

Worthington Industries, Inc. (WOR)

Updated June 24th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	12.8%	Market Cap:	\$2.2 B
Fair Value Price:	\$57	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/14/2022
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.4%	Dividend Payment Date:	06/29/2022
Dividend Yield:	2.8%	5 Year Price Target	\$73	Years Of Dividend Growth:	12
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. Worthington Industries' metal products include pressure cylinders for liquefied petroleum gas, compressed natural gas, oxygen, refrigerant, and other industrial gas storage.

On June 22nd, 2022, Worthington Industries, Inc. announced Q4 2022 results reporting adjusted diluted EPS of \$1.58 for the quarter, surpassing market consensus EPS of \$0.83 by \$0.75. In addition, the company reported revenue of \$1.52 billion, up 55.4% YoY from \$978.3 million during the same period last year. Reported revenue during Q4 2022 also surpassed the consensus revenue estimate by \$310 million. Management noted that this increase in revenue was driven by higher average selling prices across all segments and contributions from the acquisitions of Tempel Steel Company and Shiloh Industries' U.S. BlankLight business in the current fiscal year.

The gross margin during Q4 2022 was reported at 11%, considerably lower than its 23% figure compared to Q4 2021. The primary reason for the decline in the margins was lower margin contributions from Steel Processing, as the margins adversely impacted inventory holding losses during the current quarter compared to inventory holding gains in Q4 2021. While commenting on the outlook of the company, CEO Andrew Rose noted, "While the business environment continues to be challenging and there is some level of economic uncertainty, our teams are performing at a high level, and we remain optimistic about demand in our key end markets and our ability to execute effectively going forward."

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.91	\$2.11	\$1.12	\$2.22	\$3.15	\$3.09	\$2.61	\$2.53	\$4.86	\$7.30	\$5.20	\$6.64
DPS	\$0.52	\$0.60	\$0.72	\$0.76	\$0.80	\$0.84	\$0.92	\$0.96	\$1.03	\$1.12	\$1.24	\$1.67
Shares	69.8	67.4	64.1	61.5	62.8	58.9	55.5	54.6	51.3	52.3	49.8	42.6

Worthington Industries has been exceptional at growing its business recently and has achieved EPS growth over the past nine years at a CAGR of 16.1%. In addition, the company has been consistently delivering increasing dividends for the past twelve years. As a result, Worthington Industries is expected to post an EPS between \$4.00 and \$6.32 for the fiscal year 2023. Furthermore, we expect steel prices to normalize going forward.

Thus, the high EPS posted by the company will also normalize in the near future, and the steel processing business segment will incur inventory holding losses. As a result, we forecast a single-digit EPS growth rate of 5.0% over the next five years, leading to our estimated EPS of \$6.64 by 2028. Finally, we expect the company to maintain a healthy dividend yield and forecast a dividend payment of \$1.67 by 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	13.2	18.0	30.6	13.6	14.7	14.9	15.8	13.8	10.7	6.8	8.5	11.0
Avg. Yld.	1.5%	1.6%	2.6%	1.8%	1.7%	1.9%	2.4%	2.5%	1.7%	2.3%	2.8%	2.3%

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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Worthington Industries currently trades at a forward P/E of 8.5, significantly lower than its long-term 9-year average P/E of 15.2 and five-year average P/E of 12.4. 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. Therefore, there is still significant upside potential if the market re-assigns a higher P/E to the stock. We believe a P/E ratio of 11.0 would be a fair reflection of the business and will result in a fair value price of \$57.

Safety, Quality, Competitive Advantage, & Recession Resiliency

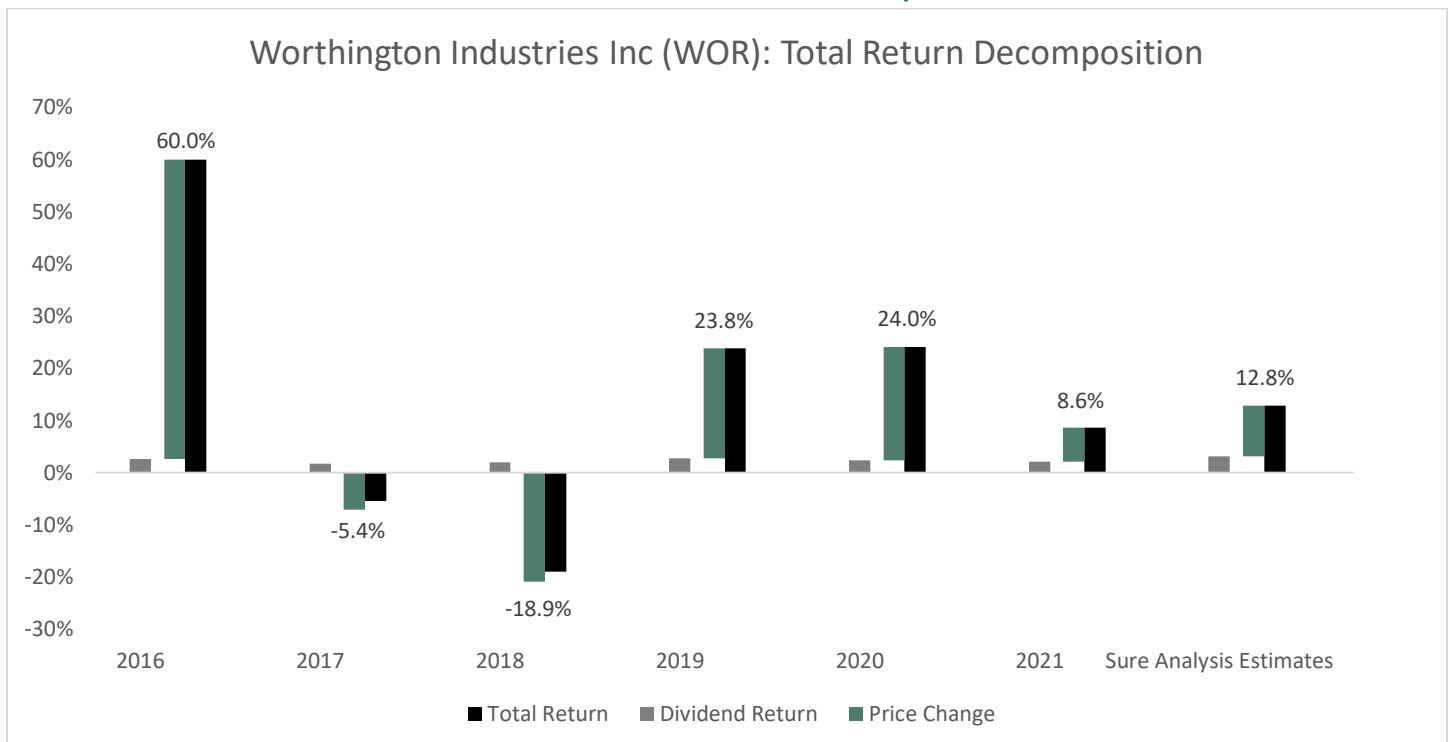
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	28%	64%	34%	25%	27%	35%	38%	21%	15%	24%	25%

The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 32%, 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, it will continue to benefit its stakeholders. During the fourth quarter, the company repurchased 1 million common shares for \$52.4 million, at an average purchase price of \$52.4. Worthington also announced an increase in quarterly dividend as it declared a dividend of \$0.31 per share, an increase of \$0.03 per share or 11% from the prior quarter.

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 repeating 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 12.8% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 5.0% and 2.8% 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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