NACCO Industries (NC)

Updated November 5th, 2018 by Nate Parsh

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	8.4%	**Volatility Percentile:**	99.7%
Fair Value Price:	$50	**5 Year Growth Estimate:**	0.0%	**Momentum Percentile:**	48.2%
% Fair Value:	72%	**5 Year Valuation Multiple Estimate:**	6.6%	**Growth Percentile:**	1.5%
Dividend Yield:	1.8%	**5 Year Price Target**	$50	**Valuation Percentile:**	91.5%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	44.2%

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 almost $250 million.

NACCO announced 3rd quarter earnings results on October 30th. The company earned $1.33 per share, a 171% increase from the prior year. Revenue grew 43% to $31.4 million. Demand for NACCO's coal saw impressive volume growth during the 3rd quarter. Unconsolidated coal deliveries increased 4.3% to 9.8 million tons. Consolidated coal shipments improved 40%. Unconsolidated coal is easier to acquire because it is found among loose materials where consolidated coal is found among solid rock. Demand for both consolidated and unconsolidated limestone was high during the quarter, with a 38% increase in limestone deliveries. NACCO expects an effective tax rate of 11% to 14% for 2018.

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	***$0.66***	***$1.04***
Shares	8.29	8.29	8.33	8.7	8.35	7.87	7.24	6.84	6.78	6.51	***6.25***	***5.10***

Because NACCO spun off its Materials Handling Group in 2012, it is not appropriate to compare today's company to the pre-spinoff equivalent. 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 nnegative 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	***8.7***	***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%***

Shares of NACCO remain unchanged since our August 15th update. 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

8.7. 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. If achieved, this would add 6.6% in annual returns over the next five years.

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%	***15.9%***	***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%***

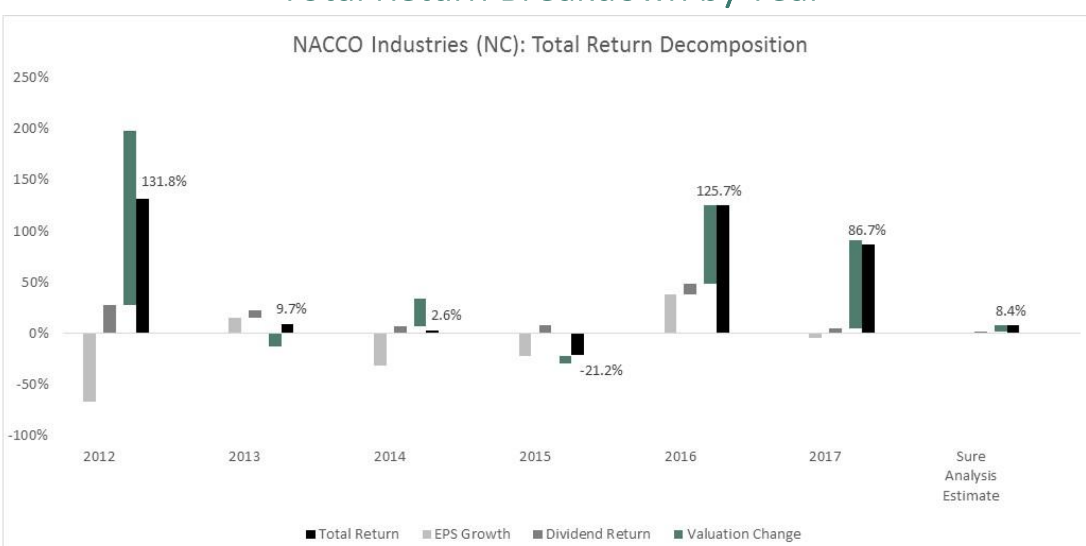
The previous version of NACCO actually saw earnings improve during the last recession, but this is not the same company. NACCO now sees a substantial portion of revenues from coal. As demand for coal fluctuates, so will NACCO's ability to produce revenue. Gross profit has also severely declined over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

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 payout ratio low in recent years, which is a prudent decision by management as earnings-per-share continues to drop. NACCO is not at risk for a dividend cut, though if earnings continue to drop then a cut could eventually occur.

Final Thoughts & Recommendation

We reiterate our expected annual returns of 8.4% through 2023 for shares of NACCO. This expected return is a combination of dividends (1.8%) and multiple expansion (6.6%). It is difficult for us to anticipate NACCO's earnings growth given the volatility in EPS totals over the last decade. The vast majority of our expected returns is based off the multiple expanding. Only those investors with a very high tolerance for risk should consider purchasing stock in a company such as NACCO. We maintain our 2023 price target of $50 for NACCO, but urge investors to seek alternative investments.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3665	2311	886	790	873	933	897	148	111	105
Gross Profit	491	408	246	210	226	221	185	-11	12	17
Gross Margin	13.4%	17.7%	27.8%	26.5%	25.9%	23.7%	20.6%	-7.6%	10.9%	16.1%
SG&A Exp.	475	388	196	190	208	199	199	40	49	47
Operating Profit	16	30	94	18	16	18	-17	-54	-39	-33
Operating Margin	0.4%	1.3%	10.6%	2.2%	1.8%	2.0%	-1.9%	-36.4%	-35.4%	-31.2%
Net Profit	-438	31	80	162	109	44	-38	22	30	30
Net Margin	-12%	1.3%	9.0%	20.5%	12.4%	4.8%	-4.3%	14.9%	26.7%	29.0%
Free Cash Flow	-67	124	47	135	98	-4	-38	104	84	26
Income Tax	19	21	16	33	16	11	-38	-10	-10	1

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	1688	1489	1658	1809	776	810	771	655	668	390
Cash & Equivalents	138	256	262	154	140	95	61	52	69	102
Accounts Receivable	418	315	426	97	121	121	123	111	13	17
Inventories	479	337	447	161	169	184	190	165	29	30
Goodwill & Int. Ass.	66	64	60	58	70	60	67	63	46	44
Total Liabilities	1331	1092	1210	1232	495	512	559	454	448	170
Accounts Payable	376	272	415	94	127	133	134	100	7	8
Long-Term Debt	449	410	392	148	178	184	248	170	96	58
Shareholder's Equity	357	397	447	576	281	298	211	201	220	219
D/E Ratio	1.26	1.03	0.88	0.26	0.63	0.62	1.17	0.85	0.44	0.27

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-21%	2.0%	5.1%	9.3%	8.4%	5.6%	-4.8%	3.1%	4.5%	5.7%
Return on Equity	-70%	8.3%	18.8%	31.7%	25.4%	15.4%	-15.0%	10.7%	14.1%	13.8%
ROIC	-40%	3.9%	9.7%	20.7%	18.4%	9.5%	-8.1%	5.3%	8.6%	10.2%
Shares Out.	8.29	8.29	8.33	8.7	8.35	7.87	7.24	6.84	6.78	6.51
Revenue/Share	442.6	278.52	106.14	94.01	103.80	114.80	118.15	21.08	16.21	15.24
FCF/Share	-8.03	14.89	5.67	16.05	11.69	-0.54	-4.97	14.75	12.22	3.72

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