NACCO Industries (NC)

Updated March 16th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$263 M
Fair Value Price:	$54	**5 Year Growth Estimate:**	-5.0%	**Ex-Dividend Date:**	05/26/23[1]
% Fair Value:	67%	**5 Year Valuation Multiple Estimate:**	8.4%	**Dividend Payment Date:**	06/15/23[2]
Dividend Yield:	2.3%	**5 Year Price Target**	$42	**Years Of Dividend Growth:**	37
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

NACCO Industries is a holding company for The North American Coal Corporation, which incorporated in 1913. The company supplies coal from surface mines to power generation companies. NACCO Industries is the largest lignite coal producer in the U.S. and ranks among the top ten of all coal producers. NACCO Industries operates in the states of North Dakota, Texas, Mississippi, Louisiana and on the Navajo Nation in New Mexico. The company produces annual revenues of ~192 million. The company has been very active in purchasing and spinning off a wide variety of businesses in its history. In 1988 and 1990, NACCO Industries made several purchases that expanded the business to include housewares. In 2012, NACCO Industries spun off its Materials Handling Group (a combination of Yale Materials Handling Corporation and the Hyster Company). The company spun off of its housewares-related business on September 29th, 2017.

On May 18th, 2022, NACCO Industries raised its quarterly dividend 5.1% to $0.2075.

On March 15th, 2023, NACCO Industries reported results for the fourth quarter and full year for the period ending December 31st, 2022. For the quarter, revenue grew 29.4% to $63.5 million while earnings-per-share of $1.84 compared favorably to $1.07 per share in the prior year. For the year, revenue improved 26% to $241.7 million while earnings-per-share of $10.06 compared very favorably to $6.69 in 2021.

Coal revenues grew 30% to $25 million due to a combination of pricing and an increase in customer demand. Total tons delivered increased 4.8%. Unconsolidated coal deliveries were up 2.5% to 6.2 million tons while consolidated coal deliveries grew 26.4% to 818K tons. Deliveries from the North American Mining segment improved 9.2% to 13.5 million tons while revenues fell 10.8% to just $18.5 million. Lower revenues were a result of fewer reimbursed costs and completed final mine reclamation activities. The company entered into an agreement in Q2 2020 to become the exclusive contract miner for the Thacker Pass lithium project in northern Nevada. Construction commenced on March 2nd, 2023 with the production of lithium products to occur thereafter. Mineral Management revenues increased 108% to $19.4 million due to higher natural gas and oil prices as well as new wells that were developed. Management expects that consolidated net income will be down substantially in 2023 compared to 2022 due to $30.9 million of pre-tax contract termination income included in last year's results. As a result, we initiate estimates for earnings-per-share at $6.00 for the current year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$5.79	$3.98	$3.13	$4.32	$4.14	$5.00	$5.66	$2.10	$6.69	$10.06	***$6.00***	***$4.64***
DPS	$1.00	$1.02	$1.05	$1.07	$0.98	$0.66	$0.76	$0.77	$0.79	$0.82	***$0.83***	***$1.06***
Shares[3]	8	7	7	7	7	7	7	7	7	7	***7***	***5***

Because NACCO Industries spun off its Materials Handling Group in 2012, it is not appropriate to compare today's company to the pre-spinoff equivalent. NACCO saw its earnings per share decline 6.5% per year through 2017. Although

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] In millions of shares

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NACCO has shown mostly negative growth since 2012 and volatile earnings-per-share since then, we now project annual growth of -5% compared to -2% due to a high starting base for EPS. Adjusting for its spin-off history, NACCO Industries has raised its dividend for 37 consecutive years. We expect a dividend growth rate of 5% going forward.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.0	13.8	16.8	14.5	18.2	8.7	8.3	12.5	5.4	3.6	***6.0***	***9.0***
Avg. Yld.	1.7%	1.9%	2.0%	1.7%	1.3%	1.8%	1.6%	2.9%	2.2%	2.3%	***2.3%***	***2.5%***

Shares of NACCO Industries have decreased $19, or 34.5%, since our November 7th, 2022 report. Focusing on just the past five years, NACCO Industries shares have traded with an average price to earnings multiple of 7.7. This is above the stock's current multiple of 6x earnings. Investors are just not willing to pay for a company that has an issue growing earnings consistently. NACCO Industries needs to prove it can reliably grow earnings-per-share before it reaches its five-year historical average valuation. We maintain our 2028 P/E target of 9. If achieved, then valuation would add 8.4% to annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

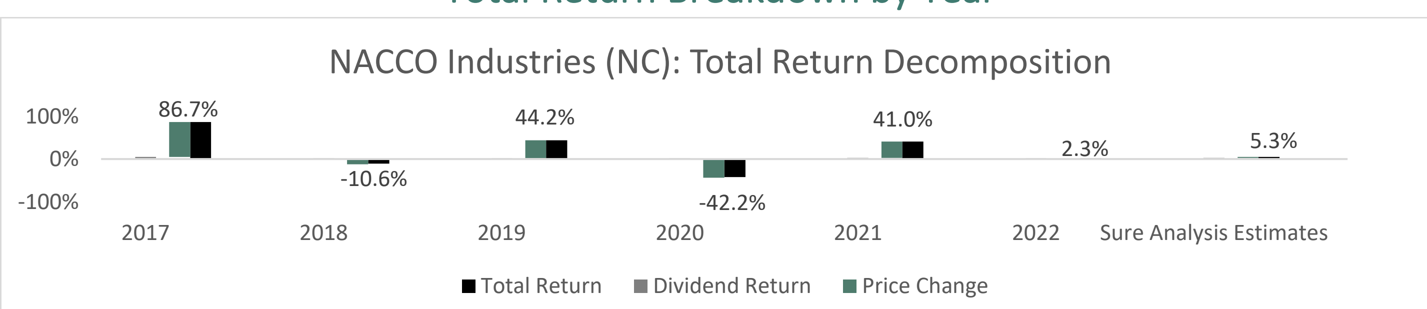
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	17%	26%	34%	25%	24%	13%	13%	37%	12%	8%	***14%***	***23%***

The previous version of NACCO Industries actually saw earnings improve during the last recession, but this is not the same company. NACCO Industries now sees a substantial portion of revenues from coal. As demand for coal fluctuates, so will the company's ability to produce revenue. The company has also kept its payout ratio low in recent years, which is a prudent decision by management as earnings-per-share continues to drop. NACCO Industries' primary competitive advantage is that it doesn't acquire existing coal mines or mining companies, as this would increase its leverage position. Instead, NACCO Industries focuses on reducing coal production costs and maximizing efficiency and operating capacity at the mine locations.

Final Thoughts & Recommendation

After fourth quarter results, NACCO Industries is expected to return 5.3% annually through 2028, up from 4.2% previously. This projected return stems from a starting dividend yield of 2.3% and a high single-digit tailwind from multiple expansion that are offset by a projected decline in earnings-per-share. Coal demand returned during the quarter and the other businesses are seeing solid revenue growth. Management did guide toward a weaker 2023. We now view shares of NACCO Industries as a hold due to projected returns, but have lowered our five-year price target $21 to $42 due to guidance for the current year. We note again that only investors with a high tolerance for risk should consider owning the name.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	933	897	148	111	105	135	141	128	192	242
Gross Profit	221	185	(11)	12	17	30	31	17	43	68
Gross Margin	23.7%	20.6%	-7.6%	10.9%	16.1%	22.1%	22.1%	13.2%	22.6%	28.1%
Operating Profit	199	199	40	49	47	49	54	53	56	64
Operating Margin	16	(20)	(55)	(39)	(34)	(24)	(27)	(40)	(17)	(1)
Net Profit	1.8%	-2.2%	-37.1%	-35.2%	-32.7%	-17.4%	-19.0%	-31.4%	-8.9%	-0.4%
Net Margin	44	(38)	22	30	30	35	40	15	48	74
Free Cash Flow	4.8%	-4.3%	14.9%	26.7%	29.0%	25.7%	28.1%	11.5%	25.1%	30.7%
Income Tax	(4)	(38)	104	84	26	34	28	(33)	36	25

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	810	771	655	668	390	377	445	476	507	568
Cash & Equivalents	95	61	52	69	102	85	123	88	86	111
Accounts Receivable	153	181	114	21	35	29	22	24	31	45
Inventories	184	190	165	29	30	31	40	48	54	71
Goodwill & Int. Ass.	60	67	63	46	44	41	38	35	32	28
Total Liabilities	512	559	454	448	170	126	155	176	155	141
Accounts Payable	133	134	100	11	10	9	10	6	13	13
Long-Term Debt	184	248	170	80	50	11	25	46	21	20
Shareholder's Equity	298	211	201	220	219	251	289	301	352	427
LTD/E Ratio	0.62	1.17	0.85	0.36	0.23	0.04	0.09	0.15	0.06	0.05

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.6%	-4.8%	3.1%	4.5%	5.7%	9.1%	9.6%	3.2%	9.8%	13.8%
Return on Equity	15.4%	-15.0%	10.7%	14.1%	13.8%	14.8%	14.7%	5.0%	14.7%	19.0%
ROIC	9.5%	-8.1%	5.3%	8.8%	10.6%	13.1%	13.8%	4.5%	13.4%	18.1%
Shares Out.	8	7	7	7	7	7	7	7	7	7
Revenue/Share	114.80	118.15	21.08	16.21	15.24	19.45	20.12	18.20	26.68	32.78
FCF/Share	(0.54)	(4.97)	14.75	12.22	3.72	4.84	4.01	(4.63)	4.96	3.42

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