



Worthington Industries, Inc. (WOR)

Updated September 29th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	11.8%	Market Cap:	\$2.3 B
Fair Value Price:	\$57	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/14/2022
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Dividend Payment Date:	12/29/2022
Dividend Yield:	2.7%	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 September 29th, 2022, Worthington Industries, Inc. announced Q1 of fiscal year 2023 results reporting adjusted EPS of \$1.61 for the quarter, surpassing market consensus by \$0.03. In addition, the company reported revenue of \$1.41 billion, up 27.0% year-over-year from \$1.11 billion during the same period last year. The company's reported revenue during also surpassed the consensus revenue estimate by \$60 million. The growth in revenue and EPS was mainly driven by acquisition of Tempel Steel Company and higher average selling prices during the quarter. Management also announced a separation of its Steel Processing business segment into two separate companies, which will help Worthington to better capitalize on the growth opportunities to create shareholder value.

The gross margin during Q1 was reported at around 12.0%, significantly lower than its 19.7% compared to Q1 2022, as the company suffered from lower contribution margin from Steel Processing affected by inventory holding losses during the quarter.

While commenting on the outlook of the company, CEO Andrew Rose noted, "Most of our businesses are holding up well despite increased market volatility and a murky economic outlook. Our teams are ready to respond to market demands, up or down, as changes occur."

Lastly, on September 28, 2022, the board of directors of the company declared a quarterly dividend of \$0.31 per share payable to shareholders on December 29, 2022.

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, we expect Worthington Industries to post an EPS of \$5.20 for the fiscal year 2023. We expect the company's earnings to normalize going forward as metal prices are expected to decline amidst a recessionary period.

Thus, the high EPS posted by the company will also decline in the near future, and the steel processing business segment will continue to 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.

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	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	8.9	11.0
Avg. Yld.	1.5%	1.6%	2.6%	1.8%	1.7%	1.9%	2.4%	2.5%	1.7%	2.3%	2.7%	2.3%

Worthington Industries currently trades at a forward P/E of 8.9, significantly lower than its long-term average P/E of 15.2 and five-year average P/E of 12.4. Even though the company operates in a cyclical sector and declining steel prices would result in inventory holding losses over the coming quarter, we believe that the company's businesses fundamentals remain 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 target price of \$73 at the end of fiscal year 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

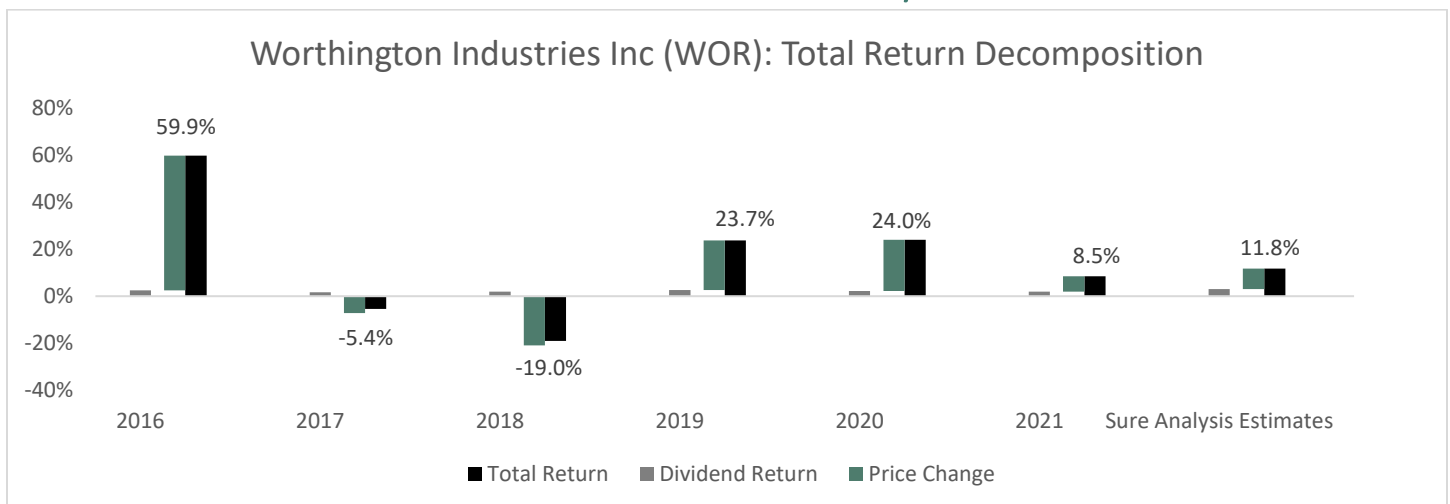
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	28%	64%	34%	25%	27%	35%	38%	21%	15%	24%	25%

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. Worthington recently 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 previous 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 11.8% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 5.0%, the 2.7% dividend yield, and multiple expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,612	3,126	3,384	2,820	3,014	3,582	3,760	3,059	3,171	5,242
Gross Profit	397	493	464	453	536	563	480	443	639	715
Gross Margin	15.2%	15.8%	13.7%	16.1%	17.8%	15.7%	12.8%	14.5%	20.2%	13.6%
SG&A Exp.	258	300	296	297	316	367	338	328	351	400
D&A Exp.	66	80	85	85	87	103	96	93	88	
Operating Profit	138	192	168	155	220	195	142	115	288	315
Op. Margin	5.3%	6.1%	5.0%	5.5%	7.3%	5.5%	3.8%	3.8%	9.1%	6.0%
Net Profit	136	151	77	144	205	195	153	79	724	379
Net Margin	5.2%	4.8%	2.3%	5.1%	6.8%	5.4%	4.1%	2.6%	22.8%	7.2%
Free Cash Flow	228	158	118	316	267	205	113	241	192	
Income Tax	64	57	26	59	79	8	43	26	176	115

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,951	2,296	2,085	2,061	2,325	2,622	2,511	2,332	3,373	3,643
Cash & Equivalents	51	190	31	84	278	122	92	147	640	34
Acc. Receivable	394	493	474	440	487	573	502	341	640	845
Inventories	357	410	375	319	354	454	484	405	565	759
Goodwill & Int.	361	397	358	342	330	559	531	506	591	700
Total Liabilities	1,079	1,351	1,245	1,141	1,251	1,585	1,562	1,365	1,822	2,029
Accounts Payable	223	334	294	290	368	473	394	247	567	668
Long-Term Debt	521	666	671	581	579	750	749	700	710	696
Total Equity	831	851	749	793	952	919	831	821	1,398	1,481
LTD/E Ratio	0.63	0.78	0.90	0.73	0.61	0.82	0.90	0.85	0.51	0.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.1%	7.1%	3.5%	6.9%	9.3%	7.9%	6.0%	3.3%	25.4%	
Return on Equity	17.9%	18.0%	9.6%	18.6%	23.4%	20.8%	17.5%	9.5%	65.2%	
ROIC	10.2%	10.1%	4.9%	9.5%	13.0%	11.3%	8.8%	4.7%	36.9%	
Shares Out.	69.8	67.4	64.1	61.5	62.8	58.9	55.5	54.6	51.3	49.53
Revenue/Share	36.63	43.63	49.42	43.54	46.46	56.81	63.91	54.64	58.82	
FCF/Share	3.20	2.20	1.72	4.89	4.12	3.26	1.93	4.31	3.56	(0.49)

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

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