# NACCO Industries (NC)

*Updated August 17th, 2022 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $47 | **5 Year CAGR Estimate:** | 1.1% | **Market Cap:** | $342 M |
| **Fair Value Price:** | $50 | **5 Year Growth Estimate:** | -2.0% | **Ex-Dividend Date:** | 08/30/22[1] |
| **% Fair Value:** | 95% | **5 Year Valuation Multiple Estimate:** | 1.0% | **Dividend Payment Date:** | 09/15/22[2] |
| **Dividend Yield:** | 1.8% | **5 Year Price Target** | $45 | **Years Of Dividend Growth:** | 37 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | C | **Rating:** | Sell |

## 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 September 29th, 2017.

On May 18th, 2022, NACCO Industries raised its quarterly dividend 5.1% to $0.2075.

On August 3rd, 2022, NACCO Industries reported results for the second quarter for the period ending June 30th, 2022. For the quarter, revenue declined 19% to $37.2 million while earnings-per-share of $5.07 compared extremely favorably to $0.91 per share in the prior year.

Coal revenues grew 28.6% to $26.6 million as pricing more than made up for weaker demand. Total tons delivered declined 5.1%. Unconsolidated coal deliveries decreased 8% to 5.5 million tons while consolidated coal deliveries increased by 18.1% to 915K tons. Deliveries from the North American Mining segment declined 1.5% to 13.4 million tons while revenues were higher by 14.9% to $22.8 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 113% to $12 million due to the mineral interest acquired last year as well as the company's Ohio and Louisiana oil and natural gas mineral interests.

Despite earnings-per-share total for the second quarter, management still maintains its outlook that 2022 results will be below 2021 results. We have raised our forecast for earnings-per-share for the year to $5.50 from $4.50 following earnings results for the second quarter.

## 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 | ***$5.50*** | ***$4.97*** |
| **DPS** | $1.88 | $1.00 | $1.02 | $1.05 | $1.07 | $0.98 | $0.66 | $0.76 | $0.77 | $0.79 | ***$0.83*** | ***$1.06*** |
| **Shares[3]** | 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

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] In millions of shares

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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.

Adjusting for its spin-off history, NACCO Industries has raised its dividend for 37 consecutive years. 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 | ***8.5*** | ***9.0*** |
| **Avg. Yld.** | 2.0% | 1.7% | 1.9% | 2.0% | 1.7% | 1.3% | 1.8% | 1.6% | 2.9% | 2.2% | ***1.8%*** | ***2.4%*** |

Shares of NACCO Industries have decreased $2, or 4.1%, since our May 7th, 2022 report. Focusing on just the past five years, NACCO Industries shares have traded with an average price to earnings multiple of 10.6. This is above the stock's current multiple of almost 9x 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 five-year historical averages. We maintain our 2027 P/E target of 9. If achieved, then valuation would add 1% to annual returns over the next five years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

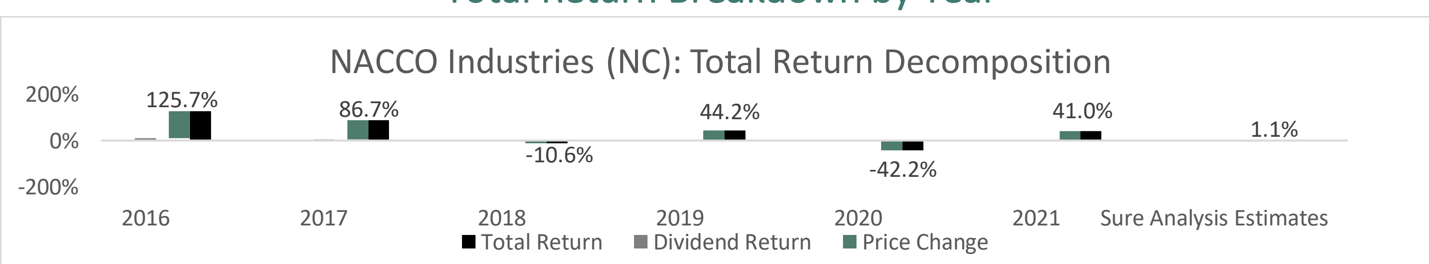
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 38% | 17% | 26% | 34% | 25% | 24% | 13% | 13% | 37% | 12% | ***15%*** | ***21%*** |

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

Following second quarter results, NACCO Industries is expected to return 1.1% annually through 2027, compared to from our previous estimate of a loss of 3.7%. This projected return stems from a starting dividend yield of 1.8% and a small tailwind from multiple expansion that are nearly offset by a projected decline in earnings-per-share. Coal demand continues to weaken and this is expected to continue for the remainder of the year. Other areas of NACCO Industries continue to perform well. We have raised our five-year price target $8 to $45, but continue to view shares of NACCO Industries as a sell due to projected returns.

## 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 | 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.*