

Worthington Industries, Inc. (WOR)

Updated May 25th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	14.0%	Market Cap:	\$2.2 B
Fair Value Price:	\$59	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/14/2022
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.0%	Dividend Payment Date:	06/29/2022
Dividend Yield:	2.5%	5 Year Price Target	\$75	Years Of Dividend Growth:	8
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Worthington Industries, Inc. is a diversified industrial manufacturing company, focused on value-added steel processing and manufactured metal products. Steel processing and pressure cylinders are the two primary business segments of the company with them contributing 65% and 35% respectively to the net sales generated during 2021. The company's metal products include pressure cylinders for liquefied petroleum gas, compressed natural gas, oxygen, refrigerant, and other industrial gas storage.

On March 22nd, 2022, the company announced Q3 2022 results, reporting net sales of \$1.4 billion for the quarter compared to \$759.1 million in Q3 2021 representing considerable year-over-year growth of 84.4%. The increase in net sales was driven by the steel processing segment with its sales totaling \$1.1 billion, up \$548.1 million over the same period last year. Management noted that the increase in sales was primarily due to higher steel prices, the inclusion of recent acquisitions, and higher average selling prices in both consumer and building products.

Despite the strong sales, the gross margin of the company declined by \$21.0 million year-over-year, as improvements in both the Consumer and Building Products businesses were offset by the \$56.0 million unfavorable variance caused by inventory holding gains. The company's steel processing segment earnings were hit by nearly \$25 million in inventory holding losses, despite the segment sales nearly doubling to \$1.1 billion in the quarter.

Management noted that the benefit of higher selling prices was particularly noticeable in the year-over-year improvement in consumer products and in building products this quarter. The ClarkDietrich segment had another strong quarter, and an exceptional calendar year, but the business is expected to gradually return to more normalized levels in the coming quarters.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.65	\$1.91	\$2.11	\$1.12	\$2.22	\$3.15	\$3.09	\$2.61	\$2.53	\$4.86	\$6.56	\$8.37
DPS	\$0.48	\$0.52	\$0.60	\$0.72	\$0.76	\$0.80	\$0.84	\$0.92	\$0.96	\$1.03	\$1.12	\$2.61
Shares	67.9	69.8	67.4	64.1	61.5	62.8	58.9	55.5	54.6	51.3	49.8	42.8

Worthington Industries has been exceptional at growing its business recently and has achieved EPS growth over the past nine years at a CAGR of 12.8%. In addition, the company has been consistently delivering increasing dividends for the past ten years. The company is expected to post an EPS ranging between \$6.40 and \$6.70 for the current fiscal year. We expect steel prices to normalize going forward, and thus the high EPS posted by the company will also normalize in the near future. As a result, we are forecasting a single-digit EPS growth rate of 5.0% over the next five years, leading to our estimated EPS of \$8.37 by 2027. Finally, we expect the company to grow its DPS significantly, resulting in a dividend payment of \$2.61 in 2027.

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	2022	2027
Avg. P/E	10.8	13.2	18.0	30.6	13.6	14.7	14.9	15.8	13.8	10.7	6.7	9.0
Avg. Yld.	2.4%	1.5%	1.6%	2.6%	1.8%	1.7%	1.9%	2.4%	2.5%	1.7%	2.5%	3.5%

Worthington Industries currently trades at a forward P/E of 6.7, significantly lower than its long-term 9-year average P/E of 15.6 and five-year average P/E of 14.0. Even though the company operates in a cyclical sector with declining steel prices expected to result in inventory losses over the coming quarter, we believe that the company is still fundamentally strong. There is still significant upside potential if the market re-assigns a higher P/E to the stock. We estimate the security to trade at a P/E ratio of around 9.0 by 2027, which results in a fair value estimate of \$75 by the end of 2027.

Safety, Quality, Competitive Advantage, & Recession Resiliency

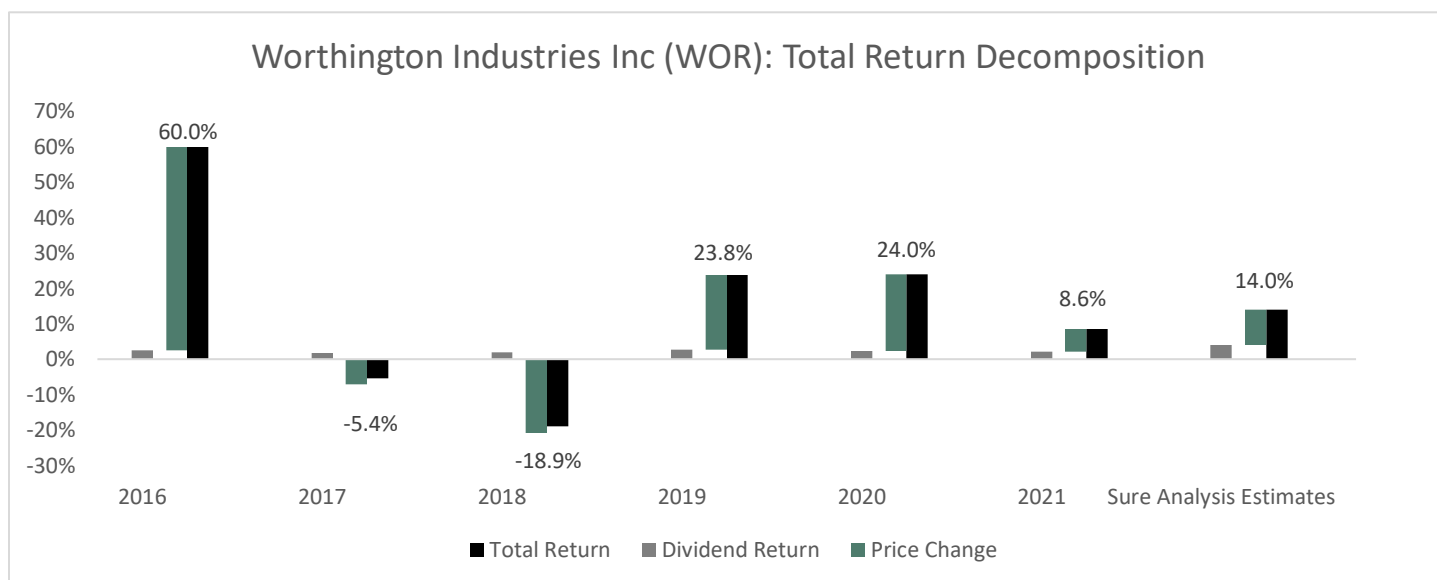
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	29%	27%	28%	64%	34%	25%	27%	35%	38%	21%	17%	31%

The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 33%, and we expect the company to maintain its payout ratio in the future. With solid fundamentals and the company's ability to keep delivering value-added solutions and presenting innovative products, the company will continue to benefit its stakeholders. During Q3 2022, Worthington purchased a total of 1 million of its common shares for \$54.2 million, at an average purchase price of \$54, reflecting the management's confidence in the company's future performance.

Final Thoughts & Recommendation

The rally in Worthington Industries over the past two years was driven by the one-off gain from its investments in 2021 and the commodity super cycle in 2022, driving a rally in steel prices. The normalization in steel prices will make the repetition of recent results difficult for the company in the coming quarters. However, due to the solid fundamental nature of the business, we believe that the stock is undervalued as the company will be able to maintain a healthy EPS growth in the medium term. Therefore, our buy rating on the stock is premised upon the 14.0% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 5.0% and 2.5% dividend yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,535	2,612	3,126	3,384	2,820	3,014	3,582	3,760	3,059	3,171
Gross Profit	333	397	493	464	453	536	563	480	443	639
Gross Margin	13.1%	15.2%	15.8%	13.7%	16.1%	17.8%	15.7%	12.8%	14.5%	20.2%
SG&A Exp.	225	258	300	296	297	316	367	338	328	351
D&A Exp.	56	66	80	85	85	87	103	96	93	88
Operating Profit	108	138	192	168	155	220	195	142	115	288
Op. Margin	4.3%	5.3%	6.1%	5.0%	5.5%	7.3%	5.5%	3.8%	3.8%	9.1%
Net Profit	116	136	151	77	144	205	195	153	79	724
Net Margin	4.6%	5.2%	4.8%	2.3%	5.1%	6.8%	5.4%	4.1%	2.6%	22.8%
Free Cash Flow	142	228	158	118	316	267	205	113	241	192
Income Tax	52	64	57	26	59	79	8	43	26	176

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,878	1,951	2,296	2,085	2,061	2,325	2,622	2,511	2,332	3,373
Cash & Equivalents	41	51	190	31	84	278	122	92	147	640
Acc. Receivable	401	394	493	474	440	487	573	502	341	640
Inventories	402	357	410	375	319	354	454	484	405	565
Goodwill & Int.	257	361	397	358	342	330	559	531	506	591
Total Liabilities	1,130	1,079	1,351	1,245	1,141	1,251	1,585	1,562	1,365	1,822
Accounts Payable	252	223	334	294	290	368	473	394	247	567
Long-Term Debt	534	521	666	671	581	579	750	749	700	710
Total Equity	697	831	851	749	793	952	919	831	821	1,398
LTD/E Ratio	0.77	0.63	0.78	0.90	0.73	0.61	0.82	0.90	0.85	0.51

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.5%	7.1%	7.1%	3.5%	6.9%	9.3%	7.9%	6.0%	3.3%	25.4%
Return on Equity	16.7%	17.9%	18.0%	9.6%	18.6%	23.4%	20.8%	17.5%	9.5%	65.2%
ROIC	9.6%	10.2%	10.1%	4.9%	9.5%	13.0%	11.3%	8.8%	4.7%	36.9%
Shares Out.	67.9	69.8	67.4	64.1	61.5	62.8	58.9	55.5	54.6	51.3
Revenue/Share	36.08	36.63	43.63	49.42	43.54	46.46	56.81	63.91	54.64	58.82
FCF/Share	2.02	3.20	2.20	1.72	4.89	4.12	3.26	1.93	4.31	3.56

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

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