



# Nucor Corporation (NUE)

Updated September 22<sup>nd</sup>, 2020 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$44	<b>5 Year CAGR Estimate:</b>	8.0%	<b>Market Cap:</b>	\$13.4B
<b>Fair Value Price:</b>	\$54	<b>5 Year Growth Estimate:</b>	1.1%	<b>Ex-Dividend Date:</b>	9/29/20
<b>% Fair Value:</b>	83%	<b>5 Year Valuation Multiple Estimate:</b>	4.1%	<b>Dividend Payment Date:</b>	11/10/20
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target</b>	\$57	<b>Years Of Dividend Growth:</b>	47
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	0.6%

## Overview & Current Events

Nucor is the largest publicly traded US-based steel corporation based on its market capitalization of \$13.4 billion. The steel industry is notoriously cyclical, which makes Nucor's streak of 47 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.

On 7/23/20, Nucor reported second quarter 2020 earnings. Consolidated net earnings came in at \$108.9 million (\$0.36 per share), up sequentially from \$0.07 but down from \$1.26 year-over-year. The company recently bolstered its liquidity by issuing \$500 million in debt at a mere 2% interest rate due in 2025 and \$500 million in debt at a mere 2.7% that is not due until 2030. As a result, their quarter-end cash and cash equivalent position stood at over \$3 billion. They also have an additional \$1.5 billion in liquidity through undrawn capacity on their credit facility that does not expire until April 2023. As a result, they continue to boast the strongest credit rating in the North American steel sector (A- with a stable outlook).

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$0.42	\$2.45	\$1.58	\$1.52	\$2.22	\$1.11	\$2.48	\$4.10	\$7.42	\$5.31	<b>\$2.14</b>	<b>\$5.65</b>
<b>DPS</b>	\$1.44	\$1.45	\$1.46	\$1.47	\$1.48	\$1.49	\$1.50	\$1.51	\$1.52	\$1.60	<b>\$1.61</b>	<b>\$1.80</b>
<b>Shares<sup>1</sup></b>	316	317	318	318	319	318	319	318	316	314	<b>314</b>	<b>300</b>

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. Moving forward, we expect a strong recovery from plunging earnings this year through 2025 as conditions will likely improve once we get past uncertainty from the coronavirus, and trade relations between China and the U.S. continue to improve. Furthermore, investors should note the heightened level of risk for a steel producer from geopolitical events and/or a recession, which would derail the company's expected earnings growth.

We see the dividend continuing its decades-long streak of growth, rising from the current \$1.61 per share to \$1.80 in five years.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
<b>Avg. P/E</b>	---	16.7	25.5	31.2	23.2	40.1	19.7	16.3	7.0	10.5	<b>20.7</b>	<b>10.0</b>
<b>Avg. Yld.</b>	3.4%	3.6%	3.6%	3.1%	2.9%	3.3%	3.1%	2.6%	3.0%	2.9%	<b>3.6%</b>	<b>3.2%</b>

<sup>1</sup> Share count in millions

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Due to Nucor's earnings cyclical, we prefer to compare the company's forward dividend yield to its historical average dividend yield. Nucor's dividend yield has hovered around 3% over the past decade. Expectations of a falling dividend yield imply Nucor is somewhat undervalued. Furthermore, using normalized earnings for this year puts earnings per share at around \$5.35, we see that the price to earnings multiple would be a mere 8.2, which is below our fair value estimate of 10.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	343%	59.2%	92.4%	96.7%	66.7%	134%	60.5%	42.1%	21.0%	30.1%	75.2%	31.9%

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.

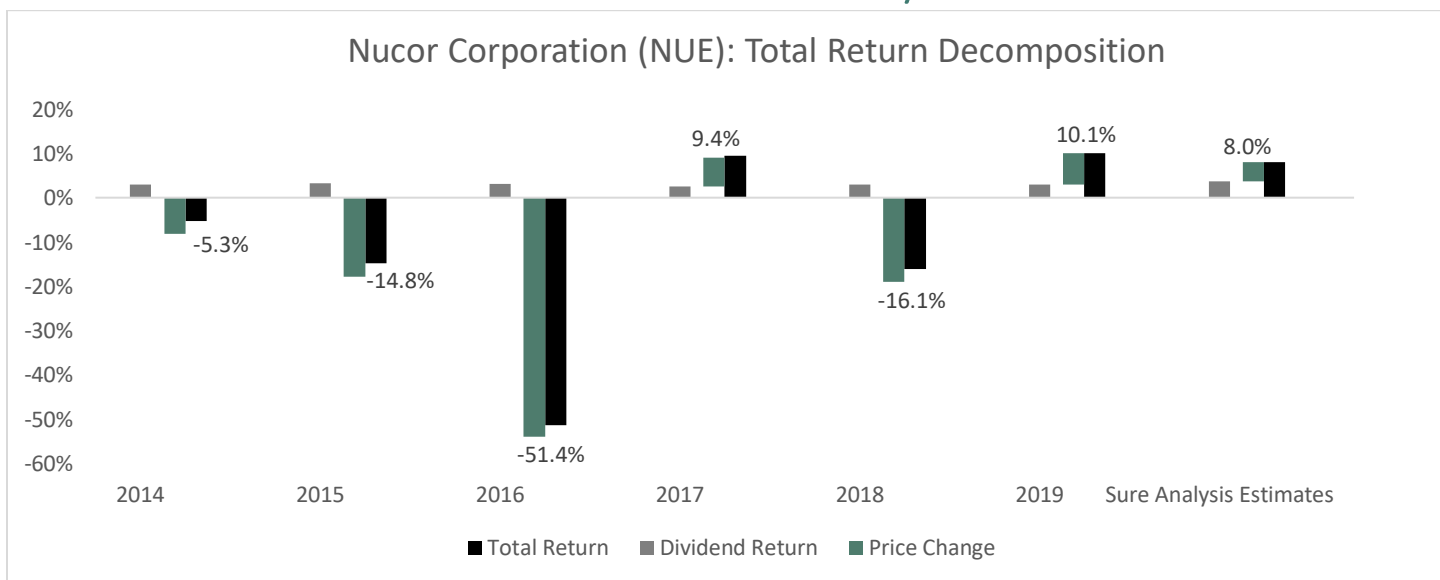
That said, Nucor has raised its base dividend for 47 straight years. This indicates the strength of its business model and management team. The company has a projected payout ratio of around 75% in 2020 which is abnormally high due to impacts from the coronavirus and the economic downturn. Nucor receives 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 cyclical.

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. It is also a Dividend Aristocrat. With the valuation on normalized earnings below our target of 10 times earnings, we see Nucor offering high-single-digit total returns in the coming years. Due to this, we rate shares a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	15,845	20,024	19,429	19,052	21,105	16,439	16,208	20,252	25,067	22,589
Gross Profit	784	1,881	1,514	1,411	1,849	1,114	2,026	2,569	4,295	2,679
Gross Margin	4.9%	9.4%	7.8%	7.4%	8.8%	6.8%	12.5%	12.7%	17.1%	11.9%
SG&A Exp.	331	440	455	468	521	459	597	688	861	711
D&A Exp.	583	590	607	610	724	700	687	727	720	735
Operating Profit	452	1,442	1,059	943	1,328	655	1,429	1,882	3,435	1,968
Op. Margin	2.9%	7.2%	5.4%	4.9%	6.3%	4.0%	8.8%	9.3%	13.7%	8.7%
Net Profit	134	778	505	488	679	81	796	1,319	2,361	1,271
Net Margin	0.8%	3.9%	2.6%	2.6%	3.2%	0.5%	4.9%	6.5%	9.4%	5.6%
Free Cash Flow	528	592	253	(119)	675	1,795	1,145	607	1,411	1,332
Income Tax	61	391	260	206	369	49	398	369	748	412

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	13,922	14,570	14,152	15,203	15,616	14,327	15,224	15,841	17,921	18,345
Cash & Equivalents	1,325	1,201	1,053	1,483	1,024	1,939	2,046	949	1,399	1,535
Acc. Receivable	1,440	1,711	1,707	1,811	2,068	1,384	1,632	2,029	2,506	2,160
Inventories	1,558	1,987	2,324	2,606	2,745	2,245	2,480	3,462	4,554	3,842
Goodwill & Int.	2,692	2,615	2,964	2,848	2,931	2,782	2,920	3,111	3,013	2,943
Total Liabilities	6,591	6,864	6,267	7,293	7,541	6,477	6,969	6,756	7,719	7,553
Accounts Payable	897	959	1,047	1,117	994	567	838	1,181	1,428	1,202
Long-Term Debt	4,294	4,282	3,660	4,409	4,584	4,388	4,357	3,795	4,291	4,298
Total Equity	7,120	7,475	7,642	7,646	7,772	7,478	7,880	8,739	9,792	10,358
D/E Ratio	0.60	0.57	0.48	0.58	0.59	0.59	0.55	0.43	0.44	0.41

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.0%	5.5%	3.5%	3.3%	4.4%	0.5%	5.4%	8.5%	14.0%	7.0%
Return on Equity	1.8%	10.7%	6.7%	6.4%	8.8%	1.1%	10.4%	15.9%	25.5%	12.6%
ROIC	1.2%	6.6%	4.3%	4.1%	5.4%	0.6%	6.4%	10.3%	17.2%	8.6%
Shares Out.	316	317	318	318	319	318	319	318	316	314
Revenue/Share	50.06	63.13	61.05	59.67	65.93	51.26	50.68	63.14	79.14	73.94
FCF/Share	1.67	1.87	0.79	(0.37)	2.11	5.60	3.58	1.89	4.46	4.36

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

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