

Company Description: Quanta Services, Inc. is a leading specialty contractor of electric power infrastructure services and oil and gas infrastructure services. The business is split and reported separately by those segments respectively. The electric services segment accounts for roughly 63% of revenue, while oil and gas services make up the remaining 37%. Quanta Services is primarily based in the U.S, but have large operations in Canada and comparatively small operations in Australia.

Buy

Current Price:	\$37.12
Target Price:	\$45.83
Market Cap:	5.76B
Average Volume:	1.003M
D/E Ratio:	.108
ROIC:	7.17%
EBITA Margin:	7.31%



Thesis:

Quanta Services Inc. is going to capitalize on favorable market conditions, as well as an environment for growth. With new management, they have a solid growth strategy in place to develop organically and through M&A. Overall, widening margins and changing scope of the business will lead to value creation and thus stock appreciation. I think they are priced around their 52-week high for solid reasons, and more double digit growth can be expected.

Catalysts:

- **Short Term (within the year):** Being contracted for Hurricane relief at higher margins, lessening effects of seasonality
- **Mid Term (1-2 years):** Trump's executive order to increase Infrastructure spending by \$1T. Easing of complicated regulations
- **Long Term (3+):** Ability to secure more large scale projects through competitive bidding.

Business Overview:

Quanta Services provides end to end energy solutions for electric and oil and gas infrastructure. They are the leading and largest provider of specialty contracting in North America with a workforce of just over 29,000 employees. The business is segmented into electric power services and oil and gas power services respectively. Both segments are fully integrated to handle the logistics of the projects, down to the final stages of construction. The electric services segment specializes in design, installation, upgrade, repair and maintenance of electric power transmission and distribution infrastructure and substation facilities along with other engineering and technical services. Quanta also specializes in repair from inclement weather such as hurricanes. The scope goes as far as including installation and maintenance of all major renewable energy sources. The oil and gas segment offers specialty contracting to build processing plants, pipeline transmission, and off shore



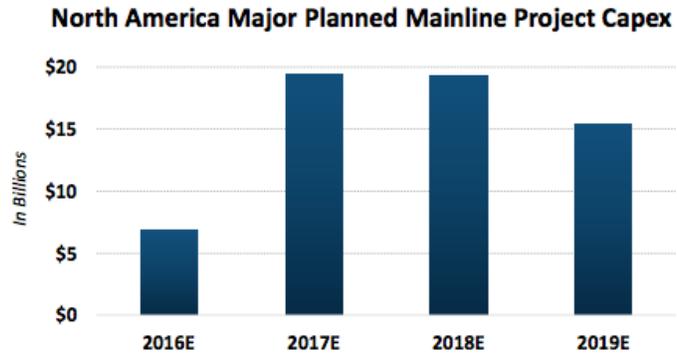
energy solutions. The primary source of financing for these projects is bonds, and we are in a favorable market for bond offerings especially in the coming 12 months due to a hawkish Fed. There are a few key business drivers that affect operating performance including weather conditions. In order to maintain project scheduling, weather needs to be accommodating to allow their specialty work to be done. So far this year has been very dry, which should surface in above

projected Revenue growth. Another business driver is the regulatory environment for project approval and standards set by the governing FERC. The last main driver of the business is oil prices even though that segment only accounts for 37% of their revenues. We are currently in a very unpredictable state for future prices, but at the current level of around \$48, it doesn't encourage growth in infrastructure investment in crude oil transmission. In terms of capital structure, Quanta is highly unlevered with a D/E of .108. The company primarily finances with a huge working capital allowance and cash reserves. Quanta pays no dividends so all corporate profit is reinvested into the business for continued growth.

Growth Strategy:

Quanta Services has a solid growth strategy to create significant value in the next 3 years. One key strategy, or key function of the business is forming strategic alliances and long term contracts. Each states a non-binding or binding intent to work together over a period of time, generally they shoot for a partnership of 2 to 4 years. The company's backlog has grown showing this directly, which we can use to guide future growth forecasts. It is a stable measure because historically the backlog has been recognized as completed revenue within a few years from initial recognition. More strategically, they primarily focus on Mergers and Acquisitions to expand their business by offering more end to end specialty contracting services, as well as geographical diversification. The idea of geographical expansion is to smooth the company's revenues and operating performance, offering safer investment for shareholders. This is because weather plays a major role in project completion, so Quanta does experience seasonality effects but are trying to reduce that. They also focus on forward vertical integration to be able to bid and contract out entire projects. While this is beneficial for Quanta, it also helps them keep project costs down and thus maintain preferred vendor status. For an example, during the 2nd quarter of 2017

they acquired Stronghold, which offers midstream and downstream energy offerings. These are the transportation and storage of oils and logistics behind that end of the spectrum. Combined, this offers a secondary offering to complement their energy development and transmission services. Quanta Services is also developing a telecommunications business internally providing significant organic growth. In the next twelve months, estimates expect this segment to add additional revenue of \$200M. Quanta is also pursuing an employee development school to foster workers to offer exceptional quality and keep them safe on the field, which in effect keeps costs down but incur a hefty cost of the education. This answers problems that have been caused from inexperienced workers and increased supervision costs incurred to oversee safety. One giant opportunity for Quanta Services is the outdated and insufficient power grid in the U.S. The project scaling of this work is much larger, and projects that size have higher margins due to inherent risks. Quanta services is becoming a major competitor in these larger projects, changing the scope of the business to include large and small scale specialty work. This is valuable because they will have better operating performance that can be reinvested to continue double digit growth. With a shift in project structure, I predict the margin structure should expand to about 10-12% with slightly higher SG&A expense to offset the gain. Overall, expect a 1-1.5% growth in operating margin.



Hurricane Relief Effects:

Quanta Services specializes in emergency response to natural disasters as a facilitator in restoration of power. They offer immediate on sight relief for electricity restoration as well as repair to damaged infrastructure. Quanta advertises that they can provide relief anywhere in the lower 48 within 24 hours. In Hurricane Harvey, hundreds of high-voltage transmission lines, including six 345 kilovolt (kV) lines and more than two hundred 69 kV–138 kV lines experienced storm-related forced outages. Quanta Services offers specialty contracting services for these highly-complicated transmission facilities. The company is based out of just outside of



Houston, Texas, so they are likely to have been the contracted company of the job due to their location and size. With the timing of the storms, we can expect revenue growth to beat estimates due to seasonality smoothing from increased demand now, as well as larger operating margins. However, there is no public information on specific monetary value of the damage at this time other than estimates of total damage. I estimate a 1% increase in Operating margin with revenue growth stabilizing around 12%

for the 2017 fiscal year. Due to recent storm patterns in the past 10 years, a new ideology has formed, creating a big opportunity for Quanta Services because of their specialization. High-risk states are beginning to consider the immediate threat of storms beyond visible concerns. Their Power grids and infrastructure need to be redesigned and engineered to become more reliable in event of inclement weather. In doing so, Quanta services

will be able to capitalize on the opportunity with their engineering staff and electricity transmission specialists, providing larger margins in the future as well as utilizing the comprehensive solutions gained through M&A activity.

Company Performance:

Quanta Services business offers strong fundamentals, with significant working capital and a strong balance sheet. Compared to their closest competitors, Quanta is a top performer in EBITDA margin and NI margin, proving the management's ability to control costs and return a profit year over year. Last year, gross profit grew 9.8% compared to revenue growth of only 1%, implying the cost structuring initiatives are effective. Quanta Services has high volatility in revenue growth, likely due to the strong economic link of the business. Even still, Quanta has a historical average growth of roughly 12%. Currently, Quanta has increased their backlog year over year by 1.6%. I see this as a positive because historically, this work is completed within a few years from recognition. In this backlog is some of their larger scale projects like Wind Catcher 3, where we can expect to see a larger margin shift in the business financials. Going deeper into the segments, its hard to determine with adequate reliability what segment truly is the business driver. Both grow at similar levels and experience volatility from macroeconomic influences. One thing that must be noted, is the former COO became the CEO in March 2016, pushing for cost reduction and a growth strategy as mentioned earlier. The only financial area of concern is the account receivables holding a significant portion of Assets, but I believe that is inherent nature of long-term projects and the billing schedule of the industry.

Growth by Segment YoY			
	2014	2015	2016
Revenue			
Electric Power	-	-6.89%	1.79%
Oil and Gas	-	7.80%	-5.92%
Operating Income			
Electric Power	-	-21.74%	9.22%
Oil and Gas	-	-12.20%	4.60%

backlog year over year by 1.6%. I see this as a positive because historically, this work is completed within a few years from recognition. In this backlog is some of their larger scale projects like Wind Catcher 3, where we can expect to see a larger margin shift in the business financials. Going deeper into the segments, its hard to determine with adequate reliability what segment truly is the business driver. Both grow at similar levels and experience volatility from macroeconomic influences. One thing that must be noted, is the former COO became the CEO in March 2016, pushing for cost reduction and a growth strategy as mentioned earlier. The only financial area of concern is the account receivables holding a significant portion of Assets, but I believe that is inherent nature of long-term projects and the billing schedule of the industry.

Name (BI Peers)	Ticker	Mkt Cap	EBITDA to Net Sales LF	EBITDA Mgn 3Yr Avg	OPM LF	NI Mrgn Adj LF
Median		3.80B	4.57%	6.22%	3.10%	2.40%
100) QUANTA SERVICES INC	PWR US	5.76B	7.31%	7.41%	4.99%	2.98%
101) CHICAGO BRIDGE & IRON...	CBI US	1.66B	-33.03%	8.18%	-34.79%	-23.73%
102) FLUOR CORP	FLR US	5.73B	0.86%	6.22%	-0.33%	2.07%
103) STUART OLSON INC	SOX CN	117.05M	2.62%	3.59%	1.11%	0.23%
104) TUTOR PERINI CORP	TPC US	1.36B	3.51%	5.15%	2.73%	2.40%
105) AECON GROUP INC	ARE CN	827.99M	4.34%	5.10%	0.78%	0.14%
106) AECOM	ACM US	5.57B	4.57%	5.96%	3.10%	2.22%
107) JACOBS ENGINEERING GR...	JEC US	6.92B	6.30%	6.54%	5.11%	3.78%
108) SNC-LAVALIN GROUP INC	SNC CN	7.97B	8.99%	6.96%	7.51%	5.41%

Industry Outlook:

The overall sentiment on the Infrastructure industry and Industrial segment is rather promising. We are in a very highly priced market due to both optimism in President Trump as well as already enacted pieces of legislation. Industrials are still forecasted to grow at a rate between 6% and 14% until 2022. Energy Infrastructure specifically, is forecasted CAGR between 12% and 20%. In my estimates, I project low double digit growth around 13%, conservatively capturing overall segment growth as well as specific industry outlook. That growth estimate isn't including the lightly reported telecom segment, where CAGR estimates in North America are upwards of 70% due to the development of 5G technologies. While it is unlikely to become the driver of the business, capturing some of this segment will substantially boost revenue for the next 5 years at

least. Some drivers of the overall industry include Trump signing an executive order, which is to ease regulation in infrastructure approval, as well as provisions to pump \$1T into failing infrastructure. President Trump signed the executive order mid-august. We can expect the actual budgeting to be released post-tax reform. The easing of regulation involves shortening environmental permitting process and centralizes project paperwork. The inherent goal is to bring project approval down to 2 years from the historical mark of 7 years. Another major function of the executive order is to leverage \$200B in federal money to provide for \$1T in infrastructure spending. In my opinion, the easing of regulation is much more valuable than the boost in spending. This is because roughly 3x the amount of work will get passed through the tedious regulatory process than before. Another positive for the industry is the FERC just appointed the minimum number of members to complete the approval committee, which needs to be in place in order approve pipeline projects. Bloomberg estimated that \$50B of energy projects were being held up from the prior quorum period. In result, Quanta recently booked Wind Catcher project 3, which is the biggest project ever awarded and it was an unanticipated. Management expects many more “spontaneous” projects coming to light because of economy outlook and sentiment in the market.

Ownership Summary:

The majority holders of PWR are Investment Advisors such as Vanguard and BNY Mellon. The stock trades about \$37 million a day on average, so there is liquidity opportunities compared to thinly traded competitors. In the last year, there has been a shift to a heavier weight from hedge funds. No single holder from one of these funds owns more than 4% stake in the company though, so I don’t believe a management change is the focal point of their investment. The interest of hedge funds stems from growth prospects in the double-digit range for the next 5 years and a solid expansion strategy to achieve those results. Company insider trading is very limited, but most recent purchases have been buy orders. Even though this stock is at the higher end of a 52-week range, it offers significant value creation from company initiatives to lower OPEX and grow revenues organically and through acquisitions. The most recent analyst recommendations project a price in between \$42 - \$48 in the forward twelve months. I believe that fails to include the scale of work that will be recognized in quarter 3 from the Hurricanes.

QUANTA SERVICES INC				CUSIP
1) Current				2) Historical
3) Matrix				4) Ownership Summary
5) Insider Transactions				6) Options
7) Debt				
Compare Current Stats Against				09/01/16
Ownership Type	08/28/16	Curr ↓	Change	
11) Investment Advisor	76.44	73.36	-3.08	<input checked="" type="checkbox"/>
12) Hedge Fund Manager	11.83	14.63	+2.80	<input type="checkbox"/>
13) Bank	3.18	3.77	+0.59	<input type="checkbox"/>
14) Pension Fund	3.48	3.46	-0.02	<input type="checkbox"/>
15) Individual	1.11	1.12	+0.01	<input type="checkbox"/>
16) Brokerage	0.19	1.04	+0.85	<input type="checkbox"/>
17) Sovereign Wealth Fund		0.84		<input type="checkbox"/>
18) Holding Company	0.67	0.71	+0.04	<input type="checkbox"/>
19) Insurance Company	0.60	0.64	+0.04	<input type="checkbox"/>
20) Government	2.33	0.31	-2.02	<input type="checkbox"/>
21) Unclassified	0.03	0.05	+0.02	<input type="checkbox"/>

Conclusion:

With a positive outlook on the industry, Quanta is positioned as best in class because of their financials and overall size. They are highly capable of capturing larger project work, which will positively affect their margins and profitability. This upcoming quarter, we should expect to see positive revenue and earnings surprise partly from the relief efforts in Hurricane Harvey and possibly Irma. With stock buyback in place, dilution from M&A is not an area for concern. I think we will see a shift in project scope and inherently the business environment that Quanta deals in shift for the better. Overall, I think Quanta Services is a fairly valued company but has above average potential for double digit return in the coming 12 months.

Quanta Services, Inc. (pwr)

CENTER FOR GLOBAL FINANCIAL STUDIES

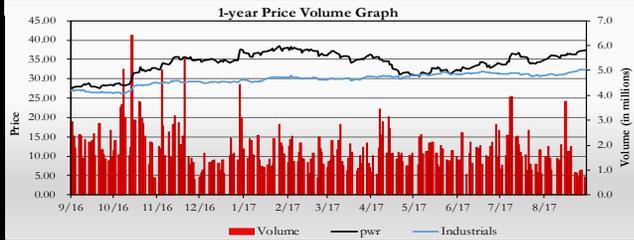
BULLISH

Analysis by Joseph Carey
9/27/2017

Current Price: \$37.59
Divident Yield: 0.0%

Intrinsic Value: \$40.96
Target Price: \$45.83

Target 1 year Return: 21.91%
Probability of Price Increase: 81.4%



Description	
Quanta Services, Inc. provides specialty contracting services to the electric power, and oil and gas industries in the United States, Canada, Australia, and internationally.	
General Information	
Sector	Industrials
Industry	Construction and Engineering
Last Guidance	November 3, 2015
Next earnings date	November 1, 2017
Estimated Country Risk Premium	7.20%
Effective Tax rate	36%
Effective Operating Tax rate	34%

Market Data	
Market Capitalization	\$5,832.85
Daily volume (mil)	0.66
Shares outstanding (mil)	155.17
Diluted shares outstanding (mil)	155.37
% shares held by institutions	91%
% shares held by investments Managers	73%
% shares held by hedge funds	10%
% shares held by insiders	0.54%
Short interest	1.87%
Days to cover short interest	1.77
52 week high	\$38.82
52-week low	\$26.97
Levered Beta	0.84
Volatility	28.96%

Past Earning Surprises	
Quarter ending	Revenue
6/30/2016	-8.09%
9/30/2016	-5.01%
12/31/2016	-4.27%
3/31/2017	4.89%
6/30/2017	0.91%
Mean	-2.32%
Standard error	2.3%

EBITDA	
6/30/2016	-43.64%
9/30/2016	-3.70%
12/31/2016	-11.29%
3/31/2017	-20.56%
6/30/2017	-12.82%
Mean	-18.40%
Standard error	6.9%



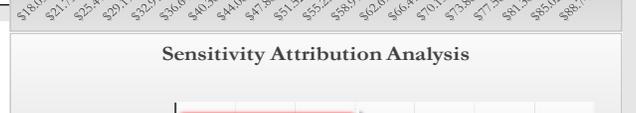
Management	
Austin, Earl	Chief Executive Officer, Pre
Jensen, Derrick	Chief Financial Officer
Morris, Jesse	Executive Vice President of
Wisembaker, Randall	Executive Vice President of
Lemon, Jerry	Chief Accounting Officer
Rupp, Kip	Vice President of Investor R

Total compensations growth	
49.28% per annum over 5y	
29.43% per annum over 3y	
-11.98% per annum over 2y	
N/M	
N/M	
N/M	

Peers	
MasTec, Inc.	
Jacobs Engineering Group Inc.	
Chicago Bridge & Iron Company N.V.	
Fluor Corporation	
EMCOR Group, Inc.	
AECOM	
Tutor Perini Corporation	
Granite Construction Incorporated	

Profitability	
pwr (LTM)	12.7%
ROIC	6%
NOPAT Margin	2.18
Revenue/Invested Capital	20.9%
Adjusted net margin	5%
Revenue/Adjusted Book Value	4.00

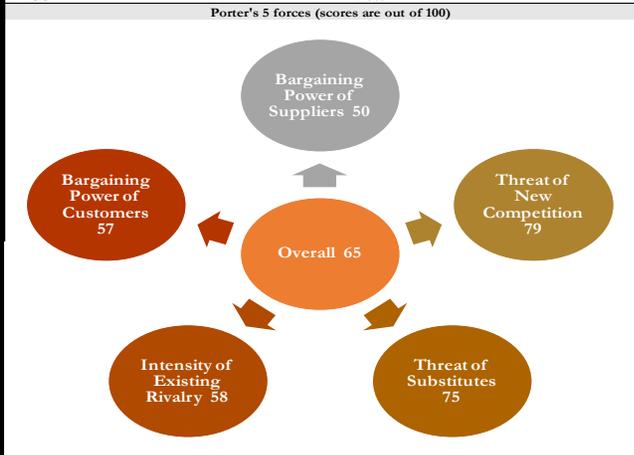
Industry (LTM)	
pwr (5 years historical average)	6.42%
ROIC	2.8%
Revenue/Invested Capital	2.28
Adjusted net margin	6.95%
Revenue/Adjusted Book Value	2.7%



Invested Funds	
Total Cash/Total Capital	1.6%
Estimated Operating Cash/Total Capital	1.6%
Non-cash working Capital/Total Capital	19.5%
Invested Capital/Total Capital	71.7%

Industry (LTM)	
Total Cash/Total Capital	3.6%
Estimated Operating Cash/Total Capital	2.7%
Non-cash working Capital/Total Capital	18.1%
Invested Capital/Total Capital	67.1%

Capital Structure	
Total Debt/Common Equity (LTM)	0.43
Cost of Existing Debt	4.48%
Estimated Cost of new Borrowing	4.62%
CGFS Risk Rating	CC
Unlevered Beta (LTM)	0.69
WACC	7.86%



Revenue growth	
Base Year	16.0%
6/30/2018	10.2%
6/30/2019	7.1%
6/30/2020	6.7%
6/30/2021	6.3%
6/30/2022	5.9%
6/30/2023	5.5%
6/30/2024	5.1%
6/30/2025	4.7%
6/30/2026	4.3%
6/30/2027	3.9%
Continuing Period	3.5%

Valuation	
NOPAT margin	5.8%
ROIC/WACC	1.61
	1.47
	1.49
	1.42
	1.43
	1.44
	1.45
	1.45
	1.46
	1.47
	1.48
	1.38

Invested Capital	
Base Year	\$2,856.74
6/30/2018	\$3,075.08
6/30/2019	\$4,127.60
6/30/2020	\$3,494.23
6/30/2021	\$3,916.41
6/30/2022	\$4,535.57
6/30/2023	\$5,152.98
6/30/2024	\$5,754.19
6/30/2025	\$6,115.03
6/30/2026	\$6,468.54
6/30/2027	\$6,811.97
Continuing Period	

Net Claims	
Base Year	\$2,144.37
6/30/2018	\$2,179.34
6/30/2019	\$2,078.35
6/30/2020	\$1,703.85
6/30/2021	\$1,281.31
6/30/2022	\$808.31
6/30/2023	\$282.76
6/30/2024	-\$297.05
6/30/2025	-\$932.39
6/30/2026	-\$1,624.02
6/30/2027	-\$2,372.18
Continuing Period	