



Nucor Corporation (NUE)

Updated July 20th, 2018 by Ben Reynolds

Key Metrics

| | | |
|-------------------------------|--|-------------------------------------|
| Current Price: \$66 | 5 Year CAGR Estimate: 3.3% | Quality Percentile: N/A |
| Fair Value Price: \$61 | 5 Year Growth Estimate: 2.5% | Momentum Percentile: N/A |
| % Fair Value: 122% | 5 Year Valuation Multiple Estimate: -1.6% | Valuation Percentile: N/A |
| Dividend Yield: 2.4% | 5 Year Price Target \$61 | Total Return Percentile: N/A |

Overview & Current Events

Nucor is the largest publicly traded US-based steel corporation based on its market cap of \$20.5 billion. The steel industry is notoriously cyclical which makes Nucor's streak of 45 consecutive years of dividend increases more remarkable. Nucor is a member of the Dividend Aristocrats Index due to its dividend history.

While Nucor is the most successful steel producer in the United States, the company faces challenges from international competitors. Some countries (including China) subsidize their steel industry, making steel exported to the United States *artificially cheap* relative to what it would be in a free market. President Trump signed a bill in March of 2018 placing a 25% tariff in imported steel for all countries except Canada and Mexico. This is certainly positive news for Nucor.

Nucor recently reported (7/19/18) 2nd quarter results for fiscal 2018. The company reported earnings-per-share (EPS) of \$2.13; *the highest 2nd quarter EPS in the company's history* and more than double EPS of \$1.00 for the same quarter a year ago. Sales grew 16% sequentially and 25% versus the same quarter a year ago.

Growth on a Per-Share Basis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|------------|---------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$6.01 | -\$0.94 | \$0.42 | \$2.45 | \$1.58 | \$1.52 | \$2.22 | \$1.11 | \$2.48 | \$3.59 | \$7.20 | \$2.44 |
| DPS | \$1.91 ¹ | \$1.41 | \$1.44 | \$1.45 | \$1.46 | \$1.47 | \$1.48 | \$1.49 | \$1.50 | \$1.51 | \$1.72 | \$1.95 |

Nucor's earnings-per-share fluctuate with steel prices. The company's all time EPS high came in 2008 which coincided with the all-time high price of steel in the United States. Steel prices are not far off all time highs currently. High steel prices are due to a mix of tariffs and strong economic activity (which drives up steel demand) in the US. After phenomenal 2nd quarter results, Nucor is expected to realize *all time EPS highs* in fiscal 2018.

While the company's expected EPS for fiscal 2018 are impressive, earnings-per-share are not an especially good metric to use to gauge Nucor's growth because they are so cyclical. Peak-to-peak (2008 through expected 2018) EPS are expected to grow at just 3.4% a year for Nucor. Book-value-per-share grew at an annual rate of just 1.1% from 2008 through 2017, and base dividends-per-share grew at 1.6% per year over the same time period. We expect underlying business growth of around 2.5% per year annualized for Nucor over full economic cycles.

Valuation Analysis

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Now | 2023 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 9.4 | --- | --- | 16.7 | 25.5 | 31.2 | 23.2 | 40.1 | 19.7 | 16.3 | 9.2 | 25.0 |
| Avg. Yld. | 3.4% | 3.3% | 3.4% | 3.6% | 3.6% | 3.1% | 2.9% | 3.3% | 3.1% | 2.6% | 2.4% | 3.2% |

Due to Nucor's cyclicity, the price-to-earnings ratio is a poor metric to use for valuation. In Nucor's case, we prefer to compare the company's forward dividend yield to its historical average dividend yield. Nucor's average dividend yield from 2008 through 2017 is 3.2%. This implies a fair value price of \$54 using the company's expected \$1.72 dividend for

¹ 2008 DPS are greater than 2009 due to 'supplemental' dividends the company paid that were in excess of 'base' dividends. The company's 45 year dividend streak is calculated using base dividends. See [this PDF](#) from Nucor's Investor Relations page for more.
Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

fiscal 2018. Nucor's current excellent results have made the stock overvalued on a historical basis based on its dividend yield. We expect a modest 1.6% annualized drag on expected total return due to overvaluation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 |
|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| GP/A | 29.2% | 1.2% | 5.6% | 12.9% | 10.7% | 9.3% | 11.8% | 7.8% | 13.3% | 16.2% | 20.0% | 15.0% |
| Debt/A | 42.9% | 41.2% | 48.9% | 48.7% | 46.0% | 49.7% | 50.2% | 47.8% | 48.2% | 44.8% | 42.0% | 45.0% |
| Int. Cov. | 35.8 | -2.1 | 2.7 | 8.6 | 6.3 | 6.4 | 7.8 | 2.4 | 8.7 | 11.2 | 13.0 | 10.0 |
| Payout | 31.8% | N/A | 343% | 59.2% | 92.4% | 96.7% | 66.7% | 134% | 60.5% | 42.1% | 33.0% | 27.3% |
| Std. Dev. | 84.8% | 54.2% | 28.0% | 34.8% | 21.9% | 20.5% | 20.2% | 27.5% | 30.8% | 26.1% | 28.0% | 30.0% |

Nucor produces a commodity product (steel). The company is therefore vulnerable to fluctuations in the price of steel. Steel demand is tied to new construction, and therefore the overall economy. During the Great Recession, the company saw EPS decline from \$6.01 in 2008 to a loss of \$0.94 in 2009... And the stock lost two-thirds of its market capitalization in just six months. Investors should be aware of the significant downside risk of Nucor. There has not been a recession for ~9 years in the United States. Nucor is likely to perform poorly during the next recession.

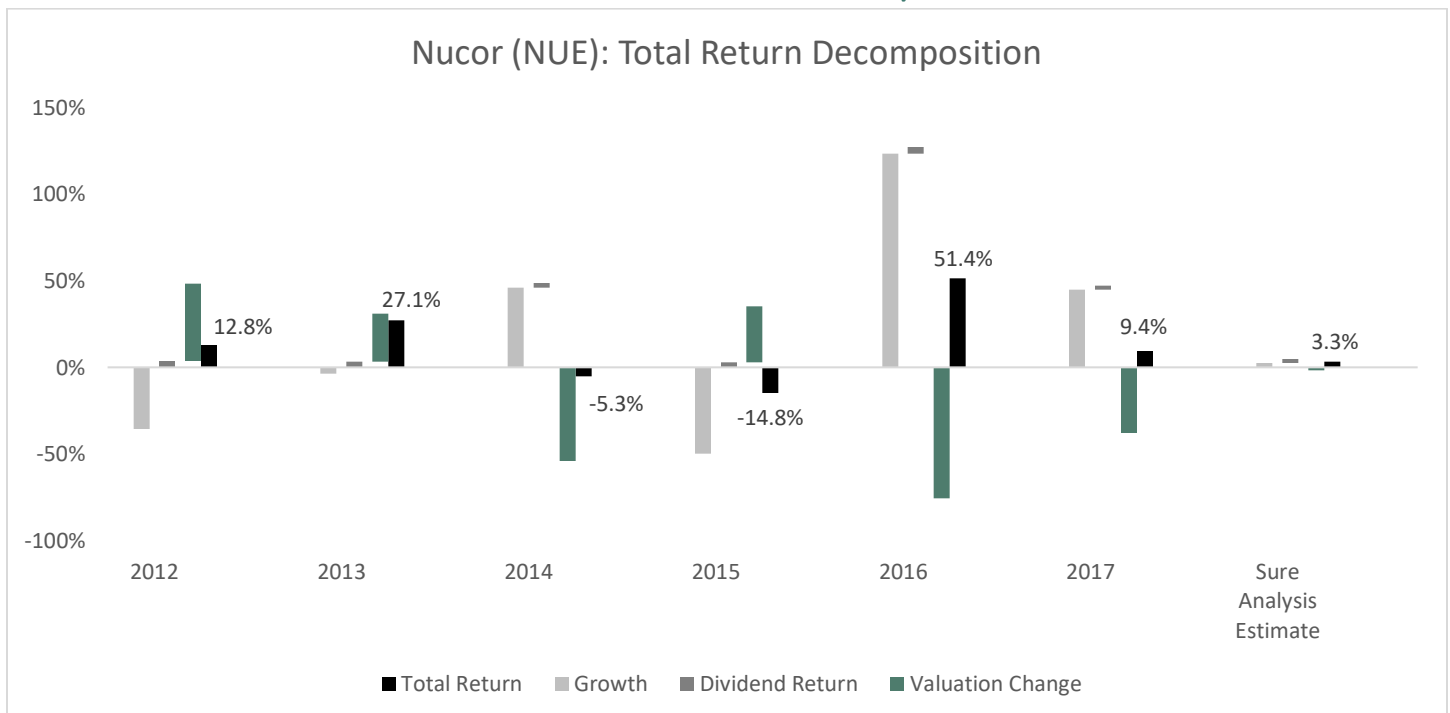
On the other hand, Nucor has exceptional performance for a cyclical stock. It has raised its base dividend for 45 straight years. This degree of consistency is a testament to the strength of its business model and the quality of its management.

Final Thoughts & Recommendation

There's much to like about Nucor. It is the strongest and largest domestic steel producer in the United States. This affords the company a competitive advantage in an industry very likely to be around over the long run.

But just because Nucor is a great business (in a commoditized industry no less), does not make it a great investment. The company is likely at or near the peak of its cycle. The last EPS peak occurred in 2008. When steel prices rise, so does Nucor's share price. The best time to buy this stock is when steel prices are depressed – typically when the economy is struggling. Nucor is overvalued today based on its historical average dividend yield. Moreover, the company's growth rate has been far from impressive over the last decade. We recommend investors hold off on Nucor until the price of steel (and Nucor's share price) declines significantly, whenever that may be.

Total Return Breakdown by Year



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