



NACCO Industries (NC)

Updated November 6th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	12.4%	Market Cap:	\$226 million
Fair Value Price:	\$59	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	11/24/2021 ¹
% Fair Value:	55%	5 Year Valuation Multiple Estimate:	12.8%	Dividend Payment Date:	12/15/2021
Dividend Yield:	2.5%	5 Year Price Target	\$53	Years Of Dividend Growth:	36
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	2.6%

Overview & Current Events

NACCO Industries is a holding company for The North American Coal Corporation, which incorporated in 1913. The company supplies coal from surface mines to power generation companies. At 35 million tons of annual production, NACCO Industries is the largest lignite coal producer in the U.S. and ranks among the top ten of all coal producers. NACCO Industries operates in the states of North Dakota, Texas, Mississippi, Louisiana and on the Navajo Nation in New Mexico. The company produces annual revenues of ~\$140 million in normalized conditions. The company has been very active in purchasing and spinning off a wide variety of businesses in its history. In 1988 and 1990, NACCO Industries made several purchases that expanded the business to include housewares. In 2012, NACCO Industries spun off its Materials Handling Group (a combination of Yale Materials Handling Corporation and the Hyster Company). The company completed its spinoff of its housewares-related business on 9/29/2017.

NACCO Industries reported earnings results for the third quarter on 11/3/2021. Revenue grew 59.2% to \$51.7 million. The company reported earnings-per-share of \$3.47 compared to \$1.14 in the previous year.

Coal revenues grew 16.2% to \$2371 million mostly due once again to the recognition of reclamation revenue from the Gaddo Creek asset, which is now a consolidated entity. Unconsolidated coal deliveries increased 8.4% to 8.3 million tons. Consolidated coal deliveries were higher by 6.1% to 768K tons. Delivers from the North American Mining segment improved more than 22% to 14.1 million tons while revenues were up 83% to \$17.7 million due to higher reimbursement costs. The company entered into an agreement in Q2 2020 to become the exclusive contract miner for the Thacker Pass lithium project in northern Nevada. Construction will now begin in the first half of 2022 with the production of lithium products to begin in 2023. Mineral Management revenues increased 290% to \$10.6 million due to higher royalty income generated from newer wells in the Permian Basin.

Following third quarter earnings results, we now anticipate that NACCO Industries will earn \$6.50 per share in 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$14.86	\$5.02	\$5.79	\$3.98	\$3.13	\$4.32	\$4.14	\$5.00	\$5.66	\$2.10	\$6.50	\$5.88
DPS	\$2.12	\$1.88	\$1.00	\$1.02	\$1.05	\$1.07	\$0.98	\$0.66	\$0.76	\$0.77	\$0.79	\$1.01
Shares²	9	8	8	7	7	7	7	7	7	7	7	5

Because NACCO Industries spun off its Materials Handling Group in 2012, it is not appropriate to compare today's company to the pre-spinoff equivalent. NACCO saw its earnings per share decline 6.5% per year through 2017. Although NACCO has shown negative growth since 2012 and volatile earnings-per-share since then, we have lowered our projected growth of -2% annually as expected improvements in revenues for the current year, and the prospects of growth from the Thacker Pass project that are offset by a high starting base for EPS.

¹ Estimated ex-dividend date

² In millions of shares

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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Adjusting for its spin-off history, NACCO Industries has raised its dividend for 36 consecutive years. The company increased its dividend by 2.6% for 6/15/2021 payment. We expect a dividend growth rate of 5% going forward.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	6.2	18.4	10.0	13.8	16.8	14.5	18.2	8.7	8.3	12.5	4.9	9.0
Avg. Yld.	2.3%	2.0%	1.7%	1.9%	2.0%	1.7%	1.3%	1.8%	1.6%	2.9%	2.5%	1.9%

Shares of NACCO Industries have increased by \$5, or 18.5%, since our 8/8/2021 update. Focusing on just the past 5 years, NACCO Industries shares have traded with an average price to earnings multiple of 11.8. This is higher than the stock's current multiple of 4.9x earnings. Investors are just not willing to pay for a company that has an issue growing earnings consistently. NACCO Industries needs to prove it can reliably grow earnings-per-share before it reaches its 5-year historical averages. We maintain our 2026 P/E target of 9. If achieved, this would add 12.8% to annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

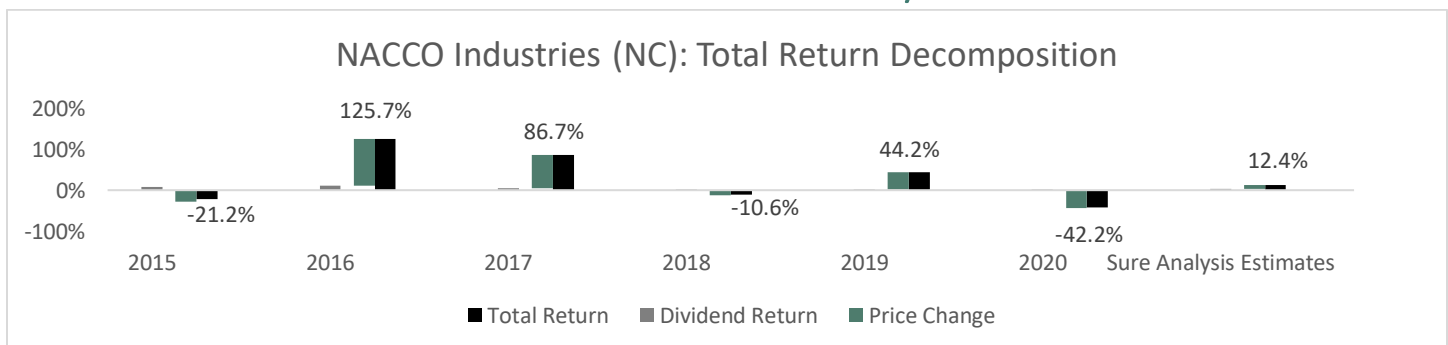
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	14%	38%	17%	26%	34%	25%	24%	13%	13%	37%	12%	17%

The previous version of NACCO Industries actually saw earnings improve during the last recession, but this is not the same company. NACCO Industries now sees a substantial portion of revenues from coal. As demand for coal fluctuates, so will the company's ability to produce revenue. The company has also kept its payout ratio low in recent years, which is a prudent decision by management as earnings-per-share continues to drop. NACCO Industries' primary competitive advantage is that it doesn't acquire existing coal mines or mining companies, as this would increase its leverage position. Instead, NACCO Industries focuses on reducing coal production costs and maximizing efficiency and operating capacity at the mine locations.

Final Thoughts & Recommendation

After third quarter results, NACCO Industries is expected to return 12.4% annually through 2026, up from our previous estimate of 5.6%. This projected return stems from a starting dividend yield of 2.5% and a low double-digit contribution from multiple reversion offset by an expected decline in earnings-per-share growth. Coal deliveries remain strong and all three segments saw high growth rates compared to the prior year. The company also has an excellent dividend growth history even as it operates in a highly cyclical industry. However, we stress that NACCO Industries is a very volatile company operating in a highly cyclical industry and is rated a buy for those investors with a high tolerance for risk. All others are encouraged to invest elsewhere.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	790	873	933	897	148	111	105	135	141	128
Gross Profit	210	226	221	185	(11)	12	17	30	31	17
Gross Margin	26.5%	25.9%	23.7%	20.6%	-7.6%	10.9%	16.1%	22.1%	22.1%	13.2%
Operating Profit	190	208	199	199	40	49	47	49	54	53
Operating Margin	17	11	16	(20)	(55)	(39)	(34)	(24)	(27)	(40)
Net Profit	2.1%	1.3%	1.8%	-2.2%	-37.1%	-35.2%	-32.7%	-17.4%	-19.0%	-31.4%
Net Margin	162	109	44	(38)	22	30	30	35	40	15
Free Cash Flow	20.5%	12.4%	4.8%	-4.3%	14.9%	26.7%	29.0%	25.7%	28.1%	11.5%
Income Tax	135	98	(4)	(38)	104	84	26	34	28	(33)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,809	776	810	771	655	668	390	377	445	476
Cash & Equivalents	154	140	95	61	52	69	102	85	123	88
Accounts Receivable	101	149	153	181	114	21	35	29	22	24
Inventories	161	169	184	190	165	29	30	31	40	48
Goodwill & Int. Ass.	58	70	60	67	63	46	44	41	38	35
Total Liabilities	1,232	495	512	559	454	448	170	126	155	176
Accounts Payable	94	127	133	134	100	11	10	9	10	6
Long-Term Debt	148	178	184	248	170	80	50	11	25	46
Shareholder's Equity	576	281	298	211	201	220	219	251	289	301
D/E Ratio	0.26	0.63	0.62	1.17	0.85	0.36	0.23	0.04	0.09	0.15

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.3%	8.4%	5.6%	-4.8%	3.1%	4.5%	5.7%	9.1%	9.6%	3.2%
Return on Equity	31.7%	25.4%	15.4%	-15.0%	10.7%	14.1%	13.8%	14.8%	14.7%	5.0%
ROIC	20.7%	18.4%	9.5%	-8.1%	5.3%	8.8%	10.6%	13.1%	13.8%	4.5%
Shares Out.	9	8	8	7	7	7	7	7	7	7
Revenue/Share	94.01	103.80	114.80	118.15	21.08	16.21	15.24	19.45	20.12	18.20
FCF/Share	16.05	11.69	(0.54)	(4.97)	14.75	12.22	3.72	4.84	4.01	(4.63)

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

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