

US Concrete, Inc. (USCR)

USCR

BUY on USCR

Analyst: Kyle Ritchie

Price Target: \$71.70

Key Statistics as of 4/8/16

Market Price:	\$62.50
Industry:	Industrials
Market Cap:	\$949.6 million
52-Week Range:	\$33.04 – 63.67
Unlevered Beta:	1.13
Trading Volume:	300,000

Thesis Points:

- Expanding margins with further potential through economies of scale from acquisitions
- Consistently beats Revenue, EBITDA, and Earnings estimates
- Positioned in a strong industry for sustainable growth

Company Description

US Concrete, Inc., through its subsidiaries, produces and sells ready-mixed concrete, aggregates, and concrete-related products and services for the construction industry in the United States. The company operates through two segments, Ready-Mixed Concrete and Aggregate Products. The Ready-Mixed segment is responsible for the formulation, preparation, and delivery of ready-mixed concrete to job sites. The Aggregate Products segment offers crushed stone, sand, and gravel for use in commercial, industrial, and public works projects. The company primarily serves concrete sub-contractors, general contractors, government agencies property owners and engineers in the following regions: Texas, California, Washington, New York, New Jersey, and Oklahoma.



Thesis

US Concrete, Inc., through its subsidiaries, has become a well-established and reputable contractor for aggregate concrete in the United States. Through strategic acquisitions and notable revenue growth, the company has expanded its margins, improved its position in a competitive market, and become a profitable stock over the past two years. It will become clear through the aforementioned theses along with a DCF valuation method with a focus on return on invested capital that this company is undervalued. However, this is not very surprising since USCR is a company with fairly low trading volume. The six analysts covering this stock up to date have an average price target of \$70.

Industry Outlook

US Concrete primarily serves the materials market sector in the construction industry. This past year, that market increased 25.33%. The overall performance of the construction industry is heavily determined by GDP growth. The following chart demonstrates the cyclical nature of GDP growth since 2013.



Post-election and through 2016, economists are forecasting a 2.5-3% growth in GDP demonstrating a positive outlook for this sector. Economic forecasters at average expect a 10.1% increase in the industrials sector which is the main driver for the materials market sector in the construction industry. Industrial and commercial projects, as well as office construction pose a large opportunity for US Concrete. Specifically, office construction is expected to increase 12.0% in 2016. US Concrete has vertically integrated acquisitions to improve its capacity, limiting backlog,

in order to meet the industry's current level of demand.

Expanding Margins/Strategic Acquisitions

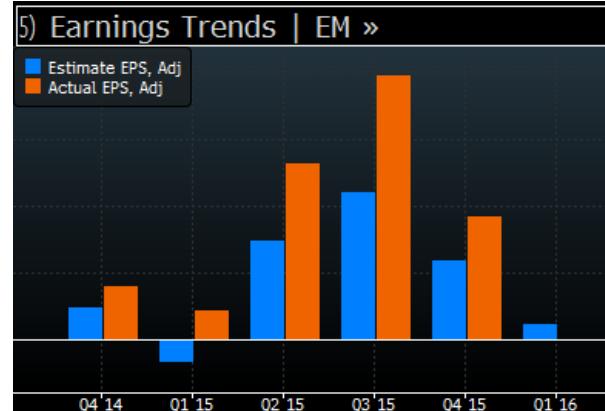
	2011	2012	2013	2014	2015
Revenue, Adj	445.8	531.0	598.2	703.7	974.7
Growth %, YOY	-2.2	19.1	12.6	17.6	38.5
Gross Profit, Adj	52.1	75.2	99.5	130.4	205.9
Margin %	11.7	14.2	16.6	18.5	21.1
EBITDA, Adj	4.3	19.4	42.6	72.4	122.4
Margin %	1.0	3.6	7.1	10.3	12.6
Net Income, Adj	-24.1	-1.3	12.1	27.2	40.8
Margin %	-5.4	-0.3	2.0	3.9	4.2

As you can see from the preceding graph, US Concrete's gross margin, EBITDA margin, and especially its Profit margin, have improved over the past five years. The company's gross margin has improved from 11.7% - 21.1% due to increase purchasing power. The company's profit margin turned profitable in 2013, moving from -.3% as a percentage of revenue in the previous year to 2%.

Since 2014, US Concrete completed 17 acquisitions of ready-mixed concrete and aggregate firms like itself. Thus, improving US Concrete's competitive position through a major reduction in costs due to economies of scale. The primary market for US Concrete is West Texas where they are currently the leading provider. The chain of operations in West Texas has become notably more efficient and less costly due to the acquisition of E&A Materials. These recent acquisitions gives US Concrete the ability to consolidate its resources in the markets it serves producing attractive returns for investors.

Consistently Beats Analysts' Expectations

The following table shows earnings and the forecasts.



For each of the past five quarters, US Concrete has beat analysts' earnings estimates. In Q4 of 2014, the company beat earnings estimates by about \$0.15/share. And in Q3 of 2015, the company beat earnings by \$0.87/share. In the recent years and especially the recent quarters, US concrete has proved its ability to sustain its recent growth. In the respective quarters, US Concrete also beat its revenue estimates each time at an average of 5.47%. Furthermore, the company beat its EBITD estimates in Q1 of 2015, Q2 of 2015 and Q3 of 2015 by 27.25%, 13.58% and 12.62% respectively.

Quarter ending	Past Earnings Surprises	
	Revenue	EBITDA
12/31/2014	4.50%	-4.65%
3/31/2015	6.62%	27.25%
6/30/2015	7.40%	13.58%
9/30/2015	4.51%	12.62%
12/31/2015	4.34%	-1.60%

A potential reason for this underestimated trend is US Concrete's ability to meet the demand and facilitate a series of never-ending projects. Nevertheless, the company only reported \$1.6 million in backlog compared to the \$974.7 million in total revenue generated in fiscal 2015.

Debt Management

As previously mentioned, US Concrete has notably improved its gross margin, EBITDA and profit margin within the past five years. However, one area of concern is the company's current capital structure. The company's D/E is 1.7 compared to an industry average of approximately 1.0. Fortunately, the company has a fair credit rating from both Moody's and Standard & Poor's (BB).

Valuation

The valuation of US Concrete, Inc. is based on a valuation computed by a pro forma using a DCF method with a main focus on return on capital. Attached is an overview containing the assumptions, inputs, and relevant market data that have been used in the valuation.

When valuing US Concrete a conservative approach has been applied due to the cyclical nature of the industry it serves. Due to the nature of the business, a 10 year period to convergence has been used. In the base year of the forecast, US Concrete's revenue growth stood at 39%. The pro forma has used the average of analysts'

estimates for revenue growth in the upcoming years. In 2016, US Concrete's revenue is expected to increase by 18.1% tapering down to 3% (the long-term growth rate). Since US Concrete operates solely in the United States, a tax rate of 40% has been applied along with a discount rate (risk premium) of 6.49%.

The financial metrics of the firm were made to converge with its selected peers who consist of: Eagle Materials, Inc., Summit Materials, Inc., Martin Marietta Materials, Inc., Vulcan Materials Company, and Headwaters Inc. In 2015, US concrete's adjusted operating costs/revenue was 87.9%. The average operating costs/revenue for the industry is 76%. The pro forma has estimated these costs to decrease by 4% to a conservative 83.5% in relation to the industry.

Inputting the aforementioned assumptions and inputs, the pro forma calculated an intrinsic value of \$62.89 compared to its market price of \$62.50 which a one-year target of \$71.70.

Using a Monte Carlo simulation in order to conduct a sensitivity analysis, the data indicates that Operating Costs and Revenue are the primary determinants for the company's future standing at 47.7% and 41.0% respectively. The target price distribution indicates a probability of 85% that this stock will increase.

Conclusion

After a thorough analysis, it is evident that US Concrete is a reputable company that has consistently shown revenue growth and margin expansion. Coupled with its historical performance, the positive outlook for the industry poses an opportune time for investors. Within the last twelve months, US Concrete's stock has nearly doubled. Despite the fact that its current position is hovering around its 52-week high, I am confident this stock has further potential. I recommend a BUY on USCR.

U.S. Concrete, Inc. (USCR)

 Analysis by P.C. Principal
 4/9/2016

CENTER FOR GLOBAL FINANCIAL STUDIES
NEUTRAL


Description	
U.S. Concrete, Inc., through its subsidiaries, produces and sells ready-mixed concrete, aggregates, and concrete-related products and services for the construction industry in the United States.	
General Information	
Sector	Materials
Industry	Construction Materials
Last Guidance	November 3, 2015
Next earnings date	May 8, 2016
Estimated Country Risk Premium	6.49%
Effective Tax rate	40%
Effective Operating Tax rate	69%

Market Data	
Market Capitalization	\$94.57
Daily volume (mil)	0.30
Shares outstanding (mil)	15.19
Diluted shares outstanding (mil)	15.56
% shares held by institutions	55%
% shares held by investments Managers	72%
% shares held by hedge funds	13%
% shares held by insiders	7.02%
Short interest	8.77%
Days to cover short interest	3.76
52 week high	\$63.67
52-week low	\$33.04
Levered Beta	1.46
Volatility	44.54%

Past Earnings Surprises

Quarter ending	Revenue	EBITDA	Peers
12/31/2014	4.50%	-4.66%	Eagle Materials Inc.
3/31/2015	6.62%	27.25%	Summit Materials, Inc.
6/30/2015	7.40%	13.58%	Martin Marietta Materials, Inc.
9/30/2015	4.51%	12.62%	Vulcan Materials Company
12/31/2015	4.34%	-1.60%	Headwaters Incorporated
Mean	5.47%	9.44%	
Standard error	0.6%	5.8%	

Management

	Position	Total compensations growth	Total return to shareholders
Sandbrook, William	Chief Executive Officer, Pre	-9.75% per annum over 4y	48.6% per annum over 4y
Jolas, Paul	Senior Vice President, Gener	23.87% per annum over 1y	85.1% per annum over 1y
Poulsen, Niel	Executive Vice President of	15.36% per annum over 3y	56.25% per annum over 3y
Kohutek, Kevin	Regional Vice President of A	N/M	N/M
Tusa, Joseph	Chief Financial Officer and	N/M	N/M
Pruitt, Ronnie	Chief Operating Officer and	N/M	N/M

Profitability

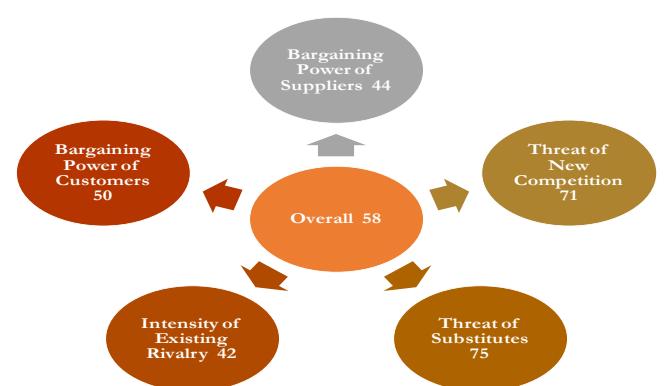
	USCR (LTM)	USCR (5 years historical average)	Industry (LTM)
ROIC	0.4%	4.79%	5.46%
NOPAT Margin	0%	2.08%	9.8%
Revenue/Invested Capital	2.38	2.31	0.55
ROE	-3.7%	-6.84%	5.54%
Adjusted net margin	-2%	-0.34%	8.2%
Revenue/Adjusted Book Value	2.29	20.27	0.67

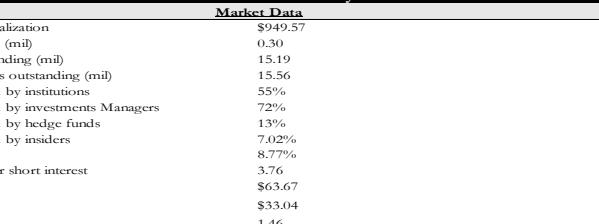
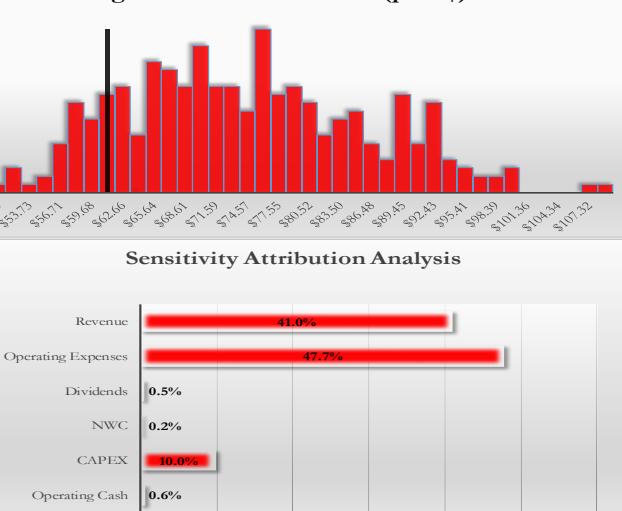
Invested Funds

	USCR (LTM)	USCR (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	0.7%	8.9%	4%
Estimated Operating Cash/Total Capital	0.7%	4.4%	N/A
Non-cash working Capital/Total Capital	-1.0%	7.1%	9%
Invested Capital/Total Capital	100.0%	95.6%	96%

Capital Structure

	USCR (LTM)	USCR (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.43	1.38	0.14
Cost of Existing Debt	10.44%	15.95%	8.23%
Estimated Cost of new Borrowing	2.98%	2.64%	8.23%
CGFS Risk Rating	10.44%	AA	C
Unlevered Beta (LTM)	8.66%	0.96	1.25
WACC	10.44%	12.04%	10.69%

Porter's 5 forces (scores are out of 100)

Intrinsic Value
Target Price
\$62.89
\$71.70

 Target 1 year Return: 14.72%
 Probability of Price Increase: 85%

Sensitivity Attribution Analysis

Valuation

Period	Revenue growth	NO PAT margin	ROIC/WACC
Base Year	38.5%	0.2%	0.04
12/31/2016	18.1%	7.8%	1.81
12/31/2017	10.5%	8.0%	1.51
12/31/2018	9.6%	8.1%	1.50
12/31/2019	8.8%	8.1%	1.39
12/31/2020	8.0%	8.2%	1.40
12/31/2021	7.1%	8.2%	1.42
12/31/2022	6.3%	8.3%	1.44
12/31/2023	5.5%	8.4%	1.46
12/31/2024	4.7%	8.5%	1.49
12/31/2025	3.8%	8.5%	1.52
Continuing Period	3.0%	8.6%	1.56
Period	Invested Capital	Net Claims	Price per share
Base Year	\$218.37	\$334.27	\$63.38
12/31/2016	\$213.32	\$411.63	\$73.93
12/31/2017	\$194.90	\$398.47	\$83.05
12/31/2018	\$321.44	\$448.64	\$92.53
12/31/2019	\$410.36	\$415.28	\$102.74
12/31/2020	\$539.81	\$370.60	\$113.30
12/31/2021	\$749.70	\$313.35	\$124.17
12/31/2022	\$839.41	\$242.40	\$135.31
12/31/2023	\$998.42	\$156.78	\$146.67
12/31/2024	\$1,079.17	\$55.77	\$158.20
12/31/2025	\$1,154.19	-\$61.11	\$169.84
Continuing Period			