



Worthington Industries, Inc. (WOR)

Updated October 5th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	14.2%	Market Cap:	\$2.89 B
Fair Value Price:	\$68	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	11/14/2023
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	12/15/2023
Dividend Yield:	2.1%	5 Year Price Target	\$110	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Worthington Industries, Inc. is a diversified industrial manufacturing company focused on value-added steel processing and manufactured metal products. Steel processing and pressure cylinders are the two primary business segments of the company. Worthington Industries' metal products include pressure cylinders for liquefied petroleum gas, compressed natural gas, oxygen, refrigerant, and other industrial gas storage.

On September 27th, 2022, Worthington Industries announced Q1 2024 results, reporting non-GAAP EPS of \$1.19 for the quarter, beating market consensus EPS by \$0.05. In addition, the company reported revenue of \$1.19 billion, which was down 15.6% year-over-year.

Despite some economic uncertainties and indications that consumers are under pressure, the company's operations are doing well. Additionally, the management has expressed optimism during the last quarter that the firm is well-positioned with its Worthington 2024 strategy, which would split Worthington Enterprises and Worthington Steel into two different market leaders.

In the last quarter, a greater direct spread in steel processing contributed to a \$197.5 million gain in gross margin over the same quarter last year, which was largely offset by lower volumes in consumer products. The anticipated \$17.0 million favorable swing from inventory holding losses of \$1.5 million in the prior year quarter to inventory holding gains of \$15.5 million in the current year quarter boosted direct spreads in the steel processing industry.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.11	\$1.12	\$2.22	\$3.15	\$3.09	\$2.61	\$2.53	\$4.86	\$7.30	\$5.19	\$5.70	\$9.18
DPS	\$0.60	\$0.72	\$0.76	\$0.80	\$0.84	\$0.92	\$0.96	\$1.03	\$1.12	\$1.24	\$1.28	\$2.26
Shares	67.4	64.1	61.5	62.8	58.9	55.5	54.6	51.3	52.3	49.4	47.0	38.3

Worthington Industries has been exceptional at growing its business recently and has achieved EPS growth over the past nine years at a CAGR of 10.5%. In addition, the company has been consistently delivering increasing dividends for the past twelve years. Worthington Industries experienced inventory losses in 2023, but we expect EPS to recover this fiscal year. We forecast an EPS of \$5.70 for the fiscal year 2024, in line with analysts' estimates. The end market demand remains robust, and the company will continue to grow its earnings in the medium-term. As a result, we forecast an EPS growth of 10.0%, in line with WOR's EPS long-term growth from the current fiscal year to 2029. Our forecast leads to an estimated EPS of \$9.18 by 2029. Finally, we expect the company to maintain a healthy dividend yield and forecast a dividend payment of \$2.26 by 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	18.0	30.6	13.6	640.3	14.9	15.8	13.8	10.7	277.0	9.5	10.8	12.0
Avg. Yld.	1.6%	2.6%	1.8%	1.7%	1.9%	2.4%	2.5%	1.7%	2.3%	2.0%	2.1%	2.1%

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Worthington Industries currently trades at a forward P/E of 10.8, lower than its long-term average P/E of 15.9. However, given the nature of the company’s business, we believe a P/E ratio of 12.0 would be a fair reflection of its risk/reward profile and will result in a target price of \$110 by fiscal year 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

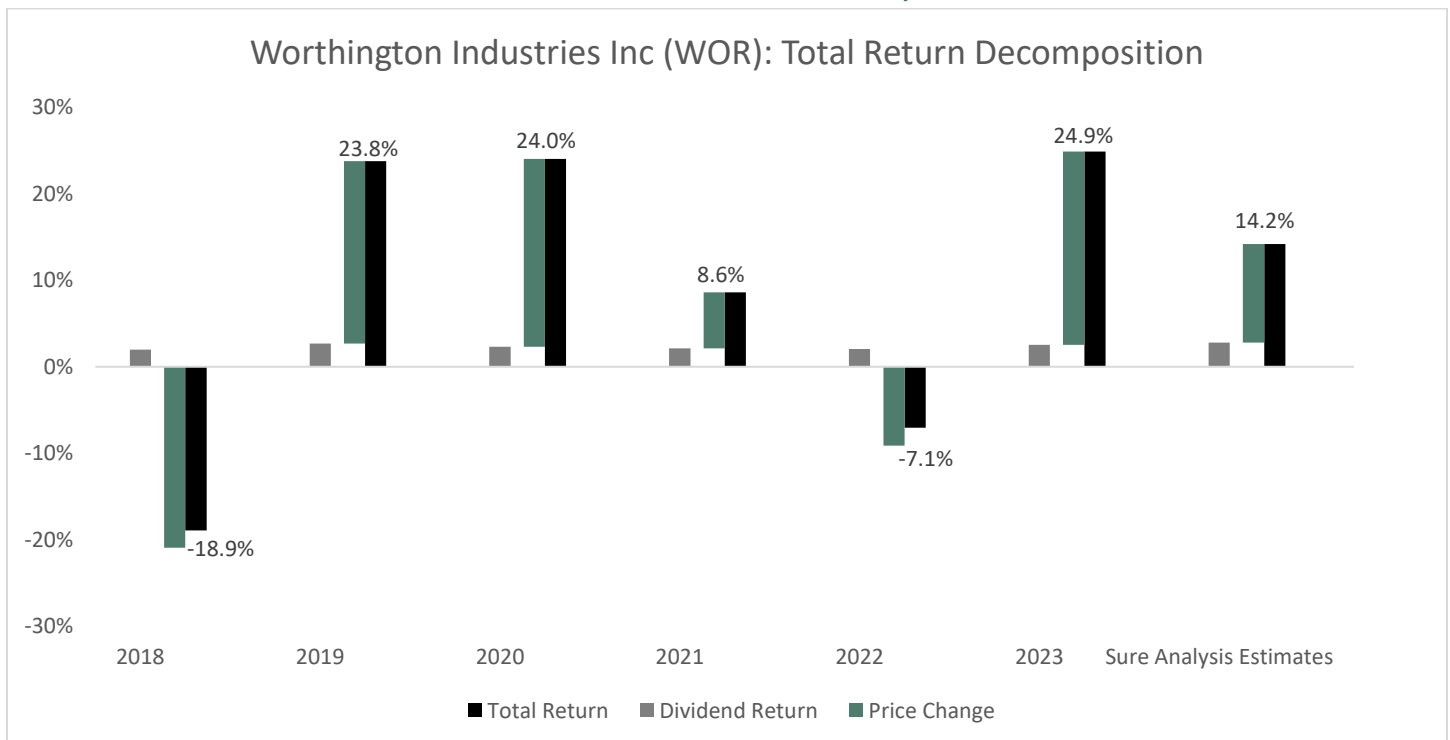
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	64%	34%	25%	27%	35%	38%	21%	15%	24%	22%	25%

Worthington Industries has a competitive advantage in the steel processing industry due to its innovative technologies and diversified product portfolio. The company has shown resilience during economic downturns and has been able to maintain profitability through cost-cutting measures and strategic acquisitions. WOR has a conservative approach to debt management, with a total debt-to-equity ratio of 28.8%, which provides a strong financial position to weather market fluctuations and pursue growth opportunities. The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 31%, and we expect the company to maintain its payout ratio in the future. With solid fundamentals and the company's ability to keep delivering value-added solutions and presenting innovative products, it will continue to benefit its stakeholders.

Final Thoughts & Recommendation

The rally in Worthington Industries over the past two years has been driven by the one-off gain from its investments in 2021 and the commodity super cycle in 2022, driving a rally in steel prices. The normalization in steel prices will make repeating recent results difficult for the company in the coming quarters. However, due to the solid fundamental nature of the business, we believe that the stock can maintain healthy EPS growth in the medium-term. Thus, we maintain our buy rating premised upon the 14.2% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 2.1% dividend yield, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,384	2,820	3,014	3,582	3,760	3,059	3,171	5,242	4,916
Gross Profit	464	453	536	563	480	443	639	715	663
Gross Margin	13.7%	16.1%	17.8%	15.7%	12.8%	14.5%	20.2%	13.6%	13.5%
SG&A Exp.	296	297	316	367	338	328	351	400	429
D&A Exp.	85	85	87	103	96	93	88		113
Operating Profit	168	155	220	195	142	115	288	315	234
Op. Margin	5.0%	5.5%	7.3%	5.5%	3.8%	3.8%	9.1%	6.0%	4.8%
Net Profit	77	144	205	195	153	79	724	379	257
Net Margin	2.3%	5.1%	6.8%	5.4%	4.1%	2.6%	22.8%	7.2%	5.2%
Free Cash Flow	118	316	267	205	113	241	192		539
Income Tax	26	59	79	8	43	26	176	115	76

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,085	2,061	2,325	2,622	2,511	2,332	3,373	3,643	3,651
Cash & Equivalents	31	84	278	122	92	147	640	34	455
Acc. Receivable	474	440	487	573	502	341	640	845	693
Inventories	375	319	354	454	484	405	565	759	608
Goodwill & Int.	358	342	330	559	531	506	591	700	729
Total Liabilities	1,245	1,141	1,251	1,585	1,562	1,365	1,822	2,029	1,829
Accounts Payable	294	290	368	473	394	247	567	668	529
Long-Term Debt	671	581	579	750	749	700	710	696	693
Total Equity	749	793	952	919	831	821	1,398	1,481	1,696
LTD/E Ratio	0.90	0.73	0.61	0.82	0.90	0.85	0.51	0.47	0.41

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.5%	6.9%	9.3%	7.9%	6.0%	3.3%	25.4%	10.8%	7.0%
Return on Equity	9.6%	18.6%	23.4%	20.8%	17.5%	9.5%	65.2%	26.4%	16.2%
ROIC	4.9%	9.5%	13.0%	11.3%	8.8%	4.7%	36.9%	16.4%	10.5%
Shares Out.	64.1	61.5	62.8	58.9	55.5	54.6	51.3	50.99	49.39
Revenue/Share	49.42	43.54	46.46	56.81	63.91	54.64	58.82	102.8	99.55
FCF/Share	1.72	4.89	4.12	3.26	1.93	4.31	3.56	(0.48)	10.91

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

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