



# Kaiser Aluminum Corporation (KALU)

Updated February 28<sup>th</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$76	<b>5 Year CAGR Estimate:</b>	-3.6%	<b>Market Cap:</b>	\$1.21 B
<b>Fair Value Price:</b>	\$46	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	04/21/2023 <sup>1</sup>
<b>% Fair Value:</b>	165%	<b>5 Year Valuation Multiple Estimate:</b>	-9.5%	<b>Dividend Payment Date:</b>	05/12/2023
<b>Dividend Yield:</b>	4.0%	<b>5 Year Price Target</b>	\$46	<b>Years Of Dividend Growth:</b>	11
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Sell

## Overview & Current Events

Kaiser Aluminum Corporation is a leading producer of semi-fabricated aluminum products. Manufacturers and major suppliers around the world look to Kaiser to deliver highly engineered solutions for their most demanding aerospace, packaging, automotive and industrial applications. Specifically, Kaiser operates 13 production facilities across North America. Collectively, these facilities produce an impressive range of value-added plate, sheet, coil, and extruded products. This latter category includes extruded shapes as well as rod, bar, tube, forged stock, and wire products. Kaiser generated \$3.4 billion in revenues last year. The company is based in Foothill Ranch, California.

On February 22<sup>nd</sup>, 2023, Kaiser Aluminum reported its Q4-2022 and full-year results for the period ending December 31<sup>st</sup>, 2022. Net sales came in at \$776 million, down 3.7% year-over-year, reflecting a 9% decrease in shipments and a 6% increase in average selling price per pound.

Value-added revenue (Net Sales – hedge costs of alloyed metal) grew 13% to \$356 million, primarily driven by higher demand across all business segments. Specifically, the company’s aerospace/high strength, packaging applications, general engineering applications, and automotive extrusions segments saw their value-added revenues rise 25%, 2%, 26%, and 10%, respectively.

Net income was \$26 million, or \$1.66 on a per-share basis, compared to a net income of \$2 million, or \$0.11 on a per-share basis, respectively, in the prior year period. Excluding the impact of non-run-rate items, adjusted net loss was \$7 million or \$0.45 on a per-share basis, compared to net income of \$5 million and \$0.33 on a per-share basis, respectively.

We are using an earnings power of \$4.20 in our FY2023 estimates as Kaiser’s earnings potential under “normalized” conditions and excluding one-off items. All other numbers in the table represent GAAP figures as originally reported.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$5.57	\$4.04	(\$13.76)	\$5.15	\$2.67	\$5.53	\$3.88	\$1.82	(\$1.17)	(\$1.86)	<b>\$4.20</b>	<b>\$4.20</b>
<b>DPS</b>	\$1.20	\$1.40	\$1.60	\$1.80	\$2.00	\$2.20	\$2.40	\$2.68	\$2.88	\$3.08	<b>\$3.08</b>	<b>\$3.75</b>
<b>Shares<sup>2</sup></b>	18.8	17.8	17.2	17.8	17.0	16.6	16.0	15.8	15.8	15.9	<b>15.9</b>	<b>15.5</b>

Kaiser’s earnings-per-share have fluctuated wildly over the past decade. This is because the company’s area of operations is wildly cyclical. While the company does operate on a backlog basis in some areas (e.g., with aerospace clients), the demand for semi-fabricated specialty aluminum mill products can fluctuate swiftly based on various macroeconomic and general industrial factors. Aluminum prices are very sensitive to electricity costs, industry trends, commodity-specific events, and the strength of the USD. In turn, this means that the company’s margins can easily expand and contract – hence Kaiser’s fluctuating profits/losses.

In 2021, the company acquired Alcoa Warrick LLC, a manufacturer of beverage and food cans, to reduce its cyclicity by adding manufacturing capacity for the aluminum food and beverage packaging industry. Nevertheless, due to the high

<sup>1</sup> Estimated dates

<sup>2</sup> Share count is 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.



# Kaiser Aluminum Corporation (KALU)

Updated February 28<sup>th</sup>, 2023 by Nikolaos Sismanis

uncertainty regarding its future performance, which can swing either way, we are not forecasting any growth in earnings-per-share from our base power estimate of \$4.20.

Despite its cyclical earnings, Kaiser has increased its dividend-per-share for 11 consecutive years. The dividend has never been cut since its inception in 2007. It has grown at a CAGR of 7% over the past five years, but we forecast a lesser growth of 4% in our estimates to be prudent against the overall uncertainties attached to Kaiser's business model.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.8	17.0	---	16.8	30.7	18.0	25.5	36.81	---	---	18.2	11.0
Avg. Yld.	1.9%	1.9%	2.0%	2.2%	2.3%	2.1%	2.6%	4.0%	2.8%	3.9%	4.0%	8.1%

Over the past decade, Kaiser's valuation has swung in line with its fluctuating earnings. Kaiser's past multiples can be somewhat misleading, considering tons of one-off items (including hedging costs) can affect Kaiser's GAAP earnings, nonetheless. Kaiser currently trades at 18.2 times our earnings power estimate. We believe the stock is significantly overvalued based on the volatile nature of its earnings and have set our fair multiple to a more conservative 11X.

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

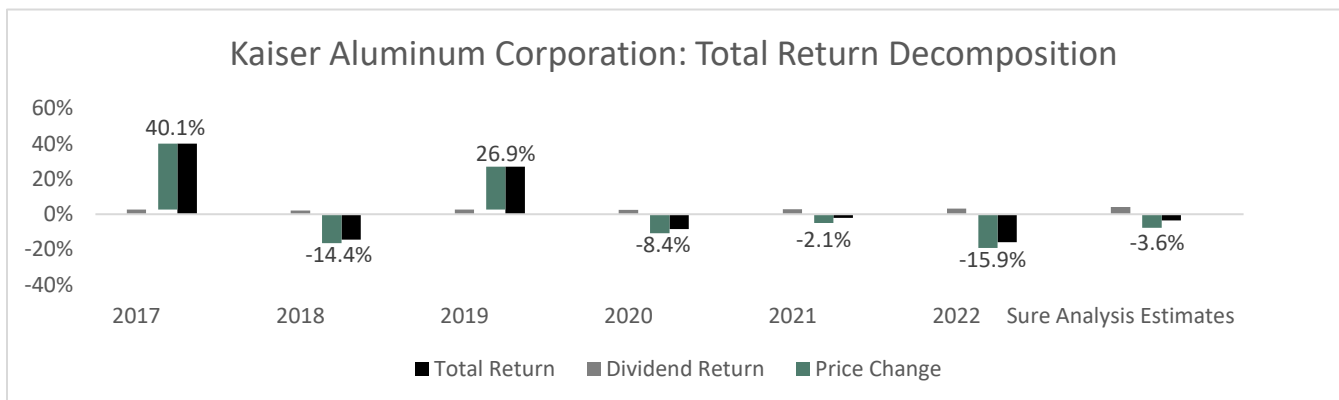
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	22%	35%	---	35%	75%	40%	62%	147%	---	---	73%	89%

Kaiser's strong competitive advantage is the multi-decade-long relationships it has built with various industrial behemoths like Crown Holdings, Ford Motor Company, and The Boeing Company, amongst others. The company provides them with custom products tailored to their needs, which has formed a noteworthy moat. That said, the aluminum industry, in general, is brutally competitive. Further, the company's balance sheet is heavily indebted. Following the acquisition of Alcoa Warrick, net debt has now jumped to a huge \$1.03 billion, implying a worrisome net debt/EBITDA of 8.5X. This poses a huge risk for the company. In fact, interest expenses on debt have exceeded operating cash flows for three consecutive quarters. Thus, despite the seemingly low payout ratio and the possibility of the dividend growing slowly moving forward, we don't find the dividend to be safe. Kaiser is very susceptible to recessions.

## Final Thoughts & Recommendation

Kaiser operations are wildly cyclical, resulting in our future estimates being highly speculative. Regardless, we believe that valuation headwinds can more than offset the stock's dividend returns, possibly resulting in net negative returns for investors moving forward. This, combined with its unhealthy balance sheet, earns the stock a sell rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



# Kaiser Aluminum Corporation (KALU)

Updated February 28<sup>th</sup>, 2023 by Nikolaos Sismanis

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	1,360	1,298	1,356	1,392	1,331	1,398	1,586	1,514	1,173	2,622
<b>Gross Profit</b>	233	231	197	238	289	272	241	250	179	182
<b>Gross Margin</b>	17.1%	17.8%	14.5%	17.1%	21.7%	19.5%	15.2%	16.5%	15.3%	7.0%
<b>SG&amp;A Exp.</b>	74	80	81	88	105	98	96	98	91	119
<b>D&amp;A Exp.</b>	27	28	31	32	36	40	44	49	52	92
<b>Operating Profit</b>	154	151	114	150	181	174	144	151	89	64
<b>Operating Margin</b>	11.3%	11.6%	8.4%	10.8%	13.6%	12.4%	9.1%	10.0%	7.6%	2.4%
<b>Net Profit</b>	86	105	72	(237)	92	45	92	62	29	(19)
<b>Net Margin</b>	6.3%	8.1%	5.3%	-17.0%	6.9%	3.2%	5.8%	4.1%	2.5%	-0.7%
<b>Free Cash Flow</b>	108	41	65	97	90	66	76	172	155	21
<b>Income Tax</b>	54	38	35	(135)	56	88	28	18	10	(6)

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	1,753	1,771	1,744	1,247	1,444	1,385	1,419	1,526	1,865	2,422
<b>Cash &amp; Equivalents</b>	273	170	178	73	55	51	126	264	780	303
<b>Accounts Receivable</b>	124	120	129	117	138	165	180	167	113	333
<b>Inventories</b>	186	214	215	220	202	208	215	178	152	405
<b>Goodwill &amp; Int. Ass.</b>	73	71	69	68	64	44	76	48	46	107
<b>Total Liabilities</b>	682	686	728	473	639	639	679	792	1,132	1,730
<b>Accounts Payable</b>	63	63	81	77	76	90	121	92	86	351
<b>Long-Term Debt</b>	380	389	398	195	369	370	370	493	838	1,036
<b>Shareholder's Equity</b>	1,071	1,084	1,016	774	805	746	740	734	732	693
<b>LTD/E Ratio</b>	0.36	0.36	0.39	0.25	0.46	0.50	0.50	0.67	1.14	1.50

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	5.6%	5.9%	4.1%	-15.8%	6.8%	3.2%	6.5%	4.2%	1.7%	-0.9%
<b>Return on Equity</b>	8.8%	9.7%	6.8%	-26.4%	11.6%	5.9%	12.3%	8.4%	3.9%	-2.6%
<b>ROIC</b>	6.9%	7.2%	5.0%	-19.9%	8.6%	4.0%	8.2%	5.3%	2.1%	-1.1%
<b>Shares Out.</b>	19.1	18.8	17.8	17.2	17.8	17.0	16.6	16.0	15.8	15.8
<b>Revenue/Share</b>	70.55	67.42	72.94	80.92	73.79	80.97	93.98	93.45	73.69	165.57
<b>FCF/Share</b>	5.62	2.15	3.48	5.62	4.96	3.82	4.51	10.62	9.74	1.35

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

## Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.