

Nucor

Q4'23 EPS beat; maintain Buy as higher volume + mix offset HRC price risks

Maintain Rating: BUY | PO: 190.00 USD | Price: 176.64 USD

Q4 beat BofAe on stronger Steel and Steel Products

Nucor (NUE) reported Q4'23 EPS above its mid-December guidance, and also above consensus and BofAe. The beat vs. BofAe was driven by better-than-expected performance for the Steel Mills (higher shipments and lower conversion costs) and Steel Products (higher pricing) segments, as well as lower taxes. For Q1'24, NUE is guiding to improved earnings driven by higher pricing and volumes, and lower conversion cost for its sheet mills. 2024 capex guidance is \$3.5 billion (bn), in-line with consensus, and up from \$2.2bn in 2023. Yet, NUE expects 2024 share repurchases to 'outpace' 2023. While we remain cautious on U.S. hot-rolled coil (HRC) pricing amid an ongoing correction in lead times and an anticipated increase in supply (domestic and imports), we see NUE better positioned with higher exposure to stronger long steel markets, rising volumes, a diversified Steel Products mix, and strong free cash flow/returns potential. Maintain Buy.

Q1'24 results to improve QoQ on higher pricing / volumes

NUE guided for a quarter-over-quarter (QoQ) improvement in earnings in Q1'24 (consistent with Bloomberg consensus EPS at \$3.64, and BofAe \$3.79). Steel Mills segment profit before tax (PBT) is expected to increase QoQ due to higher pricing and volumes (mainly for sheets). In the Steel Products segment, NUE sees a QoQ decrease in results due to lower realized pricing. Raw Materials segment earnings are guided to increase on better profitability at both its DRI and scrap operations. Looking ahead, NUE sees the steel mega-trends (of rebuild, repower, reshore) driving increased demand. The focus on tomorrow's call should be mill ordering activity, non-residential construction demand (signs of Infrastructure Act projects entering construction), plate outlook (amid subdued lead times and delays in wind projects), and the Steel Products order backlog and lower pricing guidance for Q1'24. See our [North American M&M preview 8-Jan-24](#) report.

Q4 Steel Mills PBT beat on higher volumes / lower costs

NUE reported Q4'23 adjusted EPS of \$3.16, a beat vs. the December guide of \$2.75-2.85, BofAe at \$2.83 and Bloomberg/Visible Alpha consensus at \$2.88. At the segment level, both Steel Mills (higher shipments and lower conversion costs) and Steel Products (higher pricing) PBT were better than BofAe. This was partly offset by weaker Raw Materials segment which reported a loss of \$14 million (m) vs. BofAe at \$26m of profit. Pre-operating and start-up costs related to growth projects were \$127m (vs. \$101m in Q3'23). Q4'23 EPS also benefited from lower taxes (19% rate vs. BofAe at 21%).

Strong cash flow = net cash; 46% of NI returned in 2023

Q4'23 operating cash flow was \$1.5bn, above BofAe at \$976m driven by strong working capital release, while capex was \$186m lower vs. BofAe at \$718m, resulting in strong free cash flow of \$802m vs. BofAe's \$72m. NUE returned \$304m through its buyback/dividend in Q4'23, equating to 39% of net income (NI). For full-year 2023, NUE returned \$2.1bn or 46% of NI. NUE's net cash increased to \$289m from \$38m at 30-Sep-23.

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Stock Data

Price	176.64 USD
Price Objective	190.00 USD
Date Established	20-Nov-2023
Investment Opinion	C-1-7
52-Week Range	129.79 USD - 182.68 USD
Mkt Val (mn) / Shares Out (mn)	45,843 USD / 259.5
Free Float	99.3%
Average Daily Value (mn)	264.52 USD
BofA Ticker / Exchange	NUE / NYS
Bloomberg / Reuters	NUE US / NUE.N
ROE (2023E)	22.6%
Net Dbt to Eqty (Dec-2022A)	12.3%
ESGMeter™	High

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HRC = Hot Rolled Coil

PBT = profit before taxes

QoQ = quarter-over-quarter

m = million

bn = billion

FCF = free cash flow

ND = net debt

NUE Q4'23 results

Exhibit 1: NUE Q4'23 results vs. consensus and recent quarters

Q4'23 reported PBT was 11% above BofAe on stronger results in Steel Mills (higher volumes and lower conversion costs) and Steel Products (higher pricing) segment. Additionally, EPS benefited from lower taxes.

(US\$m, except per share data)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023E	Var.	Bloomberg Cons.	Var.	Visible Alpha Cons.	Var.
Net Sales	7,705	8,724	-12%	8,776	-12%	7,385	4%	7,611	1%	7,661	1%
Adjusted EBITDA	1,359	1,949	-30%	1,825	-26%	1,263	8%	1,288	6%	1,309	4%
EBITDA margin	17.6%	22.3%	-470bp	20.8%	-315bp	17.1%	54bp	16.9%	72bp	17.1%	56bp
Adjusted Earnings	785	1,256	-37%	1,142	-31%	695	13%	720	9%	713	10%
Adjusted EPS	3.16	4.89	-35%	4.57	-31%	2.83	12%	2.88	10%	2.88	10%
Operating Cash Flow	1,520	2,534	-40%	2,464	-38%	976	56%	1,261	21%	1,198	27%
Capex	(718)	(518)	39%	(439)	63%	(904)	-21%	(901)	-20%	(898)	-20%
Free Cash Flow	802	2,016	-60%	2,025	-60%	72	nm	446	80%	300	167%
Net Debt	(289)	1,834	nm	(38)	nm	235	nm	18	nm	(298)	nm
Profit before taxes (PBT)											
Steel Mills	588	517	14%	883	-33%	471	25%			575	2%
Steel Products	656	1,081	-39%	807	-19%	627	5%			617	6%
Raw Materials	(14)	(142)	nm	71	nm	26	nm			30	nm
Corporate/eliminations	(151)	77	nm	(213)	-29%	(150)	0%			(194)	-22%
Total PBT (\$m)	1,078	1,533	-30%	1,548	-30%	973	11%	1,028	5%	1,018	6%
Operating details											
Steel Mills											
Total shipments ('000 st)	5,513	5,110	8%	5,746	-4%	5,448	1%				
External shipments ('000 st)	4,396	4,067	8%	4,578	-4%	4,299	2%			4,430	-1%
Sheet	2,239	1,974	13%	2,305	-3%	2,213	1%			2,230	0%
Bars	1,402	1,365	3%	1,408	0%	1,300	8%			1,369	2%
Structural	414	373	11%	439	-6%	400	3%			406	2%
Plate	341	355	-4%	426	-20%	386	-12%			418	-18%
Average realization (\$/st)	1,015	1,102	-8%	1,114	-9%	1,009	1%			1,019	0%
Sheet	914	961	-5%	1,021	-10%	894	2%	904	1%	898	2%
Bars	961	1,063	-10%	1,026	-6%	965	0%	977	-2%	985	-2%
Structural	1,407	1,543	-9%	1,429	-2%	1,390	1%	1,329	6%	1,367	3%
Plate	1,407	1,564	-10%	1,558	-10%	1,420	-1%	1,398	1%	1,432	-2%
Scrap & substitute cost (\$/lt)	397	427	-7%	415	-4%	391	2%	387	3%	384	3%
Steel Mills PBT (\$/st)	107	101	5%	154	-31%	86	23%				
Steel Products											
External shipments ('000 st)	1,011	1,178	-14%	1,141	-11%	1,045	-3%			1,048	-4%
Average realization (\$/st)	2,776	3,230	-14%	2,837	-2%	2,593	7%	2,642	5%	2,681	4%
Steel Products PBT (\$/st)	648	918		707		600	8%			589	
Raw Materials											
External shipments ('000 st)	527	493	7%	521	1%	500	5%			528	0%

Source: BofA Global Research, company reports

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Price objective basis & risk

Nucor (NUE)

Our price objective of \$190 per share is based on 7.0x 2024E EV/EBITDA, 6.5x 2025E EV/EBITDA and 1.0x NAV, with each value equally weighted. The 7.0x 2024E EV/EBITDA target multiple is largely in line to the 7.1x historical and sector average of 6.7x given the higher than normal near term price forecasts partly offset by its operating leverage to near-term volume recovery and exposure to long/plate markets. The 7.0x multiple is above the target multiple used for integrated peers (5.5x for CLF) to recognize its highly variable cost structure, diversified product mix, strong volume growth potential (from multiple projects underway) and investment grade balance sheet with a disciplined capital return policy (minimum of 40% of net income).

Downside risks to our price objective are: 1) lower steel price and higher scrap costs squeezing margins, 2) weaker than expected demand especially in construction markets, 3) project start-up delays and cost overruns, and 4) M&A's which could be dilutive in the near-term.

Upside risks to our price objective are: 1) higher than expected steel prices, 2) lower than expected input costs, 3) lower import volumes, 4) more favorable trade policies, and 5) a stronger than expected economy.

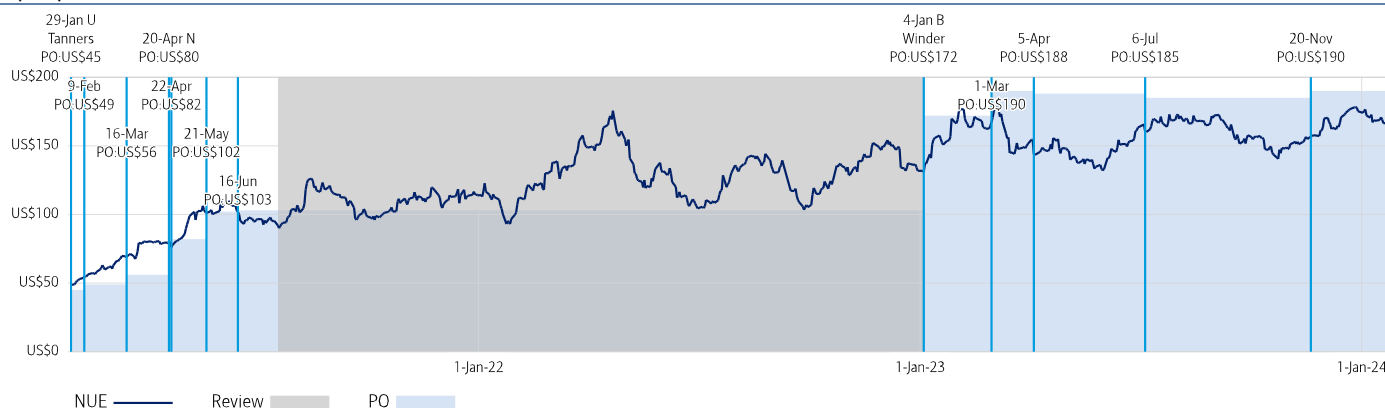
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Nucor (NUE) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	43.75%	Buy	9	64.29%
Hold	12	37.50%	Hold	7	58.33%
Sell	6	18.75%	Sell	3	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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