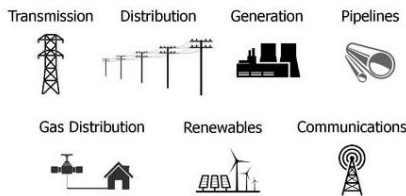


Quanta Services (NYSE: PWR)

Quanta Services (PWR) is an American corporation that provides infrastructure services for electric power, pipeline, industrial and communications industries. Capabilities include the planning, design, installation, program management, maintenance and repair of most types of network infrastructure. In short, PWR builds utility infrastructure. They are mostly in the electric distribution and transmission business with significant exposure to gas.

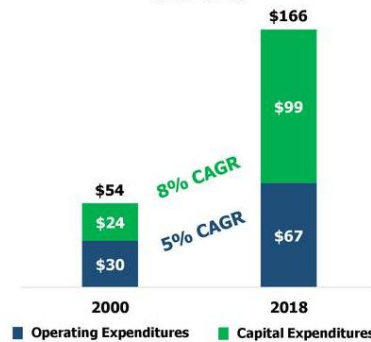
Transition to Advanced Utility Model Has Driven Spending

Advanced Integrated Utility Model



- Heavy investment focus on transmission and distribution
- Reduced fossil fuel generation investment in favor of renewable generation
- Electric utilities acquiring gas utilities for grid modernization/growth opportunities
- Aging utility workforce and historically high spending increasing outsourcing – estimated to increase to >50% over next 5 years⁽²⁾
- Some utilities investing in mainline pipeline infrastructure
- Expanding service territory via M&A

Top 25 Quanta Utility Customers in 2018⁽¹⁾
(\$ in billions)



MULTI-YEAR GROWTH FROM VIBRANT END MARKETS & QUANTA'S STRATEGIC ALIGNMENT

7 (1) Utility customer data from S&P Capital IQ. (2) Sources: Consultant and industry sources. QUANTASERVICES.COM

Quanta Services Business – Source: [Investor Relations](#)

The utilities have high capital investment programs forecasts and thus there should be a lot of work ahead for PWR.

Continued Multi-Year Growth Opportunity

- Utilities continue to shift capital investment towards electric transmission and distribution infrastructure, with increasing focus on gas distribution investment
- Approximately 65% of Quanta's revenue is tied to regulated electric and gas utility customers

Select Utility Multi-Year Capex Programs

Company	Program Value (\$B)	Period	Key Details
AEP AMERICAN ELECTRIC POWER	\$33B	2020-2024	78% allocated to wires; Electric Transmission 47%; Electric Distribution 31%; Renewables 6%
Dominion Energy	\$26B	2019-2023	Electric Power Infrastructure 39%; Gas Distribution 15%; Pipeline 12%
DUKE ENERGY	\$56B	2020-2024	Electric T&D and Maintenance 61%; Gas distribution 9%; Midstream 4%
FirstEnergy	\$17.3B-\$18.0B	2018-2023	Electric Transmission ~43%; Electric Distribution ~57%; +\$20 billion of transmission capex opportunities beyond 2023
NEXTERA ENERGY	\$11.8B-\$14.5B	2019-2022	Represents aggregate electric transmission and distribution capex for Florida Power and Light and Gulf Power
PG&E	\$37B-\$40B	2020-2024	Unprecedented level of system investments; Accelerated wildfire mitigation efforts; Continued execution of gas safety commitments

UTILITIES CONTINUE TO INVEST IN ELECTRIC T&D AND GAS DISTRIBUTION SYSTEMS

9 Sources: Company materials and Quanta estimates. QUANTASERVICES.COM

Quanta Services Business – Source: [Investor Relations](#)

They are guiding for free cash flows of above \$400 million, that would lead to a double digit free cash flow yield at current prices.

Quanta services stock analysis

The stock price has been volatile over the years.



They are committed to reward shareholders through buybacks and dividends.

Capital Allocation Priorities



Capital Allocation

- Working capital and capex required to support the organic growth of the business remain our first priority and have been the largest use of capital from 2016 to 2019
- Acquisitions and strategic investments totaled approximately \$1.1B from 2016 to 2019, led by the acquisitions of Stronghold in 2017 and Hallen Construction in 2019, which strategically bolstered our base business capabilities in the Pipeline & Industrial segment
- We are committed to the deployment of capital to shareholders through stock repurchases, repurchasing 15.7MM shares at an average price of \$32.74 during the period, and quarterly dividends, which we commenced in 1Q19 and increased 25% in 1Q20

WORKING CAPITAL & CAPEX #1 PRIORITY

Quanta Services Business – Source: [Investor Relations](#)

Quanta Services stocks analysis – fundamental analysis

Despite the stock being volatile, revenues have been growing, margins look relatively stable, earnings have almost quadrupled over the last 10 years, the number of shares is down 33%, book value is up and cash flows are positive. Thus, all looks good.

Quanta Services Inc PWR

Financials

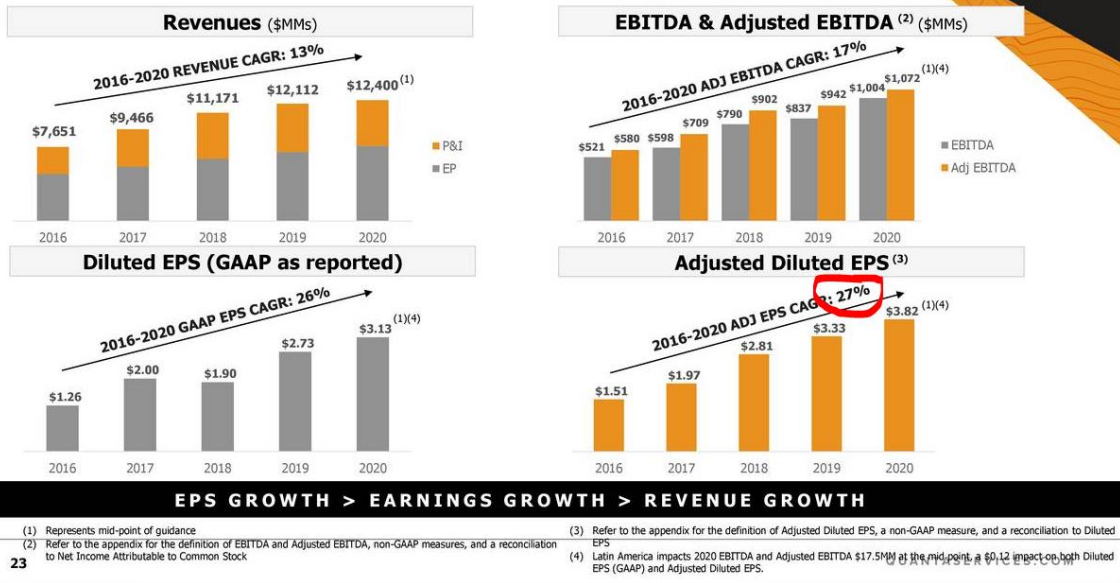
	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	3,931	4,624	5,920	6,523	7,851	7,572	7,651	9,466	11,171	12,112	12,112
Gross Margin %	16.1	13.4	15.8	16.2	15.7	12.2	13.3	13.1	13.2	13.2	13.2
Operating Income USD Mil	256	218	465	527	476	296	329	432	578	582	582
Operating Margin %	6.5	4.7	7.9	8.1	6.1	3.9	4.3	4.6	5.2	4.8	4.8
Net Income USD Mil	153	133	307	402	297	311	198	315	293	402	402
Earnings Per Share USD	0.72	0.62	1.44	1.87	1.35	1.59	1.26	2.00	1.90	2.73	2.73
Dividends USD	—	—	—	—	—	—	—	—	0.04	0.17	0.17
Payout Ratio % *	—	—	—	—	—	—	—	—	—	6.9	6.2
Shares Mil	212	213	213	215	220	195	157	157	154	148	148
Book Value Per Share * USD	15.91	15.98	17.67	18.86	21.21	20.86	22.62	24.31	27.09	27.45	28.41
Operating Cash Flow USD Mil	240	218	106	447	311	641	380	372	359	527	527
Cap Spending USD Mil	-150	-172	-211	-264	-302	-210	-213	-245	-308	-262	-262
Free Cash Flow USD Mil	91	46	-105	183	9	430	168	128	51	264	264
Free Cash Flow Per Share * USD	0.43	0.86	-0.49	0.50	-0.17	1.94	1.48	0.73	0.75	-1.71	—
Working Capital USD Mil	1,096	984	1,321	1,270	1,417	1,074	1,084	1,378	1,520	1,568	—

* Indicates calendar year-end data information

Quanta Services Stock Fundamentals – Source: [Morningstar](#)

Furhter, the company has increased earnings by 27% CAGR over the past years.

2016 – 2020 ⁽¹⁾ Financial Performance



Quanta Services Business – Source: [Investor Relations](#)

Despite the remarkable performance, the stock didn't move much over the past decade. But, the stock was down almost 50% during the bear market of 2020 (if we can already call it that way).

Quanta Services Inc
NYSE: PWR

+ Follow

33,30 USD +0,98 (3,03%) ↑
14 Apr, 12:27 GMT-4 · Disclaimer

1 day 5 days 1 month 6 months YTD 1 year 5 years Max

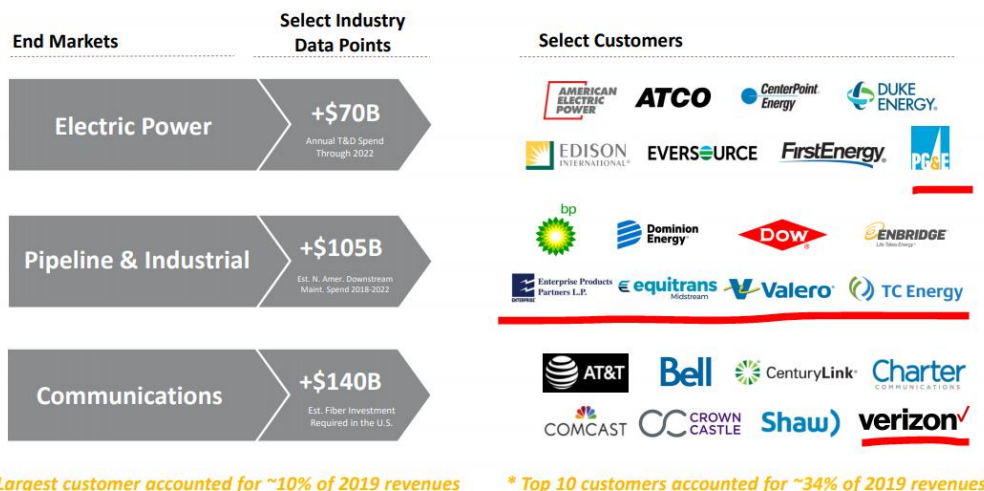


The fact that the stock moved that fast, at a higher beta than the market, could mean it is riskier. The reason behind the increased risk are the customers. If there is less economic activity, all the infrastructure builders will lower their capital expenditures and PWR might see lower activity. So, it is a typical cycle stock.

STRONG END-MARKETS



High-Quality & Diverse Customer Base with Critical Assets



Quanta Services Customers – Source: [Investor Relations](#)

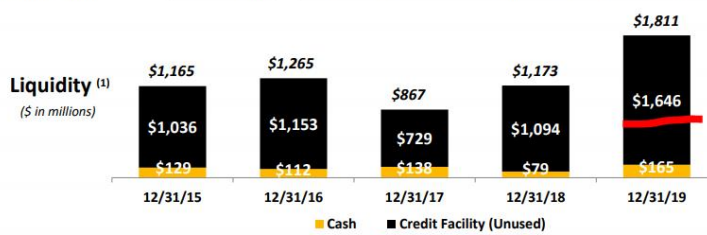
Despite the fact that they have taken on some debt to do acquisitions, it is unlikely they will be at any kind of risk for shareholders as the total debt is \$1.2 billion on equity of \$4 billion.

STRONG FINANCIAL FOUNDATION



Balance Sheet Strength Provides Flexibility

(\$ in millions)	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Cash and Equivalents	\$ 129	\$ 112	\$ 138	\$ 79	\$ 165
Other Debt	15	10	4	34	21
Term Debt	0	0	0	593	1,241
Credit Facility	467	351	668	479	105
Total Debt	482	361	672	1,106	1,367
Total Equity	3,088	3,343	3,796	3,605	4,054
Total Capitalization	\$ 3,570	\$ 3,704	\$ 4,468	\$ 4,711	\$ 5,421



Dec. 31, 2019	
Debt / Adj. EBITDA	
"Street" Ratio ⁽²⁾	~1.3X
Bank Ratio ⁽²⁾	~1.7X

(1) Liquidity includes cash and cash equivalents and availability under Quanta's senior secured credit facility, as described in our annual report on Form 10-K for the year ending Dec. 31, 2019.

(2) Street Ratio = Net debt divided by adjusted EBITDA of \$942 million. Bank Ratio = Net debt plus \$384 million of letters of credit and bank guarantees divided by adjusted EBITDA of \$942 million.

PWR stock equity and debt - Source: [Investor Relations](#)

From 2015 to 2019 they have bought back half of the current market capitalization. On a smaller number of shares outstanding, if they do it again, the results should continue to be staggering.

Another one to go to the watch list.