

March 4, 2024

MASTEC, INC. | MTZ

BUY

Leverage Back Below 3x After Exceptional Q4 Cash Flow; Target to \$100

PRICE \$84.85

PRICE TARGET \$100.00

KEY TAKEAWAY

MasTec reported a 6% EBITDA beat for Q4'23 (\$231M vs. consensus of \$218M). The beat versus our model was driven by slightly higher sales (\$3.28B vs. \$3.26B) and EBITDA margin (7.1% vs. 6.8%). For us, the Q4 highlight was much stronger free cash flow (\$483M vs. our \$151M). The company ended 2023 with net debt to trailing EBITDA of 2.95x. Based on guidance, we believe leverage could fall to ~2.2x by the end of 2024. Backlog was stable at year end (\$12.4B, -1% sequentially). We see awards, particularly in Power Delivery, as a potential H1'24 catalyst for MTZ shares. Our 12-month price target goes from \$80 to \$100.

Engineering & Construction

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KEY POINTS

Reports a slight beat for Q4'23. MasTec reported Q4'23 adjusted EBITDA of \$231M (-10% yr/yr), versus our estimate of \$221M and consensus \$218M. Both revenue and margins exceeded our forecast. Total revenue came in at \$3.28B (+9% yr/yr) versus our \$3.26B. MasTec generated an adjusted EBITDA margin of 7.1%, which was above our 6.8%, but down from 8.6% last year.

All segments reported EBITDA beats. Fourth-quarter segment-level results were positive, with EBITDA exceeding our forecast at Communications (\$58M versus \$52M), Oil & Gas (\$96M versus \$80M), Power Delivery (\$53M versus \$52M), and Clean Energy (\$52M versus \$46M). Higher corporate expenses (\$33M versus \$25M) partially offset the segment-level beats.

Exceptional cash flow, leverage back below 3x. MasTec generated free cash flow of \$483M in Q4'23 versus our forecast of just \$151M. Net debt finished 2023 at \$2.5B, which is down from \$2.9B at the end of 2022 and \$3.0B at the end of Q3'23. Net debt to trailing 12-month EBITDA declined to 2.95x at year end. MasTec expects to generate free cash flow of ~\$425M in 2024, which could reduce leverage to ~2.2x at the end of 2024, we believe.

Backlog stable, major wireless award disclosed. Total backlog ended 2023 at \$12.4B, down 4% yr/yr and 1% sequentially. Backlog declines at Oil & Gas (-30% yr/yr), Power Delivery (-10%), and Clean Energy (-4%) were offset partially by growth at Communications (+6%). The company announced that it recently picked up share at AT&T wireless, which could drive double-digit Communications revenue growth in H2'24 and 2025, we believe.

Issues solid guidance for 2024. MasTec forecasts Q1'24 EBITDA of \$130M (+26% yr/yr) versus our prior \$123M and 2024 EBITDA of \$955M (+11% yr/yr) versus our prior \$951M. To be conservative, we are setting 2024 expectations slightly below guidance: \$129M for Q1'24 and \$945M for 2024. We are introducing a 2025 EBITDA forecast of \$1.05B (+12% yr/yr), implying the potential for double-digit EBITDA growth over the next two years (+11%, on average).

Reiterate Buy; target to \$100. MTZ shares closed Friday at 9.7x our 2024 EV/EBITDA forecast. We are increasing our price target from \$80 to \$100, which is based on 10.0x 2025 EV/EBITDA, thus assuming slight multiple expansion. We see backlog growth as a potential catalyst for MTZ shares in H1'24. On Friday, management noted robust bidding, particularly at Power Delivery, we believe.

COMPANY STATISTICS

52-Week Range	\$44.65-\$123.33
Market Capitalization (M)	\$6,643
Average Daily Volume (000s)	991
Debt/Total Cap	53%
Dividend	NA
Shares Outstanding (M) fd	78.3
Estimated 3-yr EPS Growth	7%
Enterprise Value (M)	\$9,194
Float (M)	60.3

FINANCIALS

FYE Dec	2022A	2023A	2024E	2025E
P/E Ratio	27.6x	43.1x	33.6x	22.5x
EV/EBITDA	11.8x	10.7x	9.7x	8.7x
Revenue (M)	\$9,778	\$11,996	\$12,345	\$13,319
Op Inc (M)	\$125	\$80	\$313	\$438
EBITDA (M)	\$781	\$860	\$945	\$1,054
EPS				
Q1	(\$0.03)	(\$0.54)	(\$0.49)	(\$0.41)
Q2	\$0.73	\$0.89	\$0.97	\$1.05
Q3	\$1.34	\$0.95	\$1.25	\$1.84
Q4	\$1.03	\$0.66	\$0.80	\$1.27
Total	\$3.08	\$1.97	\$2.53	\$3.77
Consensus	—	—	\$2.67	\$4.30

Consensus estimates from Visible Alpha

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

Valuation. On an EV/EBITDA basis, MasTec is currently trading at 9.7x our 2024 EV/EBITDA forecast. Over the past two years, shares have traded at 8.4x forward EV/EBITDA, on average. Our 12-month price target of \$100 is based on 10.0x our 2025 EV/EBITDA forecast, thus assuming slight multiple expansion.

Risks. Risks to the stock and to the achievement of our price target include macro-economic conditions, project execution risks, large project delays, input cost inflation, and supply chain challenges. Additionally, there are acquisition integration risks, particularly on larger deals such as Henkels, INTREN, and IEA.

MasTec, Inc.
Earnings Model

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(\$ millions)	2023A					2024E					2025E				
	Mar	June	Sept	Dec	Dec	Mar	June	Sept	Dec	Dec	Mar	June	Sept	Dec	Dec
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenue	\$2,584.7	\$2,874.1	\$3,257.1	\$3,280.1	\$11,995.9	\$2,617.5	\$3,142.5	\$3,367.5	\$3,217.5	\$12,345.0	\$2,567.3	\$3,342.3	\$3,817.0	\$3,592.0	\$13,318.5
Cost of Revenue	2,359.5	2,484.8	2,857.1	2,912.4	10,613.8	2,335.8	2,708.3	2,900.4	2,798.5	10,742.9	2,283.0	2,898.3	3,287.0	3,118.8	11,587.0
Gross Profit	225.2	389.3	400.0	367.7	1,382.2	281.8	434.3	467.1	419.0	1,602.1	284.3	444.0	530.0	473.3	1,731.5
D&A	149.2	145.1	157.3	151.6	603.2	144.0	142.8	142.5	142.3	571.5	138.5	137.5	137.5	137.5	551.0
SG&A	163.9	176.2	180.6	178.2	698.9	170.0	180.0	185.0	185.0	720.0	175.0	185.0	190.0	195.0	745.0
Operating Income	(87.9)	68.1	62.0	37.9	80.1	(31.8)	112.0	140.1	92.3	312.6	(28.8)	122.0	203.0	141.3	437.5
Interest Expense, Net	52.7	59.4	62.6	59.7	234.4	60.0	51.0	50.0	49.0	210.0	48.0	47.0	46.0	45.0	186.0
Unconsolidated Affiliates	9.2	7.5	6.8	7.3	30.7	8.0	5.0	5.0	5.0	23.0	5.5	5.5	5.5	5.5	22.0
Other Income, Net	6.2	3.5	16.6	14.6	40.9	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0
Pre-Tax Income	(125.3)	19.7	22.9	0.0	(82.7)	(83.3)	66.5	95.6	48.8	127.6	(70.8)	81.0	163.0	102.3	275.5
Income Taxes	(44.7)	2.9	7.6	(1.2)	(35.4)	(22.5)	15.3	22.0	11.2	26.0	(19.1)	18.6	37.5	23.5	60.5
Net Income (Cont. Ops.)	(80.5)	16.8	15.3	1.2	(47.3)	(60.8)	51.2	73.6	37.5	101.6	(51.6)	62.4	125.5	78.7	215.0
Minority Interest	0.0	(1.2)	(1.0)	(0.4)	(2.7)	(0.5)	(0.5)	(0.5)	(0.5)	(2.0)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)
Discontinued Operations	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	(80.5)	15.5	14.3	0.8	(49.9)	(61.3)	50.7	73.1	37.0	99.6	(52.6)	61.4	124.5	77.7	211.0
EPS (Cont. Ops.)	(\$1.05)	\$0.20	\$0.18	\$0.01	(\$0.64)	(\$0.78)	\$0.64	\$0.93	\$0.47	\$1.26	(\$0.66)	\$0.77	\$1.56	\$0.97	\$2.65
Shares Outstanding (Diluted)	77.0	78.4	78.5	78.3	78.0	78.7	78.8	78.9	79.0	78.9	79.3	79.5	79.8	80.0	79.6
Stock-Based Comp Expense	8.5	8.6	7.2	9.0	33.3	9.0	9.0	9.0	11.0	38.0	10.0	10.0	10.0	13.0	43.0
Acquisition Integration Expenses	17.1	22.7	21.1	11.0	71.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible Asset Amortization	41.9	42.0	42.3	43.0	169.2	34.0	33.8	33.5	33.3	134.5	28.5	27.5	27.5	27.5	111.0
Income Tax Effect, Other	(29.0)	(19.3)	(10.0)	(12.2)	(70.5)	(11.6)	(9.8)	(9.8)	(10.2)	(41.4)	(10.4)	(8.6)	(8.6)	(9.3)	(37.0)
Per Share	\$0.50	\$0.69	\$0.77	\$0.65	\$2.61	\$0.29	\$0.32	\$0.32	\$0.33	\$1.26	\$0.26	\$0.28	\$0.28	\$0.30	\$1.12
Adjusted EPS	(\$0.54)	\$0.89	\$0.95	\$0.66	\$1.97	(\$0.49)	\$0.97	\$1.25	\$0.80	\$2.53	(\$0.41)	\$1.05	\$1.84	\$1.27	\$3.77
EBITDA - Cont. Ops.	76.6	224.2	242.7	211.3	754.9	120.3	259.8	287.6	239.5	907.1	115.3	265.0	346.0	284.3	1,010.5
Adjustments	25.8	31.3	28.3	20.0	105.4	9.0	9.0	9.0	11.0	38.0	10.0	10.0	10.0	13.0	43.0
EBITDA - Adjusted	102.5	255.4	271.1	231.3	860.3	129.3	268.8	296.6	250.5	945.1	125.3	275.0	356.0	297.3	1,053.5
Percent of Sales:															
Gross Margin	8.7%	13.5%	12.3%	11.2%	11.5%	10.8%	13.8%	13.9%	13.0%	13.0%	11.1%	13.3%	13.9%	13.2%	13.0%
Adjusted EBITDA Margin	4.0%	8.9%	8.3%	7.1%	7.2%	4.9%	8.6%	8.8%	7.8%	7.7%	4.9%	8.2%	9.3%	8.3%	7.9%
Operating Margin	(3.4%)	2.4%	1.9%	1.2%	0.7%	(1.2%)	3.6%	4.2%	2.9%	2.5%	(1.1%)	3.7%	5.3%	3.9%	3.3%
Pre-tax Margin	(4.8%)	0.7%	0.7%	0.0%	(0.7%)	(3.2%)	2.1%	2.8%	1.5%	1.0%	(2.8%)	2.4%	4.3%	2.8%	2.1%
Net Margin (Cont. Ops.)	(3.1%)	0.6%	0.5%	0.0%	(0.4%)	(2.3%)	1.6%	2.2%	1.2%	0.8%	(2.0%)	1.9%	3.3%	2.2%	1.6%
SG&A as a % of Sales	6.3%	6.1%	5.5%	5.4%	5.8%	6.5%	5.7%	5.5%	5.7%	5.8%	6.8%	5.5%	5.0%	5.4%	5.6%
D&A as a % of Sales	5.8%	5.0%	4.8%	4.6%	5.0%	5.5%	4.5%	4.4%	4.4%	4.6%	5.4%	4.1%	3.6%	3.8%	4.1%
Tax Rate	35.7%	14.9%	33.1%	NM	42.8%	27.0%	23.0%	23.0%	23.0%	20.4%	27.0%	23.0%	23.0%	23.0%	22.0%
Yr/Yr Change:															
Revenues	32.2%	24.9%	29.6%	9.0%	22.7%	1.3%	9.3%	3.4%	(1.9%)	2.9%	(1.9%)	6.4%	13.3%	11.6%	7.9%
Gross Profit	1.8%	42.3%	22.8%	(1.0%)	16.0%	25.1%	11.5%	16.8%	13.9%	15.9%	0.9%	2.2%	13.5%	12.9%	8.1%
SG&A	12.7%	31.7%	44.4%	14.8%	24.9%	3.7%	2.2%	2.4%	3.8%	3.0%	2.9%	2.8%	2.7%	5.4%	3.5%
Adjusted EBITDA	3.8%	43.1%	10.4%	(10.3%)	10.2%	26.1%	5.2%	9.4%	8.3%	9.9%	(3.1%)	2.3%	20.0%	18.7%	11.5%
Operating Income	150.6%	170.0%	(23.7%)	(29.3%)	(36.0%)	NM	64.5%	125.9%	143.2%	290.2%	NM	8.9%	44.9%	53.1%	39.9%
Net Income	130.4%	3.1%	(68.9%)	(64.7%)	NM	NM	205.6%	381.1%	NM	NM	NM	21.8%	70.5%	NM	NM
Adjusted EPS	1927.0%	21.5%	(28.7%)	(35.9%)	(36.0%)	NM	8.8%	30.5%	21.7%	28.3%	NM	9.0%	47.6%	58.8%	49.0%

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.

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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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DISTRIBUTION OF RATINGS

Thompson Davis & Co., Inc., rating distribution by percentage (as of March 4, 2024):

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

Rating and Price Target History for MasTec, Inc. (MTZ) as of December 29, 2023

Date	Rating	Price	Target
2/26/2021	Buy	\$87.65	\$100
5/7/2021	Buy	\$111.79	\$125
11/5/2021	Buy	\$92.20	\$115
7/26/2022	Buy	\$68.36	\$100
11/4/2022	Buy	\$86.20	\$125
11/2/2023	Buy	\$48.98	\$65
12/5/2023	Buy	\$64.36	\$80

