NACCO Industries (NC)

Updated April 27th, 2018 by Nate Parsh

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	7.6%	**Quality Percentile:**	N/A
Fair Value Price:	$50	**5 Year Growth Estimate:**	0.0%	**Momentum Percentile:**	N/A
Fair Value:	70%	**5 Year Valuation Multiple Estimate:**	5.9%	**Total Return Percentile:**	N/A
Dividend Yield:	1.7%	**5 Year Price Target**	$50	**Valuation Percentile:**	N/A

Overview & Current Events

NACCO Industries is a holding company for The North American Coal Corporation. The company incorporated in 1913. The company supplies coal from surface mines to power generation companies. NACCO has been very active in purchasing and spinning off a wide variety of businesses in recent years. In 1988 and 1990, NACCO made several purchases that expanded the business to include housewares. In 2012, NACCO spun off its Materials Handling Group (a combination of Yale Materials Handling Corporation and the Hyster Company). The company completed its spinoff of its housewares-related business on 9/29/2017. NACCO operates in the states of North Dakota, Texas, Mississippi, Louisiana and on the Navajo Nation in New Mexico. NACCO has a current market cap of $248 million.

NACCO reported 4th quarter 2017 earnings on 3/7/2018. Adjusting for a tax reform charge, the company earned $1.40 per share. Revenues totaled $26.4 million. Both figures topped 2016's results. Higher coal sales from unconsolidated mines made up for a slight drop in sales from consolidated mines. Unconsolidated coal is easier to acquire because it is found among loose materials where consolidated coal is found among solid rock.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.74	$1.03	$9.53	$14.86	$5.02	$5.79	$3.98	$3.13	$4.32	$4.14	***$4.14***	***$4.14***
DPS	$2.05	$2.07	$2.09	$2.12	$1.88	$1.00	$1.02	$1.05	$1.07	$0.98	***$0.98***	***$1.04***

Because NACCO spun off its Materials Handling Group in 2012, it is not appropriate to compare today's company to the pre spin company. Over the past 5 years, NACCO has seen its earnings per share decline 6.5% per year through 2017. Management has not offered guidance for 2018, but the company did perform better in its final quarter of 2016 versus 2017. Because NACCO has show negative growth since 2012, and volatile earnings-per-share since then, we are projecting flat earnings-per-share growth out over the next 5 years.

Adjusting for the spin-off of its housewares business, NACCO increased its dividend 92% for last December's payment. While NACCO has increased its dividend by 11.6% per year over the past 5-years, the company will likely be unable to match this growth rate if earnings do not reverse their decline. Using the average payout ratio over the past 5 years (25%), shareholders are likely looking at $0.69 in dividends per share by 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	105.4	41.6	8.9	6.2	18.4	10.0	13.8	16.8	14.5	18.2	***9.0***	***12.0***
Avg. Yld.	2.6%	4.8%	2.5%	2.3%	2.0%	1.7%	1.9%	2.0%	1.7%	1.3%	***1.8%***	***2.1%***

Focusing on just the past 5 years, NACCO shares have traded with an average price to earnings multiple of 14.7. This is significantly higher than the stock's current multiple of 9. Investors are just not willing to pay for a company that has declining earnings while the rest of the investment world enjoys an extended bull market. We do expect some reversion to the mean here, but NACCO needs to prove it can reliably grow earnings-per-share before it reaches its 5-year historical averages. We are targeting a price to earnings ratio of 12.0 for the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	29.1%	27.4%	14.9%	11.6%	29.1%	27.3%	24%	-1.7%	1.8%	4.3%	***3.7%***	***1.5%***
Debt/A	78.9%	73.3%	73%	68.1%	63.8%	63.2%	72.6%	69.3%	67%	43.7%	***47.6%***	***63.2%***
Int. Cov.	-11.5	2.1	6.8	13.8	10.5	12.7	-9.1	-0.46	-.55	9.5	***8.2***	***3.4***
Payout	277%	201%	21.9%	14.3%	37.5%	17.3%	25.6%	33.5%	24.8%	23.7%	***23.7%***	***25%***
Std. Dev.	79.5%	99.6%	70.7%	55.7%	43.9%	33.2%	31.5%	34.3%	31.6%	77.7%	***70.5%***	***41.7%***

The previous version of NACCO actually saw earnings improve during the last recession, but this is not that company. NACCO now sees a substantial portion of revenues from coal. As demand for coal fluctuates, so will NACCO's ability produce revenue. Gross profit has also severely declined over the past three years and so far, the company hasn't given investors reason to think that trend will reverse in the near future.

On the plus side, NACCO has managed to maintain or lower its debt to asset ratio in recent years. The company has also kept its dividend payout ratio low in recent years, which is a prudent decision by management as EPS continues to drop. NACCO is not currently at risk for a dividend cut, though if earnings drop at a higher than usual rate a cut could occur.

Final Thoughts & Recommendation

We are expecting total returns of 7.6% per year over the next 5 years from NACCO. The bulk of this growth will come from valuation multiple expansion. This estimate is based on NACCO realizing no growth in EPS. If the company sees its EPS continue to decline, performance will likely be significantly worse.

We recommend that investors avoid NACCO Industries for now. The stock offers mediocre expected total returns but possesses significant risk and uncertainty. Unless EPS growth returns, investors are encouraged to seek alternative investments

Total Return Breakdown by Year