Siena Market Line
1st week of March 2015

MasTec Inc.

NYSE: MTZ

Analyst: Kyle White
Sector: Industrials

BUY

Price Target: $27.00

Key Statistics as of 3/04/2015

Market Price:	$21.16
Industry:	Engineering & Construction
Market Cap:	$1.7 B
52-Week Range:	$17.95-44.80
Beta:	1.00

Thesis Points:

- Strong fundamentals in terms of revenue and EBITDA growth
- Increasingly diversified portfolio
- Significant unrealized potential in future critical infrastructure development projects
- Unfairly sold off because of connections to oil

Company Description:

MasTec, Inc., an infrastructure construction company, provides engineering, building, installation, maintenance, and upgrade services for energy, utility, and communications infrastructure primarily in the United States. It operates in five segments: Communications, Oil and Gas, Electrical Transmission, Power Generation and Industrial, and Other. The company builds pipelines for natural gas, crude oil, and refined product transportation; underground and overhead distribution systems comprising trenches, conduits, and cable and power lines that provide wireless and wireline communications; electrical power generation, transmission, and distribution systems; power generation infrastructure, including renewable energy; heavy industrial plants; and compressor and pump stations, and treatment plants. It also installs electrical and other energy distribution and transmission systems, power generation facilities, buried and aerial fiber optic cables, coaxial cables, copper lines, and satellite dishes in various environments. In addition, the company provides maintenance and upgrade support services that consist of maintenance of distribution facilities; and networks and infrastructure, including natural gas and petroleum pipelines, wireless, power generation, and electrical distribution and transmission infrastructure, as well as emergency services for accidents or storm damage, and routine replacements and upgrades to overhauls.

Thesis

MasTec is an incredibly diverse engineering and construction firm, having gone from a company that primarily deals in communications to one that deals in communications, power generation, industrials, oil and gas field services, and power transmission systems. While the company has access to a diverse and robust backlog, as well as prospective future projects in all of its segments, the market has misjudged the impact that declining commodity prices should have had on the company. As a result, MasTec has declined from a 52 week high of $44.80 to $21.16, only 17% above a low of $17.95. The exaggerated selloff however presents an excellent buying opportunity. The stock's current fair value is approximately $24, showing that it has indeed been oversold, but with an estimated 1-year target of $27, a 29.5% return is possible on this truly cheap stock.

Strong Fundamentals

MasTec is a buy for many reasons but few are more compelling than its stellar revenue streams, EBITDA growth, reasonable debt levels, and its ability to generate cash through strong free cash flows. Starting in 2007, the company begins to exhibit strong revenue growth brought on by exposure to opportunities in new sectors. From 2004 to 2006 the company only exhibited a growth rate of 1.7% in its primary operating arena of communications with major clients like AT&T and Verizon. In 2007, now in the capable hands of newly appointed CEO Jose Mas, a new direction was realized in that the company's future couldn't lie in telecom alone. Through a series of strategic acquisitions starting in 2007 the company began to realize increased revenue streams exhibiting a CAGR of 21% over the last 6 years. Looking towards the future it is the consensus that this strong year over year growth should continue, lending to the fact that the company makes for a sound investment. The majority of this growth in revenues can be attributed to communications and oil, but a significant portion of the company's revenue streams are derived from transmission and power generation contracts. Going beyond revenue streams, the company has managed to make impressive process in terms of its EBITDA growth. Pre- 2007 the company's EBITDA did experience significant growth, but those results are hardly comparable, seeing that as of today, growth in EBITDA has been nearly been 600% of 2007 levels. On top of this improvement, EBITDA has managed to outpace growth in revenue by 1.5x, meaning the company has been able to drive down its operating cost of the years, a promising sign moving towards the future. Not all of this growth was supported purely by equity however. The company which was required to purchase increasingly advanced equipment as it expanded into new segments, forced the company to take on a sizable amount of debt, and the company has move from a D?E ratio of .46 to 1.0 as of 2013. With ability to service debt at 6 ½ times though, the company exhibits a credit rating of AAA, meaning that company is in a strong position to take on more debt if necessary. One of the most attractive areas of MasTec's financials is its ability to generate cash flows, which in 2014 represented 244 million dollars. This strong cash generation means that future growth can in large part be sponsored out of the companies current operations, meaning less reliance on debt and equity issues, which could serve to drive down the value of the firm. All of these aspects serve to make MasTec very attractive.

Increasing Diversification

This is one of the company's strongest drivers of value moving into the future. Currently the company has contracts in communications, oil and gas, power transmission, and power generation, industrial, and what is written down as other (civil engineering projects). Of these telecommunications represents the largest percentage of revenue as well as its highest margin business, followed sequentially by the others. The level of diversification the company has adopted allows the company some degree of freedom as it moves through various business cycles, as none of the industries it serves are highly correlated with one another meaning that an otherwise cyclical business has some degree of protection. Diversification allows other benefits as well though. As mentioned previously, the companies major revenue streams are in communication and energy development, which have experienced tremendous growth in recent years lending to the companies increased revenue and EBITDA, a major benefit is it allows the company to engage in power transmission, power development, and civil engineering projects, which currently have smaller EBITDA margins and revenue streams. While this might seem at first a

detriment, as the companies experience grows in these areas, cost should go down as competencies increase, and margins should improve which is extremely valuable as activity in these areas is likely to increase significantly over the next decade. As oil and telecommunication are winding down this year, the ability for MasTec to achieve these goals would be extremely valuable.

Growth Potential in Infrastructure Upgrades

As mentioned previously, as MasTec diversifies itself in terms of operations, it engages itself increasingly in power transmission, industrials, and civil projects. A major benefit associated with this play is that it has the potential to capitalize on a situation that has recently started plaguing America, and must be addressed sooner than later in order to support continued economic growth. In a recent report by American Society of Civil Engineers, America received a overall average "GPA" of D+. This score is largely weighed down our Energy grid, roads, and wastewater facilities, which receive a D+, D, and D respectively, all of which MasTec has significant experience in dealing with. What does this mean for MasTec? Well running through the report, the following details can be weeded out, and the sleeping giant that is America's misfortune could prove to be a massive tailwind for MasTec. According to the report prepared by the ASCE, wastewater, which indirectly affects America's access to fresh water resources, is perhaps the most important piece of infrastructure available to it. As a result, the government requires a great deal of spending on wastewater systems by cities nationwide, approximately $15 billion yearly in maintenance. What is more compelling is that in addition to this maintenance, over the next 20 years, America will need a 300 billion dollar overhaul in these critical system to prepare for projected population growth. While none of the firms in this space command a significant portion of market share, MasTec's ability to create productive lasting relationships with its clients, and it tendency to pursue higher rate of return projects means that the company is not out of the race to take the lions share, or at least a valuable portion of it. Contending with wastewater for most debilitated infrastructure in America is roads, which on average, due to insufficient capacity cost the American public $101 billion annually. Across America it is estimated that per annum, road maintenance and building costs will amount to $170 billion, representing an incredible opportunity for the company. Of all the opportunities available to MasTec is the aging electrical grid and the ability to move into the renewable energy market, both of which they have significant experience in. Laying down some number, opportunities look like this in a quote from the ARRA "As the United States' transmission and distribution infrastructure ages, it is requiring more extensive maintenance and upgrades to avoid delivery failure. Furthermore, as the population increases and demand for electricity continues to grow modifications to the current infrastructure will become a necessity. As seen in the 2010 Annual Energy Outlook, energy consumption is expected to rise by 14% in conjunction with an increase in population of 28% from 2008 to 2035. In order to satisfy this increase, NERC estimated that over 34,000 miles of additional circuit must be added to current infrastructure. It is expected that this infrastructure will require investments of nearly $27 billion from 2009 to 2013, and approximately $300 billion by 2030. This offers a substantial opportunity for firms in the specialty contracting industry to obtain a steady source of revenue." This only represents the beginning tip of the iceberg, in terms of power development; smart grid upgrades, which are a major project for many power companies, are expected to be in the neighborhood $10 billion annually and are likely to increase significantly. On top of this, renewables in the from of solar and wind represent another $150 billion annually combined. All of these prospects look to provide steady revenue streams far into the future fro a company like MasTec.

Unfairly Sold

While all of the above reasons demonstrate why

MasTec should and will continue to generate value into the future, it does not demonstrate why it is a buy in the current market. Has the company exhibited a substantial drop in stock price, anyone can see this, but that may be justified, so again, what makes this stock a buy. Well to put it simply, MasTec's exposure to the oil and gas industry was for many investors, too much. Many of those who invested in the company misinterpreted just in what way MasTec is actually connected to the industry. While overall, it is true, most of the oil industry is suffering right now, companies biggest hit are those connected to oil and gas exploration and production. MasTec does have relationships with many of these companies but not as much as investors would think. The company does have significant relationships with midstream companies that will be far less affected by the oil sell off. Many of the contracts slated in this pipeline industry are still very much on track for completion, with much of the companies backlog still set to move ahead. Reiterating the pro forma, the companies estimated fair value is approximately $24, and with the price steadily climbing over the past few days.

Forecasts

Having recently posted earning last week, MasTec beat earning, surprising many analysts, yet the company provided only mild guidance for the remainder of 2015, although they were extremely optimistic concerning 2016. The company's management has suggested in a certain number of words that oil and gas may have significant impact on the stock throughout the course of the year, meaning that if things don't exactly pan out revenues could remain flat over the next few years. In a reserved estimation there 30% likelihood that this will happen, and in that instance the company will likely trade not much above what it does now, perhaps $24, which is its fair value now. What is much more likely however is that the company will perform as adequately, with a probability of anywhere between 50 and 60%. In a dream scenario, the oil and gas industry will recover much more quickly than anticipated, and more contracts will flow towards MasTec, meaning revenue beats throughout the company should enjoy a lofty boost as well. As a final recommendation, MasTec is an extremely attractively priced security for many of the reason listed above, and given its overselling in the market, it looks to be remain that way, but not for much longer. Given the 1 year target price of $27, this stock has a healthy return of around 30% with limited downside given the companies strengths and attractive positioning. This is a stock that shouldn't go overlooked.

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MasTec, Inc.	MTZ	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Kyle White	$21.12	$24.36	$27.35	0%	29.47%	

General Info

Sector	Industrials
Industry	Construction and Engineering
Last Guidance	Feb-26-2015
Next earnings date	NM

Market Data

Enterprise value	$2,754.84
Market Capitalization	$933.35
Daily volume	0.86
Shares outstanding	81.88
Diluted shares outstanding	86.20
% shares held by institutions	77.02%
% shares held by insiders	18.81%
Short interest	5.25%
Days to cover short interest	3.53
52 week high	$44.80
52-week low	$17.95
5y Beta	1.38
6-month volatility	56.06%

Peers	Market Cap.
Dycom Industries Inc.	$1,564.74
Quanta Services, Inc.	$5,938.31
AECOM	$4,672.05
EMCOR Group Inc.	$2,784.35
KBR, Inc.	$2,285.28
Tutor Perini Corporation	$1,108.24
Primoris Services Corporation	$922.94
Jacobs Engineering Group Inc.	$5,617.19
Granite Construction Incorporated	$1,308.85
MYR Group, Inc.	$562.28

Current Capital Structure

Total debt/market cap	38.52%
Cost of Borrowing	5.41%
Interest Coverage	474.27%
Altman Z	
Debt Rating	AAA
Levered Beta	1.94
WACC (based on market value weights)	9.34%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Mas, Jose	Chief Executive Officer and Dire	$ 5,311,389.00	$ 5,375,658.00	$ -
Apple, Robert	Chief Operating Officer	$ 1,791,889.00	$ 1,923,171.00	$ -
de Cardenas, Albert	Executive Vice President, Genera	$ 1,301,093.00	$ 1,265,498.00	$ -
Pita, George	Chief Financial Officer, Principal	$ -	$ -	$ -
Lewis, J.	Vice President of Investor Relatio	$ -	$ -	$ -
Smith, Gary	Senior Vice President of Commu	$ -	$ -	$ -

Historical Performance

	MTZ	Peers	Industry	All U.S. firms
Growth	24.3%	8.2%	8.2%	6.0%
Retention Ratio	90.8%	172.1%	55.9%	61.6%
ROIC		2.8%	19.1%	11.8%
EBITA Margin	6.0%	4.7%	8.4%	13.7%
Revenues/Invested capital	115.9%	225.9%	274.5%	202.3%
Excess Cash/Revenue	0.8%	9.3%	8.2%	18.5%
Unlevered Beta	0.92	1.23	1.26	0.95
TEV/REV	0.7x	0.5x	0.7x	2.4x
TEV/EBITDA	7.9x	8.8x	9.9x	11.3x
TEV/EBITA	11.9x	10.8x	14.0x	15.4x
TEV/UFCF	29.8x	32.6x	22.5x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.1%	1.8%	5.3%
Last Quarter-1	0.2%	1.5%	1.8%
Last Quarter -2	1.1%	2.0%	0.0%
Last Quarter -3	4.6%	0.6%	5.0%
Last Quarter -4	6.5%	0.3%	2.0%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Operating. Cash/Cash	0.0%
Unlevered Beta	1.40
Rev/Invested Capital	100.0%
Continuing Period Revenue Growth	3.0%
Long Term ROIC	11.9%
Invested Capital Growth	Follows Forward Rev. Growth
Justified TEV/REV	2.0x
Justified TEV/EBITDA	8.0x
Justified TEV/EBITA	12.0x
Justified TEV/UFCF	18.0x

Forecasted Profitability

Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
LTM	7%	91%	$4,614.84	$234.72	$2,184.91	$234.72
LTM+1Y	5%	91%	$4,845.58	$217.79	$2,367.76	$34.93
LTM+2Y	10%	90%	$5,330.14	$227.50	$2,423.23	$172.03
LTM+3Y	9%	90%	$5,809.85	$244.27	$2,490.88	$176.62
LTM+4Y	8%	90%	$6,274.64	$265.30	$2,554.06	$202.12
LTM+5Y	7%	90%	$6,713.87	$288.16	$2,611.19	$231.03
LTM+6Y	6%	90%	$7,116.70	$310.23	$2,689.10	$232.32
LTM+7Y	5%	90%	$7,472.53	$331.07	$2,758.48	$261.68
LTM+8Y	4%	90%	$7,771.44	$349.55	$2,819.77	$288.26
LTM+9Y	3%	90%	$8,004.58	$364.70	$2,873.91	$310.56

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	10.7%	9.3%	$30.71	$3,074.59	$1,061.16	-$24.06	$2,037.49	$25.32
LTM+1Y	10.0%	9.5%	$10.00	$3,309.14	$1,061.16	$7.62	$2,240.36	$28.10
LTM+2Y	9.6%	9.8%	-$3.60	$3,489.17	$1,061.16	-$119.56	$2,547.57	$31.74
LTM+3Y	10.1%	9.9%	$3.94	$3,639.83	$1,061.16	-$263.68	$2,842.35	$35.44
LTM+4Y	10.7%	10.1%	$14.43	$3,805.42	$1,061.16	-$439.98	$3,184.24	$39.66
LTM+5Y	11.3%	10.2%	$27.50	$3,963.29	$1,061.16	-$648.90	$3,551.03	$44.25
LTM+6Y	11.9%	10.4%	$40.63	$4,108.75	$1,061.16	-$862.30	$3,909.90	$48.60
LTM+7Y	12.3%	10.5%	$50.08	$4,272.78	$1,061.16	-$1,107.76	$4,319.38	$53.64
LTM+8Y	12.7%	10.6%	$57.53	$4,424.78	$1,061.16	-$1,382.55	$4,746.18	$58.88
LTM+9Y	12.9%	10.7%	$62.93	$4,564.23	$1,061.16	-$1,682.79	$5,185.86	$63.34

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Market Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	3%	N/A	3%	24%	Triangular
Terminal Value	0	0.1	N/A	N/A	Normal

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$25.32	$28.10
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$24.36	$27.35
Current Price	$21.12	
Analysts' median est.		$28.55