



NACCO Industries (NC)

Updated May 20th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	3.9%	Market Cap:	\$248 M
Fair Value Price:	\$45	5 Year Growth Estimate:	-5.0%	Ex-Dividend Date:	05/30/23
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.4%	Dividend Payment Date:	06/15/23
Dividend Yield:	2.6%	5 Year Price Target	\$35	Years Of Dividend Growth:	38
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Sell

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, 2023, NACCO Industries raised its quarterly dividend 4.8% to \$0.2175.

On May 3rd, 2023, NACCO Industries announced results for the first quarter for the period ending March 31st, 2023. For the quarter, revenue declined 8.9% to \$50.1 million while earnings-per-share of \$0.76 compared unfavorably to \$1.72 per share in the prior year.

Coal revenues fell 1.5% to \$20.7 million while total tons delivered fell 2.1%. Unconsolidated coal deliveries were down 2.0% to 6.2 million tons while consolidated coal deliveries declined 2.9% to 711K tons. Deliveries from the North American Mining segment increased 6.2% to 14.8 million tons while revenues fell 3.6% to \$20.6 million. Mineral Management revenues decreased 35% to \$8.3 million due to lower natural gas and oil prices. 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 of this combined with Q1 results, we have lowered our estimates for earnings-per-share to \$5.00 from \$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	\$5.00	\$3.87
DPS	\$1.00	\$1.02	\$1.05	\$1.07	\$0.98	\$0.66	\$0.76	\$0.77	\$0.79	\$0.82	\$0.87	\$1.11
Shares¹	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 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 38 consecutive years. We expect a dividend growth rate of 5% going forward.

NACCO Industries does have some opportunity for growth. For example, 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 now expected to begin in the second half of 2026.

¹ In millions of shares

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	10.0	13.8	16.8	14.5	18.2	8.7	8.3	12.5	5.4	3.6	6.6	9.0
Avg. Yld.	1.7%	1.9%	2.0%	1.7%	1.3%	1.8%	1.6%	2.9%	2.2%	2.3%	2.6%	3.2%

Shares of NACCO Industries have fallen \$3, or 8.3%, since our March 16th, 2023 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 6.6x 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 receives a higher multiple. We maintain our 2028 P/E target of 9. If achieved, then valuation would add 6.4% to annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

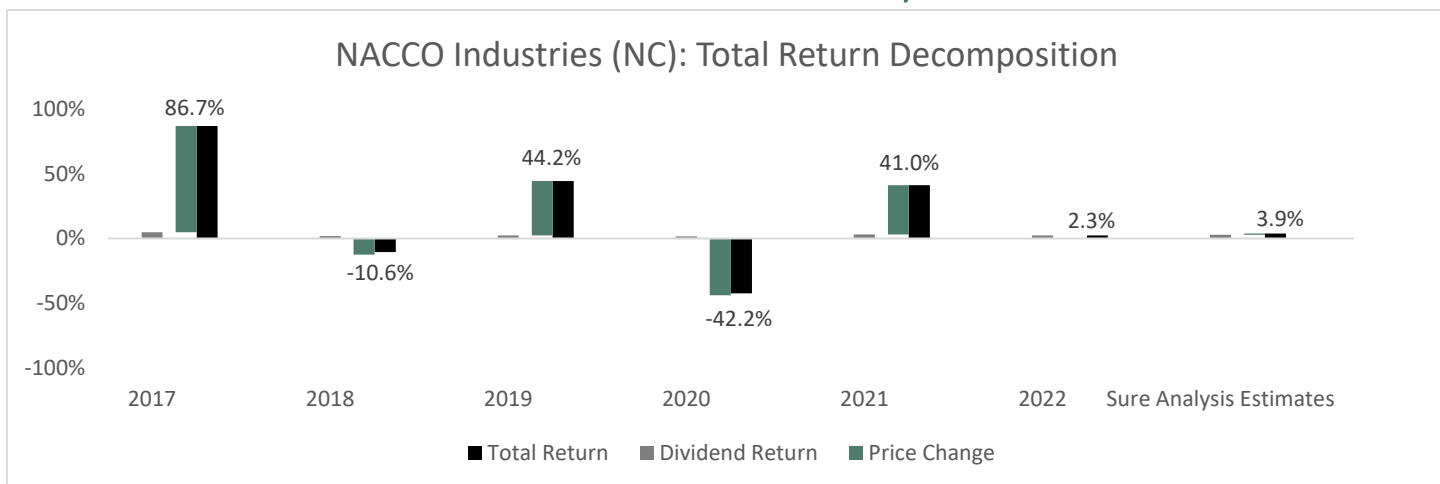
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	17%	26%	34%	25%	24%	13%	13%	37%	12%	8%	17%	29%

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

Following first quarter results, NACCO Industries is expected to return 3.9% annually through 2028, down from 5.3% previously. This projected return stems from a starting dividend yield of 2.6% and a mid-single-digit tailwind from multiple expansion that are offset by a projected decline in earnings-per-share. Coal demand was weaker during the period, something management had previously said would occur. We now view shares of NACCO Industries as a sell due to projected returns and have lowered our five-year price target \$7 to \$35 due to estimates 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.

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