May 25, 2012

Dear clients and colleagues,

One of the investment themes in our portfolio is Infrastructure. To counter the financial crisis, governments worldwide have pledged to spend trillions of dollars over the next few years, resulting in the largest global build-out in history.

CIBC World Markets estimates total infrastructure spending over the next 20 years at $35 trillion. In the near term, a few numbers speak for themselves. The Obama administration plans to spend $150B of its $787B stimulus on infrastructure. China has pledged most of its $585B stimulus on infrastructure. India is expected to spend $500B; the EU $252B; Japan $129B, and Germany $42B, etc.

Five companies in our portfolio benefit from this theme: Citic Telecom International (telecom interoperator, based in HK), Nabtesco (construction and transportation equipments, Japan), Kamigumi (ports and logistics operator, Japan), Outotec (construction and engineering, Finland), and MasTec (infrastructure construction, US).

This week we shall profile MasTec, a new name added in the portfolio this year.

MasTec, Inc. (MTZ US - U$16.49)
www.mastec.com

Business Overview
MasTec is the second largest specialty contractor in the US, a leading infrastructure construction company operating through a network of over 370 locations with 12,200 employees. Activities include engineering, building, installation, maintenance and upgrade of energy, communication and utility infrastructure. It has a well-known customer base including AT&T, DIRECTV, EI Paso, and Talisman Energy, etc. Top ten customers account for about 75% of revenue.

Revenues have limited downside risk, because: 1) Two thirds of revenues are based on Master Service Agreements, which last generally for 3-5 years and provide stable revenue with exclusivity; and 2) Industry exposure is very diversified, including communications, oil and gas, satellite TV, renewable energy, electric power, water/sewer/civil, and government.

History
The company was originally founded in 1929 under the name of Burnup & Sims to serve the growing telecommunications and civil construction market in Florida, and became a national player over the decades. The Mas family, owner of Churn & Tower (an underground utility construction firm), merged the two companies together in 1994, and changed the company name to MasTec.

Management

Management is very experienced and stable. The Mas family holds key positions as CEO and Chairman, with 27.6% ownership.

Market Data

Market Cap $1.3B, p/e (12/2013) 9.8x, ev/sales (12/2013) 0.5x, ev/ebitda (12/2013) 4.8x, gross margin 13%, profit margin 3.5%.

Target Market

Infrastructure spending in North America is on the rise in all industries that MasTec serves. Mobile data traffic is expected to quadruple from 2011 to 2013, driving upgrade from 3G to 4G. Annual expenditures for pipeline infrastructure are expected to average between $5B and $7.5B per year. Satisfying current state-level Renewable Portfolio Standards will require transmission investments of $70B in the next fifteen years.

Competition

The market is very fragmented. Key competitors are Quanta Services, Dycom Industries, MYR Group, Pike Electric, Bechtel, M.A. Mortenson, and D.H. Blattner & Sons.

Competitive advantages

- Excellent track record: ranked among the top specialty contractors over the past five years by Engineering News-Record.
- Early mover into shale regions for pipeline construction.
- Stable and long-term relationship with blue-chip customers.

Growth strategy

- Focus on organic growth: Management expect double-digit growth in all markets it operates in the coming years.
- M&As

Risks

- Natural disasters such as hurricane and flooding may delay construction work.
- Poor project execution.
- Customer concentration: DIRECTV accounts for 25% of total revenue, AT&T 22%, and El Paso11%.

Valuation

Target price = $30, using DCF model at growth rate of 15% for the next 7 years, 5% at maturity, risk premium of 9%, and payout at maturity of 50%.

Have a nice weekend.
The Global Alpha Team