

## Nucor

# Q4'23 EPS guidance range modestly below Street expectations but buyback larger

Maintain Rating: BUY | PO: 190.00 USD | Price: 182.09 USD

## Capital return more than 2x > BofAe; Maintain Buy rating

Nucor (NUE) guided to Q1'24 EPS of \$3.55-\$3.65, slightly below Bloomberg consensus of \$3.70 and Visible Alpha (VA) consensus of \$3.80. In our view, guidance was also lower than BofAe at \$3.97 due to a combination of lower Steel Products (SP) volumes, lower scrap margins in the Raw Materials (RM) segment, weaker performance at its plate mills (lower pricing and volumes) and higher intercompany eliminations. Steel Mills and SP segment earnings guidance were nevertheless directionally in-line with the Q4'23 results commentary. Quarter-to-date capital returns were strong with NUE returning \$1.13 billion (bn) through the buyback and dividend, >1.25x of net income (well above the minimum 40% target) and 2x higher vs. BofAe. We think the market wants evidence that recently announced hot-rolled coil (HRC) price hikes are gaining traction. We are cautious and expect any rally to be short-lived. NUE, though, remains relatively better positioned given its exposure to longs (with margins expanding) and diversified downstream products (46% of total segment earnings in 2023), as well as the potential for continued strong capital returns (guided to outpace prior year). Maintain Buy rating.

## Steel Mills PBT to be up QoQ, SP down and RM flat

NUE guided for Steel Mills Q1'24 segment earnings (profit before tax (PBT)) to improve quarter-over-quarter (QoQ) on higher pricing and volumes, mainly in sheets. SP Q1'24 PBT is expected to decline QoQ due to lower average realized pricing and reduced volumes (seasonality, and in our view, likely severe winter weather). We had expected higher SP volumes. Raw Materials Q1'24 PBT is to be flat QoQ as improved performance at its direct reduced iron (DRI) facilities is largely offset by lower scrap margins.

## U.S. HRC at crossroads: mills hike prices but risks remain

The U.S. HRC price has declined by \$344 per short ton (st) or ~31% year-to-date as supply tightness eased. The pace and magnitude of the correction were greater than our expectation. Domestic mills have started to announce price hikes (target base HRC price of \$825-840/st) ahead of spring maintenance outages. We are unsure these price hikes will gain traction, given: 1) Lead times are short (though reversing marginally on recent lower-priced large order bookings); 2) Service Center inventories remain relatively high (though February data not yet out); 3) Domestic mills continue to ramp-up (production near 6-month highs); 4) At the same time import arrivals could remain elevated from orders booked in late-2023/early-2024 when arbitrage was wide (but now somewhat (\$60-140/st) lower on an import parity basis) and 5) The 3 million (m) ton per year Big River Steel 2 project is expected to come online in H2'24. We thus think any potential price rally could be short-lived, particularly if (infrastructure) demand disappoints.

14 March 2024

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### Stock Data

Price	182.09 USD
Price Objective	190.00 USD
Date Established	20-Nov-2023
Investment Opinion	C-1-7
52-Week Range	129.79 USD - 195.00 USD
Mkt Val (mn) / Shares Out (mn)	44,765 USD / 245.8
Free Float	99.3%
Average Daily Value (mn)	259.06 USD
BofA Ticker / Exchange	NUE / NYS
Bloomberg / Reuters	NUE US / NUE.N
ROE (2024E)	17.9%
Net Dbt to Eqty (Dec-2023A)	2.1%
ESGMeter™	High

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**Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 14 March 2024 07:32PM EDT

## 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.

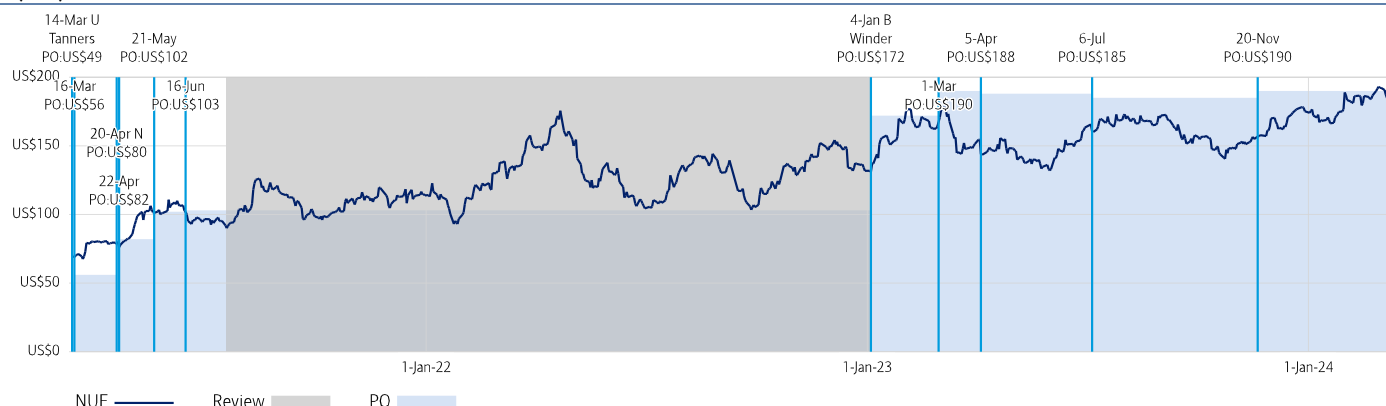
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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