



Nucor Corporation (NUE)

Updated July 28th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	-3.2%	Volatility Percentile:	78.7%
Fair Value Price:	\$35	5 Year Growth Estimate:	3.0%	Momentum Percentile:	21.1%
% Fair Value:	162%	5 Year Valuation Multiple Estimate:	-9.1%	Growth Percentile:	15.0%
Dividend Yield:	2.9%	5 Year Price Target	\$40	Valuation Percentile:	7.8%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	3.3%

Overview & Current Events

Nucor is the largest publicly traded US-based steel corporation based on its market capitalization of \$17 billion. The steel industry is notoriously cyclical, which makes Nucor's streak of 46 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 on imported steel for all countries except Canada and Mexico. This was certainly positive news for Nucor, which has been reflected in the company's recent earnings reports.

On 7/18/19, Nucor reported second quarter 2019 earnings. Revenue of \$5.9 billion fell 8.7% year-over-year and missed analyst estimates by \$100 million. Earnings-per-share of \$1.26 were in line with analyst expectations. The shortfall in revenues was due to unusually wet weather and aggressive supply chain destocking. However, management stated that real demand for its products remains strong in key end-use markets. Furthermore, management believes that conditions will remain healthy in steel shipment markets. Overall, shipments to outside customers fell 7% year-over-year during the quarter while the average sales price per ton also fell by 2% year-over-year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-\$0.94	\$0.42	\$2.45	\$1.58	\$1.52	\$2.22	\$1.11	\$2.48	\$4.10	\$7.42	\$5.31	\$6.16
DPS	\$1.41 ¹	\$1.44	\$1.45	\$1.46	\$1.47	\$1.48	\$1.49	\$1.50	\$1.51	\$1.52	\$1.60	\$1.86
Shares	315	316	317	318	318	319	318	319	318	316	314	300

Nucor's earnings-per-share fluctuate with steel prices. The company's all-time earnings-per-share high came in 2008, which coincided with the all-time high price of steel in the US. After phenomenal fourth-quarter results, Nucor expects 2019 to be one of the best years in the company's history. However, the analyst community is not nearly as optimistic as company management. Analysts expect earnings-per-share to decline to around \$4.95 in 2019. We believe Nucor management has the better insights into the future direction of the company, but we are only willing to estimate a slight premium to their consensus estimates. Moving forward, we expect 3% annual earnings growth through 2024. And, investors should note the heightened level of risk for a steel producer from geopolitical events and/or a future recession, which would likely derail the company's expected earnings growth.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	16.7	25.5	31.2	23.2	40.1	19.7	16.3	7.0	10.5	6.5
Avg. Yld.	3.3%	3.4%	3.6%	3.6%	3.1%	2.9%	3.3%	3.1%	2.6%	3.0%	2.9%	4.6%

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.

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Due to Nucor's earnings cyclicality, 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 significantly overvalued. A declining stock valuation could reduce annual returns by approximately 9.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	343%	59.2%	92.4%	96.7%	66.7%	134%	60.5%	42.1%	21.0%	30.1%	30.2%

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 earnings-per-share 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 as it is likely to perform poorly in a recession.

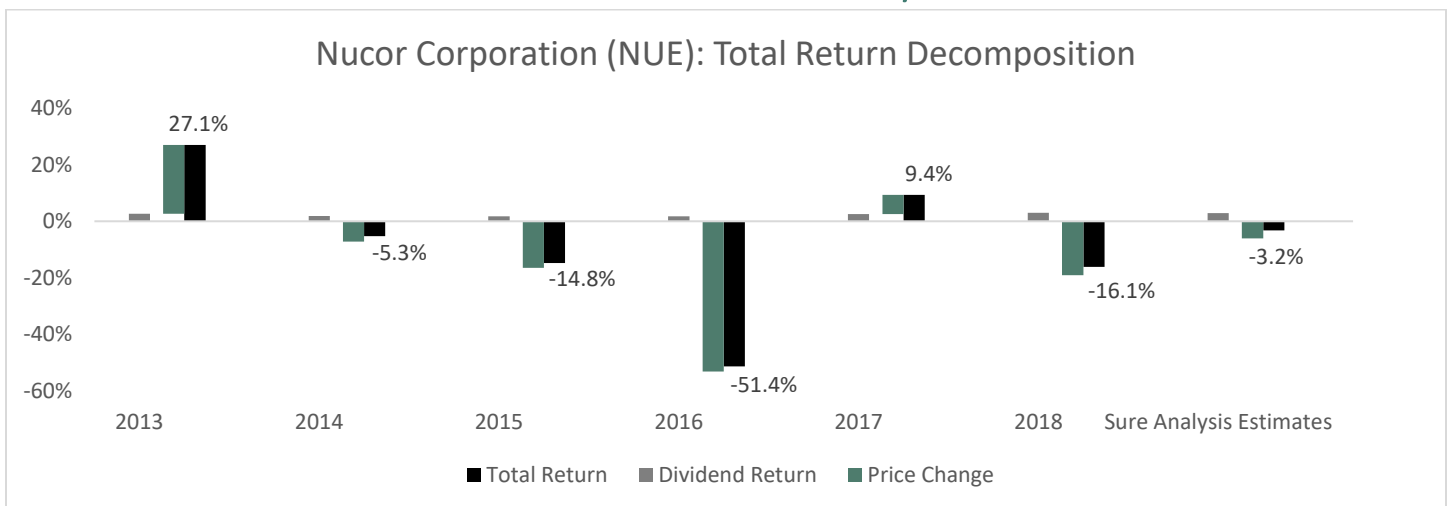
That said, Nucor has raised its base dividend for 46 straight years. This indicates the strength of its business model and management team. The company has a projected payout ratio of around 30% in 2019 and over the next five years. However, if a recession occurs, earnings could fall to negative territory, as they did in 2009. Nucor receives commendation for its ability to land on the Dividend Aristocrats list despite a highly cyclical business model. That being said, investors cannot be fully assured of future dividend increases due to this cyclicality.

While competitive advantages are difficult to come by for a commodity producer, Nucor's low cost of production and immense scale are certainly helpful when competing for new business.

Final Thoughts & Recommendation

Nucor has a competitive advantage in the steel industry, which is expected to be around for a long time to come. It is a low-cost producer and has a healthy balance sheet. But just because Nucor is a great business, that does not necessarily make it a great investment. The company is likely at or near the peak of its cycle. 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. Nucor is a Dividend Aristocrat, but the company earns a sell recommendation due to negative expected returns (-3.2% total annualized return from a 2.9% dividend yield, 3% annual earnings growth, and -9.1% annually from valuation multiple contraction) through 2024.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	11190	15845	20024	19429	19052	21105	16439	16208	20252	25067
Gross Profit	154	784	1881	1514	1411	1849	1114	2026	2569	4295
Gross Margin	1.4%	4.9%	9.4%	7.8%	7.4%	8.8%	6.8%	12.5%	12.7%	17.1%
SG&A Exp.	348	331	440	455	468	521	459	597	688	861
D&A Exp.	566	583	590	607	610	724	700	687	727	720
Operating Profit	-194	452	1442	1059	943	1328	655	1429	1882	3435
Op. Margin	-1.7%	2.9%	7.2%	5.4%	4.9%	6.3%	4.0%	8.8%	9.3%	13.7%
Net Profit	-294	134	778	505	488	679	81	796	1319	2361
Net Margin	-2.6%	0.8%	3.9%	2.6%	2.6%	3.2%	0.5%	4.9%	6.5%	9.4%
Free Cash Flow	783	528	592	253	-119	675	1795	1145	607	1411
Income Tax	-177	61	391	260	206	369	49	398	369	748

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12572	13922	14570	14152	15203	15616	14327	15224	15841	17921
Cash & Equivalents	2017	1325	1201	1053	1483	1024	1939	2046	949	1399
Acc. Receivable	1116	1440	1711	1707	1811	2068	1384	1632	2029	2506
Inventories	1313	1558	1987	2324	2606	2745	2245	2480	3462	4554
Goodwill & Int.	2706	2692	2615	2964	2848	2931	2782	2920	3111	3013
Total Liabilities	4988	6591	6864	6267	7293	7541	6477	6969	6756	7719
Accounts Payable	707	897	959	1047	1117	994	567	838	1181	1428
Long-Term Debt	3088	4294	4282	3660	4409	4584	4388	4357	3795	4291
Total Equity	7391	7120	7475	7642	7646	7772	7478	7880	8739	9792
D/E Ratio	0.42	0.60	0.57	0.48	0.58	0.59	0.59	0.55	0.43	0.44

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-2.2%	1.0%	5.5%	3.5%	3.3%	4.4%	0.5%	5.4%	8.5%	14.0%
Return on Equity	-3.8%	1.8%	10.7%	6.7%	6.4%	8.8%	1.1%	10.4%	15.9%	25.5%
ROIC	-2.6%	1.2%	6.6%	4.3%	4.1%	5.4%	0.6%	6.4%	10.3%	17.2%
Shares Out.	315	316	317	318	318	319	318	319	318	316
Revenue/Share	35.54	50.06	63.13	61.05	59.67	65.93	51.26	50.68	63.14	79.14
FCF/Share	2.49	1.67	1.87	0.79	-0.37	2.11	5.60	3.58	1.89	4.46

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

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