




# Our No.1 US Microcap Stock for 2022

Motley Fool Microcaps Team





Microcap stocks are an exciting part of the stock market, but many investors pay little or no attention to them. It's a challenge to search through the thousands of tiny companies whose market capitalisations are at the smallest end of the stock spectrum, and you'll see plenty of businesses in dead-end industries with few growth prospects. However, when you do find a potential winner, it can be extremely lucrative – because most professional market investors don't have the time or inclination to do the hard work necessary for a successful search. They typically find out about microcap stocks after they've hit the big time – and often when they are no longer microcaps at all.

Here at The Motley Fool, we love beating the market to the punch. That's why as we consider our best prospects for the current year, we've put together this report highlighting our No. 1 US microcap stock pick for 2022. Read on to find out more about this little-known company with huge potential.





# Smith-Midland

## Key Data

**Industry:** Building Materials

**Asset Class:** Microcap

**Region:** U.S.

**Headquarters:** Midland, Virginia

**Sector:** Materials

**Market Cap:** US\$88.9 million

**Recent Price:** US\$17.00

**Three-Year Revenue Growth Rate:** 7.98% per year (TTM as of Q4 2021 vs. 2018)

**Cash / Debt:** US\$13.5 million / US\$4.4 million

*Data as at 12 May 2022, as per S&P Global Market Intelligence*

## The Big-Picture Opportunity

Concrete is everywhere, but you probably never give it a second thought. You'll find it in skyscraper frames and building walls. You'll find a ton of it on roadways, from curbs and bridge supports to construction barriers. Concrete is economical, strong, and versatile, and wherever people are trying to build things, it's in high demand.

In the past, contractors brought raw materials and equipment to project locations to mix their own concrete on-site. Increasingly, though, project managers have realised that it can be more cost-effective and efficient to use precast concrete products that were made off-site. Moreover, doing so avoids needing to find labourers skilled at mixing and casting concrete – an issue that has taken on heightened importance recently.

**Smith-Midland** (NASDAQ:SMID) has been in the precast concrete manufacturing business for more than 60 years. A leader in concrete products for highway and infrastructure projects, the Virginia-based business has three production facilities that serve the East Coast from New York to Florida, as well as inland states like Alabama, Tennessee, and Kentucky. With demand on the rise, Smith-Midland is in the perfect position to benefit for years to come.



## How Smith-Midland Has Been So Successful

Smith-Midland has a full array of proprietary concrete products serving multiple industries. Its J-J Hooks concrete highway barriers have become a staple of road construction projects, allowing for safe traffic management and protecting road workers. Its SoftSound concrete walls offer sound absorption to make neighbourhoods near busy highways quieter. On the building construction side of the business, Smith-Midland's SlenderWall cladding system and Easi-Set concrete buildings offer innovative ways to put concrete to use. In addition, customised products can provide security, add decorative features, or even facilitate military training.

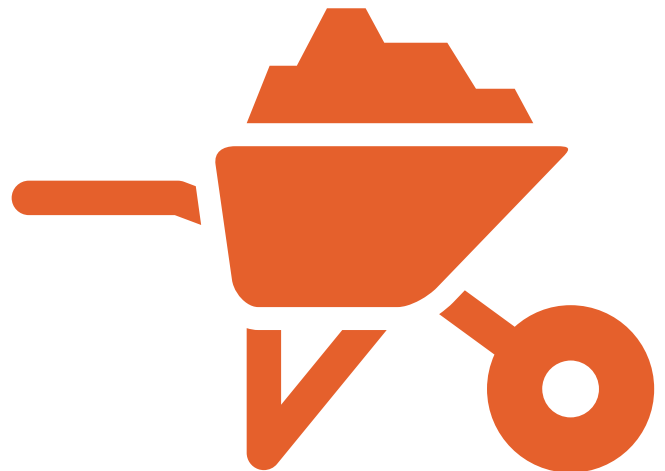
Smith-Midland gets much of its revenue from outright sales of its products, but it also has a significant rental division for its safety barriers. In fact, the company has identified barrier rentals as a key ingredient for its long-term growth strategy. As such, it recently entered an agreement that will see the amount of barriers available for rent rise from about 75 kilometres last year to more than 175 kilometres by the end of 2022.

Smith-Midland has found that barrier rentals produce higher margins and recurring sales that improve earnings and cash-flow stability. In addition, licensing arrangements with producers from Australia to Belgium and from Trinidad and Tobago to Canada dramatically expand Smith-Midland's geographical reach and provide lucrative royalty income.

## Why We Trust Leadership

We love founder-run businesses, and as its name might suggest, Smith-Midland is a family affair. Rodney Smith co-founded the company with his father, and he led the concrete company for more than half a century until son Ashley Smith took over as CEO. Earlier this year, Ashley took up the baton from his father to now also serve as Chairman of the Board, with Rodney hanging up his boots after 37 years with the company.

We also like to see company leaders who have skin in the game, and Smith-Midland definitely fits the bill. Rodney, although now retired, still has an 11% stake in the company, and Ashley's stake is approaching 4%. We think the Smith family has plenty of incentive to grow the value of its stock holdings well beyond the current value of roughly US\$13 million.



## How Smith-Midland Could Continue to Win

Smith-Midland has huge tailwinds for growth. Infrastructure spending is on the rise, with a new regulatory standard requiring highway barrier replacement over the next five to seven years. In particular, Smith-Midland won approval to serve the massive California highway market, which is second only to Texas in terms of highway mileage. Even though some state and local governments are somewhat strapped for cash, a rise in the number of public-private partnerships has opened new opportunities for Smith-Midland to bring in more business.

Moreover, as construction contractors bulk up to handle anticipated increases in federal infrastructure spending, they'll be looking for the greater efficiency of using Smith-Midland's precast modular products. Higher quality, faster installation, and shorter lead times all result in developers saving both time and money on their projects.

To be clear, Smith-Midland isn't the only player in concrete, and competition is likely to rise as construction and infrastructure spending pick up. Although Smith-Midland does have some proprietary intellectual property, rivals would be able to design precast concrete products that would serve the same functions and potentially eat into Smith-Midland's market share.

Smith-Midland has the strength to take advantage of increased demand. Financially, the company reported US\$13.5 million in cash on hand on its balance sheet at the end of last year, with low debt levels that will allow Smith-Midland to invest in its future. It also hasn't been afraid to spend money on expansion efforts, having recently added to its Reidsville plant in North Carolina to double its capacity.



## Why Smith-Midland Is Worth an Investment Today

Although Smith-Midland today remains a microcap company, it won't take too long for the Virginia-based outfit to creep onto the radars of more diligent investors should it deliver on its potential.

We believe that Smith-Midland is sitting in the driver's seat of an unusually large opportunity, especially after President Joe Biden's US\$1.2 trillion infrastructure bill came into law late last year.

That's why we've made this up-and-coming concrete specialist our No. 1 US microcap stock pick for 2022.

