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Concrete Pump Holdings, Inc. (NYSE: BBCP)

At the time of writing, BBCP trades at $5.45.

Overview

Concrete Pump Holdings, Inc. is the only national-level concrete pumping company in the US as well as in the UK (market share in both being 17% and 35% respectively).

Concrete pumping is needed for concrete to be placed in construction sites - pumping is the preferred method, for which many machines and technicians are needed. BBCP primarily pumps concrete, although it also has a much smaller concrete waste management segment. It's important to note that they don't purchase concrete, take liability for concrete, or rent their pumps. They are a pure-play service provider who typically target larger/more complex construction projects with little competition (most firms in the industry are a lot smaller/own a lot less capital).

Why Concrete Pumping and Why BBCP?

The industry as a whole is attractive for a number of reasons; it has high forward visibility as most revenue is contracted on take or pay basis, concrete pumping needs to happen at the start of construction projects (so project costs can skyrocket if it is delayed), and large contractors are willing to pay premiums for experienced operators in complex projects.

BBCP stands out even within this industry: they are the only nationalized provider in both the US and the UK, are often the best exit for smaller firms from which they can extract more synergies through scale purchasing, have a far greater utilization rate (being able to move equipment around so it actively used) compared to competitors due to the scale of their fleet, have an diversified customer base, a strong track-record in regards to M&A, an extremely competent management team, and an extremely variable cost structure (proven in COVID and more recently in the late 2022 commercial downturn). Eco-pan (the company's concrete waste management segment) is a high growth high-quality sweetener to the business model, which also requires scale that benefits BBCP.

M&A as a driver for consolidation and growth

M&A is one of BBCP's core competencies. It acquired Hi-Tech for $12.3 mn and Pioneer for $20.2 mn in '21, as well as Coastal Carolina Pumping in '22 for $30.8 mn. Both of these were successes with combined revenues over the last two years already exceeding acquisition costs. In general, acquisitions in the industry tend to be relatively low-risk due to their simple nature; M&A in general helps the company consolidate and clear up whatever little competition they have left on complex projects.

Shares jumped when it announced it was upsizing it's ABL facility to $350mn, the 2030 maturity of this and fact that BBCP has no notes maturing until 2027 give it ample time to focus on lucrative opportunities for M&A and further consolidate its position in the industry (which serves as a substantial growth driver in itself due to the elimination of rate competition). This means that (unlike its competitors) BBCP has both organic and inorganic growth opportunities available to it in the mid to long term as the industry contracts. This provides substantial downside protection in case of risk (1) (see the "Why does this opportunity exist" section).

Valuation

How much to pay for *the* market leader with ~25% LTM EBITDA Margins and 13% unlevered FCF? At Least a ~7-8x EV / EBITDA if not a low double-digit EBITDA multiple.

While there is no clear-cut public comp for BBCP, similar industrial/construction equipment leasing companies (that's what BBCP is at its core) are (on average) trading at ~9x LTM EBITDA compared to

BBCP trading at ~6.3x while having lower EBITDA margins (18.5% average vs. 25% LTM EBITDA margins for BBCP) and market share.

Applying these multiples, we obtain the following valuations for Q3 ‘26. The assumptions made here are:

(1) Flat top-line growth, reduced top line growth, and extremely reduced top-line growth for the three cases respectively
(2) Flat CapEx, No Acquisitions
(3) Cash flow goes pretty much exclusively to deleveraging

These assumptions are inherently conservative in nature - top-line growth is highly unlikely to decrease in the long run (although decreasing growth is expected), and revenue growth does not factor in the benefits of accretive M&A.

Bull Case:	
EBITDA	119.6
TEV	957.2
Multiple Assumed	8x
Equity Value	686.6
Stock Price	12.83
Upside (%)	**135.35**

Base Case:	
EBITDA	105.4
TEV	737.7
Multiple Assumed	7x
Equity Value	445.7
Stock Price	8.33
Upside (%)	**52.76**

Bear Case:	
EBITDA	92
TEV	552.2
Multiple Assumed	6x
Equity Value	239.9
Stock Price	4.48
Upside (%)	**-17.78**

The creation of value comes from (1) a rerating of the multiple due to the recognition of its business quality/resilience and growth prospects and (2) the accretion of de-leveraging to shareholders (also due to the stock screening better).

I don’t think that management’s paydown of debt will be as rapid as I have modeled, but given the CEO’s experience (he started out as a pump operator and has headed the business since 1999) I trust him and the board to make the right call. The company hasn’t heavily invested in M&A since ‘22 because a lot of the companies with reasonable multiples they look at have margin issues, which shows the company's commitment to deleverage, but strategic M&A could be a driver for future growth and ease up market sentiment of revenue stagnation (BBCP recently expanded its credit facility).

<u>Why does this opportunity exist?</u>

(1) *High interest rates mean delays in commercial construction and low top-line growth*

Rebuttal: BBCP’s high utilization rates and scale mean that it is well positioned relative to its competitors; this industry environment will provide opportunities for lucrative M&A allowing the company to consolidate greater market share, leading to lesser revenue loss due to rates and offsetting the reduced top-line growth. The company has already proven its ability to survive during COVID, where revenues declined 30% and the company not only survived but completely rebounded by early 2021.

(2) *The company is highly levered (high interest rates only make this worse)*

Rebuttal: Mgmt. has addressed this by using FCF to pay down debt over CapEx/acquisitions to bring leverage down to 2.75x by the end of FY ‘24 closer to the long-term target of 2.5x. They have a stellar track record with paying back debt and high forward visibility due to the well-established project pipeline.

(3) *It’s a low quality business with high cyclicity*

Rebuttal: BBCP’s business quality is underappreciated which has caused the company to trade at a depressed ~6.3x EV/EBITDA multiple. However, BBCP has no clear-cut competitors and its exceptional margins and free cash flow mean that it deserves a higher multiple closer to at least 7-8x EBITDA like higher-quality construction firms. BBCP has 17% market share in the US and 35% in the UK and is *the* only nationally scaled provider, meaning it has almost no competition (think 1 or 2) for its larger/more complex projects. As for cyclicity, the fact that it operates both in the US and the UK means that it does have a somewhat greater degree of protection as compared to competitors.

Catalysts

1) Increased Analyst Coverage

BBCP currently has near zero analyst coverage; as it continues to build a strong & steady track record as a public company, this means that more analyst attention has the opportunity to be significant for a multiple rerating.

2) Debt Paydown

BBCP’s future earnings are viewed with uncertainty by the market due to recent earnings misses (some of which were only due to unseasonable weather) and high debt, so bringing the leverage down to 2.75x EBITDA (which mgmt. has stated is a priority) will may drive a multiple rerating.

3) Accretive M&A

Strategic M&A in 2025 (management’s priority seems to be debt paydown for the rest of FY 24) will help prove the company’s existing organic growth prospects, reducing fears over cyclicity for investors.