NACCO Industries (NC)

Updated May 6th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	-0.6%	**Market Cap:**	$248 M
Fair Value Price:	$27	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	05/30/24[1]
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	06/14/24[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 May 1st, 2024, NACCO Industries reported first quarter results for the period ending March 31st, 2024. For the quarter, revenue grew 6.3% to $53.3 million while earnings-per-share of $0.61 compared unfavorably to $0.76 in the prior year.

Coal revenue was lower by 24.7% to $15.5 million while total tons delivered fell 14%. Unconsolidated coal deliveries decreased 11% to 5.5 million tons while consolidated coal deliveries fell 36% to 445K tons. Deliveries from the North American Mining segment improved 2.3% to 15.2 million tons while revenue grew 18.7% to $24.5 million. Mineral Management revenue was up 25.5% to $10.4 million, largely due an acquisition that operates in the Permian Basin.

The company expects to generate positive net income in 2024 following a steep decline in earnings-per-share in 2023. We have assumed earnings power of $3.00 for this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.98	$3.13	$4.32	$4.14	$5.00	$5.66	$2.10	$6.69	$10.06	-$5.29	***$3.00***	***$3.00***
DPS	$1.02	$1.05	$1.07	$0.98	$0.66	$0.76	$0.77	$0.79	$0.82	$0.86	***$0.87***	***$1.11***
Shares[3]	7	7	7	7	7	7	7	7	7	8	***8***	***8***

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 2029. Adjusting for its spin-off history, NACCO Industries has raised its dividend for 38 consecutive years. This is an impressive growth streak given the extreme cyclicality in the company's earnings history. We expect a dividend growth rate of 5% going forward.

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[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 expected to begin in 2027 or 2028, compared to a prior forecast of 2026.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.8	16.8	14.5	18.2	8.7	8.3	12.5	5.4	3.6	---	***11.0***	***9.0***
Avg. Yld.	1.9%	2.0%	1.7%	1.3%	1.8%	1.6%	2.9%	2.2%	2.3%	2.4%	***2.6%***	***4.1%***

Shares of NACCO Industries have increased $3, or 10%, since our March 12th, 2024 report. Focusing on just the 2018 to 2022 period, NACCO Industries shares have traded with an average price to earnings multiple of 7.7. This is below the stock's current multiple of 11x our expected earnings power. 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 2029 P/E target of 9. If achieved, valuation would reduce annual returns by 3.9% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

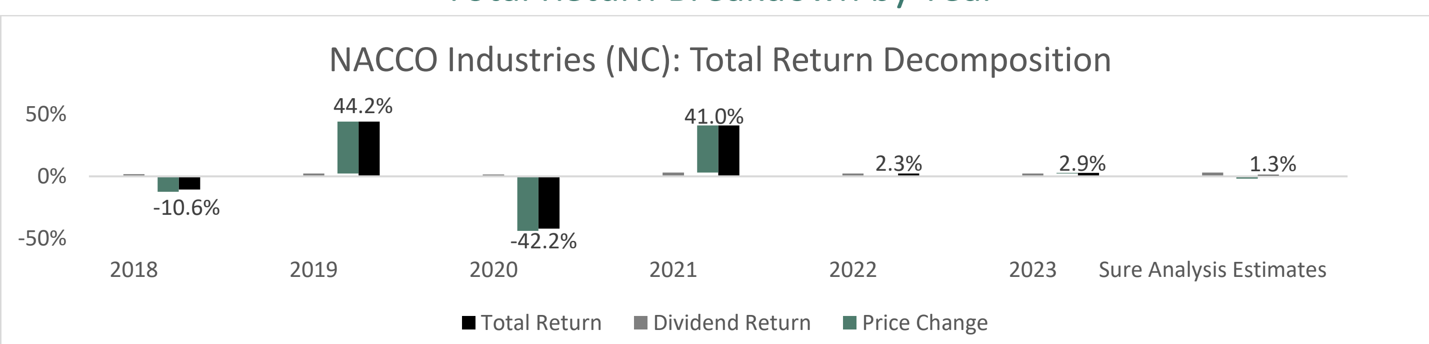
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	26%	34%	25%	24%	13%	13%	37%	12%	8%	---	***29%***	***37%***

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 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 first quarter results, NACCO Industries is expected to lose 0.6% annually through 2029, compared to our prior estimate of 1.3%. This projected return stems from a starting dividend yield of 2.6% that is more than offset by a mid-single-digit headwind from multiple contraction. We reaffirm our five-year price target of $27, but continue to view shares of NACCO Industries as a sell due to projected returns. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	897	148	111	105	135	141	128	192	242	215
Gross Profit	185	(11)	12	17	30	31	17	43	68	15
Gross Margin	20.6%	-7.6%	10.9%	16.1%	22.1%	22.1%	13.2%	22.6%	28.1%	6.8%
Operating Profit	199	40	49	47	49	54	53	56	64	66
Operating Margin	(20)	(55)	(39)	(34)	(24)	(27)	(40)	(17)	(1)	(58)
Net Profit	-2.2%	-37.1%	-35.2%	-32.7%	-17.4%	-19.0%	-31.4%	-8.9%	-0.4%	-26.8%
Net Margin	(38)	22	30	30	35	40	15	48	74	(40)
Free Cash Flow	-4.3%	14.9%	26.7%	29.0%	25.7%	28.1%	11.5%	25.1%	30.7%	-18.4%
Income Tax	(38)	104	84	26	34	28	(33)	36	25	9

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	771	655	668	390	377	445	476	507	568	540
Cash & Equivalents	61	52	69	102	85	123	88	86	111	85
Accounts Receivable	181	114	21	35	29	22	24	31	45	45
Inventories	190	165	29	30	31	40	48	54	71	77
Goodwill & Int. Ass.	67	63	46	44	41	38	35	32	28	6
Total Liabilities	559	454	448	170	126	155	176	155	141	157
Accounts Payable	134	100	11	10	9	10	6	13	13	18
Long-Term Debt	248	170	80	50	11	25	46	21	20	36
Shareholder's Equity	211	201	220	219	251	289	301	352	427	382
LTD/E Ratio	1.17	0.85	0.36	0.23	0.04	0.09	0.15	0.06	0.05	0.09

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-4.8%	3.1%	4.5%	5.7%	9.1%	9.6%	3.2%	9.8%	13.8%	-7.1%
Return on Equity	-15.0%	10.7%	14.1%	13.8%	14.8%	14.7%	5.0%	14.7%	19.0%	-9.8%
ROIC	-8.1%	5.3%	8.8%	10.6%	13.1%	13.8%	4.5%	13.4%	18.1%	-9.2%
Shares Out.	7	7	7	7	7	7	7	7	7	8
Revenue/Share	118.15	21.08	16.21	15.24	19.45	20.12	18.20	26.68	32.78	28.72
FCF/Share	(4.97)	14.75	12.22	3.72	4.84	4.01	(4.63)	4.96	3.42	1.21

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