



Nucor Corporation (NUE)

Updated November 11th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$50.8	5 Year CAGR Estimate:	5.1%	Market Cap:	\$15 B
Fair Value Price:	\$50.0	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	12/29/20 ¹
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	11/10/20 ²
Dividend Yield:	3.2%	5 Year Price Target	\$56.5	Years Of Dividend Growth:	47
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	0.6%

Overview & Current Events

Nucor is the largest publicly traded US-based steel corporation based on its market capitalization of \$15 billion. The steel industry is notoriously cyclical, which makes Nucor's streak of 47 consecutive years of dividend increases even 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 2018 placing a 25% tariff on imported steel for all countries except Canada and Mexico, which has helped combat this for Nucor and its competitors.

On 10/22/20, Nucor reported third-quarter 2020 earnings. The company's Q3 earnings increased by 1.7% compared to last year's earnings while the company's revenue fell 9.7% year-over-year to \$4.93B. While the company's net sales fell from a year ago, they increased 14% sequentially from \$4.33B in Q2. Furthermore, its 6.37M tons shipped to outside customers in Q3 soared 16% quarter-over-quarter, while it declined 3% compared to the year-ago quarter. Q3 average sales price per ton fell 2% quarter-over-quarter and 7% year-over-year. The management stated that non-residential construction market conditions remained strong throughout the quarter, and the automotive market's recovery sped up, while market conditions for the company remained a challenge for its sheet and plate mills. Nucor also stated that while many of the markets that they serve have typically experienced a seasonal slowdown in Q4, the company would still expect higher fourth-quarter earnings compared to its third-quarter primarily due to improved pricing at its sheet and plate mills, which indicates that Q4 would come in above the \$0.63 analyst consensus.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.42	\$2.45	\$1.58	\$1.52	\$2.22	\$1.11	\$2.48	\$4.10	\$7.42	\$5.31	\$2.78	\$5.65
DPS	\$1.44	\$1.45	\$1.46	\$1.47	\$1.48	\$1.49	\$1.50	\$1.51	\$1.52	\$1.60	\$1.61	\$1.80
Shares³	316	317	318	318	319	318	319	318	316	314	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. 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. We also view this year's earnings power as \$5 per share instead of the \$2.78 we expect due to short-term COVID-19 impacts.

¹ Estimated Date

² Estimated Date

³ Share count in millions

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	16.7	25.5	31.2	23.2	40.1	19.7	16.3	7.0	10.5	10.2	10.0
Avg. Yld.	3.4%	3.6%	3.6%	3.1%	2.9%	3.3%	3.1%	2.6%	3.0%	2.9%	3.2%	3.2%

Due to Nucor's earnings cyclicality, 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 stagnating dividend yield imply Nucor is fairly valued. Furthermore, using normalized earnings for this year puts earnings per share at around \$5.00, we see that the price to earnings multiple would be a mere 10.2, which is right around 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%	57.9%	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 protracted recession.

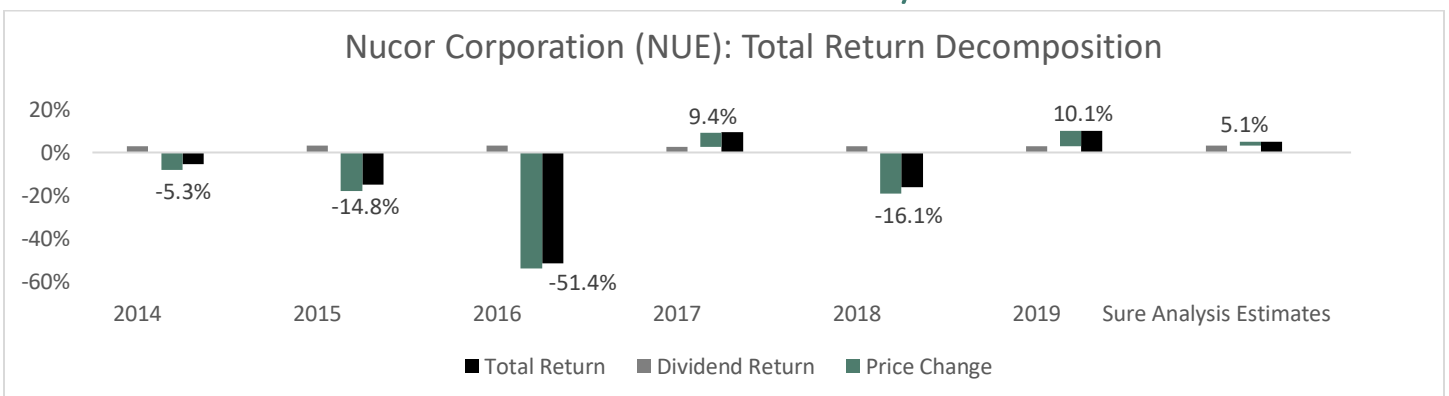
That said, Nucor has raised its base dividend for 47 straight years. This indicates the strength of its business model and management team. The company has a projected payout ratio of around 58% in 2020 which is abnormally high due to impacts from the coronavirus and the economic downturn. Nucor receives 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 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. It is also a Dividend Aristocrat. With the valuation on normalized earnings around our target of 10 times earnings, we see Nucor offering mid-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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