

Materials Sector Report

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Size and Composition

- The Market Cap of the Materials sector as of September 20th is \$2.50 Trillion and includes industries such as Chemicals (1.05T), Construction Materials (122.88B), Containers & Packaging (200.52B), Metals & Mining (1.05T), and newest addition of Paper & Forest Products (64.81B).
- As of July 31st, 2021, the Materials sector makes up 2.63% of the total S&P 500 index. The Materials sector accounts for 4.12% of the Wiseman Fund as of the same date. This means that we are overweight in a time when we tend to see higher returns for this sector.
- In the past year, the sector has returned 20.88% which is much lower than the S&P 500 at 31.17%. In that same time span, only one of the five industries has beaten out the S&P 500 which was Construction Materials at 39.27%.

Industry ▲	Last % Change 05:12 PM ET 09/21/2021	% CHANGE			
		YTD	1 - Year	3 - Year	5 - Year
Materials	-0.18%	+9.47%	+21.10%	+32.30%	+69.40%
Chemicals	-0.04%	+7.99%	+17.87%	+25.41%	+67.79%
Construction Materials	+0.88%	+17.26%	+39.27%	+59.95%	+74.16%
Containers & Packaging	-0.78%	+9.03%	+25.67%	+29.19%	+48.75%
Metals & Mining	-0.69%	+15.55%	+28.73%	+79.05%	+103.76%
Paper & Forest Products	--	--	--	--	--
S&P 500 ® Index	-0.08%	+16.02%	+31.28%	+49.86%	+103.72%



Business Analysis

- As of now, I believe we are still in the early business cycle but heading towards the mid-cycle which could happen in less than a year.
- The materials sector tends to see gains in the early phase while seeing big losses in the mid-cycle. After the mid-cycle, the typical trend is to recoup those losses with greater gains during the late cycle.

Historical Performance of Sectors across the business cycle

ECONOMIC GROWTH	EARLY: Rebounds	MID: Peaks	LATE: Moderates	RECESSION: Contracts
OUTPERFORM THE US EQUITY MARKET	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY FINANCIALS INDUSTRIALS INFORMATION TECHNOLOGY MATERIALS REAL ESTATE 	<ul style="list-style-type: none"> COMMUNICATION SERVICES INFORMATION TECHNOLOGY 	<ul style="list-style-type: none"> CONSUMER STAPLES ENERGY HEALTH CARE MATERIALS UTILITIES 	<ul style="list-style-type: none"> CONSUMER STAPLES HEALTH CARE UTILITIES
UNDERPERFORM THE US EQUITY MARKET	<ul style="list-style-type: none"> ENERGY HEALTH CARE UTILITIES 	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY MATERIALS UTILITIES 	<ul style="list-style-type: none"> CONSUMER DISCRETIONARY INFORMATION TECHNOLOGY 	<ul style="list-style-type: none"> COMMUNICATION SERVICES INDUSTRIALS INFORMATION TECHNOLOGY REAL ESTATE

Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			
Real Estate	++			--
Consumer Discretionary	++	-	--	
Technology	+	+	--	--
Industrials	++			--
Materials	+	--	++	
Consumer Staples			++	++
Health Care	--		++	++
Energy	--		++	
Communication Services		+		-
Utilities	--	-	+	++

- While we start to enter the mid-phase, the passing of the new infrastructure bill will give contracts to many companies to build or fix bridges, roads, highways and other necessities. As the year progresses, this needs to be closely monitored.
- There is competition in this sector which comes down to larger companies trying to cover as much land as possible. This is when it is very common for larger entities to acquire or merge with smaller or localized business to dominate a certain region.

- The impact of inflation has been very noticeable in this sector with the increase of many raw materials since the beginning of this year. In recent months, it has gotten worse such as in August the inflation rate was 5.3%.

Economic Analysis

- The pandemic has hurt all sectors in the market which was seen by a massive drop in March 2020. We still are experiencing uncertainty in our economy as new variants emerge and the world tries to return back to normal with the help of vaccines now readily available to almost anyone.
- With only owning two stocks in this sector, Franco Nevada Corporation (FNV) and Martin Marietta Materials Inc (MLM), we are diverse with FNV being in the mining industry and MLM falling into the construction materials industry.
- Diversification is a good practice, but with FNV making up 75% of our investment in this sector, I think there is room to have a discussion on scaling back to ensure we are not putting all our eggs in one basket. This plan will be discussed later under the recommendation section.

Financial Analysis

- The sector has been underperforming the S&P 500 index for the last five years with the return for materials being 69.40% (9/20/21) and the S&P 500 returning 103.72% (9/20/21). Even when looking at the one-year and three-year data, S&P 500 has far better returns.

Sector Fundamentals AS OF 09/17/2021

P/E (Last Year GAAP Actual)	16.03
P/E (This Year's Estimate)	9.52
Enterprise Value	\$54.27B
EPS (TTM)	\$4.08
EPS Growth (TTM vs. Prior TTM)	209.48%
Revenue Growth (TTM vs. Prior TTM)	23.42%
Return on Equity (TTM)	15.89%
Return on Investment (TTM)	8.33%
Total Debt/Equity (TTM)	108.16
Dividend Yield	3.91%

- As of September 17th, the EPS (TTM) is \$4.08 which is among the lowest when compared to other sectors in the market. One item to point out is the EPS growth (TTM

vs prior TTM) is 209.48%, which is up there at the top when looking at all sectors. This is great to see as the Materials sector continues to grow with the help of the infrastructure bill. In turn, I would hope to see the EPS grow as well.

- Materials posts a ROE (TTM) of 15.89% and a ROI (TTM) of 8.33% which again is among the lowest when compared to other sectors.

Valuation Analysis

- P/E ratio, based off last year GAAP actual is 16.03 while this year's estimate P/E is 9.52. With the estimate being lower than last year's, this lets us know that the earnings have increased but the price of the stock cannot keep up. This is most likely due to the rebound from the COVID lows we saw last year. We can also see a very high P/E ratio for both FNV at 39.36 and MLM at 28.42.
- Dividend yield is 3.91% which is significantly higher than the S&P 500 which is always great to see for a smaller sector. Our two stocks that we own are significantly less than the sector's yield with FNV having a yield of 0.88% and MLM sitting at 0.71%.

Market Cap	26.636B	Market Cap	21.785B
Beta (5Y Monthly)	0.49	Beta (5Y Monthly)	0.63
PE Ratio (TTM)	39.36	PE Ratio (TTM)	28.42
EPS (TTM)	3.53	EPS (TTM)	12.29
Earnings Date	Nov 02, 2021 - Nov 08, 2021	Earnings Date	Oct 27, 2021 - Nov 01, 2021
Forward Dividend & Yield	1.20 (0.88%)	Forward Dividend & Yield	2.44 (0.71%)
Ex-Dividend Date	Sep 15, 2021	Ex-Dividend Date	Aug 31, 2021
1y Target Est	81.27	1y Target Est	392.75

Recommendation

- As I stated in my business analysis, I believe we are somewhere in the middle of the early and mid-phase of the business cycle. This is when we tend to see the Materials sector trend down and have larger losses. The rebound would not be until the late phase comes around when we expect to see the sector make up for the previous cycle's losses.
- With other uncertainties, such as COVID-19 and its possible future variants, we must be ready for more lockdowns that might hinder the performance of the market. My recommendation will keep this in mind as we move forward throughout the next year.
- As of July 31st, the S&P 500 Material sector weight was 2.63%, while the IMP Material sector weight was 4.12%. I recommend we keep our target weight at 3.00% with the possibility of going lower to 2.5% to be more in line with the S&P 500 Index weight.
- To reduce the sector weight, my plan would be to sell shares of FNV, which accounts for 75% of our total value in the sector. This would not only bring the weight down closer to the target weight I have set, but also reduces the gap in weight between FNV and MLM.

Sources

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