Steel Dynamics (STLD)

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Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	1.1%	**Market Cap:**	$10.9 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	3/29/2022[1]
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	4/9/2022
Dividend Yield:	2.0%	**5 Year Price Target**	$50	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.0%

Overview & Current Events

Steel Dynamics is the youngest of America's major steel producers. It was founded in Indiana in 1993 and completed its IPO in 1996. It is one of the largest domestic steel producers, with annual production capacity of approximately 13 million tons and a market capitalization of $10.9 billion.

The coronavirus crisis severely hurt the demand for steel due to its impact on the automotive industry. Consequently, a great portion of high-cost steel production was idled. However, when the economy reopened, the demand for steel recovered swiftly. Even better for steel producers, thanks to extremely low steel inventory levels, flat rolled steel prices rallied to all-time highs last year. Given also sustained demand from automakers and renewable energy projects, flat rolled steel prices are likely to remain strong in the upcoming quarters.

In late January, Steel Dynamics reported (1/24/22) financial results for the fourth quarter of fiscal 2021. Thanks to the aforementioned tailwind from pent-up demand for steel, Steel Dynamics posted all-time high sales of $5.3 billion, which were 104% higher than those in the prior year's quarter. Thanks to the record sales and the nearly all-time high steel prices, the company grew its adjusted earnings-per-share more than 6-fold, from $0.89 to an all-time high of $5.78, and exceeded the analysts' consensus by $0.07.

Due to increased supply from steel producers, steel prices have corrected lately, but they are still much higher than their historical average. We expect earnings-per-share of about $12.50 this year. On the other hand, as global supply is likely to grow further, we expect steel prices to normalize beyond this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.75	$0.83	$1.35	$0.74	$1.92	$2.65	$5.40	$3.04	$2.84	$16.09	***$12.50***	***$4.50***
DPS	$0.40	$0.44	$0.46	$0.55	$0.56	$0.62	$0.75	$0.96	$1.00	$1.04	***$1.04***	***$1.32***
Shares[2]	219.5	222.9	241.4	243.1	243.8	237.4	225.3	214.5	212.1	198.8	***185.0***	***180.0***

Commodity producers are usually highly cyclical stocks, as their earnings are very sensitive to the dramatic swings of commodity prices. When prices are high, producers boost their production, which eventually results in an oversupplied market and a plunge in prices. This cyclical behavior is clearly reflected in the above table, which depicts the volatile performance record of Steel Dynamics.

On the bright side, Steel Dynamics has worked to broaden its product portfolio with high-quality steel products and expand its market diversity. As a result, it has consistently achieved a much higher utilization rate (80%-90%) in its steel mills when compared to the industry average (70%-80%). It has also pursued growth via some acquisitions. Overall, it has grown its earnings-per-share at a 9.8% average annual rate over the last decade, excluding the blowout year 2021. We view the earnings of 2021 as abnormal and use earnings-per-share of $4.50 as a base for our calculations of potential future returns. We expect Steel Dynamics to earn approximately $4.50 per share in 2027 as well.

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[1] Estimated date.

[2] In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.4	19.4	14.6	26.1	13.1	13.6	8.2	10.5	10.2	3.5	***11.8***	***11.1***
Avg. Yld.	3.1%	2.7%	2.3%	2.8%	2.2%	1.7%	1.7%	3.0%	3.5%	1.8%	***2.0%***	***2.6%***

Due to its cyclicality, Steel Dynamics trades at low price-to-earnings ratios when it enjoys great profits and at high earnings multiples during rough periods. Steel Dynamics is now trading at 11.8 times its “normal earnings”, which is lower than the 10-year average of 13.7. However, due to the high cyclicality of the stock, we assume a fair price-to-earnings ratio of 11.1, which is the 5-year average of the stock. If the stock reaches our fair value estimate, it will incur a -1.2% annualized drag in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

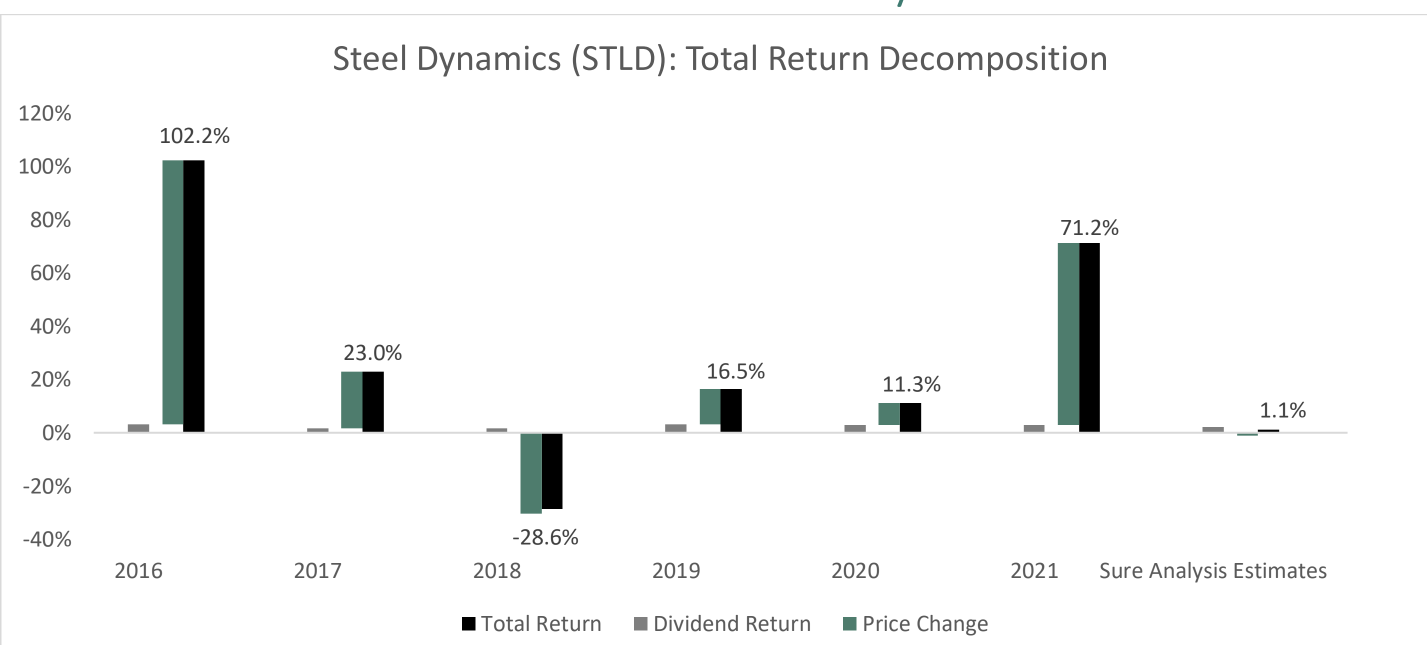
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	53%	53%	34%	74%	29%	23%	14%	32%	35%	6%	***23%***	***29%***

Steel Dynamics has raised its dividend for nine consecutive years, but it is currently offering a lackluster 2.0% dividend yield. Moreover, due to the cyclicality of its business, it is not suitable for income-oriented investors. Fortunately, the company has a strong balance sheet, which is paramount during downturns, such as the collapse of commodity prices in 2015. Steel Dynamics is also better than its average peer thanks to its high-quality products, which somewhat differentiate the company from its peers. The company has also posted strong free cash flows in every single year in the last decade. Steel Dynamics is one of the highest-quality steel producers, but it is not immune to the cyclicality of its industry.

Final Thoughts & Recommendation

Steel Dynamics currently benefits from strong steel prices but supply is likely to gradually normalize in the upcoming quarters. As the stock has tripled off its bottom in 2020, it could offer poor returns going forward. We rate it as a sell.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7,290	7,373	8,756	7,594	7,777	9,539	11,822	10,465	9,601
Gross Profit	720	719	966	732	1,335	1,582	2,323	1,531	1,435
Gross Margin	9.9%	9.8%	11.0%	9.6%	17.2%	16.6%	19.6%	14.6%	14.9%
SG&A Exp.	285	301	359	352	445	486	573	515	539
Operating Profit	399	387	580	356	861	1,067	1,722	987	867
Op. Margin	5.5%	5.2%	6.6%	4.7%	11.1%	11.2%	14.6%	9.4%	9.0%
Net Profit	164	189	157	(130)	382	813	1,258	671	551
Net Margin	2.2%	2.6%	1.8%	-1.7%	4.9%	8.5%	10.6%	6.4%	5.7%
Free Cash Flow	222	125	516	939	655	574	1,176	944	(211)
Income Tax	62	99	73	(97)	204	129	364	197	135

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,815	5,933	7,233	6,202	6,424	6,856	7,704	8,276	9,266
Cash & Equivalents	376	395	361	727	841	1,029	828	1,381	1,369
Acc. Receivable	642	721	903	614	730	869	1,044	844	972
Inventories	1,203	1,315	1,618	1,149	1,275	1,519	1,859	1,689	1,844
Goodwill & Int.	1,155	1,118	1,116	676	677	644	700	781	782
Total Liabilities	3,438	3,437	4,438	3,657	3,646	3,661	3,928	4,355	5,076
Accounts Payable	360	415	511	283	395	489	551	513	769
Long-Term Debt	2,202	2,108	2,982	2,595	2,357	2,382	2,377	2,734	3,103
Total Equity	2,405	2,547	2,913	2,680	2,927	3,352	3,935	4,076	4,345
D/E Ratio	0.92	0.83	1.02	0.97	0.81	0.71	0.60	0.67	0.71

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.8%	3.2%	2.4%	-1.9%	6.1%	12.2%	17.3%	8.4%	6.3%
Return on Equity	6.9%	7.6%	5.8%	-4.7%	13.6%	25.9%	34.5%	16.8%	13.1%
ROIC	3.5%	4.1%	3.0%	-2.4%	7.4%	15.2%	21.5%	10.5%	7.9%
Shares Out.	219.5	222.9	241.4	243.1	243.8	237.4	225.3	214.5	212.1
Revenue/Share	30.81	30.85	36.17	31.38	31.70	39.45	50.26	47.41	45.22
FCF/Share	0.94	0.52	2.13	3.88	2.67	2.38	5.00	4.28	(0.99)

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