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HOLDING: MASTEC INC (MTZ)

What the bulls say:

- MasTec Inc has consistently showed strong growth in 2017 with the latest quarter, 3Q17, recording an increase of 23% in net revenue over the same period last year. In addition, the company's raising full year guidance 3rd time in the latest quarterly earning call is a positive signal for those who have invested in the company.
- It recently won 2 massive contracts in Oil & Gas segment and Communication segment that are worth in total $2.5 billion and is expected to start the projects as of the beginning of 2018. These new sources of future revenue, along with the record high amount of backlog expected at the end of 2017, are key factors to sustain MTZ's financial health and ability to grow.
- The company's effective tax rate has been around 40% that is even higher than the current corporate tax base of 35% and has bitten up its profit margins. With the new corporate tax provision that is widely expected to cut the tax rate to down to 20% is in reconciliation process between the separate bills pass by the House and the Senate, the industrials sector in general and specifically MasTec Inc should be major beneficiaries of the new tax bill if it is passed.

What the bears say:

- The record high levels in revenue and earnings and the fact that the company keeps raising guidance over the last few quarters may skyrocket investors' expectations in a company operating in a highly cyclical industry and just a slightly lower-than-expected quarter result is likely to trigger a major sell-off of MTZ's shares.
- The era of easing monetary policy is about to end as FED is expected to raise interest rate again in this December. While MTZ currently has low debt on its balance sheet, if it needs to borrow in future for capital expenditure that may be vital to meet the demand of the growing Communication segment, the interest payment may cut into the firm's net profit margin that is currently around 3.8%

Risks:

- The industry MasTec is doing business is fiercely competitive. Despite being one of the largest industrials construction company in the US, a misstep in operating or M&A strategies may jeopardize its position in the industry and capability to sustain growth in long run. The capital-intensive nature of the Industrials sector requires fairly large amounts of capital expenditure regularly and may dampen the firm's ability to raise profit margins.
- MasTec is operating primarily in the 3 countries in North America. Even though the Mexican government recently has passed laws to stimulate investments in the energy sector, the political risk from American-first policy of the current administration in the US may discourage energy companies in Mexico to offering contracts to MasTec Inc. The business activities in Canada

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has been disappointing as it is noted by the company's management in the latest earnings call. They also have little confidence in the situation improvement in short run.

4 reasons to buy/sell:

1. MasTec Inc.'s revenue has grown 31.65% YoY for 12 months ending 3Q17, easily outperforming the Construction Services industry. In addition, the amount of backlog for the next 18 months is forecast to exceed a record of $6 billion will guarantee its ability to sustain high growth in a foreseeable future.
2. As one of the leading companies in the Industrials industry in North America, MasTec Inc has major edges over other competitors in terms of expertise and capacity to bid for new massive projects, especially in the wireless business in which a surge of the innovative 5G technology is imminent. The Power Generation segment is also poised to grow in coming years too largely thanks to increasing demand for the pipeline business in the US. The 2 segments in total account for approximately 84% of MTZ's annual revenue, so healthy top-line growth in these 2 segments will be key factors to boost its share price.
3. The firm's absurdly high effective tax rate, currently around 40%, severely cuts into its profit margins. The new tax bill with much more market-friendly corporate tax provision that will lower the current rate from 35% to 21% has been pushed aggressively by both Houses of the U.S Congress. If the bill is signed into law, industrials construction and service companies like MTZ will become major beneficiaries.
4. The company's valuation is fairly cheap compared to the US equity market and the industrials industry average. This allows investors to buy its shares at a fairly discount that is approximated around 10% given its potential of 2-digit growth of revenue and earnings next year as it has been achieving this year. This company's stock can be considered a good choice for investors to hedge against

Recommendation:

We recommend a BUY rating on MTZ.

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