

## QUANTA SERVICES, INC. | PWR

BUY

*Delivers a Huge Q4'23 FCF Beat and Upside Guidance; Target to \$250*

PRICE \$231.13

PRICE TARGET \$250.00

### KEY TAKEAWAY

Quanta delivered a 3% EBITDA beat for Q4'23 (\$550M versus consensus of \$533M). The beat versus our model was driven by higher revenue (\$5.8B versus our \$5.2B). From a segment-level perspective, EBIT was in line at Power, but above at Renewable Energy and Underground. Quanta delivered a huge Q4 free cash flow beat (\$916M vs. our \$526M) and upside 2024 FCF guidance (\$1.5B vs. our prior \$0.9B). We are raising our 2024 EBITDA forecast by 2% (to \$2.19B, +13% yr/yr) and introducing a 2025 estimate of \$2.41B (+10% yr/yr). Given our outlook for double-digit EBITDA growth through 2025, we are raising our 12-month price target to \$250, which is based on 16.7x our 2025 EV/EBITDA forecast.

*Engineering & Construction*

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### KEY POINTS

**Reports Q4'23 beat; revenue up 31% yr/yr.** Quanta reported Q4'23 adjusted EBITDA of \$550M (+22% yr/yr) versus our estimate of \$532M and consensus of \$533M. Total revenue came in at \$5.8B (+31% yr/yr), which was well above our \$5.2B forecast. The revenue beat was partially offset by lower margins. Quanta generated an adjusted EBITDA margin of 9.5% in Q4, which was 70 bps below our forecast and down 70 bps yr/yr.

**Two out of three segments drove the Q4 beat.** Electric Power delivered in-line operating income for Q4'23 (at \$258M); however, Renewable Energy beat (\$180M vs. \$175M), as did Underground Utility (\$85M vs. \$76M). Quanta delivered big sales beats at Renewable (\$2.0B vs. \$1.8B) and Underground (\$1.3B vs. \$1.1B), partially offset by lighter margins in both segments.

**Total backlog stable.** Quanta finished 2023 with a total backlog of \$30.1B, which was flat on a sequential basis but up 25% yr/yr. Acquisitions made during Q4 added ~\$500M to backlog. Management attributed the slight sequential same-store backlog decline to the timing of project awards, primarily. Our sense is that underlying demand remains healthy, particularly at Electric and Renewable.

**Better guidance than we anticipated, particularly for sales.** At the midpoint, Quanta forecasts 2024 revenue of \$22.6B (+7% yr/yr) versus our prior \$21.5B. Note that guidance includes two additional acquisitions made during Q1'24 for an aggregate purchase price of \$425M. Adjusted EBITDA is expected to be \$2.20B at the midpoint versus our prior \$2.14B, which is now the low end of guidance.

**Very impressive free cash flow.** Quanta generated free cash flow of \$916M in Q4'23 versus our \$526M. For 2024, the company forecasts free cash flow of \$1.3B–\$1.7B versus our prior \$941M. In our model, we forecast a reduction in net interest expense to reflect the anticipated cash flow. However, we view it as more likely that Quanta will remain acquisitive and buy back shares.

**Raising estimates; price target to \$250.** Quanta continues to benefit from strong long-term fundamentals, particularly for electric power and renewable energy construction, we believe. We are raising our 2024 EBITDA forecast from \$2.14B to \$2.19B (+13% yr/yr) and introducing a 2025 forecast of \$2.41B (+10% yr/yr). We are raising our price target from \$190 to \$250, which is based on 16.7x our 2025 EV/EBITDA forecast and assumes slight multiple compression.

### COMPANY STATISTICS

52-Week Range	\$147.33-\$235.99
Market Capitalization (M)	\$34,417
Average Daily Volume (000s)	927
Debt/Total Cap	40%
Dividend	\$0.36
Shares Outstanding (M) fd	148.9
Estimated 3-yr EPS Growth	14%
Enterprise Value (M)	\$37,336
Float (M)	147.1

### FINANCIALS

FYE Dec	2022A	2023A	2024E	2025E
P/E Ratio	36.3x	32.3x	28.0x	24.5x
EV/EBITDA	22.2x	19.2x	17.0x	15.5x
Revenue (M)	\$17,074	\$20,882	\$22,525	\$24,425
Op Inc (M)	\$872	\$1,128	\$1,368	\$1,578
EBITDA (M)	\$1,685	\$1,947	\$2,190	\$2,411
Adj. EPS Q1	\$1.37	\$1.24	\$1.32	\$1.44
Q2	\$1.54	\$1.65	\$2.04	\$2.45
Q3	\$1.77	\$2.24	\$2.50	\$2.95
Q4	\$1.68	\$2.04	\$2.38	\$2.59
<b>Total</b>	<b>\$6.36</b>	<b>\$7.16</b>	<b>\$8.25</b>	<b>\$9.43</b>
<b>Consensus</b>	—	—	<b>\$8.33</b>	<b>\$9.44</b>

*Consensus estimates from Visible Alpha*

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**Valuation.** We are increasing our 12-month price target from \$190 to \$250 to reflect the Q4 beat and upside 2024 guidance. Quanta is currently trading at 17.0x our 2024 EV/EBITDA forecast. Our new target of \$250 is based on 16.7x 2025 EV/EBITDA, thus assuming slight multiple compression. While Quanta's valuation is elevated, we expect the company to remain acquisitive, and we see the potential for upside to our current EBITDA estimates. Last year, Quanta delivered EBITDA of \$1.95B versus its initial 2023 guidance range of \$1.83B–\$1.94B.

**Risks.** Risks to our bullish thesis and to the achievement of our price target include macroeconomic conditions, execution risks, and permitting challenges on large electric, renewable energy, and oil and gas projects. Inflation and supply chain pressures have eased but continue to impact contractors. Should these pressures intensify more than anticipated over the forecast period, our estimates could prove aggressive. The company faces acquisition integration risks, particularly with Blattner. Finally, higher interest rates could affect the ability of Quanta's customers to finance large projects.

**Quanta Services**  
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	\$4,428.8	\$5,048.6	\$5,620.8	\$5,783.9	\$20,882.2	\$4,875.0	\$5,700.0	\$6,000.0	\$5,950.0	\$22,525.0	\$4,950.0	\$6,250.0	\$6,750.0	\$6,475.0	\$24,425.0
Cost of Services (Incl. Depreciation)	3,855.6	4,324.5	4,773.5	4,991.5	17,945.1	4,217.9	4,869.8	5,082.3	5,052.6	19,222.5	4,257.8	5,328.6	5,715.9	5,513.5	20,815.8
Gross Profit	573.2	724.1	847.3	792.5	2,937.1	657.1	830.3	917.8	897.4	3,302.5	692.3	921.4	1,034.1	961.5	3,609.3
Equity in Earnings of Affiliates	9.6	9.4	11.7	10.9	41.6	12.0	12.0	12.0	12.0	48.0	12.0	12.0	12.0	12.0	48.0
SG&A	384.6	384.2	386.5	399.9	1,555.1	415.0	415.0	415.0	425.0	1,670.0	440.0	440.0	455.0	460.0	1,795.0
Impairment Charges & Other	0.0	0.0	0.8	5.8	6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of Intangibles	72.4	70.0	71.4	75.2	289.0	80.0	79.0	78.0	76.0	313.0	74.0	72.0	70.0	68.0	284.0
Operating Income	125.9	279.3	400.3	322.5	1,128.0	174.1	348.3	436.8	408.4	1,367.5	190.3	421.4	521.1	445.5	1,578.3
Interest Expense	(41.7)	(48.2)	(47.5)	(49.5)	(186.9)	(47.5)	(42.5)	(39.0)	(38.0)	(167.0)	(37.5)	(37.0)	(36.5)	(36.0)	(147.0)
Interest Income	1.5	1.4	2.0	5.9	10.8	2.0	4.0	6.0	8.0	20.0	9.0	10.0	11.0	12.0	42.0
Other Income (Expenses), Net	7.9	3.4	(3.7)	10.5	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax Income	93.5	236.0	351.0	289.4	970.0	128.6	309.8	403.8	378.4	1,220.5	161.8	394.4	495.6	421.5	1,473.3
Income Taxes	(3.4)	69.4	77.5	75.8	219.3	21.5	83.6	109.0	102.2	316.3	32.4	106.5	133.8	113.8	386.5
Income from Operations	97.0	166.6	273.5	213.6	750.7	107.1	226.1	294.7	276.2	904.2	129.4	287.9	361.8	307.7	1,086.8
Income from Noncontrolling Interest	1.9	0.7	0.7	2.7	6.0	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	4.0	16.0
Income from 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	95.0	165.9	272.8	210.9	744.7	103.1	222.1	290.7	272.2	888.2	125.4	283.9	357.8	303.7	1,070.8
<b>EPS (GAAP)</b>	<b>\$0.64</b>	<b>\$1.12</b>	<b>\$1.83</b>	<b>\$1.42</b>	<b>\$5.01</b>	<b>\$0.69</b>	<b>\$1.49</b>	<b>\$1.95</b>	<b>\$1.82</b>	<b>\$5.95</b>	<b>\$0.84</b>	<b>\$1.90</b>	<b>\$2.39</b>	<b>\$2.03</b>	<b>\$7.16</b>
Shares Outstanding (Diluted)	148.7	148.8	148.8	148.9	148.8	149.0	149.1	149.2	149.3	149.2	149.4	149.5	149.6	149.7	149.6
Non-Cash Stock-Based Compensation	\$27.5	\$34.6	\$32.6	\$32.1	\$126.8	\$33.0	\$34.0	\$35.0	\$37.0	\$139.0	\$37.0	\$38.0	\$39.0	\$40.0	\$154.0
Amortization of Intangible Assets, Net	72.4	70.0	71.4	75.2	289.0	80.0	79.0	78.0	76.0	313.0	75.0	75.0	75.0	75.0	300.0
Other	19.2	2.6	7.4	23.6	52.8	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	(30.4)	(27.9)	(51.6)	(38.4)	(148.4)	(18.9)	(30.5)	(30.5)	(30.5)	(110.4)	(22.4)	(30.5)	(30.8)	(31.1)	(114.7)
Adjusted Cash Income From Cont. Ops.	\$183.7	\$245.3	\$332.6	\$303.4	\$1,064.9	\$197.3	\$304.6	\$373.2	\$354.7	\$1,229.8	\$215.0	\$366.4	\$441.0	\$387.6	\$1,410.1
<b>EPS (Adjusted)</b>	<b>\$1.24</b>	<b>\$1.65</b>	<b>\$2.24</b>	<b>\$2.04</b>	<b>\$7.16</b>	<b>\$1.32</b>	<b>\$2.04</b>	<b>\$2.50</b>	<b>\$2.38</b>	<b>\$8.25</b>	<b>\$1.44</b>	<b>\$2.45</b>	<b>\$2.95</b>	<b>\$2.59</b>	<b>\$9.43</b>
Diluted Shares Outstanding (Adjusted)	148.7	148.8	148.8	148.9	148.8	149.0	149.1	149.2	149.3	149.2	149.4	149.5	149.6	149.7	149.6
Depreciation	\$78.4	\$79.9	\$81.5	\$85.0	\$324.8	\$88.5	\$90.0	\$91.5	\$93.0	\$363.0	\$94.5	\$96.0	\$97.5	\$99.0	\$387.0
Amortization	72.4	70.0	71.4	75.2	289.0	80.0	79.0	78.0	76.0	313.0	74.0	72.0	70.0	68.0	284.0
Taxes and Depreciation from Affiliates	4.9	4.4	5.3	5.4	19.9	5.9	5.9	5.9	5.9	23.7	6.0	6.0	6.0	6.0	24.0
EBITDA (GAAP)	287.5	436.3	554.0	496.0	1,773.8	344.6	519.2	608.2	579.3	2,051.2	360.8	591.4	690.6	614.5	2,257.3
Other adjustments	44.9	35.7	38.5	54.2	173.4	33.0	34.0	35.0	37.0	139.0	37.0	38.0	39.0	40.0	154.0
<b>EBITDA (Adjusted)</b>	<b>\$332.4</b>	<b>\$472.1</b>	<b>\$592.5</b>	<b>\$550.2</b>	<b>\$1,947.2</b>	<b>\$377.6</b>	<b>\$553.2</b>	<b>\$643.2</b>	<b>\$616.3</b>	<b>\$2,190.2</b>	<b>\$397.8</b>	<b>\$629.4</b>	<b>\$729.6</b>	<b>\$654.5</b>	<b>\$2,411.3</b>
<b>Percent of Sales:</b>															
Gross Margin	12.9%	14.3%	15.1%	13.7%	14.1%	13.5%	14.6%	15.3%	15.1%	14.7%	14.0%	14.7%	15.3%	14.8%	14.8%
Operating Margin	2.8%	5.5%	7.1%	5.6%	5.4%	3.6%	6.1%	7.3%	6.9%	6.1%	3.8%	6.7%	7.7%	6.9%	6.5%
Net Margin (Cont. Ops.)	2.1%	3.3%	4.9%	3.6%	3.6%	2.1%	3.9%	4.8%	4.6%	3.9%	2.5%	4.5%	5.3%	4.7%	4.4%
Adjusted EBITDA Margin	7.5%	9.4%	10.5%	9.5%	9.3%	7.7%	9.7%	10.7%	10.4%	9.7%	8.0%	10.1%	10.8%	10.1%	9.9%
SG&A as a % of Sales	8.7%	7.6%	6.9%	6.9%	7.4%	8.5%	7.3%	6.9%	7.1%	7.4%	8.9%	7.0%	6.7%	7.1%	7.3%
Tax Rate (GAAP)	(3.7%)	29.4%	22.1%	26.2%	22.6%	16.7%	27.0%	27.0%	27.0%	25.9%	20.0%	27.0%	27.0%	27.0%	26.2%
<b>Yr/Yr Change:</b>															
Revenue	11.7%	19.3%	26.0%	31.0%	22.3%	10.1%	12.9%	6.7%	2.9%	7.9%	1.5%	9.6%	12.5%	8.8%	8.4%
Gross Profit	4.6%	15.9%	23.0%	18.7%	16.1%	14.6%	14.7%	8.3%	13.2%	12.4%	5.3%	11.0%	12.7%	7.1%	9.3%
SG&A	18.4%	18.8%	11.3%	17.2%	16.3%	7.9%	8.0%	7.4%	6.3%	7.4%	6.0%	6.0%	9.6%	8.2%	7.5%
Operating Income	7.1%	34.0%	39.6%	24.3%	29.3%	38.3%	24.7%	9.1%	26.6%	21.2%	9.3%	21.0%	19.3%	9.1%	15.4%
Net Income	12.3%	88.5%	74.9%	29.7%	51.6%	8.5%	33.9%	6.6%	29.1%	19.3%	21.6%	27.8%	23.1%	11.6%	20.6%
EPS (Adjusted)	(10.1%)	6.7%	26.4%	21.5%	12.5%	7.1%	23.9%	11.9%	16.6%	15.2%	8.7%	20.0%	17.8%	9.0%	14.3%
EBITDA (Adjusted)	(3.8%)	11.8%	26.8%	22.3%	15.6%	13.6%	17.2%	8.5%	12.0%	12.5%	5.4%	13.8%	13.4%	6.2%	10.1%

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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Thompson Davis & Co., Inc., rating distribution by percentage (as of February 22, 2024):

	#	%
<b>BUY</b>	24	96
<b>SELL</b>	0	0
<b>HOLD</b>	1	4
<b>TOTAL</b>	25	100.0%

**Rating and Price Target History for Quanta Services, Inc. (PWR) as of December 29, 2023**

Date	Rating	Price	Target
2/26/2021	Buy	\$84.61	<b>\$95</b>
5/6/2021	Buy	\$98.59	<b>\$110</b>
11/4/2021	Buy	\$113.28	<b>\$125</b>
4/6/2022	Buy	\$127.99	<b>\$140</b>
8/5/2022	Buy	\$133.41	<b>\$145</b>
11/7/2022	Buy	\$146.77	<b>\$160</b>
2/24/2023	Buy	\$161.41	<b>\$175</b>
5/5/2023	Buy	\$165.35	<b>\$185</b>
8/3/2023	Buy	\$198.93	<b>\$220</b>
11/3/2023	Buy	\$167.78	<b>\$190</b>

