



NACCO Industries (NC)

Updated August 4th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	-1.2%	Market Cap:	\$248 M
Fair Value Price:	\$27	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	08/30/23 ¹
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.5%	Dividend Payment Date:	09/15/23 ²
Dividend Yield:	2.6%	5 Year Price Target	\$27	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 ~\$250 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 its housewares-related business on September 29th, 2017.

On May 18th, 2023, NACCO Industries raised its quarterly dividend 4.8% to \$0.2175.

On August 2nd, 2023, NACCO Industries announced results for the second quarter for the period ending June 30th, 2023. For the quarter, revenue of \$61.35 was unchanged from the prior year while earnings-per-share of \$0.34 compared very unfavorably to earnings-per-share of \$5.07 in the prior year.

Coal revenues declined 1% to \$26.3 million while total tons delivered fell 14.6%. Unconsolidated coal deliveries were down 16.8% to 4.6 million tons while consolidated coal deliveries decreased 1% to 906K tons. Deliveries from the North American Mining segment increased 4.2% to 13.9 million tons while revenues fell 4.8% to \$21.7 million. Mineral Management revenues decreased 23.3% to \$9.2 million due to much lower natural gas and oil prices. Management expects that consolidated net income will be down substantially in Q3 2023 while improving slightly in Q4.

As a result of guidance, we have lowered our estimates for earnings-per-share to \$3.00 for 2023, from \$5.00 and \$6.00 previously.

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	\$3.00	\$3.00
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
Shares³	8	7	7	7	7	7	7	7	7	7	7	7

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. NACCO has shown mostly negative growth since 2012 and volatile earnings-per-share since. Due to much lower EPS estimates for the year, we now expect flat earnings growth through 2028. 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.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ In millions of shares

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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 still expected to begin in the second half of 2026.

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	11.3	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%	4.1%

Shares of NACCO Industries have increased \$1, or 3.0%, since our May 20th, 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, valuation would reduce annual returns by 4.5% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

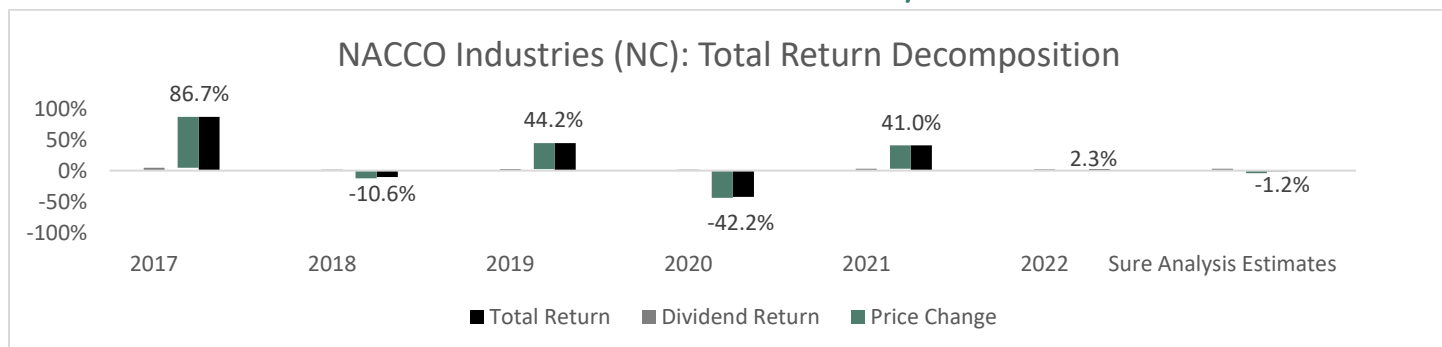
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	17%	26%	34%	25%	24%	13%	13%	37%	12%	8%	29%	37%

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 second quarter results, NACCO Industries is expected to lose 1.2% annually through 2028, down from a return of 3.9% previously. This projected return stems from a starting dividend yield of 2.6% off set by a mid-single-digit headwind from multiple contraction. Coal demand remains weak and energy prices are having a negative impact on the Mineral Management business. We continue to view shares of NACCO Industries as a sell due to projected returns and have lowered our five-year price target \$8 to \$27 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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