POSCO (PKX)

Updated April 26th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$21.6 B
Fair Value Price:	$71	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	06/28/2024[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	09/06/2024[2]
Dividend Yield:	12.7%[3]	**5 Year Price Target**	$71	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

POSCO – formerly called Pohang Iron & Steel – is the third-largest producer of steel and related products in the world. The company – headquartered in Seoul, South Korea – produced about 35.7 million tons of steel in 2023. Investors can initiate an ownership stake in POSCO through American Depository Receipts that trade on the New York Stock exchange under the ticker PKX with a market capitalization of $21.6 billion. POSCO reports results in Korean Won, but all figures listed in U.S. Dollars throughout this report.

POSCO reported its Q1-2024 earnings on April 25st, 2024. Results came in modestly weaker compared to last year, but Posco profits still remained elevated compared to the company's historical performance. Specifically, for the quarter, sales fell 6.9% to $13.1 billion. With lower sales compressing margins, operating profit dipped by 17.3% to $243 million. Net profit for the quarter fell by 26.3% to $450 million, but exceeded operating profit.

The company has updated its dividend policy, aiming to distribute between 50% and 60% of its annual free cash flow in 2024 and 2025. We forecast FY-2024 EPS of $17.71, expecting a slightly softer steel market. We also forecast a DPS of around $9.00 this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$6.88	$1.57	$13.78	$32.30	$18.78	$19.75	$18.54	$73.35	$32.92	$18.64	***$17.71***	***$17.71***
DPS	$7.33	$6.80	$6.63	$7.50	---	---	---	$14.28	$9.53	$9.01	***$9.00***	***$9.00***
Shares[4]	79.8	80.0	80.0	80.0	80.0	80.1	79.1	76.7	75.6	75.9	***75.9***	***72.0***

POSCO's earnings-per-share history demonstrates the company's dependence on steel prices. The company's earnings-per-share declined from $16.42 in fiscal 2013 to $1.57 in fiscal 2015. Management sees new growth opportunities ahead, such as environment-friendly vehicles, energy, and mega-city industries, which could help drive some earnings growth over time. However, we are cautious about steel's future global demand and price due to its cyclical nature. Given that results may swing wither way in the coming years as steel prices fluctuate, we have utilized a stable growth earnings ahead. Future profitability risks remain, as commodity prices are highly unpredictable and are expected to fluctuate significantly in times of uncertainty, and special circumstances, such as 2022's supply shortages.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	13.8	8.3	13.6	10.7	13.8	3.1	1.4	4.2	***4.0***	***4.0***
Avg. Yld.	2.6%	3.7%	3.7%	3.4%	2.7%	2.4%	2.6%	2.6%	17.7%	11.6%	***12.7%***	***12.7%***

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] Based on speculative, estimated DPS of $9.60 for FY-2023.
[4] Share count in millions

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POSCO's average price-to-earnings ratio over the past decade has been around 8.6, excluding the years 2014 and 2015, when the valuation metric was not meaningful due to depressed earnings. We have assigned a fair value at 4.0 times earnings in the medium-term, due to POSCO's volatile business model, low shareholder communication standards, and the lack of a predictable long-term capital return policy.

Investors are likely to enjoy a double-digit gross dividend yield in the coming two years according to Posco's updated dividend policy. Nevertheless, we should note that the South Korean government applies a 22% withholding tax on dividends paid to international investors. Thus, the net yield should be notably lower.

Safety, Quality, Competitive Advantage, & Recession Resiliency

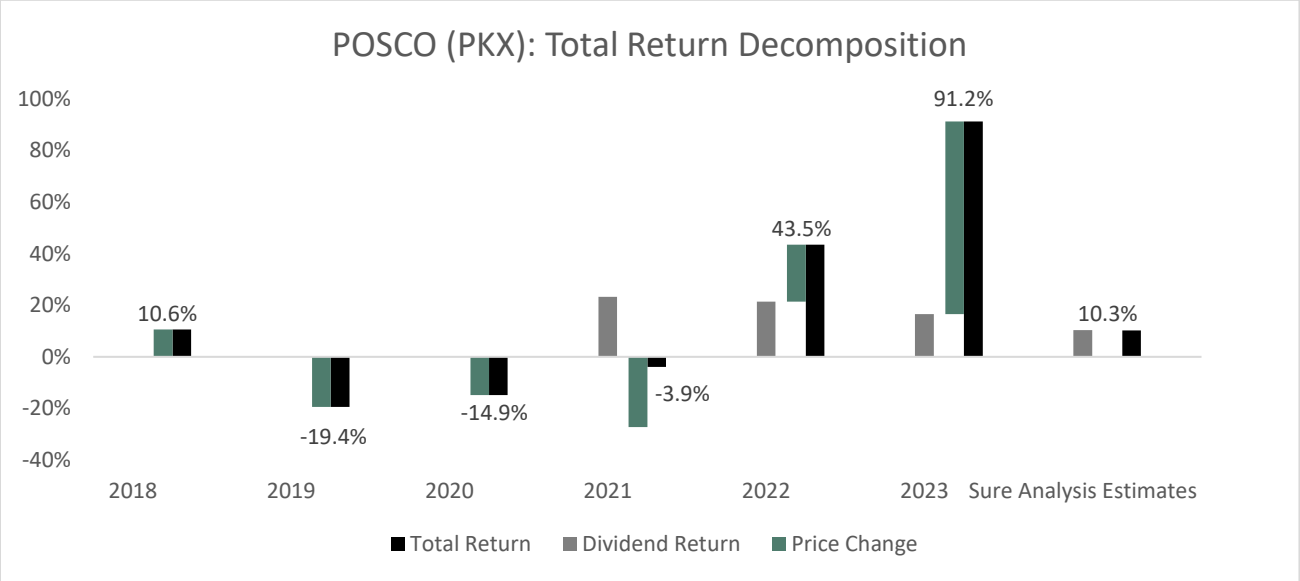
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	107%	---	48%	23%	---	---	---	19%	29%	48%	***51%***	***51%***

Based on Posco's updated dividend policy, including maintaining free cash flow payout ratio of between 50% and 60% management is more than likely to continue preserving robust liquidity amid any unfavorable price levels of steel in the future. Based on the uncertainties surrounding the sector, the future net income and dividends remain highly speculative, nonetheless. Thankfully, while competitive advantages are tough to come by for steel manufacturers, POSCO has a huge global presence in steel production as one of the largest such companies in the world. This affords it a brand presence and scale that smaller competitors cannot match. Recessions are obviously a huge negative shock to steel producers as demand for all kinds of products declines during downturns. Therefore, POSCO will likely suffer considerably during such an environment nonetheless.

Final Thoughts & Recommendation

The past two years have been excellent trading periods for Posco. While steel prices declined in last year, they remained at levels that allow Posco to post strong profits and pay notable dividends. We believe the stock is a good vehicle for investors seeking exposure to steel, but the stock is not a reliable long-term investment in our opinion. We rate POSCO a speculative buy based on our 10.3% annualized projected returns, but highlight that this estimate is mostly arbitrary. A myriad of factors could affect the company's financials and the stock's performance in the coming years. Combined with risks attached to Korean corporate governance, the stock's investment case is highly speculative.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	61437	51682	45561	53246	58952	59112	48750	66410	66050	59020
Gross Profit	6919	5744	5739	7317	7233	7281	3981	10360	5969	4911
Gross Margin	11.3%	11.1%	12.6%	13.7%	12.3%	12.3%	8.2%	15.6%	9.0%	8.3%
SG&A Exp.	3034	2821	2589	2562	1593	1593	1954	1866	1737	2222
D&A Exp.	3072	2842	2766	2917	2965	2965	3055	3127	2870	2926
Operating Profit	2759	2017	2502	4266	5013	5061	2028	8140	3811	2689
Op. Margin	4.5%	3.9%	5.5%	8.0%	8.5%	8.6%	4.2%	12.3%	5.8%	4.6%
Net Profit	600	151	1166	2438	1534	1553	1351	5772	2453	1299
Net Margin	1.0%	0.3%	2.6%	4.6%	2.6%	2.6%	2.8%	8.7%	3.7%	2.2%
Free Cash Flow	-415	4197	2416	2633	2982	2982	4376	2401	595	(844)
Income Tax	782	235	327	1049	1516	1527	200	1934	359	604

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	78203	68474	66354	74679	69954	70427	72520	77530	78430	78330
Cash & Equivalents	3472	4130	2027	2445	2364	2364	4360	4011	6378	5177
Acc. Receivable	9852	7591	7718	8031	8593	7732	7447	7784	6378	8548
Inventories	10179	7265	7879	10103	10281	10865	8300	13520	12780	10730
Goodwill & Int.	6188	5304	4907	5379	4451	4451	4080	3448	3690	3659
Total Liabilities	36974	30303	28460	30382	28151	28701	28810	31570	32340	32030
Accounts Payable	4503	3301	4227	3976	4215	4282	3444	5463	5500	4487
Long-Term Debt	24987	21387	18800	19716	18067	18067	18800	18260	19250	20150
Total Equity	37858	34942	35053	40866	38774	38732	40650	42320	41560	42040
LTD/E Ratio	0.66	0.61	0.54	0.48	0.47	0.47	0.46	0.43	0.46	0.48

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	0.2%	1.7%	3.5%	2.1%	2.1%	1.9%	7.7%	3.2%	1.7%
Return on Equity	1.5%	0.4%	3.3%	6.4%	3.9%	3.9%	3.4%	13.9%	5.9%	2.8%
ROIC	0.9%	0.2%	2.0%	4.0%	2.5%	2.5%	2.2%	9.1%	3.8%	2.0%
Shares Out.	320	320	320	320	320	320	318	307	315.63	303
Revenue/Share	192.47	161.52	142.39	166.40	184.22	184.72	153.38	216.48	209.26	194.49
FCF/Share	-1.30	13.12	7.55	8.23	9.32	9.32	13.77	7.83	1.89	(2.78)

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

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