MasTec, Inc. (NYSE: MTZ)

Recommendation: Buy

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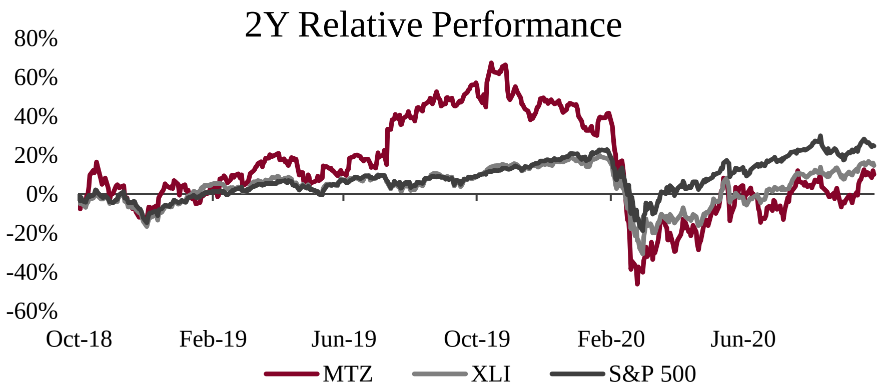

Investment Thesis

We believe with MasTec's favorable industry positioning, their strategic business initiatives, and their opportune valuation that MasTec is a buy.

Business Overview

MasTec is a leading specialty contractor for a variety of industries with over 90 years of industry experience. The company specializes in maintenance, installation, building, and upgrading of oil and natural gas infrastructure (mainly pipeline), wind farms, solar farms, renewable energy infrastructure, electrical utility transmission and distribution, and communications infrastructure. The company earns revenue through either single projects or recurring master service agreements (MSAs).

Industry Overview

Understanding total public and private spending is imperative for gauging the current condition of the Industrials sector. In figure one, we see that total private spending has had a strong rebound from a large period of decline. Total public construction spending has decreased, but it tends to lag the private sector. MasTec services various end markets: Electrical Transmission, Communications, and Energy. Electrical transmission can be gauged with US utility capital expenditures. Utility capex is reported to increase in 2020 and slightly decrease in 2021. A major event in the communications segment is 5G initiative. The amount of 5G connections is projected to grow by over 150 million from 2018 to 2025. Finally, US Energy production is project to grow from 2019 to 2024. Looking closer at the energy segments, renewables and natural gas are the fastest growing segments. Petroleum is predicted to have a positive growth rate. Nuclear energy and coal are both predicted to decline. Due to natural gas's higher hydrogen-to-carbon ratio, when compared to other fossil fuels, natural gas will be competitive for lower emission mandates and incentives.

MasTec

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Current Price: $49.23

Market Cap: 3.63B

P/E: 12.4x

EV/EBITDA: 4.4x

Beta: 1.36

Price Target: $60.91

Upside: 23.7%

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Favorable Industry Position

After establishing the high growthkey trends in industrial sector, we can see that MasTec is positioned to capitalize off of them. In the highly competitive industrials sector, strong core customers are crucial for success and provide value for the investor. Looking at MasTec's top 10 revenue contributing clients, one is able to see how they are postioned to capitilize off of industry trends. One of MasTec's longest standing clients is AT&T. AT&T, a leading telecomminicaitons company, is heavily investing in the 5G build out. Recently, AT&T won the contract for FirstNet, a network for first responders. AT&T is planning on investing around ~$40 billion throughout the lifetime of the project and the US government is also planning on contirbuting ~$6.5 billion. MasTec is aiding in the FirstNet build out already. MasTec's vast geographic reach heavily complements the scope of FirstNet's goal to build out networks in all 50 states. AT&T's relationship opens the door for lucrative opportunites. AT&T is not the only telecommunications company MasTec is working with. Comcast and Verizon are also employing MasTec's expertise in the industry, and both companies have their sights set heavy on 5G build out. Internet of Things (IoT) and smart cities are also high growth opportunities MasTec will be able to capitlize off of with their communications segement. Looking at the previously mentioned energy trends, natural gas and renewable energy are the future of energy commodities.

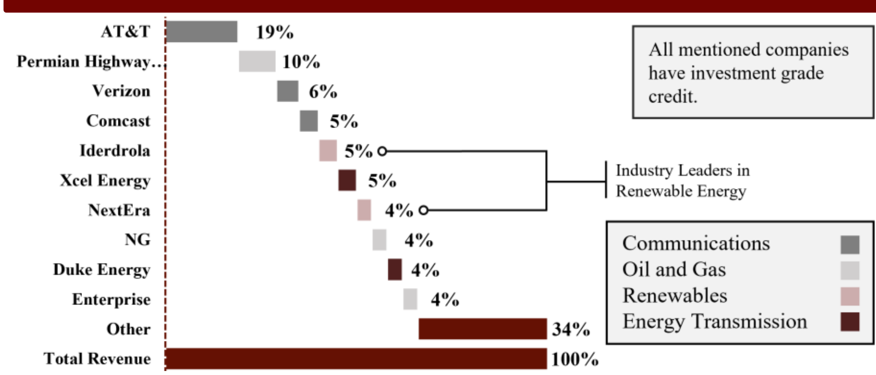
Figure 1.

Company	Quarters	Company	Quarters
EQT	6	EPIC Y-Grade	5
AT&T	8	Plains Holdings	2
Energy Transfer	7	Kinder Morgan	4
Enterprise	3	Phillips 66	4
Verizon	8	Iderdrola Group	5
Comcast	4	Next Era	4
Duke Energy	7	NG	2
American Electric Power	1	Permian	2
Southern Company	4	Excel Energy	2

Figure 1. shows companies that have been in MasTec's top 10 and the amount of quarter they were in the top 10 since Q2 FY2018.

MasTec has been working with the Iderdrola and NextEra energy companies for past 5 and 4 quarters, respectively. Both of those companies are industry leaders at the forefront of renewables. This poses a significant growth oppuruntty for MasTec. Looking to future energy trends, the majority of energy production growth will be fueled by natural gas and renewable energy. Those two commodities will be competing with eachother, and MasTec is selling its services to both of them. A good amount of their top 10 customers have been natural gas pipeline companies. Even though management has guided for the oil and gas revenue segment to flatline through the next couple of years, MasTec's expertise in natural gas will allow them to remain competitve in an uncertain endmarket. Changes in energy and telecommunications need the infrastructe to support them. MasTec is well positioned to aid the electrical power transmission industry as it keeps up with modern changes. Having strong industry leaders as clients is important, but if those companies are not financially sound, they do not nearly give as much value. All top 10 clients have investment grade credit. With

Figure 2. Top 10 Clients for 2Q FY2020



the world trending towards a cleaner, digitized future, MasTec will not only not be left behind, but also pioneer the implementation.

Strategic Business Initiatives

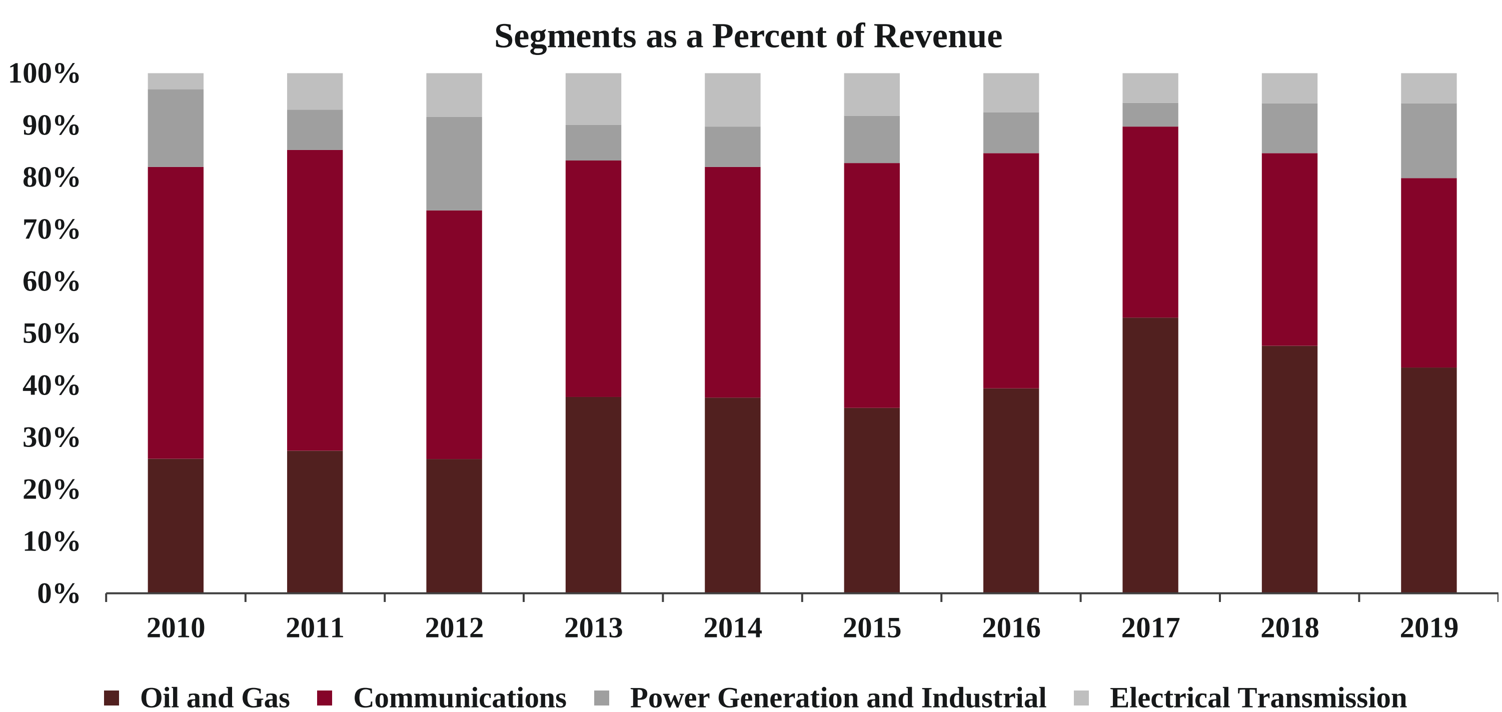
By looking at their past business portfolios, it is evident that MasTec is changing the business they target. Since 2017, the share of revenue inhabited by the Oil and Gas segment has been steadily decreasing while Power Generation and Industrial and Communications sectors have been increasing their share of revenue. This is benefitial for MasTec because they are activiely pursuing the industry trends. In their Q2 earnings call for FY2020, MasTec announced they are renaming their "Power Generation and Idustrial" segmnet to "Clean Energy and Infrastructure." The renaming acts as a rebrand to MasTec's business focus. CEO Jose Mas highlighted their clean energy initiaves with the comment: "we expect continued growth in 2021 and believe that, by 2022, [Clean Energy and Infrastructure] will exceed the size of what our Oil and Gas segment is today." Currently, we believe investors are wary of companies with ties to oil. MasTec does have ties to oil, but their exposure is very small. For the revenue generated in the past three years, only 6% on it has come from oil related ventures. In the industry a backlog is consisted of 18 months of future plannes revenues. MasTec announced record backlog levels, especially in their oil and gas segment (~$2.7 B). This secures their footing for the near future as pessimism and uncertianty about oil will starve the smaller competitors in the space. Their backlog also shows immense growth and demand from their clean energy and communicaitons segments as well, indicating that the company is moving further into that space. MasTec's ability to grow organically (44% percent of the revenue increase from 2007 to 2020 is due to organic growth) and their new emphasis on MSAs highlight the development of company's sustainable business model. MasTec's ability to pivot in with current industry trends and new focus on clean energy and business sustainability will drive the company's future growth.

Figure 3. Current Backlog

Segment	Backlog (Billions)
Oil and Gas	2.659
Clean Energy	1.042
Electrical Transmission	0.551
Communications	3.915
Total	**8.168**

MasTec defines a backlog as planned future revenue for the next 18 months.

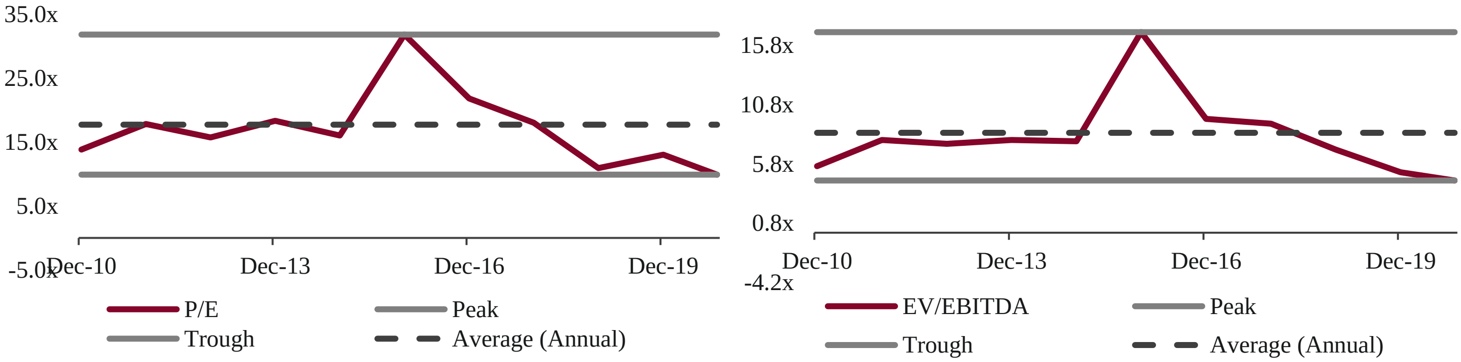
Figure 4.



Opportune Valuation and Timing

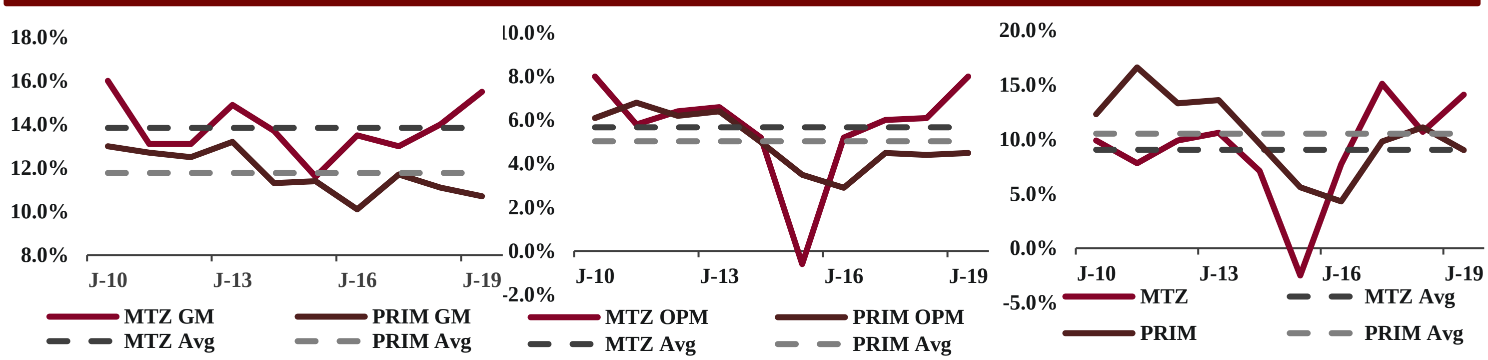
Building off the various sector and end market trends discussed above, as well as the strategic initiatives being taken by MasTec, MTZ shares are currently trading at a discount. From a valuation perspective, the current environment represents a prime opportunity for investment. As illustrated by the graphs below (See Figure 5.), MTZ is currently trading at a substantial discount to its historical averages and peaks over the past ten years on both a P/E and EV/EBITDA multiple basis. MasTec's current annual P/E ratio as of 10/20/2020 sits at 12.5x while the historical average over the past ten years was 17.7x. As for EV/EBITDA MTZ's current annual EV/EBITDA multiple is at 4.4x compared to a ten-year historical average of 8.4x. With both metrics having fallen from peaks back around 2015 due to overvaluation and poor operational performance, there is ample room for expansion in both multiples and reversions towards their mean values. MTZ is currently trading at a discount likely due to negative investor sentiment on the engineering & construction space, as well as concern over the future of oil & gas which makes up a large portion of MasTec's revenue. However, now represents an opportunistic chance to buy with MTZ's gross, operating, and EBITDA margins (See Figure 6.) above ten-year historical averages due to strong recent performance of the company. Margins have been incrementally increasing since between 2014-2016. Additionally, MasTec's ROIC has followed suit when compared to ten-year historical averages as well (See Figure 6).

Figure 5. 10 Year Multiple Performance



While MTZ is currently undervalued relative to historical data, they have also posted recent success in the form of earnings, even despite disruptions from COVID-19, energy underperformance, and a changing rate environment. MasTec beat expectations on revenue, EBITDA, and EPS in 2Q20, with Adj. EBITDA and Adj. Diluted EPS beating highest expectations by over $100m and ~$0.15. They hold a favorable liquidity position with a strong balance sheet, having grown free cash flow from operations despite paying down debt, share repurchases, and M&A spend. Leverage is currently around 1.6x in their target range. In addition, see the comparable companies' analysis below for a further look at how MTZ is also trading more favorably than their competitors.

Figure 6. Gross Margin, Operating Margin, Annual ROIC for MTZ vs PRIM



Risks

1. End Market Underperformance.

If MasTec's end markets, such as reneable energy, underperform, then MasTec will not appreciate in as much value as expected.

2. Inability to Capitalize on Organic / Inorganic growth.

If MasTec is unable to capitalize on organic and inorganic growth through opprutnue acquisitions and focusing on its on core businesses, then they will lose market share.

3. Underperformance diminished value Proposition.

Since we are proposing switching out PRIM with MasTec, MasTec's underperformance diminishes that value proposition.

4. PRIM Takes MTZ market Share.

PRIM is a direct competitor to MTZ. If PRIM takes market share, we will not only see depriciation with MTZ's value, but also PRIM's appreciation which will result in an opportunity cost to our portfolio.

Catalysts

1. Beat on Q3 FY2020 Expectations

A beat on the next quarter's expectation will appreciate MTZ's value.

2. Infrastructure Bill / Stimulus

Because MTZ is heavily tied in with infrastructure, a Bill would increase their business activity and appreciate their value.

3. Major Project Updates (DAP, 5G)

Increased color on major projects such as DAP and 5G will give more risk-averse investor greater optimism on MTZ's performance.

4. Presidential Election (Biden GND, Trump O&G)

The presidential could appreciate MTZ's value. If Biden wins, then MTZ's renewable energy segment will see growth. If Trump wins, MTZ's oil and gas sector will capitalize off of possible incentives.

Discounted Cash Flow Analysis Model

For the management case scenario, our DCF yielded a target share price of $60.91, giving a 23.7% upside. The model projects out the different revenue segments. The assumptions are based off of industry research and management guidance. This includes: the clean energy sector growing to the size of current day oil and gas sector in 2022, communications have the same renevue in the last part of 2020 as the first, and oil and gas ending the year with $2.3 B in revenue. Management also gave us guidance on topline revenue and EBITDA, we used those to keep our assumptions inline with each other. The assumptions in the model, at their core, are based off the MasTec's potential to prosper in the high growth communications and energy trends.

Figure 4.

General Assumptions	
Share price as of Last close	$ 49.23
Latest closing share price date	10/22/2020
Basic shares outsdanding	75
Diluted shares outstanding	76
Weighted Average Cost of Capit	**10.5%**

EV/EBITDA Multiple

WACC	1.4x	1.9x	2.4x	2.9x	3.4x	3.9x	4.4x	4.9x	5.4x	5.9x	6.4x	6.9x	7.4x
8.0%	-23%	-13%	-2%	8%	18%	28%	38%	49%	59%	69%	79%	90%	100%
8.5%	-25%	-15%	-5%	5%	15%	25%	35%	45%	55%	65%	75%	85%	95%
9.0%	-26%	-17%	-7%	3%	13%	22%	32%	42%	52%	61%	71%	81%	91%
9.5%	-28%	-19%	-9%	0%	10%	20%	29%	39%	48%	58%	67%	77%	86%
10.0%	-30%	-21%	-11%	-2%	7%	17%	26%	35%	45%	54%	63%	73%	82%
10.5%	-31%	-22%	-13%	-4%	5%	14%	23%	32%	41%	51%	60%	69%	78%
11.0%	-33%	-24%	-15%	-6%	3%	11%	20%	29%	38%	47%	56%	65%	74%
11.5%	-35%	-26%	-17%	-9%	0%	9%	18%	26%	35%	44%	52%	61%	70%
12.0%	-36%	-28%	-19%	-11%	-2%	6%	15%	23%	32%	40%	49%	58%	66%

Free Cash Flow Build	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/30/2020	12/30/2021	12/30/2022	12/30/2023	12/29/2024
EBIT	266	399	422	575	506	589	679	745	791
Income Tax Expense	92	23	106	117	104	124	145	161	172
EBIAT	358	421	528	691	609	713	825	906	963
Add: Depreciation and Amortizati	165	188	213	235	282	291	297	318	332
Less: Change in working capital	117	335	86	92	(95)	134	169	128	90
Less: Capital Expenditures	117	123	180	126	175	210	229	230	243
Unlevered Free Cash Flow	288	151	475	708	811	660	724	866	963
Time until cash flow					1.00	2.00	3.00	4.00	5.00
Present value of FCF					734	541	537	582	586

Exit Multiple Approach	
Terminal year EBITDA	1,123
Terminal value EBITDA multiple	4.40x
Terminal value	4,943
Present value of terminal value	3,006
Present value of stage 1 cash flov	2,979
Enterprise value	**5,985**

EMM Valuation	
Enterprise Value	5,985
Less: Net Debt	1,361
Less: Minority Interest	4
Equity Value	4,620
Diluted Shares Outstanding	76
Equity Value Per Share	**$60.91**
Implied Upside	23.7%

WACC	
Beta	1.36
Risk Free Rate	0.8%
ERM	10.0%
Market Value of Equity	3,734
Weight of Equity	72.3%
Cost of Equity	**13.3%**
WA Interest rate	3.9%
Tax Rate	22.9%
Value of Debt	1,432
Weight of Debt	27.7%
Cost of Debt	**3.0%**
Calculated WACC	**10.5%**

Weighted Average Interest Rate (LTD)	
400	4.850%
400	3.050%
339	3.500%
301	4.100%
1,440	3.875%