



Nucor Corporation (NUE)

Updated August 7th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$103	5 Year CAGR Estimate:	-4.8%	Market Cap:	\$30.6B
Fair Value Price:	\$60.0	5 Year Growth Estimate:	3.7%	Ex-Dividend Date:	09/29/21 ¹
% Fair Value:	172%	5 Year Valuation Multiple Estimate:	-10.2%	Dividend Payment Date:	11/11/21 ²
Dividend Yield:	1.6%	5 Year Price Target	\$72	Years Of Dividend Growth:	48
Dividend Risk Score:	A	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 \$30.6 billion. The steel industry is notoriously cyclical, which makes Nucor's streak of 48 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 07/22/21, Nucor reported second-quarter 2021 earnings. The company's Q2 earnings stood at \$5.04, up remarkably from \$0.36 year-over-year. The company's net sales increased from a year ago, surging 25% to \$8.79B from \$7.02B sequentially. Furthermore, its 7.48M tons shipped to outside customers in Q2 increased 4% quarter-over-quarter and 37% compared to the year-ago quarter. Q2 average sales price per ton increased 20% quarter-over-quarter and 49% year-over-year. That said, Nucor forecasted strong profitability in its steel mills segment. Overall operating rates at the company's steel mills in the second quarter increased to 97% from 95% sequentially and 68% in the year-ago quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.45	\$1.58	\$1.52	\$2.22	\$1.11	\$2.26	\$3.57	\$7.64	\$4.24	\$4.40	\$17.76	\$6.00
DPS	\$1.45	\$1.46	\$1.47	\$1.48	\$1.49	\$1.50	\$1.51	\$1.52	\$1.60	\$1.61	\$1.62	\$1.80
Shares³	317	318	318	319	318	319	318	316	314	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 2026 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 \$1.62 per share to \$1.80 in five years. While the company is expected to generate an enormous earnings-per-share of \$17.76 this year, we are assuming an earnings power of \$5.00.

¹ Estimate

² Estimate

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.7	25.5	31.2	23.2	40.1	19.7	16.3	7.0	10.5	10.2	20.6	12.0
Avg. Yld.	3.5%	3.6%	3.1%	2.9%	3.3%	3.4%	2.6%	2.8%	3.6%	3.6%	1.6%	2.5%

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. However, the recent rally in the stock leaves it yielding just 1.6%. Furthermore, expected normalized earnings power-per-share this year puts the price to earnings multiple at 20.6, which is significantly above our fair value estimate of 12.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	59.2%	92.4%	96.7%	66.7%	134%	60.5%	42.1%	21.0%	30.1%	57.9%	32.4%	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 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.

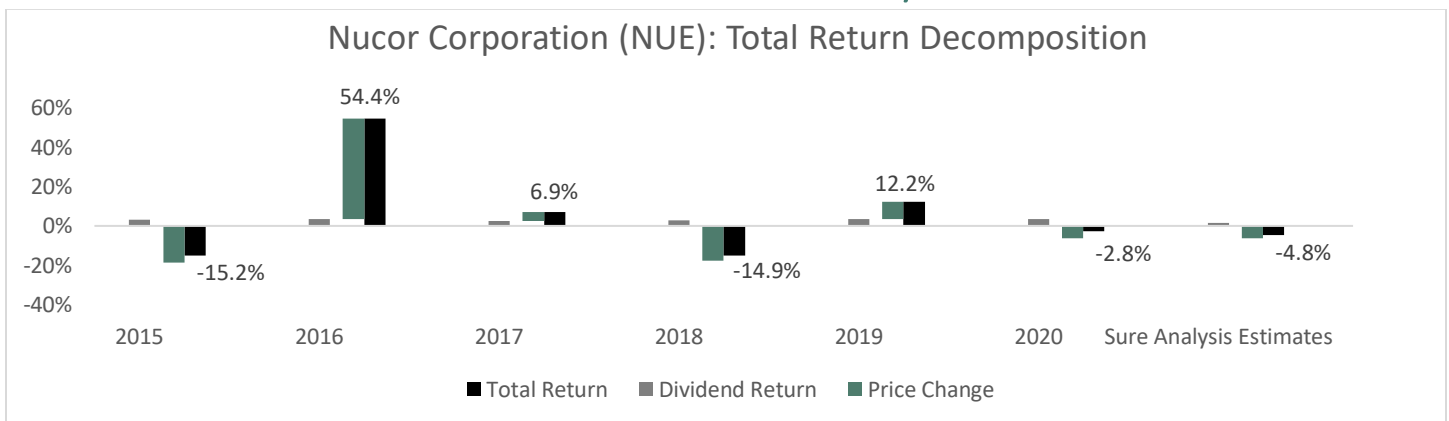
That said, Nucor has raised its base dividend for 48 straight years. This indicates the strength of its business model and management team. The company had a payout ratio of 58% in 2020 which is abnormally high due to impacts from the coronavirus and the economic downturn. Nucor receives commendation 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. However, with the valuation on normalized earnings well above our target of 12 times earnings, we see Nucor offering negative total returns in the coming years. Due to this, we rate shares a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	20,024	19,429	19,052	21,105	16,439	16,208	20,252	25,067	22,589	20,140
Gross Profit	1,881	1,514	1,411	1,849	1,114	2,026	2,569	4,295	2,679	2,228
Gross Margin	9.4%	7.8%	7.4%	8.8%	6.8%	12.5%	12.7%	17.1%	11.9%	11.1%
SG&A Exp.	440	455	468	521	459	597	688	861	711	615
D&A Exp.	590	607	610	724	700	687	727	720	735	785
Operating Profit	1,442	1,059	943	1,328	655	1,429	1,882	3,435	1,968	1,613
Op. Margin	7.2%	5.4%	4.9%	6.3%	4.0%	8.8%	9.3%	13.7%	8.7%	8.0%
Net Profit	778	505	488	679	81	796	1,319	2,361	1,271	721
Net Margin	3.9%	2.6%	2.6%	3.2%	0.5%	4.9%	6.5%	9.4%	5.6%	3.6%
Free Cash Flow	592	253	(119)	675	1,795	1,145	607	1,411	1,332	1,154
Income Tax	391	260	206	369	49	398	369	748	412	(0)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	14,570	14,152	15,203	15,616	14,327	15,224	15,841	17,921	18,345	20,125
Cash & Equivalents	1,201	1,053	1,483	1,024	1,939	2,046	949	1,399	1,535	2,640
Acc. Receivable	1,711	1,707	1,811	2,068	1,384	1,632	2,029	2,506	2,160	2,299
Inventories	1,987	2,324	2,606	2,745	2,245	2,480	3,462	4,554	3,842	3,569
Goodwill & Int.	2,615	2,964	2,848	2,931	2,782	2,920	3,111	3,013	2,943	2,898
Total Liabilities	6,864	6,267	7,293	7,541	6,477	6,969	6,756	7,719	7,553	8,894
Accounts Payable	959	1,047	1,117	994	567	838	1,181	1,428	1,202	1,432
Long-Term Debt	4,282	3,660	4,409	4,584	4,388	4,357	3,795	4,291	4,298	5,341
Total Equity	7,475	7,642	7,646	7,772	7,478	7,880	8,739	9,792	10,358	10,789
D/E Ratio	0.57	0.48	0.58	0.59	0.59	0.55	0.43	0.44	0.41	0.50

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.5%	3.5%	3.3%	4.4%	0.5%	5.4%	8.5%	14.0%	7.0%	3.8%
Return on Equity	10.7%	6.7%	6.4%	8.8%	1.1%	10.4%	15.9%	25.5%	12.6%	6.8%
ROIC	6.6%	4.3%	4.1%	5.4%	0.6%	6.4%	10.3%	17.2%	8.6%	4.6%
Shares Out.	317	318	318	319	318	319	318	316	314	314
Revenue/Share	63.13	61.05	59.67	65.93	51.26	50.68	63.14	79.14	73.94	66.41
FCF/Share	1.87	0.79	(0.37)	2.11	5.60	3.58	1.89	4.46	4.36	3.80

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

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