



Nucor Corporation (NUE)

Updated October 22nd, 2018 by Bob Ciura

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	1.0%	Volatility Percentile:	78.9%
Fair Value Price:	\$54	5 Year Growth Estimate:	2.5%	Momentum Percentile:	49.6%
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	-4.1%	Growth Percentile:	9.0%
Dividend Yield:	2.6%	5 Year Price Target	\$61	Valuation Percentile:	39.2%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	14.1%

Overview & Current Events

Nucor is the largest publicly traded US-based steel corporation based on its market cap of \$18.7 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. The company faces challenges from international competitors. Some countries (including China) subsidize their steel industry, making steel exported to the United States artificially cheap. 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.

On 10/18/18 Nucor reported third-quarter earnings. Revenue of \$6.74 billion rose 30% year-over-year, and beat analyst expectations by \$240 million. Adjusted earnings-per-share of \$2.39 also beat analyst expectations by \$0.08 per share, and more than doubled for the quarter. Sales growth was due to a combination of 7% higher volumes and 23% higher prices compared with the same quarter in 2017. Earnings growth also benefited from tax reform.

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
Shares	314	315	316	317	318	318	319	318	319	318	320	320

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. 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	8.2	25.0
Avg. Yld.	3.4%	3.3%	3.4%	3.6%	3.6%	3.1%	2.9%	3.3%	3.1%	2.6%	2.6%	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%. Expectations of a rising dividend yield imply that the share price will decrease. As a result, we view Nucor as overvalued. A declining stock valuation will compress annual returns by approximately 4.1%.

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 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.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

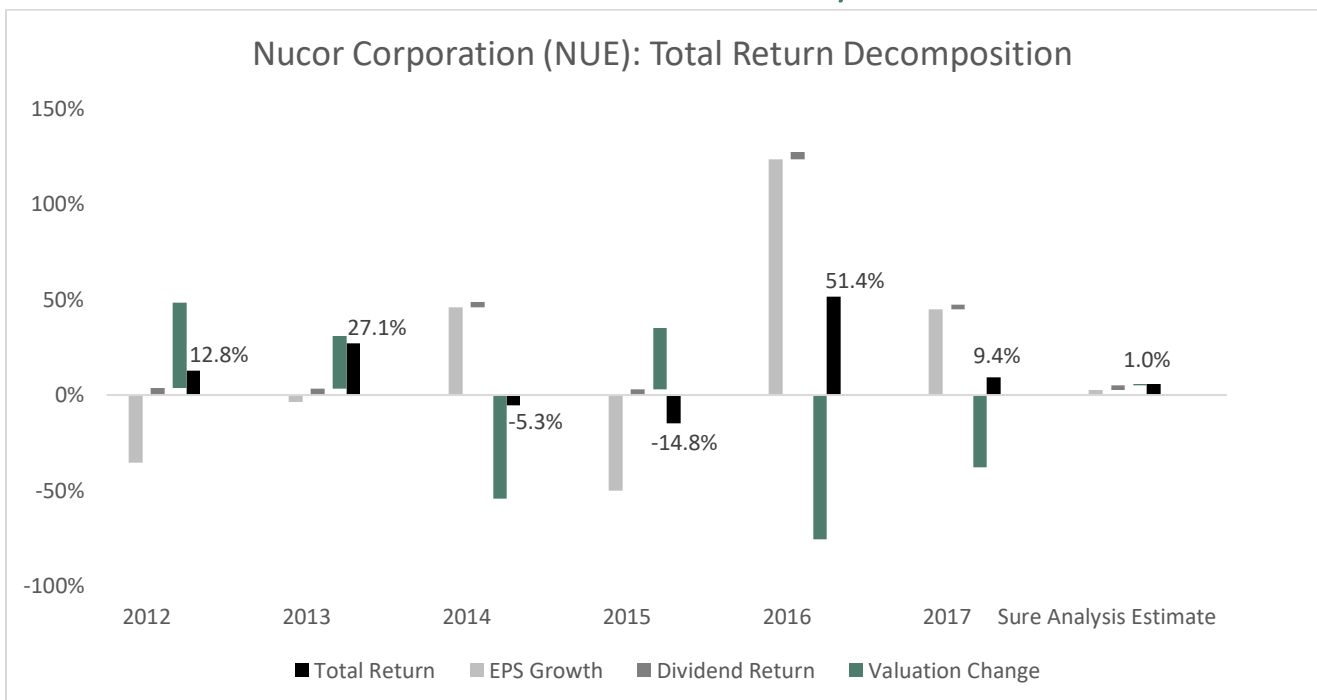
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	29.2%	1.2%	5.6%	12.9%	10.7%	9.3%	11.8%	7.8%	13.3%	16.2%	20.0%	15.0%
Debt/A	42.9%	41.2%	48.9%	48.7%	46.0%	49.7%	50.2%	47.8%	48.2%	44.8%	42.0%	45.0%
Int. Cov.	35.8	-2.1	2.7	8.6	6.3	6.4	7.8	2.4	8.7	11.2	13.0	10.0
Payout	31.8%	N/A	343%	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%

As a commodity producer, Nucor is vulnerable to fluctuations in the price of steel. Steel demand is tied to construction and 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. Nucor is likely to perform poorly in a recession. That said, Nucor has raised its base dividend for 45 straight years. This indicates the strength of its business model and management team.

Final Thoughts & Recommendation

Nucor is the 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. Moreover, the company's growth rate has been far from impressive over the last decade. We recommend investors sell Nucor due to low expected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	20252	16208	16439	21105	19052	19429	20024	15845	11190	23663
Gross Profit	2569	2026	1114	1849	1411	1514	1881	784	154	4051
Gross Margin	12.7%	12.5%	6.8%	8.8%	7.4%	7.8%	9.4%	4.9%	1.4%	17.1%
SG&A Exp.	688	597	459	521	468	455	440	331	348	714
D&A Exp.	727	687	700	724	610	607	590	583	566	549
Operating Profit	1882	1429	655	1328	943	1059	1442	452	-194	3300
Op. Margin	9.3%	8.8%	4.0%	6.3%	4.9%	5.4%	7.2%	2.9%	-1.7%	13.9%
Net Profit	1319	796	81	679	488	505	778	134	-294	1831
Net Margin	6.5%	4.9%	0.5%	3.2%	2.6%	2.6%	3.9%	0.8%	-2.6%	7.7%
Free Cash Flow	603	1145	1795	675	-119	253	592	528	783	1480
Income Tax	369	398	49	369	206	260	391	61	-177	959

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	15841	15224	14327	15616	15203	14152	14570	13922	12572	13874
Cash & Equivalents	949	2046	1939	1024	1483	1053	1201	1325	2017	2355
Acc. Receivable	2029	1632	1384	2068	1811	1707	1711	1440	1116	1229
Inventories	3462	2480	2245	2745	2606	2324	1987	1558	1313	2408
Goodwill & Int.	3111	2920	2782	2931	2848	2964	2615	2692	2706	2679
Total Liabilities	6756	6969	6477	7541	7293	6267	6864	6591	4988	5618
Accounts Payable	1181	838	567	994	1117	1047	959	897	707	534
Long-Term Debt	3795	4357	4388	4584	4409	3660	4282	4294	3088	3275
Total Equity	8739	7880	7478	7772	7646	7642	7475	7120	7391	7929
D/E Ratio	0.43	0.55	0.59	0.59	0.58	0.48	0.57	0.60	0.42	0.41

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.5%	5.4%	0.5%	4.4%	3.3%	3.5%	5.5%	1.0%	-2.2%	15.5%
Return on Equity	15.9%	10.4%	1.1%	8.8%	6.4%	6.7%	10.7%	1.8%	-3.8%	28.1%
ROIC	10.3%	6.4%	0.6%	5.4%	4.1%	4.3%	6.6%	1.2%	-2.6%	19.1%
Shares Out.	314	315	316	317	318	318	319	318	319	318
Revenue/Share	63.14	50.68	51.26	65.93	59.67	61.05	63.13	50.06	35.54	77.58
FCF/Share	1.88	3.58	5.60	2.11	-0.37	0.79	1.87	1.67	2.49	4.85

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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