



Ternium S.A. (TX)

Updated September 3rd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	10.8%	Market Cap:	\$10.6 B
Fair Value Price:	\$128	5 Year Growth Estimate:	-10.0%	Ex-Dividend Date:	05/05/2022
% Fair Value:	42%	5 Year Valuation Multiple Estimate:	19.1%	Dividend Payment Date:	05/14/2022
Dividend Yield:	3.9%	5 Year Price Target	\$76	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	-

Overview & Current Events

Ternium is the leading flat steel producer in Latin America, and has operating facilities in Mexico, Brazil, Argentina, Colombia, the southern U.S., and Central America. The company's steel products are sold to customers in the automotive, home appliances, HVAC, construction, capital goods, container, food, and energy industries. The company operates a fully-integrated production system, from the mining of iron ore to the manufacturing process of steelmaking and producing high value added products. Ternium S.A. trades on the NYSE under the ticker symbol TX as an American Depository Share (ADS). Ternium has a market capitalization of \$10.6 billion. TX has roughly 20,000 employees.

On August 3rd, Ternium released second quarter and first half of 2021 results. TX's steel shipments increased by 25% to 3.068 million tons over the same prior year quarter. Iron ore shipments decreased 9% year-over-year to 906,000 tons. The company achieved net sales of \$3.92 million, a 125% increase over 2Q 2020's \$1.75 million. Operating income grew massively over the prior year, to \$1.27 million. EBITDA of \$1.42 million resulted in an EBITDA margin of 36%. EBITDA per Ton also grew from \$91.4 million in the prior year to \$462.9 million this quarter. Earnings per ADS of \$5.21 completely trumped the prior year's earnings of \$0.22 and was still a large increase over 1Q2021's \$3.07.

For the first half of 2021, net sales of \$7.2 million was a 78% increase over the prior year period's net sales of \$4.0 million. EBITDA grew from \$0.526 million in 1H2020 to \$2.478 million in 2H2020. The increase in steel prices globally and increased demand for steel products has caused a surge in Ternium's results, as they are set to outperform their historical earnings. Earnings per ADS for the first half of 2021 of \$8.28 compares to \$0.17 in the prior year.

Leadership anticipates continued solid performance for the rest of 2021, due to the strong global steel market environment. Increased steel prices will be offset by higher cost per ton due to higher raw material costs. Ternium is ramping up its new flat steel hot-rolling mill at its industrial center in Pesqueria, Mexico, which was successfully started up in May 2021. The company expects it can produce an additional 600,000 tons with this facility over the rest of 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.63	\$0.72	\$2.32	(\$1.01)	\$0.04	\$3.03	\$4.51	\$7.67	\$2.87	\$3.97	\$16.00	\$9.45
DPS	\$0.75	\$0.75	\$0.65	\$0.75	\$0.90	\$0.90	\$1.00	\$1.10	\$1.20	\$0.00	\$2.10	\$3.23
Shares¹	196.8	196.3	196.3	196.3	196.3	196.3	196.3	196.3	196.3	196.3	196.3	196.0

Ternium's results have been cyclical, so earnings have been bumpy over the past decade, but the company has remained healthy overall over this time period. Increased demand for steel products has put TX in a good spot, as its set to produce record 2021 earnings per ADS of \$16.00. Given the cyclicity of TX's earnings, certain year-over-year comparisons can be heavily skewed. Even so, over the last nine and five years on average, TX has produced earnings growth of 4.7% and 151% annually, respectively. Since the company is expected to report very strong results in comparison to its historic average, we believe earnings will shrink by about 10% from this cyclical high.

¹ In millions

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Ternium can grow its earnings by increased production through ramping up existing facilities or investing in new ones. Additionally, the increased demand and limited supply of steel products has caused a massive increase in the steel prices. Margin improvements across the vertically-integrated business could also boost the bottom line. The company has maintained its number of outstanding shares over the last decade quite steadily.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.1	10.0	50.0	11.6	15.3	50.0	7.1	6.4	3.8	13.1	3.3	8.0
Avg. Yld.	2.5%	6.1%	4.1%	2.8%	5.3%	4.9%	3.5%	3.3%	5.1%	2.7%	3.9%	4.3%

Given the expected outperformance for TX's earnings in 2021, the company has come to trade at a price-to-earnings ratio of 3.3, fairly below its average, even when excluding the 2013 and 2016 outliers. We estimate the company's fair value to be at roughly 8.0 times earnings. This would result in massive valuation gains of 19.1%, which will be offset by the estimated decline in earnings out to 2026. The company's yield is above the average at 3.9%. To note, Ternium pays an annual dividend, considerably less frequent than the quarterly dividend most companies pay.

Safety, Quality, Competitive Advantage, & Recession Resiliency

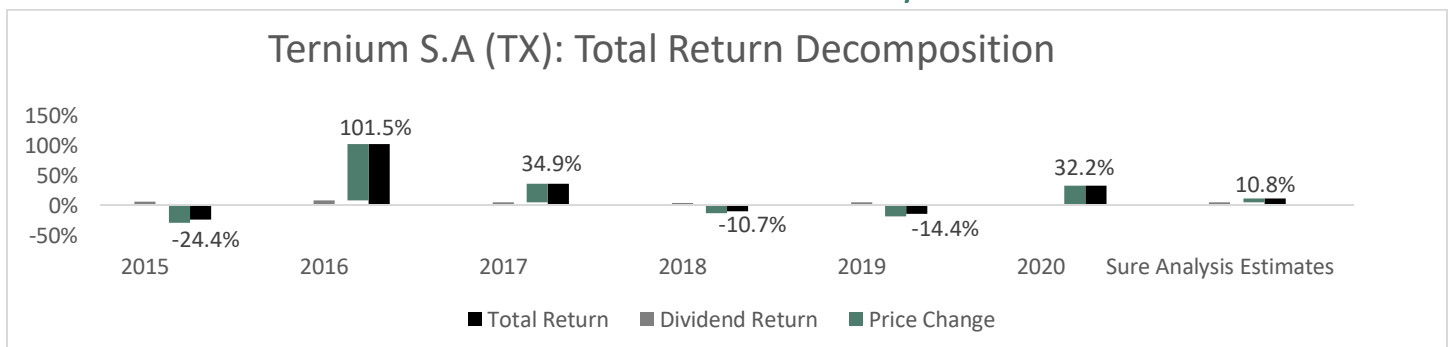
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	104%	28%	-	2250%	30%	22%	14%	42%	0%	13%	34%

The cyclical nature of the company has shone through in the payout ratio where in at least three years out of the past decade, the company could not cover the dividend with earnings. The company did not pay a dividend in 2020 amidst the COVID-19 pandemic, but then paid a dividend in 2021 which was nearly double the size of the 2019 dividend. The company has a net debt position of \$0.2 billion at the end of the quarter, for a net debt to trailing twelve months EBITDA ratio of only 0.1 times. This fair leverage position reduces the risk profile of the company, but we don't believe them to be recession resistant given a decrease in demand for their steel products would hit the company. Ternium's Mexican facilities have logistical advantages within the Gulf Coast and a large portion of the West Coast. Additionally, TX's value-added services, including technical assistance related to steel use and production, and development of new steel products, is a competitive advantage.

Final Thoughts & Recommendation

Ternium finds itself in a profitable position given the significant demand for steel products which has resulted in a massive increase in steel prices. This outperformance in the current year has caused us to anticipate a 10% decrease in earnings over the medium term. Combined with the 3.9% yield and massive 19.1% valuation expansion, we estimate total returns of 10.8% and rate TX a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	9,123	8,608	8,530	8,726	7,877	7,224	9,700	11,455	10,193	8,735
Gross Profit	2,107	1,742	1,930	1,801	1,400	1,840	2,297	2,971	1,740	1,636
Gross Margin	23.1%	20.2%	22.6%	20.6%	17.8%	25.5%	23.7%	25.9%	17.1%	18.7%
SG&A Exp.	636	634	641	627	586	542	629	668	654	572
Depr. & Amort.	396	371	377	415	434	407	474	589	661	631
Operating Profit	1,245	921	1,109	1,056	639	1,142	1,457	2,108	865	1,079
Operating Margin	13.7%	10.7%	13.0%	12.1%	8.1%	15.8%	15.0%	18.4%	8.5%	12.4%
Net Profit	518	142	455	(199)	8	596	886	1,507	564	778
Net Margin	5.7%	1.7%	5.3%	-2.3%	0.1%	8.2%	9.1%	13.2%	5.5%	8.9%
Free Cash Flow	45	33	209	62	857	664	(26)	1,219	595	1,201
Income Tax	313	261	349	339	207	412	337	369	197	291

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	10,743	10,867	10,373	9,690	8,063	8,323	12,123	12,548	12,936	12,856
Cash & Equivalents	2,158	559	306	213	151	183	338	248	520	538
Accounts Receivable	746	735	671	720	511	634	1,007	1,128	950	918
Inventories	2,124	2,000	1,941	2,134	1,579	1,648	2,551	2,690	2,158	2,002
Goodwill & Intang.	900	887	1,057	845	787	740	988	913	820	770
Total Liabilities	3,902	4,432	4,035	4,055	3,260	3,156	6,270	5,063	5,221	4,413
Accounts Payable	682	762	756	565	568	603	898	904	877	1,049
Long-Term Debt	1,996	2,424	2,003	2,165	1,521	1,219	3,222	2,037	2,189	1,723
Shareholder's Equity	5,756	5,369	5,340	4,697	4,033	4,391	5,010	6,393	6,612	7,286
D/E Ratio	0.35	0.45	0.38	0.46	0.38	0.28	0.64	0.32	0.33	0.24

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.7%	1.3%	4.3%	-2.0%	0.1%	7.3%	8.7%	12.2%	4.4%	6.0%
Return on Equity	8.9%	2.6%	8.5%	-4.0%	0.2%	14.1%	18.9%	26.4%	8.7%	11.2%
ROIC	5.8%	1.6%	5.3%	-2.5%	0.1%	9.4%	11.5%	16.2%	5.8%	7.8%
Shares Out.	196.8	196.3	196.3	196.3	196.3	196.3	196.3	196.3	196.3	196.3
Revenue/Share	46.35	43.85	43.45	44.45	40.13	36.80	49.41	58.35	51.92	44.50
FCF/Share	0.23	0.17	1.06	0.32	4.36	3.38	(0.13)	6.21	3.03	6.12

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

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