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In this edition of the Value Seeker Report, we analyze an investment opportunity in Vulcan Materials Company (NYSE: VMC) using fundamental and technical analysis.

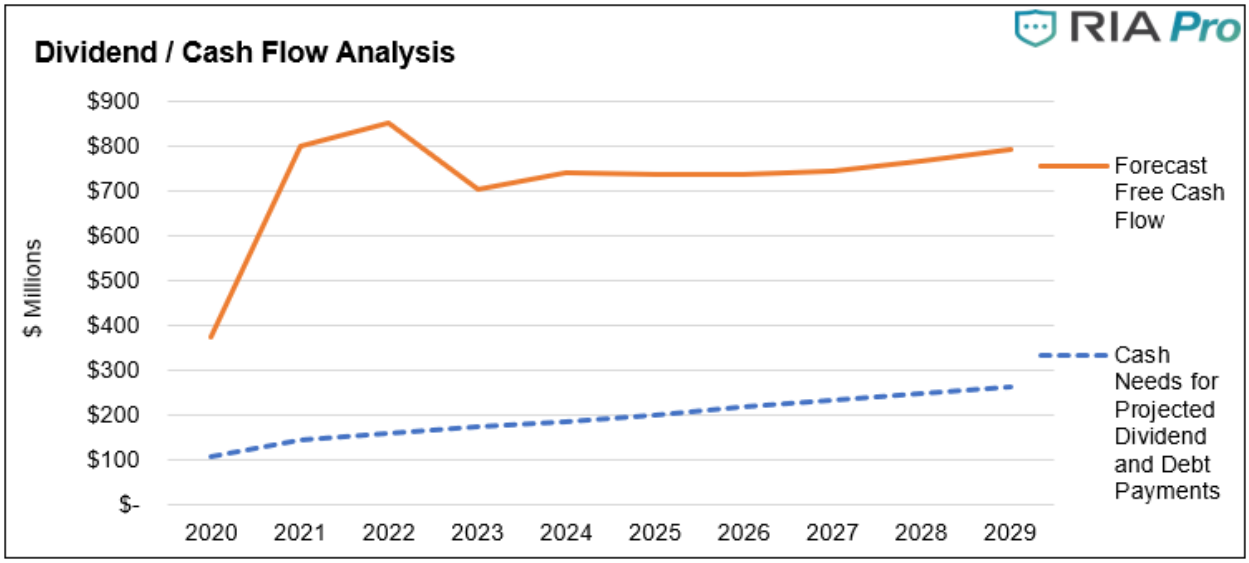
Overview

- Construction aggregates form the backbone of much of the infrastructure making up today?s world. Headquartered in Alabama, Vulcan Materials Company (VMC) is the leading producer of construction aggregates in North America, primarily dealing in crushed stone, gravel, and sand.
- Beyond aggregates, VMC produces other construction inputs like asphalt mix, ready-mixed concrete, and paving materials. The firm reports revenue in four segments: Aggregates (74.4%), Asphalt Mix (17.4%), Concrete (8%), and Calcium (0.2%).
- In 2019, 56% of aggregate shipments by volume went to serve private construction projects, while the remaining 44% were used in publicly funded construction projects.
- VMC belongs to the Materials sector and has a market cap of $18.8B.
- VMC?s stock is currently trading at $138.82 per share. Using our forecasts, we arrive at an intrinsic value of **$136.16** per share. Although you could say the stock is trading near fair value, this implies *downside* of 1.9% on the investment.

Pros

- With the Georgia Senate run-off elections still underway, there is a chance the US Senate turns blue. This would likely mean a large stimulus package including a healthy dose of infrastructure spending. However, if the Senate remains red, the chance of a large stimulus package becomes much smaller.
- Regardless of the outcome of the Senate run-offs, the low interest rate environment induced by the Fed in response to the pandemic could stick around longer than intended. The Fed?s willingness to temporarily let inflation ?run hot? in recovery serves as reinforcement for this idea. In this scenario, we would expect a greater number of new construction projects in both the public and private sectors of the economy. Needless to say, this would be very beneficial for VMC.
- In the context of all the above, VMC maintains ownership of its mineral mines and controls the production, distribution, and final sale of its products. In a low interest rate environment with inflation running hot and nothing to combat it, VMC stands to see margin expansion due to revenue growth outpacing cost inflation.

- VMC pays a quarterly dividend, which totaled to $1.36 per share in 2020. This is an improvement from $1.24 per share in 2019, $1.12 per share in 2018, and $1.00 per share in 2017. All else equal, investors stand to see more dividend hikes down the road based on this trend. The stock?s current dividend yield is 1%.
- As shown below, our forecasts indicate that VMC will earn the cash flow necessary to continue raising its dividend at the historical rate.



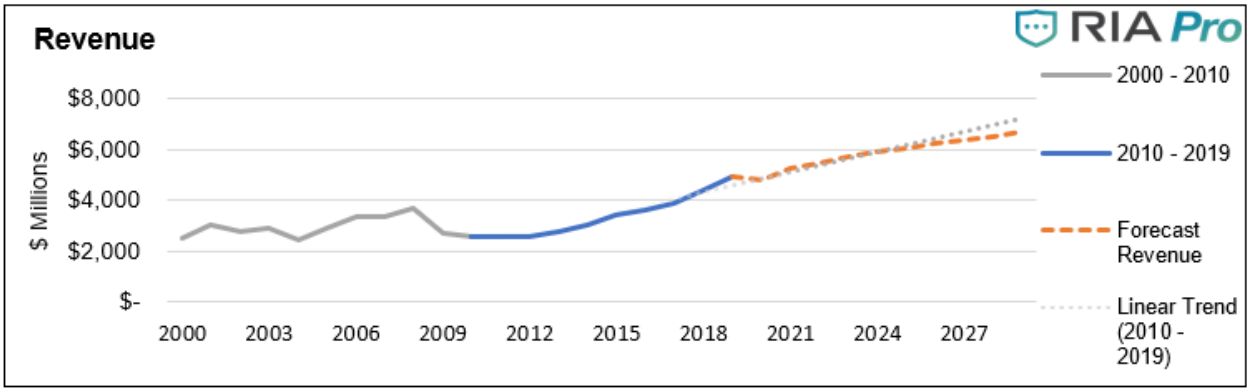
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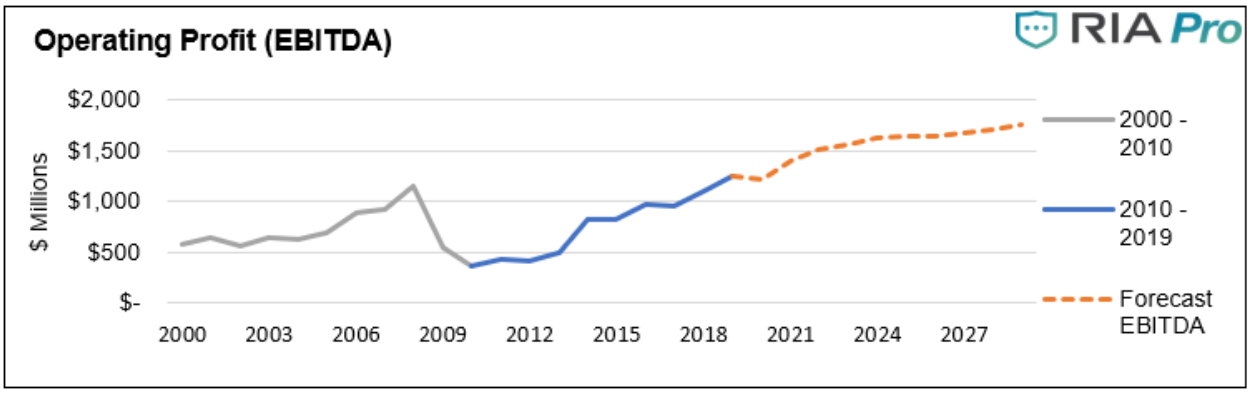
- VMC is highly exposed to weather patterns, and its operations could be adversely affected by increasingly common instances of flooding and wild fires across the US. This could result in damaged revenue growth and lower margins due to the high operating leverage employed in the industry.
- Returning to the topic of cost inflation, although VMC maintains ownership of its raw materials in the ground, the company still relies on heavy machinery, equipment, and personnel to extract those inputs. Despite the firm?s efforts to expand margins, unexpected cost inflation could spell bad news for VMC. At the very least, it could render the stock less effective as an inflation hedge.

Key Assumptions

- Our base assumptions stem from the more conservative of the macro possibilities we have outlined. We assume the Georgia Senate remains red, resulting in a modest stimulus package, and that inflation will be present but will not ?run hot?.
- Revenue growth for 2020 is based on three quarters of results as well as guidance delivered by Management in VMC?s third-quarter conference call. We assume growth in 2021 will be substantial due to a combination of inorganic growth by acquisition and organic growth from convincing economic recovery in a low rate environment. The chart below illustrates our revenue forecasts in relation to historical results.
- We forecast operating margins for 2020 to remain flat year-over-year, then improve as economic recovery gets some legs. However, margins will not remain at this level indefinitely. We forecast EBITDA margin to fall slightly to a long-term forecast over the period from 2025-2027 due to the cyclical nature of the Sector. The chart below puts our forecasts of EBITDA in historical context.
- VMC traditionally employs a tack-on-acquisition strategy to expand within its highly fragmented industry, and we expect this strategy to continue in the future. Thus, cash

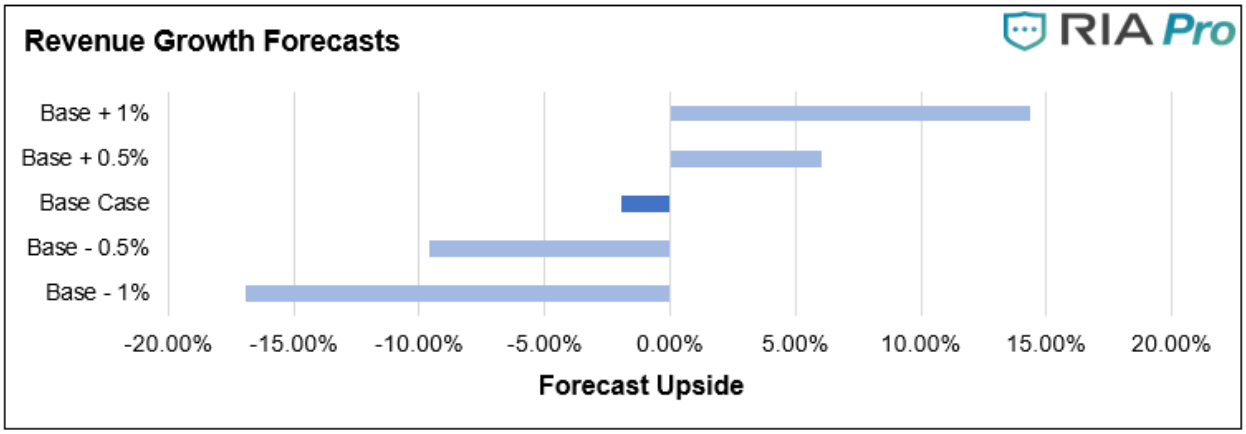
acquisitions are forecast using the 5-year historical average as a starting point; adjusted slightly lower to incorporate our expectations of the future.

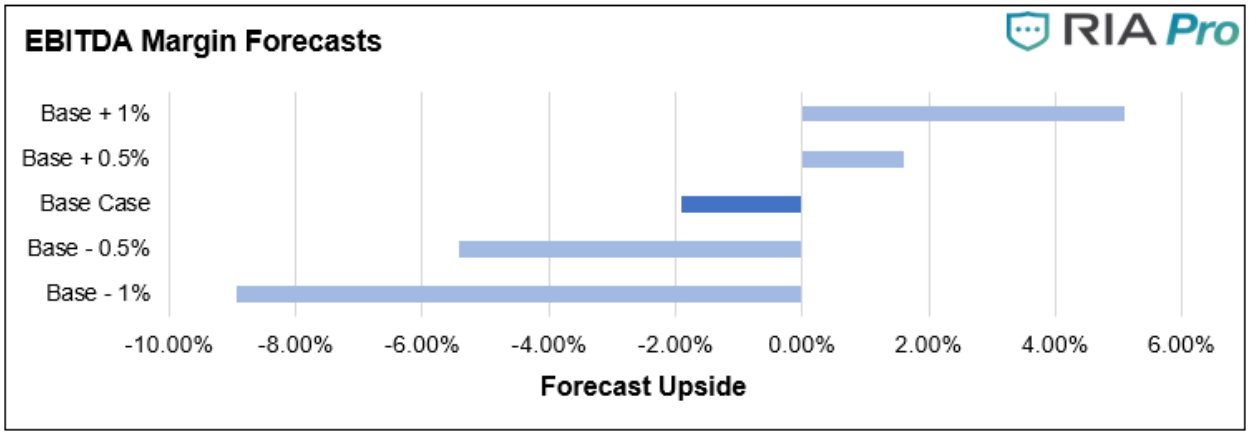


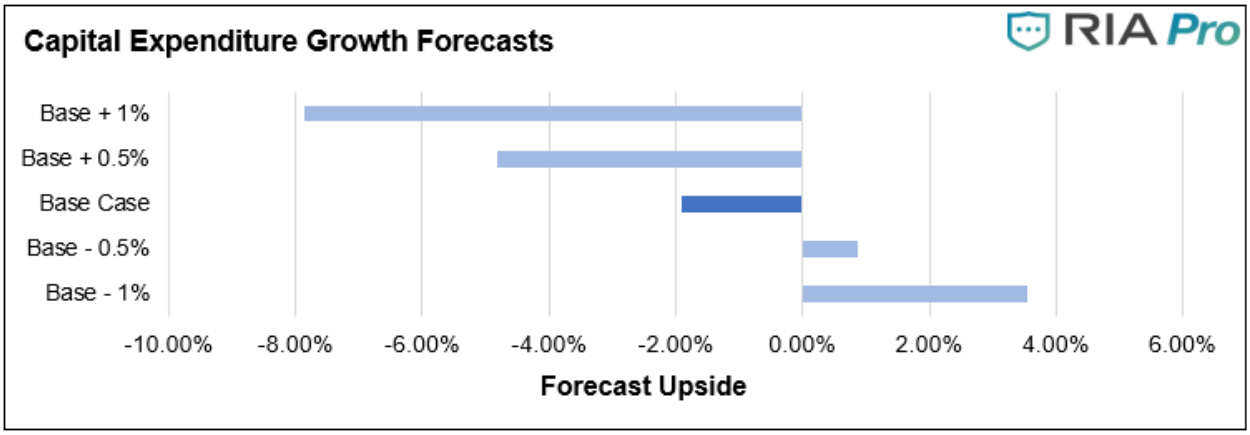


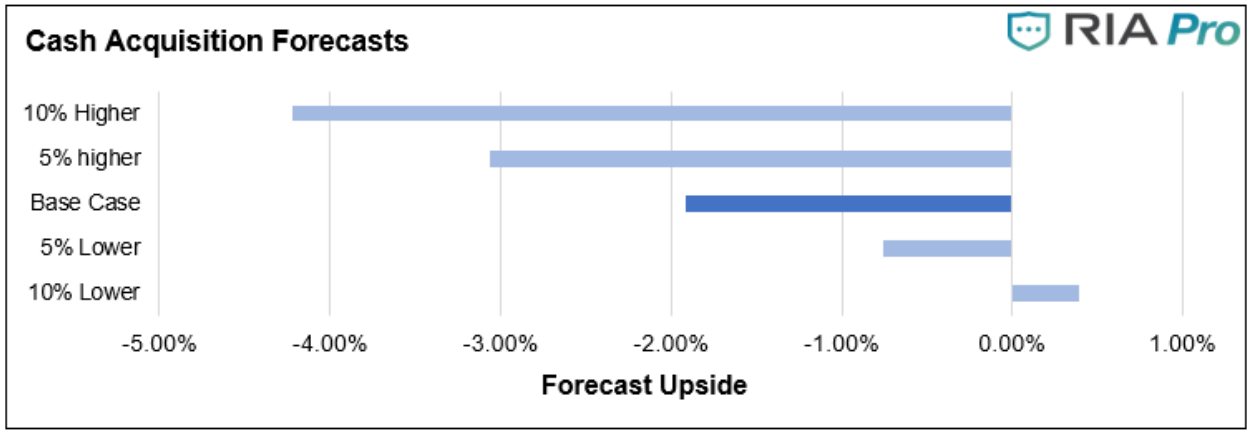
Sensitivity Analysis

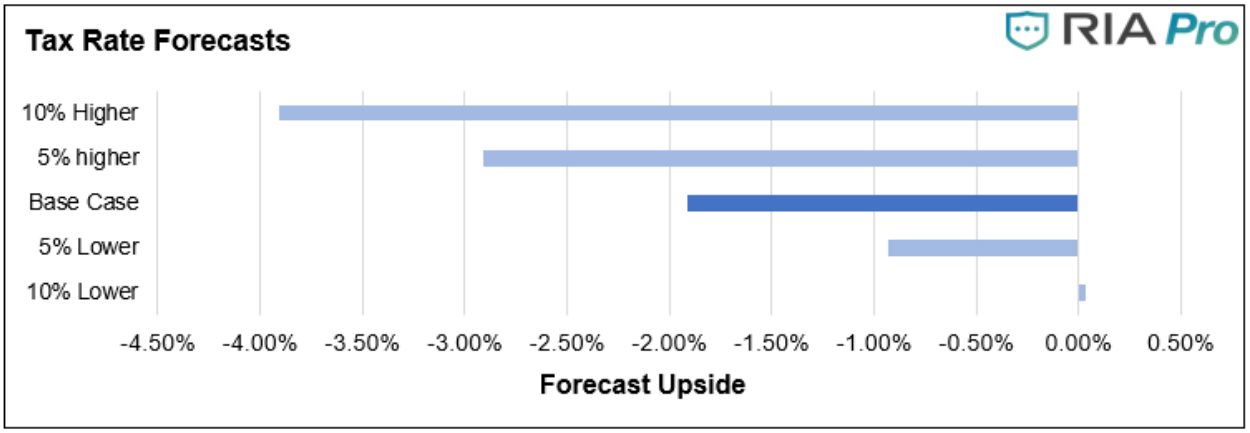
- A brief note on why we present sensitivity analysis can be found here.
- Our sensitivity analysis is especially helpful in the context of this analysis. If the US were to experience a period of relatively high inflation, we see that the stock quickly gains upside.
- Another important uncertainty lies in our cash acquisition forecasts. Based on its inorganic growth strategy, the stock?s intrinsic value will suffer if VMC makes less-than-ideal acquisitions.

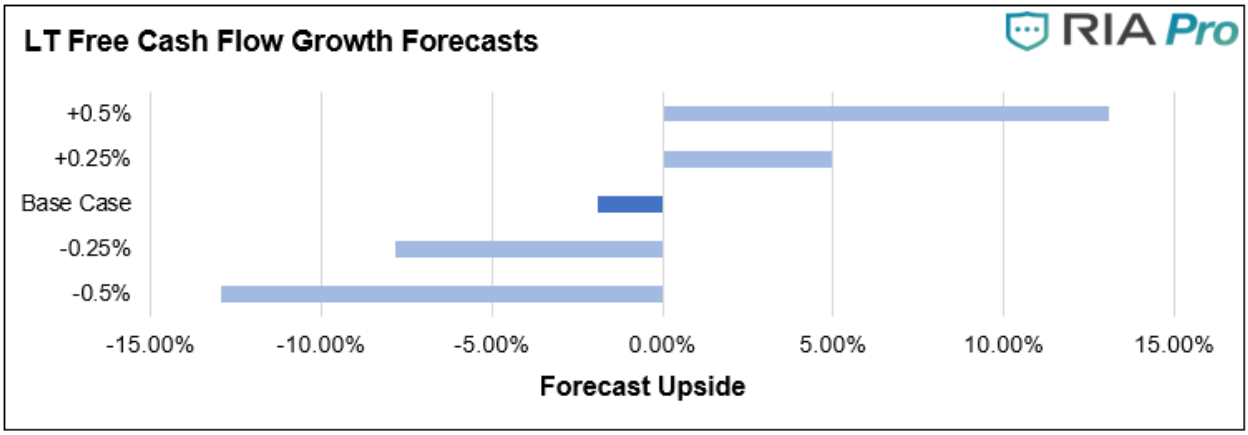



EBITDA Margin Forecasts
RIA Pro
Base + 1%
Base + 0.5%
Base Case
Base - 0.5%
Base - 1%
-10.00%
-8.00%
-6.00%
-4.00%
-2.00%
0.00%
2.00%
4.00%
6.00%
Forecast Upside


Capital Expenditure Growth Forecasts
RIA Pro
Base + 1%
Base + 0.5%
Base Case
Base - 0.5%
Base - 1%
-10.00%
-8.00%
-6.00%
-4.00%
-2.00%
0.00%
2.00%
4.00%
6.00%
Forecast Upside


Cash Acquisition Forecasts
RIA Pro
10% Higher
5% higher
Base Case
5% Lower
10% Lower
-5.00%
-4.00%
-3.00%
-2.00%
-1.00%
0.00%
1.00%
Forecast Upside


Tax Rate Forecasts
RIA Pro
10% Higher
5% higher
Base Case
5% Lower
10% Lower
-4.50%
-4.00%
-3.50%
-3.00%
-2.50%
-2.00%
-1.50%
-1.00%
-0.50%
0.00%
0.50%
Forecast Upside



Technical Snapshot

- Since early November, VMC had been riding its 50-dma higher? until the last few trading days. The stock has now convincingly broken below its 50-dma, with a level support sitting near $133 per share.
- Alongside the recent break down in the trend, VMC is approaching oversold levels. For investors looking to initiate a position, it may be wise to wait for their preferred stochastic indicator to turn upwards before doing so.

Value Seeker Report Conclusion On VMC

- While we believe VMC is currently trading near intrinsic value, the stock may do well as an inflation hedge in some portfolios. The story for this stock is not-so-much about company specific characteristics as it is about VMC?s position within the economy. With that being said, VMC?s vertically integrated operations do enable its value proposition in this case as an inflation hedge.
- Based on our forecasts, VMC has 1.9% of downside before reaching its intrinsic value.

Fundamental Ratios	
Price / Sales TTM	3.77
Price / Earnings TTM	29.25
Current Ratio (Quarterly)	2.12
Quick Ratio	1.62
Times Interest Earned (TIE) Ratio TTM	6.8

Latest Report Date	Ticker	Last Close Price	Intrinsic Value	Forecast Upside Remaining	Original Conviction Rating	Current Conviction Rating	Currently Held in RIA Pro Portfolio?	Notes
8/6/2020	T	$ 30.69	$ 38.09	24.1%	3-Star	2-Star	No	
8/13/2020	XOM	$ 44.01	$ 55.42	25.9%	3-Star	2-Star	No	
8/28/2020	VIAC	$ 35.87	$ 36.70	2.3%	4-Star	2-Star	No	

9/3/2020	DOX	$ 66.49	$ 76.76	15.4%	3-Star	3-Star	No	
9/11/2020	CVS	$ 72.21	$ 85.35	18.2%	3-Star	3-Star	Yes	
9/18/2020	PETS	$ 29.63	$ 41.14	38.8%	3-Star	3-Star	No	
9/24/2020	SPB	$ 69.23	$ 61.18	-11.6%	4-Star	4-Star	No	Price Target Achieved
10/2/2020	DKS	$ 54.59	$ 68.76	26.0%	4-Star	4-Star	No	
10/9/2020	WCC	$ 71.69	$ 61.42	-14.3%	4-Star	4-Star	No	Price Target Achieved
10/30/2020	KMI	$ 14.79	$ 13.98	-5.5%	3-Star	3-Star	No	Price Target Achieved
11/6/2020	FANG	$ 49.94	$ 36.32	-27.3%	3-Star	3-Star	No	Price Target Achieved
11/20/2020	RTX	$ 72.98	$ 68.34	-6.4%	4-Star	4-Star	Yes	
12/4/2020	CSOD	$ 43.68	$ 49.80	14.0%	2-Star	2-Star	No	
12/11/2020	VMC	$ 137.76	$ 136.16	-1.2%	2-Star	2-Star	No	

*Our conviction rating aims to express the intensity of our feelings toward the stance taken in each report. Reports are assigned a rating from 1 to 5 stars.

For the Value Seeker Report, we utilize RIA Advisors? Discounted Cash Flow (DCF) valuation model to evaluate the investment merits of selected stocks. Our model is based on our forecasts of free cash flow over the next ten years.