$2,861.8	\$2,697.5	\$2,541.3	\$2,835.0	\$2,835.0										
Percent of Sales:															
Gross Margin	6.9%	(13.2%)	9.5%	6.7%	3.1%	3.4%	7.0%	9.8%	11.1%	8.0%	5.9%	9.3%	12.3%	13.7%	10.4%
EBITDA Margin (GAAP)	3.2%	(7.4%)	7.1%	2.9%	1.8%	(0.4%)	2.9%	6.3%	7.2%	4.2%	1.2%	4.2%	7.8%	8.8%	5.7%
EBITDA Margin (Adjusted)	4.6%	(16.4%)	7.1%	2.9%	0.2%	(0.4%)	2.9%	6.3%	7.2%	4.2%	1.2%	4.2%	7.8%	8.8%	5.7%
Operating Margin	1.2%	(19.6%)	4.6%	0.4%	(2.7%)	(2.4%)	0.9%	4.6%	5.5%	2.4%	(0.9%)	2.1%	6.0%	6.9%	3.7%
Pre-tax Margin	(0.9%)	(11.9%)	3.3%	(1.4%)	(2.3%)	(4.6%)	(1.3%)	2.7%	3.5%	0.3%	(3.5%)	(0.5%)	3.7%	4.6%	1.2%
Net Margin	(1.6%)	(4.6%)	1.5%	(2.3%)	(1.6%)	(3.5%)	(1.0%)	2.0%	2.7%	0.2%	(2.7%)	(0.4%)	2.9%	3.5%	1.0%
SG&A as a % of Sales	5.7%	6.4%	4.9%	6.3%	5.8%	5.8%	6.2%	5.2%	5.6%	5.7%	6.8%	7.2%	6.3%	6.8%	6.8%
D&A as a % of Sales	3.1%	3.2%	2.5%	1.8%	2.6%	2.0%	2.0%	1.7%	1.7%	1.8%	2.1%	2.1%	1.8%	1.9%	2.0%
Tax Rate	(69.8%)	61.0%	52.9%	(66.0%)	31.3%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Yr/Yr Change:															
Revenues	6.3%	(5.9%)	(6.8%)	7.3%	(0.1%)	0.1%	7.0%	4.0%	1.2%	3.0%	(9.1%)	(9.1%)	(12.3%)	(12.5%)	(10.9%)
Gross Profit	284.2%	NM	(52.7%)	(41.1%)	(74.6%)	(50.5%)	(157.3%)	7.9%	68.2%	168.5%	56.3%	19.5%	10.1%	7.9%	15.7%
SG&A	8.9%	21.9%	(2.3%)	34.3%	15.4%	2.8%	3.4%	11.5%	(9.7%)	1.2%	6.3%	5.9%	5.9%	5.6%	5.9%
EBITDA (GAAP)	542.7%	NM	(62.5%)	(71.7%)	(83.6%)	(112.8%)	NM	(8.8%)	153.9%	138.1%	(357.8%)	NM	9.7%	6.7%	20.1%
EBITDA (Adjusted)	833.8%	NM	(62.5%)	(71.7%)	(98.5%)	(108.8%)	NM	(8.8%)	153.9%	2431.5%	(357.8%)	NM	9.7%	6.7%	20.1%
Operating Income	NM	NM	(69.5%)	(94.3%)	NM	NM	NM	4.2%	1354.0%	NM	NM	NM	15.0%	10.3%	NM
Net Income	NM	NM	(86.7%)	(136.4%)	NM	NM	NM	38.6%	(218.6%)	NM	NM	NM	22.9%	13.7%	NM
Backlog	43.1%	36.0%	7.2%	-4.7%	---	---	---	---	---	---	---	---	---	---	---

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.

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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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Thompson Davis & Co., Inc., rating distribution by percentage (as of March 5, 2024):

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

Rating and Price Target History for Southland Holdings, (SLND) as of December 29, 2023

Date	Rating	Price	Target
7/12/2022	Buy	\$9.92	\$13
8/11/2023	Buy	\$8.04	\$10
8/18/2023	Buy	\$6.99	\$9

