



### Company Description:

Quanta Services provides specialized construction, maintenance and repair services for North American utility and industrial clients within the electric power delivery, power generation and industrial (oil/gas) industries. The company is the largest specialized US contractor in electric T&D and a leader on its O&G/industrial services business.

Name	Ticker	Yield	Growth	D + G
Quanta Services, Inc.	PWR	0.14%	12.63%	12.77%

### Highlights:

Demand for PWR's services, particularly in power delivery, benefiting from a confluence of increased "electrification" themes, including net grid load demand (a change from 20+ years of efficiency-led demand declines), renewables integration, aging utility labor force/ increased outsourcing, and federal "stimulus", etc. PWR solves the 2 biggest bottlenecks of the energy transition: 1) Building out the electric grid and renewable power; and 2) Providing the skilled labor needed to do all the construction. We believe the market underestimates the step-function change in revenue growth that this transition will bring: from +10% to +15%.

### Bull Case:

- **Attractive Secular Opportunity in Power delivery and Energy Transition** - We continue to see PWR's end markets as secularly attractive. Energy "transition" plays to PWR's core strengths. We see improving margins, better FCF generation, and a declining risk profile, where revenue/profitability is more recurring in nature, coupled with strong backlog gains. Recent years have seen strategic shift towards more predictable "base business" growth, supported by large/multi-year master service agreements (MSAs) with well-capitalized long-term partners. Recent Blattner deal complements existing secular "electrification" themes in power delivery and helps Quanta further expand its service offerings with customers.
- **No Peers Match the Craft Labor Availability → The Competitive Edge** – The largest bottleneck in this space is craft labor – trade jobs that are highly skilled. For a project to be completed or built quickly, there needs to be consistent labor and PWR has the opportunity to provide that. As of this year, the company has 3x the labor force size of any other comparable peer. For example, instead of Duke Energy having to piece together a labor force, they would call PWR and they would handle all lines of business. In our view, this is PWR's main competitive advantage. Not only that, but PWR runs its own trade school, of which, they draw their own talent pool. The company has invested over \$100M in this school. Simply said, PWR's labor training capabilities, we believe, are simply unmatched.
- **New "Renewable Energy" Construction Platform** - The \$2.7B October 2021 acquisition of Blattner, the largest in company history, brought a high-quality standalone asset to the Quanta portfolio as an established utility-scale renewable energy solutions provider. The deal complements existing secular "electrification" themes in power delivery and helps Quanta further expand its service offerings with customers and provides PWR with another vehicle to help drive sustainable double-digit earnings growth. Project execution risk is a key question (and renewables development sensitivity to interest rates and supply chain challenges), though seemingly defended by very strong historical execution and contingency earn-out alignment.

### Bear Case:

- **Highly Competitive Industry** - The specialized contracting services Quanta provides are highly competitive and Quanta competes with several national and local firms. Contracts are awarded (in part) on price, which may limit margin upside in the event of price competition. In addition, Quanta faces in-house competition from its utility customers themselves when they choose to manage and maintain their capital expansion needs in-house.
- **Economically Sensitive Market Exposure** - Demand for Quanta's services can be sensitive to economic conditions, including the health of the construction market, general credit conditions, and oil and natural gas price fluctuations.
- **Uncertainty Associated with Regulatory Changes and Weather** - Regulatory permitting authority remains a subject of ongoing litigation, particularly at the local level where opposition has concentrated legal challenges. Additional regulatory changes from pending or future legislation could also impact/benefit Quanta.

### Overall Thesis:

We believe PWR is a core holding for energy transition portfolios as the go-to picks & shovels pure play for domestic energy transmission and communications infrastructure. As the leading specialty construction services franchise in this field, we are attracted to PWR's alignment with the electrification of everything megatrend, which overlays a commendable track record of consistent earnings growth, ROCE and shareholder returns. Present valuation, not surprisingly toward the upper end of historic ranges, aptly reflects the scarcity of PWR's enviable thematic alignment with a blue chip earnings/cash flow pedigree.

Playing devil's advocate with our thesis here, valuation and sentiment would be the biggest risk, as we share the consensus view of strong demand and execution ahead – fundamentally speaking. In fact, we see the biggest risk to the stock stemming from sentiment, not fundamentals, should the November elections give Republicans full legislative control with the prospect of defunding portions of the *Inflation Reduction Act* ("IRA"), together with its myriad of benefits to renewable power. We see odds relatively low and economic risk to PWR minimal, but still potentially a blow to "energy transition" sentiment.



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