SIENAcollege

BJORKLUND FUND

March 2 , 2017

Nucor Corporation: NUE

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Sector: Materials
Industry: Iron & Steel
Current Price: $67.88
Target Price: $79.82

Company Description: Nucor Corporation manufacture steel and steel products and is mainly focus on the US market. The company operates through three segments: steel mills, steel products and raw materials.

HOLD

Current Price:	$67.88
Target Price:	$79.82
Market Cap:	21.58B
Beta:	1.51

	Nucor Corp	Competito
WACC	8.3%	7.7%
ROIC	10.0%	6.4%
Ebita Margin	6.5%	6.2%
Net margin	5.1%	6.1%

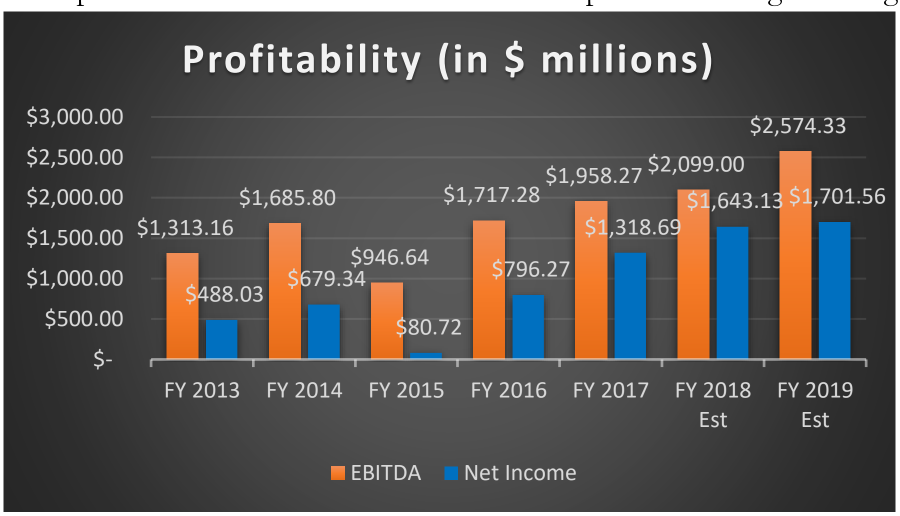
Thesis: Nucor Corporation growth is closely tied to an unpredictable future. The future short term and mid term macroeconomic events will state the future growth of the company same as the future condition of market conditions. Based on the financial statement, Nucor has frequently underperform the S&P 500. My conclusion for this company is a hold because the fund already possesses a certain amount of cash in hand. However, if funds are required to finance another investment and the macroeconomic conditions are delayed another time, I suggest selling the position will be a good opportunity to get higher return with new investment of the cash invested in Nucor Corporation.

Catalysts: Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- **Short Term(within the year):** Favorable Tax cut from Trump Administration and want to impose 25 percent tariffs on steel imports and 10 percent on aluminum
- **Mid Term(1-2 years):** Trump's infrastructure plan of 1.5 Trillion is in a negative path
- **Long Term(3+):** significant restrictions on Chinese steel

Earnings Performance:

Nucor Corporation's EBITDA has reached a peak of 9-year period in 2017 since 2008 beating all analyst estimates. Analysts did not expect an increase of 24.95% in Nucor's revenue from $16.208 billion and $20.252 billion at December 31, 2016 and 2017, respectively and result in a revenue surprise of 2.12% base on the initial forecast of $19.832B for 2017. While during the same period, the EBITDA of Nucor did not meet the analysts' estimates. In 2016, EBITDA was at $2.149 billion and it increased to 2.608 billion in 2017, a 21.35% increase during the period. This increase of revenues and earnings are mainly due to the increase of 6% in apparent consumption for steel mill product. However, these earnings performance are overshadowed by the decrease in EBITDA margin of 38 bps from 13.26% in 2016 to 12.88% in 2017. The import penetration for steel of foreign companies have captured an increasing share of demand in 2017 with 33.3% of the market, keeping the price war in the steel industry and lowering margin of American steel company to stay competitive. Although EBITDA margin has slowly decreased by 38 bps, Net income margin has sharply increased from 4.91% to 6.51%, a highest ratio since the 2008 crisis and a net margin of 9.1%. This increase are mainly due to favorable changes in prices. Analysts forecast positive evolvement in the steel industry and expect higher gross profit margin, EBITDA margin and net income margin. A tariff on steel imports will reduced foreign imports and the war price in the steel industry, increasing margin for steel companies. The below graph shows the analyst positive forecast for this positive macroeconomic outlooks and expect another significant growth next year.



COMMON SIZE VIEW				
	6-year Historical Median		Last 12 Months	
	NUE	Competitors	NUE	Competitors
COR/Rev	**91.2%**	**86.2%**	**87.3%**	**74.0%**
(SGA+Other)/Rev	**1.2%**	**8.4%**	**3.0%**	**19.7%**
DPR/Rev	**3.1%**		**3.1%**	**0.0%**
EBITA Margin	**4.5%**	**5.4%**	**6.5%**	**6.2%**
Interest exp/Rev	**0.9%**	**1.0%**	**0.0%**	**1.0%**
AMORT/Rev	**0.4%**		**0.5%**	**0.0%**
SBC/REV	**0.3%**		**0.3%**	**0.0%**
Other Non-Operating Exp/Rev	**-1.6%**	**-0.6%**	**-0.7%**	**-1.8%**
Taxes/Rev	**0.9%**	**0.2%**	**1.4%**	**0.9%**
Net Margin	**3.5%**	**4.8%**	**5.1%**	**6.1%**

Industry Outlook:

Since 2009, U.S steel industry has mostly underperform compared to the S&P 500. From Figure 1, Only U.S. Steel has outperform the S&P 500 since the last quarter of 2016. Otherwise, Nucor Corporation possesses the second growth. The company has underperformed the S&P 500 on the 1-year return with an 11.16% and 15.22% for Nucor Corporation and S&P 500, respectively.

However, the recent macroeconomic conditions suggest significant potential growth. In fact, Trump's administration is favorable to impose tariff on steel importation. This will significantly affect the steel industry and all the industries using steel products as based material for their finished product. In fact, if importation of steel are subject to tariff, imports from foreign countries will decreased causing a drop in supply, which will benefits the American steel company. As a result, the war price inside the industry will decreased, steel company will increased their price and take advantage of higher margin. On the other hand, construction and automotive industries, which represent 70% of the US Steel consumption, will have to deal with higher price of raw materials, which can slow down their consumption of steel.

Another significant macroeconomics factors that has to been taking into consideration is the delay on delays of the Trump administration's budget on the Infrastructure Plan. The infrastructure plan is estimated around $1.5 trillion and should have been validated in 2017. However, his own political party is not in favor to implement such huge budget for the US infrastructure.

The weak position of Trump did not allow him to implement its main reform. Obamacare is still in place, the border wall has been delayed, and his immigration reform has been repeal. Is the infrastructure plan going to the same spot? Something sure is that the steel industry is highly volatile because of all these contradictory events. The tweet of 1st march, 2018 of Trump in favor of tariff "We must not let our country, companies and workers be taken advantage of any longer. We want free, fair and SMART TRADE!" has significantly impacted the stock market. While the stock of Ford Motor Company has decreased on 1st March by more than 3%, Nucor corporation's stock has increased by 3.26%.

Figure 1:

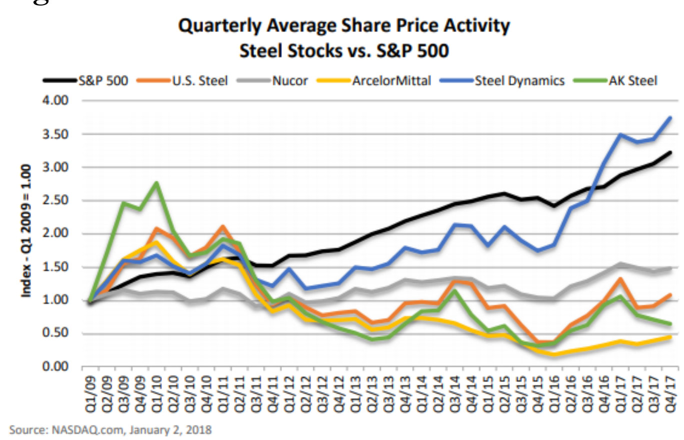
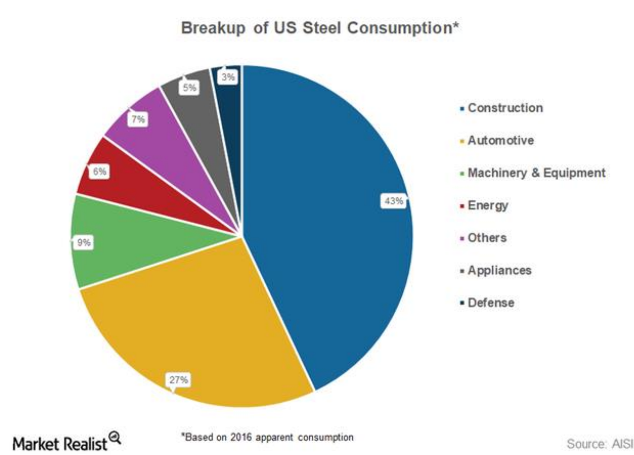


Figure 2:



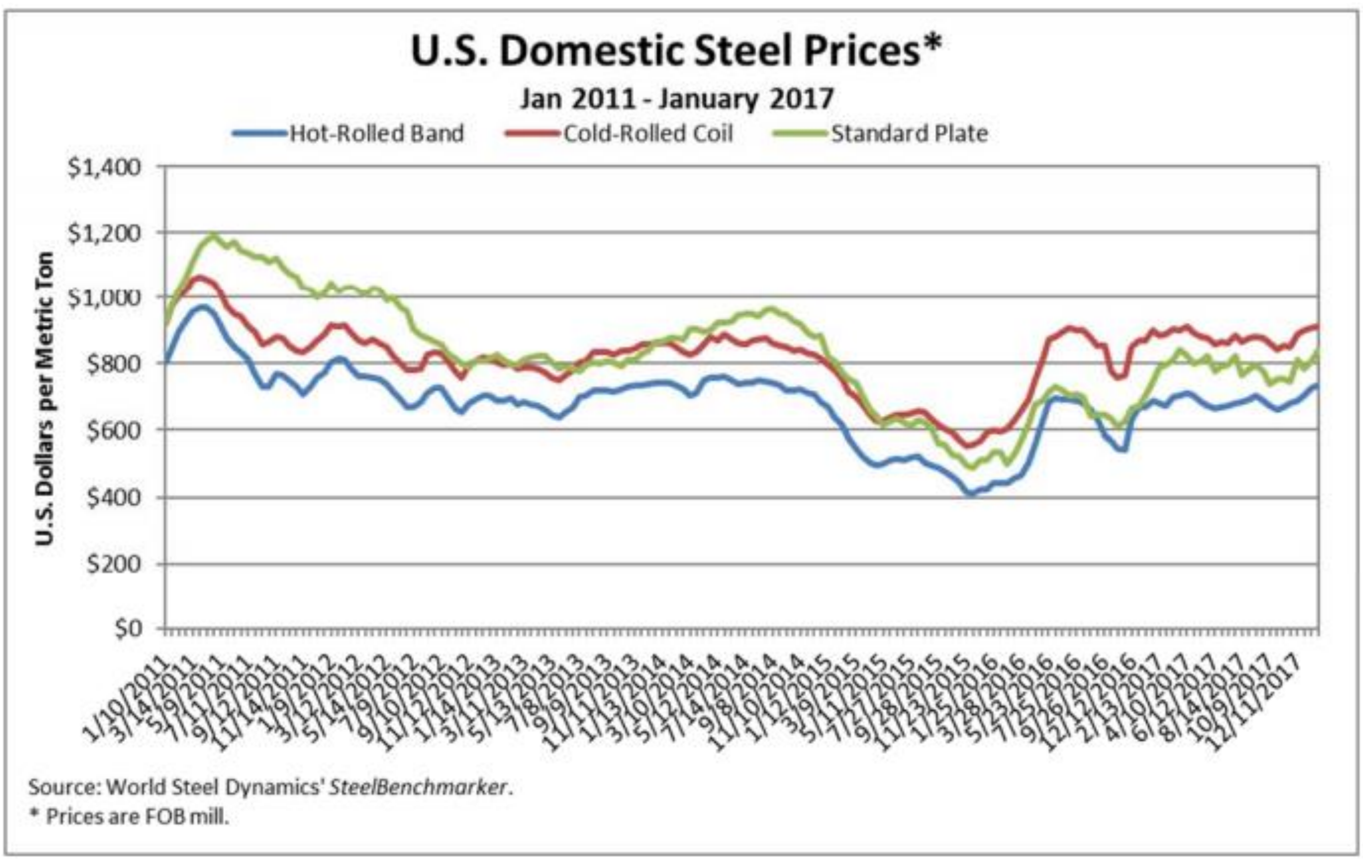
Steel Prices:

Nucor Corporation is highly impacted by the steel price, its main products. Different factors affect the steel price and the main ones are Trump's politics with tariff and infrastructure budget, the regulation of china's steel market and the raw material prices. China's steel market has an heavy weight in the steel price because china produces more than 49% of the steel production in the world. China is the first producer of steel and by far. The second producer is the Europe (28) with 10% of the world production.

However, the impact of china's steel can be diminished on the U.S. market. In fact, china is only ranked at the 11th position in the top importer of steel in U.S. steel imports because of the restriction by American import controls and duties.

According to Michael Pooler from the Financial Time, China's steel production growth is going to slow significantly in 2018 due to "state mandated factory closures and policies to protect the environment begin to bite." This will lower the supply of steel and increase the price of steel that will benefits US steel producers and suppliers such as Nucor.

Figure 3:



Development of Nucor's Business in Recent Years:

The capital allocation strategy of Nucor's business is divided in three parts: optimizing existing operations, acquisitions and greenfield expansions; provide stockholders with cash dividends; and opportunistically repurchase shares of our common stock. The first part previously mentioned is the main capital allocation strategy.

To expand their product portfolio and to include more value-added steel mill products, Nucor has significantly invested. During the last three years, Nucor has spent $2.53 billion. Two-thirds of the budget were dedicated to capital expenditure such as lowering cost project for more profitable long-term growth. One-third were dedicated to acquisitions to create a greater portion of value-added products and increase end-user market diversity. The diversity of their products will decrease the exposition of Nucor to import risks.

Nucor recently announced a $230 million project for the expansion of its Arkansas facility with the building of an additional cold mill. In addition, Nucor announced a $176 million project to expand their hot band galvanizing line. This will promote Nucor with the widest hot-rolled galvanizing line in North America. As a result, Nucor will reinforce its presence on the automotive supplier market and catch new market shares.

In addition to these expansion projects, Nucor has announced several investment with the goal of becoming a low-cost producer of bar and take a competitive advantage over its peers. Moreover, to provide a durable long-term growth, Nucor is investing into strategic positions to lower its freight cost and take advantage of transportation cost relative to more distant suppliers benefiting from the scrap supply in the immediate area at the same time.

Regarding international opportunities, Nucor has invested in a location in Monterrey, Mexico. With the new acquisitions of St. Louis Cold Drawn, Inc. in September 2017 located in St. Louis Missouri, Nucor sent a strong message to investors regarding their implication on the automotive industry of the Mexican and American market. In addition to gain Mexican automotive and industrial markets, Nucor has planned to increase its market share and to provide better customer services on the eastern and western Canada.

However, if the tariff regulation is validated by Trump's administration, Canada and Mexico, which respectively represent 16% and 9% and ranked first and fourth of the U.S. steel imports, will probably response with similar painful measure toward the U.S. This will question the long-term growth and the profitability of Nucor's project in Canada and Mexico.

These various acquisitions and expansions provide Nucor with a well diversify product portfolio and market shares, and competitive advantage on cost of revenue.

Products and Services:

Nucor's revenue is mainly based on the steel mills segments with more than 71.6% of its sales in 2017 compared to 69.8% in 2016. The second largest sources of revenue for Nucor Corporation is the steel products segment with 19.8% in 2017 compared to 22.8% in 2016. Finally, the raw material segments provides them 8.6% of their revenue in 2017 compared to 7.5% in 2016.

Nucor's product are largely tied to capital and durable goods spending and are affected by changes in general economic conditions. The recent data of durable goods orders has shown a negative sign for Nucor. US durable goods orders fall by 3.7% in January 2018, much worse than market expectation of 2%. This is mainly due to a sharply decreased in orders for transport equipment of 10%.

On the other end, capital spending continues to growth at a high level. This positive sign for consumption is a good signal for Nucor's revenue.

Figure 4:

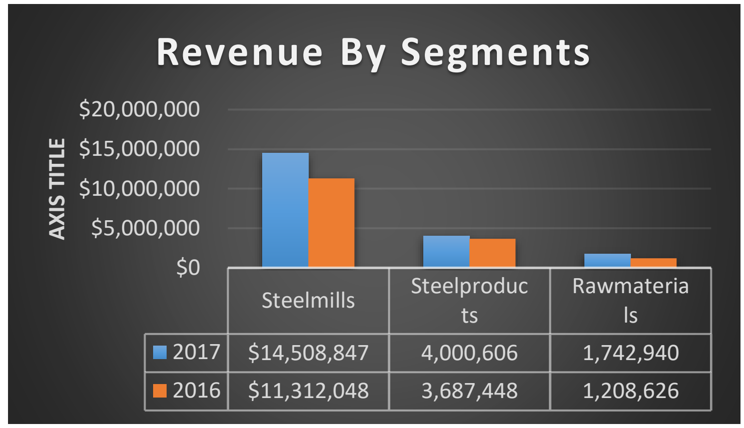
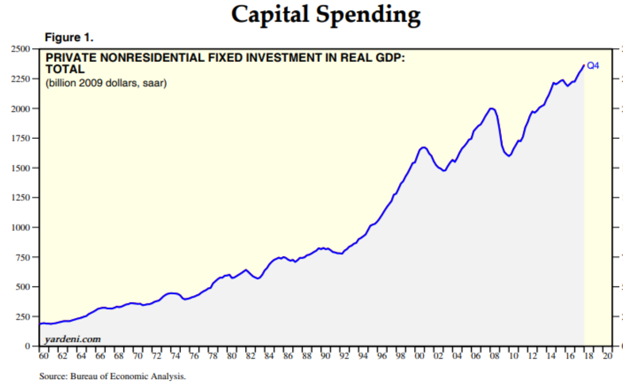


Figure 5:

Capital Spending



Financial:

Currently, Nucor corporation is out performing its peer with a 1.20 ROIC/WACC (LTM) compared to and industry ratio of 0.78. This mean that Nucor produce more return on their investment than their competitors do, and so, investment projects of Nucor are more profitable. This underling their significant ability to generate return especially because they have a higher WACC of 8.3% than their competitors, 7.7%. However, Nucor cost of revenue is significantly high with a ratio of 87.3% compared to 74% for their competitors. This emphasize their low ability to control their cost of productions.

Analyst estimate revenue to increase by 12.4% in 2018 and a small increase of 0.8% in 2019. In addition, EBITDA margin is forecasted to increase to 13.71% in 2018 and to 14.30% in 2019 compared to the actual 13.35%. However, their significant investment for lowering their cost of productions and their expansions project to increase market share should bring additional margin to Nucor.

ROIC /WACC		
	History	*LTM*
NUE	0.75	1.20
Competitors	0.23	0.78
Target	1.19	

COR/Revenue		
	History	*LTM*
NUE	91.2%	87.3%
Competitors	86.2%	74.0%
Target	87.3%	

WACC		
	History	*LTM*
NUE	7.8%	8.3%
Competitors	7.7%	7.7%
Target	8.3%	

Conclusion:

In overall, Nucor seem to be highly dependent of the short-term and mid-term macroeconomic conditions. These conditions such as Trump action on infrastructure budget and tariff on import steel condition the future growth of the market, and at the same time the growth of Nucor Corporation. If these conditions does not turn positive for Nucor, the company should expect to underperform the S&P 500 for another period. The conclusion on this company is to hold the current position and wait for the several catalysts. If cash is need for the fund of other investment, I suggest selling the position will be a good opportunities to produce higher return with the invested cash on the company.

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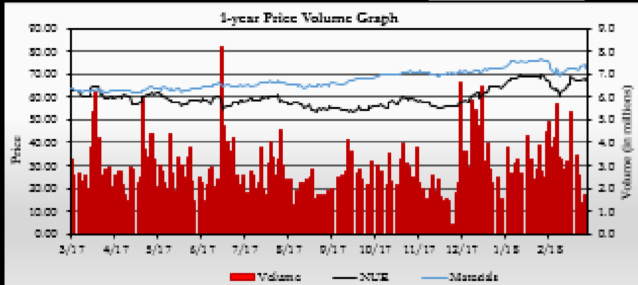
Nucor Corporation (NUE)

BULLISH

Analysis by Emilien Marq	Current Price:	$67.53	Intrinsic Value	$39.73
3/3/2018	Divident Yield:	2.3%	Target Price	$79.75

Target 1 year Return: 20.42%

Probability of Price Increase: 80



Description

Nucor Corporation manufactures and sells steel and steel products in the United States and internationally.

General Information

Sector	Materials
Industry	Metals and Mining
Last Guidance	February 12, 2018
Next earnings date	April 19, 2018

Market Assumptions

Estimated Equity Risk Premium	5.00%
Effective Tax rate	21%

Market Data

Market Capitalization	$21,470.27
Daily volume (mil)	5.06
Shares outstanding (mil)	317.94
Diluted shares outstanding (mil)	320.77
% shares held by institutions	109%
% shares held by investments Managers	68%
% shares held by hedge funds	4%
% shares held by insiders	0.30%
Short interest	1.80%
Days to cover short interest	1.82
52 week high	$70.48
52-week low	$51.67
Volatility	25.90%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	2.53%	52.04%
4/1/2017	1.19%	-7.00%
7/1/2017	3.07%	-7.54%
9/30/2017	-0.83%	-7.70%
12/31/2017	5.20%	7.83%
Mean	2.23%	7.53%
Standard error	1.0%	5.2%

Market and Credit Scores

Recommendation (STARS) Value--4

Recommendation (STARS) Description--Buy

Quality Ranking Value--B+

Quality Ranking Description--Average

Short Score--0

Market Signal Probability of Default % (Non-Ratings)--0.151%

CreditModel Score (Non-Ratings)--bbb

Industry and Segment Information

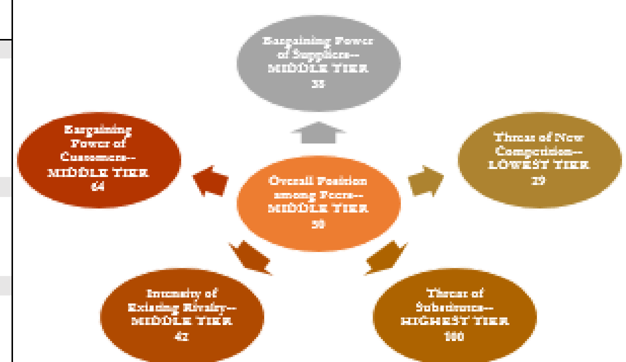
LTM Revenues by Geographic Segments	LTM Revenues by Business Segments
#VALUE!	--
#VALUE!	--
#VALUE!	--
#VALUE!	--
#VALUE!	--

Peers

United States Steel Corporation	Hesteel Company Limited
Steel Dynamics, Inc.	Reliance Steel & Aluminum Co.
Commercial Metals Company	Salzgitter Aktiengesellschaft
AK Steel Holding Corporation	Kobe Steel, Ltd.
Worthington Industries, Inc.	Hunan Valin Steel Co., Ltd.

Management	Position	Total Compensation Growth	Stock Price Growth During Tenure
Ferriola, John	Chairman, CEO & President	27.39% per annum over 5y	3.8% per annum over 5y
Frias, James	Chief Financial Officer, Executive Vice Preside	8.66% per annum over 5y	3.8% per annum over 5y
Darsey, James	Executive Vice President of Raw Materials	6.24% per annum over 4y	6.83% per annum over 4y
Hall, Ladd	Executive Vice President of Flat-Rolled Produc	7.36% per annum over 5y	3.8% per annum over 5y
Stratman, R.	Chief Digital Officer	6.82% per annum over 5y	3.8% per annum over 5y
Keller, Michael	Principal Accounting Officer, Vice President ar		

Porter's 5 forces (Scores are percentiles)



Profitability	NUE (LTM)	NUE Historical	Peers' Median (LTM)
Return on Capital (GAAP)	10.0%	5.89%	6.44%
Operating Margin	7%	4.48%	6.25%
Revenue/Capital (GAAP)	1.53	1.31	1.03
ROE (GAAP)	13.2%	8.1%	14.8%
Net margin	5.1%	3.4%	3.3%
Revenue/Book Value (GAAP)	2.57	2.40	4.52
Invested Funds	**NUE (LTM)**	**NUE Historical**	**Peers' Median (LTM)**
Cash/Capital	8.5%	12.9%	12.1%
NWC/Capital	27.2%	25.5%	20.4%
Operating Assets/Capital	47.3%	45.5%	61.0%
Goodwill/Capital	17.0%	16.1%	6.5%
Capital Structure	**NUE (LTM)**	**NUE Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.29	0.35	0.51
Cost of Debt	4.2%	4.1%	5.1%
CGFS Rating (F-score, Z-score, and default Probabilit	BBB		
WACC	13.8%	7.8%	7.7%

Valuation

Forecast Assumptions	Explicit Period (10 years)	Continuing Period
Revenue Growth CAGR	12%	2%
Average Operating Margin	10%	10%
Average Net Margin	7%	7%
Growth in Capital CAGR	9%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	14%	15%
Average Return on Equity	17%	17%
Average Cost of Capital	14%	15%
Average Cost of Equity Ke	15%	15%