Steel Dynamics (STLD)

Updated April 21st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	-7.8%	**Market Cap:**	$18.1 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	6/28/2023[1]
% Fair Value:	174%	**5 Year Valuation Multiple Estimate:**	-10.5%	**Dividend Payment Date:**	7/14/2023
Dividend Yield:	1.5%	**5 Year Price Target**	$64	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	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 $18.1 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 since then but they are likely to remain above-average in the upcoming quarters, given the sustained demand from automakers and renewable energy projects.

In mid-April, Steel Dynamics reported (4/19/23) financial results for the first quarter of fiscal 2023. Thanks to the aforementioned tailwind from pent-up demand for steel, Steel Dynamics posted all-time high steel shipments but its margins moderated due to high raw material costs. As a result, its adjusted earnings-per-share dipped -8% sequentially, from $4.37 to $4.01, but exceeded the analysts' consensus by an impressive $0.42.

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 5% after the earnings release. As business momentum has decelerated less than expected, we have raised our forecast for annual earnings-per-share from $11.00 to $13.50, but we expect steel prices to deflate 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
EPS	$0.83	$1.35	$0.74	$1.92	$2.65	$5.40	$3.04	$2.84	$16.09	$22.68	***$13.50***	***$5.75***
DPS	$0.44	$0.46	$0.55	$0.56	$0.62	$0.75	$0.96	$1.00	$1.04	$1.36	***$1.70***	***$2.22***
Shares[2]	222.9	241.4	243.1	243.8	237.4	225.3	214.5	212.1	198.8	175.9	***160.0***	***140.0***

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 2021-2023 as abnormal and use earnings-per-share of $5.75 as a base for our calculations of potential future returns. We expect Steel Dynamics to earn approximately $5.75 per share in 2028 as well. We have raised our assumed fair earnings-per-share in the long run from $4.80 to $5.75 thanks to the aggressive share repurchases of the company.

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[1] Estimated date.

[2] In millions.

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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	***19.3***	***11.1***
Avg. Yld.	2.7%	2.3%	2.8%	2.2%	1.7%	1.7%	3.0%	3.5%	1.8%	1.7%	***1.5%***	***3.5%***

Due to its cyclicality, 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 doubled in about 15 months and is now trading at 19.3 times its "normal earnings", which is much higher than the 10-year average of 12.3. Due to the high cyclicality 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 -10.5% annualized drag in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

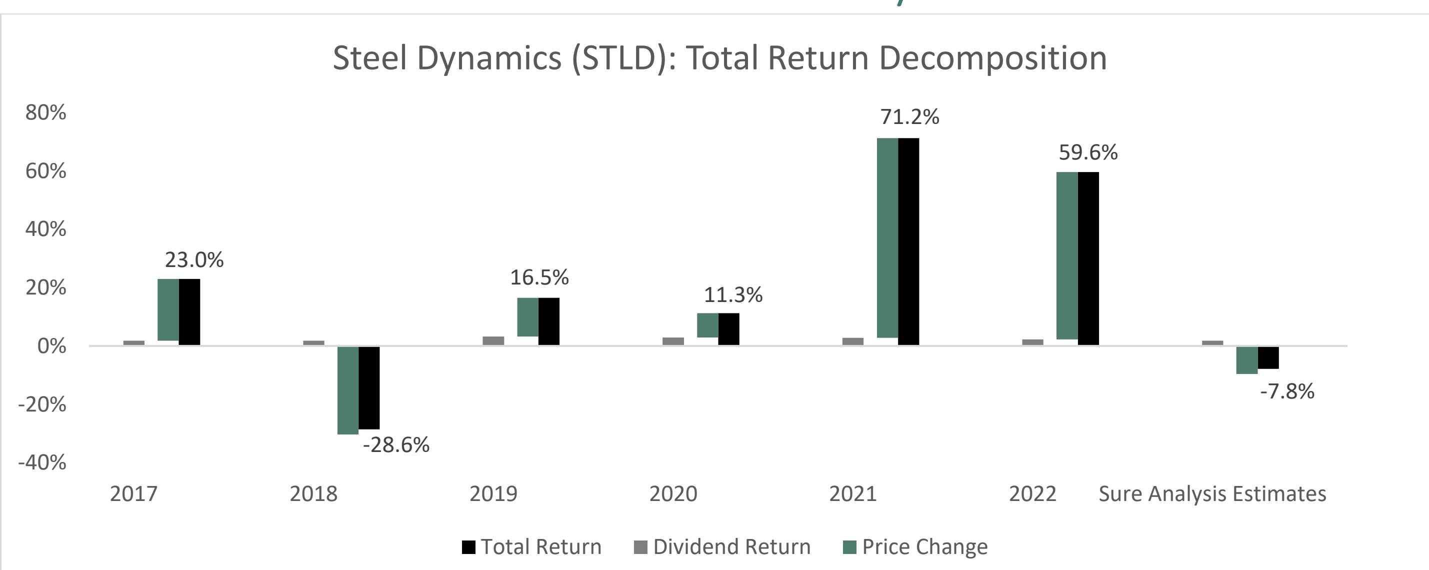
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	53%	34%	74%	29%	23%	14%	32%	35%	6%	6%	***30%***	***39%***

Steel Dynamics raised its dividend by 25% this year and thus it has raised its dividend for 11 consecutive years, but it is offering a lackluster 1.5% dividend yield. Due to the cyclicality 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 cyclicality of its industry.

Final Thoughts & Recommendation

Steel Dynamics has doubled in about 15 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 -7.8% average annual total return over the next five years, as its 1.5% dividend could be offset by a -10.5% 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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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	7,373	8,756	7,594	7,777	9,539	11,822	10,465	9,601	18,409	22,261
Gross Profit	719	966	732	1,335	1,582	2,323	1,531	1,435	5,362	6,118
Gross Margin	9.8%	11.0%	9.6%	17.2%	16.6%	19.6%	14.6%	14.9%	29.1%	27.5%
SG&A Exp.	301	359	352	445	486	573	515	539	1,032	998
Operating Profit	231	263	295	296	299	317	321	326	348	5,092
Op. Margin	387	580	356	861	1,067	1,722	987	867	4,301	22.9%
Net Profit	5.2%	6.6%	4.7%	11.1%	11.2%	14.6%	9.4%	9.0%	23.4%	3,863
Net Margin	189	157	(130)	382	813	1,258	671	551	3,214	17.4%
Free Cash Flow	2.6%	1.8%	-1.7%	4.9%	8.5%	10.6%	6.4%	5.7%	17.5%	3,552
Income Tax	125	516	939	655	574	1,176	944	(211)	1,198	1,142

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,933	7,233	6,202	6,424	6,856	7,704	8,276	9,266	12,531	14,160
Cash & Equivalents	395	361	727	841	1,029	828	1,381	1,369	1,244	1,628
Acc. Receivable	721	903	614	730	869	1,044	844	972	1,916	2,056
Inventories	1,315	1,618	1,149	1,275	1,519	1,859	1,689	1,844	3,531	3,130
Goodwill & Int.	1,118	1,116	676	677	644	700	781	782	749	770
Total Liabilities	3,321	4,311	3,531	3,535	3,549	3,816	4,211	4,917	6,211	6,064
Accounts Payable	415	511	283	395	489	551	513	769	1,281	1,017
Long-Term Debt	2,108	2,982	2,595	2,357	2,382	2,377	2,734	3,103	3,106	3,071
Total Equity	2,547	2,913	2,680	2,927	3,352	3,935	4,076	4,345	6,305	8,130
LTD/E Ratio	0.83	1.02	0.97	0.81	0.71	0.60	0.67	0.71	0.49	0.38

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.2%	2.4%	-1.9%	6.1%	12.2%	17.3%	8.4%	6.3%	29.5%	28.9%
Return on Equity	7.6%	5.8%	-4.7%	13.6%	25.9%	34.5%	16.8%	13.1%	60.4%	53.5%
ROIC	4.0%	3.0%	-2.3%	7.3%	14.9%	21.1%	10.3%	7.7%	38.1%	37.5%
Shares Out.	222.9	241.4	243.1	243.8	237.4	225.3	214.5	212.1	198.8	184.6
Revenue/Share	30.85	36.17	31.38	31.70	39.45	50.26	47.41	45.22	89.10	120.57
FCF/Share	0.52	2.13	3.88	2.67	2.38	5.00	4.28	(0.99)	5.80	19.24

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