



# Steel Dynamics (STLD)

Updated January 27<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

|                             |       |                                            |        |                                  |                        |
|-----------------------------|-------|--------------------------------------------|--------|----------------------------------|------------------------|
| <b>Current Price:</b>       | \$121 | <b>5 Year CAGR Estimate:</b>               | -12.7% | <b>Market Cap:</b>               | \$21.3 B               |
| <b>Fair Value Price:</b>    | \$53  | <b>5 Year Growth Estimate:</b>             | 0.0%   | <b>Ex-Dividend Date:</b>         | 3/29/2023 <sup>1</sup> |
| <b>% Fair Value:</b>        | 227%  | <b>5 Year Valuation Multiple Estimate:</b> | -15.1% | <b>Dividend Payment Date:</b>    | 4/14/2023              |
| <b>Dividend Yield:</b>      | 1.1%  | <b>5 Year Price Target</b>                 | \$53   | <b>Years Of Dividend Growth:</b> | 10                     |
| <b>Dividend Risk Score:</b> | C     | <b>Retirement Suitability Score:</b>       | F      | <b>Rating:</b>                   | Sell                   |

## Overview & Current Events

Steel Dynamics is the youngest of America's major steel producers. It was founded in Indiana in 1993 and completed its IPO in 1996. It is one of the largest domestic steel producers, with annual production capacity of approximately 13 million tons and a market capitalization of \$21.3 billion.

The coronavirus crisis severely hurt the demand for steel due to its impact on the automotive industry. Consequently, a great portion of high-cost steel production was idled. However, when the economy reopened, the demand for steel recovered swiftly. Even better for steel producers, thanks to extremely low steel inventory levels, flat rolled steel prices rallied to all-time highs in 2021. Flat rolled steel prices have corrected lately but they are likely to remain above-average in the upcoming quarters, given the sustained demand from automakers and renewable energy projects.

In late January, Steel Dynamics reported (1/25/23) financial results for the fourth quarter of fiscal 2022. Thanks to the aforementioned tailwind from pent-up demand for steel, Steel Dynamics posted nearly all-time high steel shipments but its margins moderated due to high raw material costs. As a result, its adjusted earnings-per-share decreased -20% sequentially, from \$5.46 to \$4.37, but exceeded the analysts' consensus by an impressive \$0.73.

Steel prices have corrected in recent months due to concerns over global economic growth. However, Steel Dynamics expects to keep thriving this year thanks to nearly all-time high backlog and sustained demand from automotive, construction and industrial sectors. Thanks to the bright outlook, the stock rallied 10% after the earnings release. We expect exceptionally high earnings-per-share of about \$11.00 this year, but we expect steel prices to normalize beyond this year, as global supply is likely to grow.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021    | 2022    | 2023           | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|----------------|---------------|
| <b>EPS</b>                | \$0.83 | \$1.35 | \$0.74 | \$1.92 | \$2.65 | \$5.40 | \$3.04 | \$2.84 | \$16.09 | \$22.68 | <b>\$11.00</b> | <b>\$4.80</b> |
| <b>DPS</b>                | \$0.44 | \$0.46 | \$0.55 | \$0.56 | \$0.62 | \$0.75 | \$0.96 | \$1.00 | \$1.04  | \$1.36  | <b>\$1.36</b>  | <b>\$1.78</b> |
| <b>Shares<sup>2</sup></b> | 222.9  | 241.4  | 243.1  | 243.8  | 237.4  | 225.3  | 214.5  | 212.1  | 198.8   | 175.9   | <b>165.0</b>   | <b>140.0</b>  |

Commodity producers are usually highly cyclical stocks, as their earnings are very sensitive to the dramatic swings of commodity prices. When prices are high, producers boost their production, which eventually results in an oversupplied market and a plunge in prices. This cyclical behavior is clearly reflected in the above table, which depicts the volatile performance record of Steel Dynamics.

On the bright side, Steel Dynamics has worked to broaden its product portfolio with high-quality steel products and expand its market diversity. As a result, it has consistently achieved a much higher utilization rate (80%-90%) in its steel mills when compared to the industry average (70%-80%). It has also pursued growth via some acquisitions. We view the earnings of 2021-2022 as abnormal and use earnings-per-share of \$4.80 as a base for our calculations of potential future returns. We expect Steel Dynamics to earn approximately \$4.80 per share in 2028 as well. We have raised our assumed fair earnings-per-share in the long run from \$4.50 to \$4.80 thanks to the aggressive share repurchases of the company.

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

*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 | Now  | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 19.4 | 14.6 | 26.1 | 13.1 | 13.6 | 8.2  | 10.5 | 10.2 | 3.5  | 3.5  | 25.2 | 11.1 |
| Avg. Yld. | 2.7% | 2.3% | 2.8% | 2.2% | 1.7% | 1.7% | 3.0% | 3.5% | 1.8% | 1.7% | 1.1% | 3.3% |

Due to its cyclical nature, Steel Dynamics trades at low price-to-earnings ratios when it enjoys great profits and at high earnings multiples during rough periods. Steel Dynamics has rallied 129% in 12 months and is now trading at 25.2 times its “normal earnings”, which is much higher than the 10-year average of 12.3. Due to the high cyclical nature of the stock, we assume a fair price-to-earnings ratio of 11.1, which is the average of the stock during normal years. If the stock reaches our fair value estimate, it will incur a -15.1% annualized drag in its returns over the next five years.

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

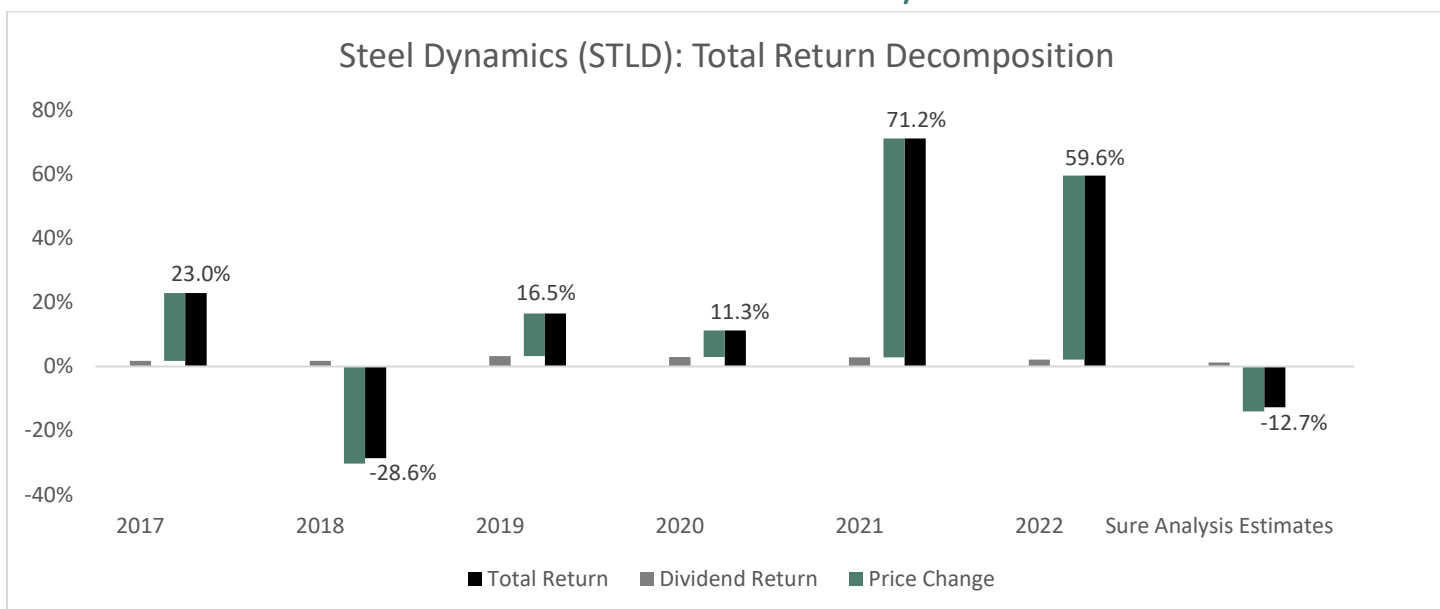
| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 53%  | 34%  | 74%  | 29%  | 23%  | 14%  | 32%  | 35%  | 6%   | 6%   | 28%  | 37%  |

Steel Dynamics has raised its dividend for 10 consecutive years, but it is offering a lackluster 1.1% dividend yield. Due to the cyclical nature of its business, it is not suitable for income-oriented investors. Fortunately, the company has a strong balance sheet, which is paramount during downturns, such as the collapse of commodity prices in 2015. Steel Dynamics is also better than its average peer thanks to its high-quality products, which somewhat differentiate the company from its peers. The company has also posted strong free cash flows in every single year in the last decade. Steel Dynamics is one of the highest-quality steel producers, but it is not immune to the cyclical nature of its industry.

## Final Thoughts & Recommendation

Steel Dynamics has rallied 129% over the last 12 months thanks to its impressive business momentum amid strong steel prices but supply is likely to gradually normalize in the upcoming years. As a result, the stock could offer a -12.7% average annual total return over the next five years, as its 1.1% dividend could be offset by a -15.1% annualized valuation drag. No one can predict how long the ongoing boom will last but a downturn is almost inevitable in this highly cyclical industry. The stock is risky from a long-term perspective and thus it receives a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018   | 2019   | 2020  | 2021   |
|------------------|-------|-------|-------|-------|-------|-------|--------|--------|-------|--------|
| Revenue          | 7,290 | 7,373 | 8,756 | 7,594 | 7,777 | 9,539 | 11,822 | 10,465 | 9,601 | 18,409 |
| Gross Profit     | 720   | 719   | 966   | 732   | 1,335 | 1,582 | 2,323  | 1,531  | 1,435 | 5,362  |
| Gross Margin     | 9.9%  | 9.8%  | 11.0% | 9.6%  | 17.2% | 16.6% | 19.6%  | 14.6%  | 14.9% | 29.1%  |
| SG&A Exp.        | 285   | 301   | 359   | 352   | 445   | 486   | 573    | 515    | 539   | 1,032  |
| Operating Profit | 225   | 231   | 263   | 295   | 296   | 299   | 317    | 321    | 326   | 348    |
| Op. Margin       | 399   | 387   | 580   | 356   | 861   | 1,067 | 1,722  | 987    | 867   | 4,301  |
| Net Profit       | 5.5%  | 5.2%  | 6.6%  | 4.7%  | 11.1% | 11.2% | 14.6%  | 9.4%   | 9.0%  | 23.4%  |
| Net Margin       | 164   | 189   | 157   | (130) | 382   | 813   | 1,258  | 671    | 551   | 3,214  |
| Free Cash Flow   | 2.2%  | 2.6%  | 1.8%  | -1.7% | 4.9%  | 8.5%  | 10.6%  | 6.4%   | 5.7%  | 17.5%  |
| Income Tax       | 222   | 125   | 516   | 939   | 655   | 574   | 1,176  | 944    | (211) | 1,198  |

## Balance Sheet Metrics

| Year               | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021   |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Total Assets       | 5,815 | 5,933 | 7,233 | 6,202 | 6,424 | 6,856 | 7,704 | 8,276 | 9,266 | 12,531 |
| Cash & Equivalents | 376   | 395   | 361   | 727   | 841   | 1,029 | 828   | 1,381 | 1,369 | 1,244  |
| Acc. Receivable    | 642   | 721   | 903   | 614   | 730   | 869   | 1,044 | 844   | 972   | 1,916  |
| Inventories        | 1,203 | 1,315 | 1,618 | 1,149 | 1,275 | 1,519 | 1,859 | 1,689 | 1,844 | 3,531  |
| Goodwill & Int.    | 1,155 | 1,118 | 1,116 | 676   | 677   | 644   | 700   | 781   | 782   | 749    |
| Total Liabilities  | 3,339 | 3,321 | 4,311 | 3,531 | 3,535 | 3,549 | 3,816 | 4,211 | 4,917 | 6,211  |
| Accounts Payable   | 360   | 415   | 511   | 283   | 395   | 489   | 551   | 513   | 769   | 1,281  |
| Long-Term Debt     | 2,202 | 2,108 | 2,982 | 2,595 | 2,357 | 2,382 | 2,377 | 2,734 | 3,103 | 3,106  |
| Total Equity       | 2,405 | 2,547 | 2,913 | 2,680 | 2,927 | 3,352 | 3,935 | 4,076 | 4,345 | 6,305  |
| LTD/E Ratio        | 0.92  | 0.83  | 1.02  | 0.97  | 0.81  | 0.71  | 0.60  | 0.67  | 0.71  | 0.49   |

## Profitability & Per Share Metrics

| Year             | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020   | 2021  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|
| Return on Assets | 2.8%  | 3.2%  | 2.4%  | -1.9% | 6.1%  | 12.2% | 17.3% | 8.4%  | 6.3%   | 29.5% |
| Return on Equity | 6.9%  | 7.6%  | 5.8%  | -4.7% | 13.6% | 25.9% | 34.5% | 16.8% | 13.1%  | 60.4% |
| ROIC             | 3.5%  | 4.0%  | 3.0%  | -2.3% | 7.3%  | 14.9% | 21.1% | 10.3% | 7.7%   | 38.1% |
| Shares Out.      | 219.5 | 222.9 | 241.4 | 243.1 | 243.8 | 237.4 | 225.3 | 214.5 | 212.1  | 198.8 |
| Revenue/Share    | 30.81 | 30.85 | 36.17 | 31.38 | 31.70 | 39.45 | 50.26 | 47.41 | 45.22  | 89.10 |
| FCF/Share        | 0.94  | 0.52  | 2.13  | 3.88  | 2.67  | 2.38  | 5.00  | 4.28  | (0.99) | 5.80  |

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

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