



NACCO Industries (NC)

Updated November 6th, 2023 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--------------------------------------------|--------|----------------------------------|-----------------------|
| Current Price: | \$34 | 5 Year CAGR Estimate: | -7.5% | Market Cap: | \$255 M |
| Fair Value Price: | \$18 | 5 Year Growth Estimate: | 0.0% | Ex-Dividend Date: | 11/29/23 ¹ |
| % Fair Value: | 189% | 5 Year Valuation Multiple Estimate: | -11.9% | Dividend Payment Date: | 12/15/23 ² |
| Dividend Yield: | 2.6% | 5 Year Price Target | \$18 | Years Of Dividend Growth: | 38 |
| Dividend Risk Score: | C | Retirement Suitability Score: | D | 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 November 1st, 2023, NACCO Industries reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue of \$46.5 million was down 24.7% from the prior year. Earnings-per-share was a loss of \$0.51 compared to \$1.45 in the third quarter of 2022 just as the company had guided towards on the last conference call.

Coal revenues fell 17.5% to \$18.7 million while total tons delivered fell 28%. Unconsolidated coal deliveries were down 29.2% to 5.1 million tons while consolidated coal deliveries decreased 16.3% to 628K tons. Deliveries from the North American Mining segment increased 14.8% to 15.4 million tons while revenues fell 5.4% to \$21.7 million. Mineral Management revenues were lower by 64.5% to \$5.7 million due to much lower natural gas and oil prices. Management expects that consolidated net income will be down in Q4 2023 as well.

Following the earnings release, we have lowered our estimates for earnings-per-share to \$2.00 for 2023, down from \$3.00, \$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 | \$2.00 | \$2.00 |
| 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 | 17.0 | 9.0 |
| Avg. Yld. | 1.7% | 1.9% | 2.0% | 1.7% | 1.3% | 1.8% | 1.6% | 2.9% | 2.2% | 2.3% | 2.6% | 6.2% |

Shares of NACCO Industries are unchanged since our August 4th, 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 below the stock's current multiple of 17x 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 11.9% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

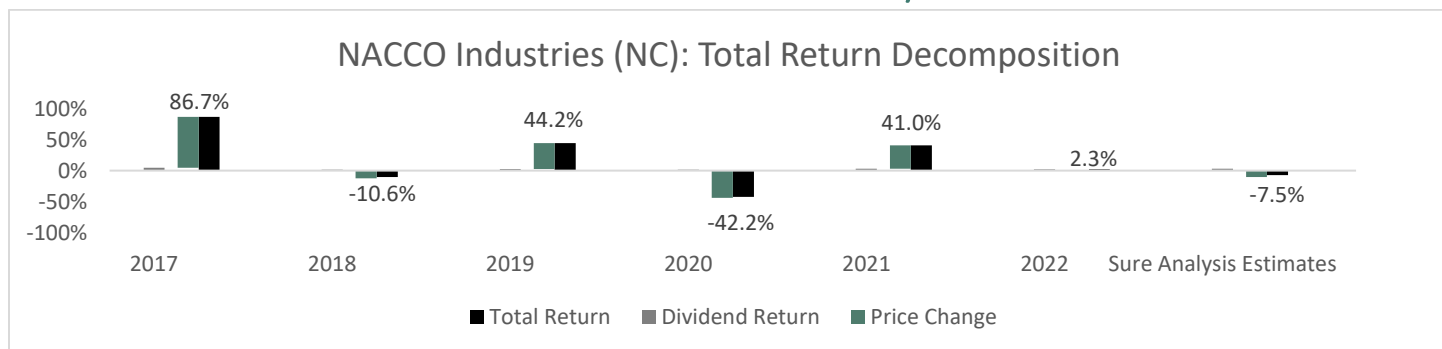
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 17% | 26% | 34% | 25% | 24% | 13% | 13% | 37% | 12% | 8% | 44% | 56% |

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 does not 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 third quarter results, NACCO Industries is expected to lose 7.5% annually through 2028, compared to a prior estimate of a loss of 1.2%. This projected return stems from a starting dividend yield of 2.6% off set by a low double-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 \$9 to \$18 due to estimates for the current year. We note again that only investors with a high tolerance for risk should consider owning the name due to the stock's volatile performance.

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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