



Nucor Corporation (NUE)

Updated October 24th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$135.6	5 Year CAGR Estimate:	-8.2%	Market Cap:	\$34.8B
Fair Value Price:	\$60.0	5 Year Growth Estimate:	5.4%	Ex-Dividend Date:	12/29/22 ¹
% Fair Value:	226%	5 Year Valuation Multiple Estimate:	-15.0%	Dividend Payment Date:	02/09/23 ²
Dividend Yield:	1.5%	5 Year Price Target	\$78	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

Nucor is the largest publicly traded US-based steel corporation based on its market capitalization of \$34.8 billion. The steel industry is notoriously cyclical, which makes Nucor's streak of 49 consecutive years of dividend increases even more remarkable. Nucor is a member of the Dividend Aristocrats Index due to its dividend history. The company faces challenges from international competitors. Some countries (including China), subsidize their steel industry, making steel exported to the United States artificially cheap. President Trump signed a bill in 2018 placing a 25% tariff on imported steel for all countries except Canada and Mexico, which has helped combat this for Nucor and its competitors.

On 10/20/22, Nucor reported third-quarter 2022 earnings. Consolidated net earnings per diluted share stood at \$6.50, down from \$7.28 in the year-ago period. Revenue increased 1.8% to \$10.5 billion year-over-year. Net sales increased 2% to \$10.5 billion from \$10.3 billion in the year-ago period. Average sales price per ton decreased 3% quarter-over-quarter and increased 14% year-over-year. Total shipments to outside customers stood at 6.4 million tons, down 11% year-over-year. Total steel mill shipments decreased 10% year-over-year. Meanwhile, pre-operating and start-up costs related to Nucor's growth projects were approximately \$52 million from approximately \$36 million in the year-ago period. Overall operating rates at the company's steel mills in the third quarter fell to 77% from 96% in the year-ago quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.58	\$1.52	\$2.22	\$1.11	\$2.26	\$3.57	\$7.64	\$4.24	\$4.40	\$23.44	\$29.52	\$6.50
DPS	\$1.46	\$1.47	\$1.48	\$1.49	\$1.50	\$1.51	\$1.52	\$1.60	\$1.61	\$1.72	\$2.00	\$2.20
Shares³	318	318	319	318	319	318	305	301	298	272	257	260

Nucor's earnings-per-share fluctuate with steel prices. The company's previous all-time earnings-per-share high came in 2008, which coincided with the all-time high price of steel in the US. At present, the company is going through a boom, as earnings per share set a new all-time record in 2021 and appear likely to set a new record this year as well.

We see the dividend continuing its decades-long streak of growth, rising from the current \$2.00 per share to \$2.20 in five years. While the company is expected to generate an enormous earnings-per-share of \$29.52 this year, we are assuming an earnings power of \$5.00.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	25.5	31.2	23.2	40.1	19.7	16.3	7.0	10.5	10.2	20.4	27.1	12.0
Avg. Yld.	3.6%	3.1%	2.9%	3.3%	3.4%	2.6%	2.8%	3.6%	3.6%	1.6%	1.5%	2.8%

¹ Estimate

² Estimate

³ Share count in millions

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Due to Nucor's earnings cyclicality, we also like to compare the company's forward dividend yield to its historical average dividend yield in addition to simply looking at its price to normalized earnings ratio. Nucor's dividend yield has hovered around 3% over the past decade. However, the recent rally in the stock leaves it yielding just 1.5%.

Furthermore, expected normalized earnings power-per-share this year puts the price to earnings multiple at 27.1, which is significantly above our fair value estimate of 12.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	92.4%	96.7%	66.7%	134%	60.5%	42.1%	21.0%	30.1%	57.9%	32.4%	40.0%	33.8%

As a commodity producer, Nucor is vulnerable to fluctuations in the price of steel. Steel demand is tied to construction and the overall economy. During the Great Recession, the company saw earnings-per-share decline from \$6.01 in 2008 to a loss of \$0.94 in 2009, and the stock lost two-thirds of its market capitalization in just six months. Investors should be aware of the significant downside risk of Nucor as it is likely to perform poorly in a protracted recession.

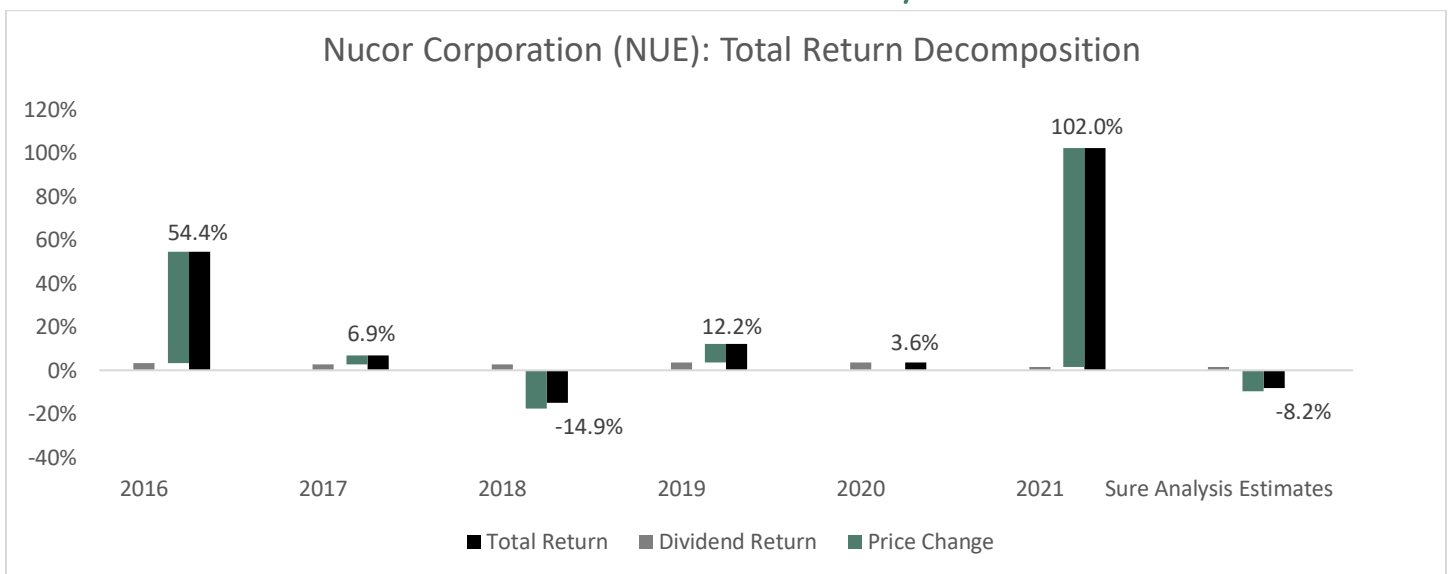
That said, Nucor has raised its base dividend for 49 straight years. This indicates the strength of its business model and management team. The company had a payout ratio of 58% in 2020 which is abnormally high due to impacts from the coronavirus and the economic downturn. Nucor receives commendation for its ability to land on the Dividend Aristocrats list despite a highly cyclical business model. However, investors cannot be fully assured of future dividend increases due to this cyclicality.

While competitive advantages are difficult to come by for a commodity producer, Nucor's low cost of production and immense scale are certainly helpful when competing for new business.

Final Thoughts & Recommendation

Nucor has a competitive advantage in the steel industry, which is expected to be around for a long time to come. It is a low-cost producer and has a healthy balance sheet. It is also a Dividend Aristocrat and almost a Dividend King. However, with the valuation on normalized earnings well above our target of 12 times earnings, we see Nucor offering negative total returns in the coming years. Due to this, we rate shares 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	19,429	19,052	21,105	16,439	16,208	20,252	25,067	22,589	20,140	36,484
Gross Profit	1,514	1,411	1,849	1,114	2,026	2,569	4,295	2,679	2,228	11,025
Gross Margin	7.8%	7.4%	8.8%	6.8%	12.5%	12.7%	17.1%	11.9%	11.1%	30.2%
SG&A Exp.	455	468	521	459	597	688	861	711	615	1,707
D&A Exp.	607	610	724	700	687	727	720	735	785	865
Operating Profit	1,059	943	1,328	655	1,429	1,882	3,435	1,968	1,613	9,319
Op. Margin	5.4%	4.9%	6.3%	4.0%	8.8%	9.3%	13.7%	8.7%	8.0%	25.5%
Net Profit	505	488	679	81	796	1,319	2,361	1,271	721	6,827
Net Margin	2.6%	2.6%	3.2%	0.5%	4.9%	6.5%	9.4%	5.6%	3.6%	18.7%
Free Cash Flow	253	(119)	675	1,795	1,145	607	1,411	1,332	1,154	4,609
Income Tax	260	206	369	49	398	369	748	412	(0)	2,078

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	14,152	15,203	15,616	14,327	15,224	15,841	17,921	18,345	20,125	25,823
Cash & Equivalents	1,053	1,483	1,024	1,939	2,046	949	1,399	1,535	2,640	2,365
Acc. Receivable	1,707	1,811	2,068	1,384	1,632	2,029	2,506	2,160	2,299	3,854
Inventories	2,324	2,606	2,745	2,245	2,480	3,462	4,554	3,842	3,569	6,011
Goodwill & Int.	2,964	2,848	2,931	2,782	2,920	3,111	3,013	2,943	2,898	3,931
Total Liabilities	6,267	7,293	7,541	6,477	6,969	6,756	7,719	7,553	8,894	11,219
Accounts Payable	1,047	1,117	994	567	838	1,181	1,428	1,202	1,432	1,974
Long-Term Debt	3,660	4,409	4,584	4,388	4,357	3,795	4,291	4,298	5,250	5,685
Total Equity	7,642	7,646	7,772	7,478	7,880	8,739	9,792	10,358	10,789	14,016
LTD/E Ratio	0.48	0.58	0.59	0.59	0.55	0.43	0.44	0.41	0.49	0.41

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.5%	3.3%	4.4%	0.5%	5.4%	8.5%	14.0%	7.0%	3.8%	29.7%
Return on Equity	6.7%	6.4%	8.8%	1.1%	10.4%	15.9%	25.5%	12.6%	6.8%	55.0%
ROIC	4.3%	4.1%	5.4%	0.6%	6.4%	10.3%	17.2%	8.6%	4.6%	37.1%
Shares Out.	318	318	319	318	319	318	305	301	298	272
Revenue/Share	61.05	59.67	65.93	51.26	50.68	63.14	79.14	73.94	66.41	124.35
FCF/Share	0.79	(0.37)	2.11	5.60	3.58	1.89	4.46	4.36	3.80	15.71

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

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