



NACCO Industries (NC)

Updated March 4th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	5.2%	Market Cap:	\$180 M
Fair Value Price:	\$41	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	03/04/22
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.8%	Dividend Payment Date:	03/15/22
Dividend Yield:	2.5%	5 Year Price Target	\$37	Years Of Dividend Growth:	36
Dividend Risk Score:	B	Retirement Suitability Score:	B	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. 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 ~192 million. 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 fourth quarter and full year 2022 on 3/2/2022. For the quarter, revenue grew 112.2% to \$49.1 million. The company reported earnings-per-share of \$1.07 compared to a loss of \$0.77 in the prior year. For the year, revenue grew 49% to \$191.8 million while earnings-per-share of \$6.70 compared to \$2.10 in the previous year and was \$0.20 ahead of our estimate.

Coal revenues increased 132% to \$21.4 million due to considerably higher demand from customers. This growth occurred despite a 9.3% decline in coal deliveries. Unconsolidated coal deliveries decreased 15.4% to 6.8 million tons. Consolidated coal deliveries grew by 179% to 647K tons. Delivers from the North American Mining segment grew nearly 12% to 12.3 million tons while revenues doubled to \$18.6 million. 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 sometime this year with the production of lithium products to begin in 2023. Mineral Management revenues increased 95% to \$9.3 million due to the mineral interest acquired last year as well as the company's Ohio and Louisiana oil and natural gas mineral interests.

We initiate a forecast for earnings-per-share of \$4.50 for 2022 due to the company's guidance that coal deliveries will decline significantly from 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.02	\$5.79	\$3.98	\$3.13	\$4.32	\$4.14	\$5.00	\$5.66	\$2.10	\$6.70	\$4.50	\$4.07
DPS	\$1.88	\$1.00	\$1.02	\$1.05	\$1.07	\$0.98	\$0.66	\$0.76	\$0.77	\$0.79	\$0.79	\$1.01
Shares¹	8	8	7	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 maintain our projected growth of -2% annually as coal demand is expected to decrease in 2022 and the prospects of growth from the Thacker Pass project that are offset by a high starting base for EPS.

¹ In millions of shares

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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	18.4	10.0	13.8	16.8	14.5	18.2	8.7	8.3	12.5	5.4	7.1	9.0
Avg. Yld.	2.0%	1.7%	1.9%	2.0%	1.7%	1.3%	1.8%	1.6%	2.9%	2.2%	2.5%	2.8%

Shares of NACCO Industries are unchanged since our 11/6/2022 update. Focusing on just the past 5 years, NACCO Industries shares have traded with an average price to earnings multiple of 10.6. This is higher than the stock's current multiple of 7.1x 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 2027 P/E target of 9. If achieved, this would add 4.8% to annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

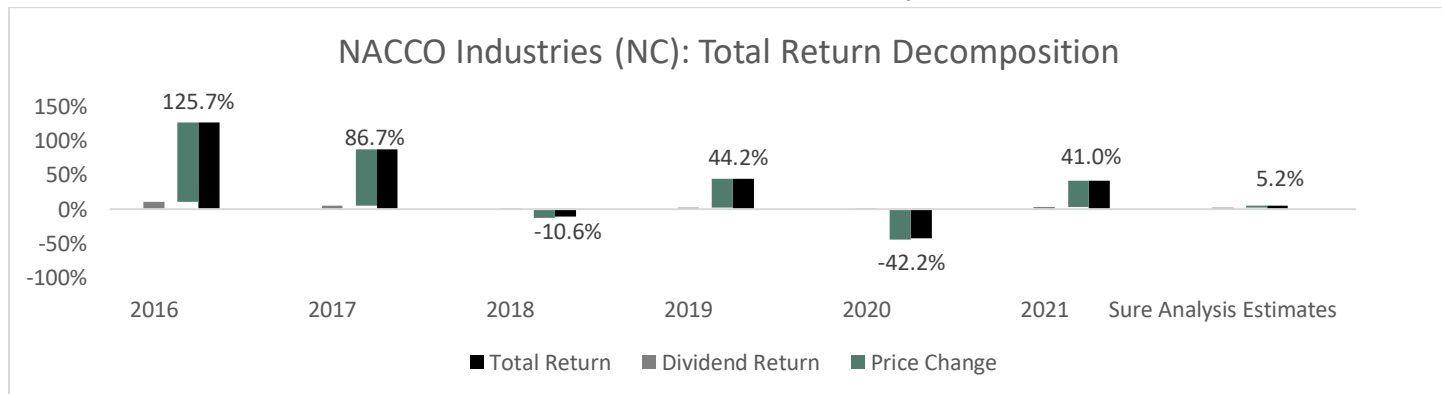
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38%	17%	26%	34%	25%	24%	13%	13%	37%	12%	18%	25%

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 fourth quarter results, NACCO Industries is expected to return 5.2% annually through 2027, down from our previous estimate of 12.4%. This projected return stems from a starting dividend yield of 2.5% and a mid-single-digit contribution from multiple expansion offset by an expected decline in earnings-per-share growth. Revenues throughout the business were very strong in the most recent quarter. This strength appears to be short-lived, as the company guided towards a substantial decline in coal demand this year. We have lowered our five-year price target \$16 to \$37 and now view shares as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	873	933	897	148	111	105	135	141	128	192
Gross Profit	226	221	185	(11)	12	17	30	31	17	43
Gross Margin	25.9%	23.7%	20.6%	-7.6%	10.9%	16.1%	22.1%	22.1%	13.2%	22.6%
Operating Profit	208	199	199	40	49	47	49	54	53	56
Operating Margin	11	16	(20)	(55)	(39)	(34)	(24)	(27)	(40)	(17)
Net Profit	1.3%	1.8%	-2.2%	-37.1%	-35.2%	-32.7%	-17.4%	-19.0%	-31.4%	-8.9%
Net Margin	109	44	(38)	22	30	30	35	40	15	48
Free Cash Flow	12.4%	4.8%	-4.3%	14.9%	26.7%	29.0%	25.7%	28.1%	11.5%	25.1%
Income Tax	98	(4)	(38)	104	84	26	34	28	(33)	36

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	776	810	771	655	668	390	377	445	476	507
Cash & Equivalents	140	95	61	52	69	102	85	123	88	86
Accounts Receivable	149	153	181	114	21	35	29	22	24	31
Inventories	169	184	190	165	29	30	31	40	48	54
Goodwill & Int. Ass.	70	60	67	63	46	44	41	38	35	32
Total Liabilities	495	512	559	454	448	170	126	155	176	155
Accounts Payable	127	133	134	100	11	10	9	10	6	13
Long-Term Debt	178	184	248	170	80	50	11	25	46	21
Shareholder's Equity	281	298	211	201	220	219	251	289	301	352
LTD/E Ratio	0.63	0.62	1.17	0.85	0.36	0.23	0.04	0.09	0.15	0.06

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.4%	5.6%	-4.8%	3.1%	4.5%	5.7%	9.1%	9.6%	3.2%	9.8%
Return on Equity	25.4%	15.4%	-15.0%	10.7%	14.1%	13.8%	14.8%	14.7%	5.0%	14.7%
ROIC	18.4%	9.5%	-8.1%	5.3%	8.8%	10.6%	13.1%	13.8%	4.5%	13.4%
Shares Out.	8	8	7	7	7	7	7	7	7	7
Revenue/Share	103.80	114.80	118.15	21.08	16.21	15.24	19.45	20.12	18.20	26.68
FCF/Share	11.69	(0.54)	(4.97)	14.75	12.22	3.72	4.84	4.01	(4.63)	4.96

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

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