Steel Dynamics (STLD)

Published April 26th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	-8.2%	**Market Cap:**	$17.0 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	6/28/2022[1]
% Fair Value:	178%	**5 Year Valuation Multiple Estimate:**	-10.9%	**Dividend Payment Date:**	7/15/2022
Dividend Yield:	1.5%	**5 Year Price Target**	$50	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 $17.0 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 mid-April, Steel Dynamics reported (4/20/22) financial results for the first quarter of fiscal 2022. Thanks to the aforementioned tailwind from pent-up demand for steel, Steel Dynamics posted all-time high steel shipments of 2.9 million tons and all-time high sales of $5.6 billion, which were 60% higher than those in the prior year's quarter. The company nearly tripled its adjusted earnings-per-share, from $2.03 in last year's quarter to an all-time high of $6.02, and exceeded the analysts' consensus by $0.32. It also raised its dividend by 31%.

Steel Dynamics expects to keep thriving this and next year thanks to record backlog, sustained demand from automotive, construction and industrial sectors as well as high prices. Given the blowout results and impressive momentum, we have raised our forecast for annual earnings-per-share from $12.50 to $21.00. On the other hand, as global supply is likely to grow, 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	***$21.00***	***$4.50***
DPS	$0.40	$0.44	$0.46	$0.55	$0.56	$0.62	$0.75	$0.96	$1.00	$1.04	***$1.36***	***$1.78***
Shares[2]	219.5	222.9	241.4	243.1	243.8	237.4	225.3	214.5	212.1	198.8	***180.0***	***150.0***

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 2021-2022 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.

[1] Estimated date.
[2] 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	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	***19.8***	***11.1***
Avg. Yld.	3.1%	2.7%	2.3%	2.8%	2.2%	1.7%	1.7%	3.0%	3.5%	1.8%	***1.5%***	***3.6%***

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 has rallied 71% in just three months and is now trading at 19.8 times its "normal earnings", which is much higher than the 10-year average of 13.7. 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 -10.9% annualized drag in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

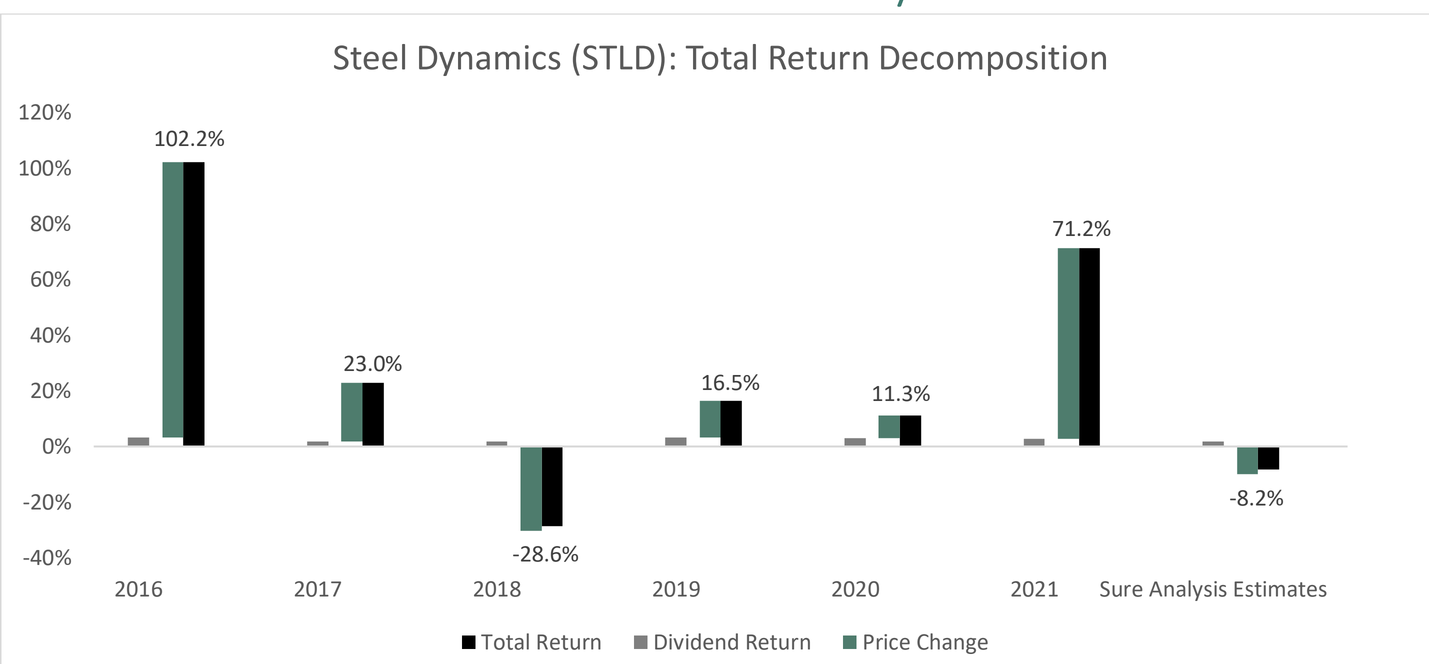
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	53%	53%	34%	74%	29%	23%	14%	32%	35%	6%	***30%***	***40%***

Steel Dynamics has raised its dividend for 10 consecutive years, but it is offering a lackluster 1.5% dividend yield. 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 has rallied 71% in just three months thanks to its impressive business momentum amid strong steel prices but supply is likely to gradually normalize in the upcoming years. As a result, the stock could offer poor returns going forward. We rate it as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	7,290	7,373	8,756	7,594	7,777	9,539	11,822	10,465	9,601	18,409
Gross Profit	720	719	966	732	1,335	1,582	2,323	1,531	1,435	5,362
Gross Margin	9.9%	9.8%	11.0%	9.6%	17.2%	16.6%	19.6%	14.6%	14.9%	29.1%
SG&A Exp.	285	301	359	352	445	486	573	515	539	1,032
Operating Profit	225	231	263	295	296	299	317	321	326	348
Op. Margin	399	387	580	356	861	1,067	1,722	987	867	4,301
Net Profit	5.5%	5.2%	6.6%	4.7%	11.1%	11.2%	14.6%	9.4%	9.0%	23.4%
Net Margin	164	189	157	(130)	382	813	1,258	671	551	3,214
Free Cash Flow	2.2%	2.6%	1.8%	-1.7%	4.9%	8.5%	10.6%	6.4%	5.7%	17.5%
Income Tax	222	125	516	939	655	574	1,176	944	(211)	1,198

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,815	5,933	7,233	6,202	6,424	6,856	7,704	8,276	9,266	12,531
Cash & Equivalents	376	395	361	727	841	1,029	828	1,381	1,369	1,244
Acc. Receivable	642	721	903	614	730	869	1,044	844	972	1,916
Inventories	1,203	1,315	1,618	1,149	1,275	1,519	1,859	1,689	1,844	3,531
Goodwill & Int.	1,155	1,118	1,116	676	677	644	700	781	782	749
Total Liabilities	3,339	3,321	4,311	3,531	3,535	3,549	3,816	4,211	4,917	6,211
Accounts Payable	360	415	511	283	395	489	551	513	769	1,281
Long-Term Debt	2,202	2,108	2,982	2,595	2,357	2,382	2,377	2,734	3,103	3,106
Total Equity	2,405	2,547	2,913	2,680	2,927	3,352	3,935	4,076	4,345	6,305
LTD/E Ratio	0.92	0.83	1.02	0.97	0.81	0.71	0.60	0.67	0.71	0.49

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.8%	3.2%	2.4%	-1.9%	6.1%	12.2%	17.3%	8.4%	6.3%	29.5%
Return on Equity	6.9%	7.6%	5.8%	-4.7%	13.6%	25.9%	34.5%	16.8%	13.1%	60.4%
ROIC	3.5%	4.0%	3.0%	-2.3%	7.3%	14.9%	21.1%	10.3%	7.7%	38.1%
Shares Out.	219.5	222.9	241.4	243.1	243.8	237.4	225.3	214.5	212.1	198.8
Revenue/Share	30.81	30.85	36.17	31.38	31.70	39.45	50.26	47.41	45.22	89.10
FCF/Share	0.94	0.52	2.13	3.88	2.67	2.38	5.00	4.28	(0.99)	5.80

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