



Worthington Industries, Inc. (WOR)

Updated December 23rd, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	14.2%	Market Cap:	\$2.5 B
Fair Value Price:	\$44	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	03/14/2023
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.4%	Dividend Payment Date:	03/29/2023
Dividend Yield:	2.5%	5 Year Price Target	\$89	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 December 20th, 2022, Worthington Industries, Inc. announced Q2 2023 results reporting adjusted Q2 Non-GAAP EPS of \$0.44 for the quarter, missing market consensus EPS by \$0.17. In addition, the company reported revenue of \$1.18 billion, down 1.7% YoY from \$1.23 billion during the same period last year. The gross margin during Q2 2023 was reported at 9%, significantly lower than 15% compared to Q2 2022, as the company suffered from a lower contribution margin from Steel Processing affected by inventory holding losses during the quarter.

The sales in the quarter declined due to lower volumes combined with decreased average selling prices in Steel Processing. However, the decline in average selling price (ASP) and volumes was partially offset by including Tempel Steel. The decrease in volume sales is primarily attributed to the slowing macro-environment, whereas the ASP decline is due to a fall in steel prices. Steel prices peaked in the latter half of 2021 at over \$1,900 per ton. In the second half of 2021, steel prices peaked at more than \$1,900 per ton. Recently, steel prices have been hovering at \$700 per ton.

Despite a worsening economic outlook, steel prices have steadied, and many of our clients have returned to seasonally normal inventory levels. As a result, the company remains optimistic entering 2023, with end-market demand still robust in most markets.

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	\$3.67	\$7.38
DPS	\$0.52	\$0.60	\$0.72	\$0.76	\$0.80	\$0.84	\$0.92	\$0.96	\$1.03	\$1.12	\$1.24	\$1.85
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. We expect Worthington Industries to post an EPS of \$3.67 for the fiscal year 2023. Worthington Industries is experiencing inventory losses in 2023 as steel prices normalize, and we expect the current fiscal year's EPS to be substantially lower than FY2022.

However, the end market demand remains robust, and the company will continue to grow its earnings in the medium term. As a result, we forecast an EPS growth of 15.0% from the current fiscal year to 2028. Our forecast leads to an estimated EPS of \$7.38 by 2028. Finally, we expect the company to maintain a healthy dividend yield and forecast a dividend payment of \$1.85 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	13.5	12.0
Avg. Yld.	1.5%	1.6%	2.6%	1.8%	1.7%	1.9%	2.4%	2.5%	1.7%	2.3%	2.5%	2.1%

Worthington Industries currently trades at a forward P/E of 13.5, slightly lower than its long-term 9-year average P/E of 15.2. However, given the nature of the company's business, we believe a P/E ratio of 12.0 would be a fair reflection of the business and will result in a target price of \$89 at the end of the fiscal year 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

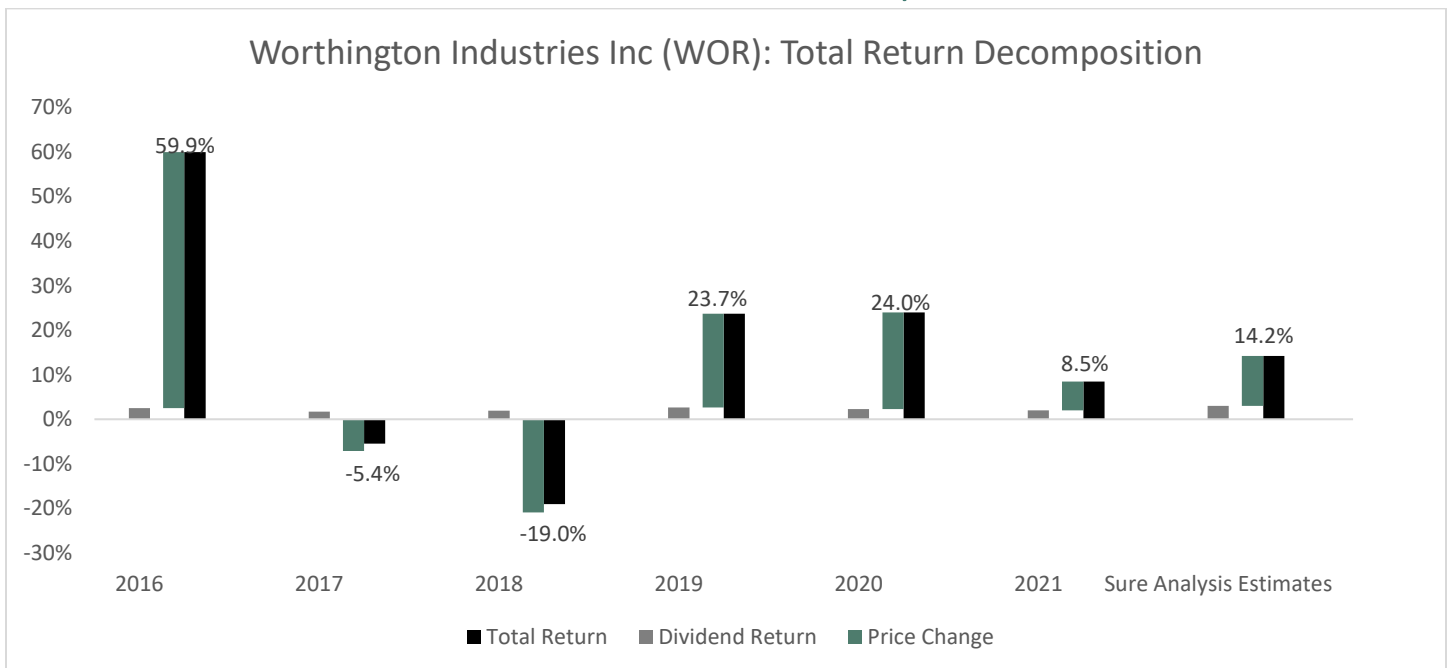
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	28%	64%	34%	25%	27%	35%	38%	21%	15%	34%	25%

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. The company is estimated to disburse \$1.24 in dividend payments to shareholders in the fiscal year 2023.

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, the stock is undervalued as the company will be able to maintain healthy EPS growth in the medium-term. Therefore, our buy rating on the stock is premised upon the 14.2% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 15.0% and 2.5% dividend yield.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.1%	3.5%	6.9%	9.3%	7.9%	6.0%	3.3%	25.4%	10.8%
Return on Equity	18.0%	9.6%	18.6%	23.4%	20.8%	17.5%	9.5%	65.2%	26.4%
ROIC	10.1%	4.9%	9.5%	13.0%	11.3%	8.8%	4.7%	36.9%	16.4%
Shares Out.	67.4	64.1	61.5	62.8	58.9	55.5	54.6	51.3	50.99
Revenue/Share	43.63	49.42	43.54	46.46	56.81	63.91	54.64	58.82	102.8
FCF/Share	2.20	1.72	4.89	4.12	3.26	1.93	4.31	3.56	(0.48)

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

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