U.S. Steel (X) Research

Description: X produces and sells flat-rolled and tubular steel products primarily in North America and Europe

Price: $27.18

Market Cap: $4.8B

Performance: -22.3% YTD but up over 176% over the last 3 years

Fundamentals:

Price to Book: 1.2x

Price to Sales: 0.4x

Price to Earnings: 7.1x

Forward Price to Sales: 0.3x

Forward Price to Earnings: 4.2x

Net Income Margins: 5.0%

Analysis:

Let's call it what it is. This stock, no matter how cheap fundamentally, will always move with the sentiment of the global, and more so, U.S. economy. When you look at those P/S and P/E multiples you can't help but say wtf but unfortunately X is not that simple. The price of steel has been on a great rise until recently where steel prices have fallen about 7% in the last month. On a longer-term scale, the price of steel is up over over 140% in the last 3 years and is pretty much why X is up by the amount as well.

So how do we go about saying whether X is a buy or a sell? We have to ask ourselves whether we think the economy is going to keep chugging along or not. At this moment in time, CUBE believes the economy is fine. We don't see a recession coming in the next year or so and anything beyond that is way too hard to say because we don't know what rates will be at our if they'll be a contagion effect from the likes of China/India, etc. A good indicator that comes to mind is the ISM Manufacturing index. For those that don't know, this is a monthly composite index, released by the Institute for Supply Management, that is based on surveys of 300 purchasing managers throughout the United States in 20 industries in the manufacturing area. It kind of peaked and pulled back a bit (a reading over 50 means growth). After doing some more looking this also what we found:

The Institute for Supply Management’s Manufacturing PMI in the US fell to 57.7 in October of 2018 from 59.8 in September and below market expectations of 59. The reading pointed to the slowest growth in factory activity in six months after reaching the highest since 2004 in August. New orders, production and employment eased and price pressures continued.

Slowdowns were seen for new orders (57.4 from 61.8), production (59.9 from 63.9); employment (56.8 from 58.8), inventories (50.7 from 53.3) and new expoet orders (52.2 from 56). Also, supplier deliveries eased (63.8 from 61.1) and price pressures intensified (71.6 from 66.9). On the other hand, backlogs of orders rose slightly faster (55.8 from 55.7).

Of the 18 manufacturing industries, 13 reported growth in October, in the following order: Textile Mills; Electrical Equipment, Appliances & Components; Apparel, Leather & Allied Products; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; Furniture & Related Products; Miscellaneous Manufacturing; Machinery; Transportation Equipment; Printing & Related Support Activities; Chemical Products; and Paper Products. The four industries reporting contraction in October are: Wood Products; Primary Metals; Nonmetallic Mineral Products; and Fabricated Metal Products.

The macroeconomy itself isn't the only thing to be eyeing up its also the industry. Notice that out of the 4 industries that cited contraction primary metals was one of them which is directly related to why X and the price of steel have pulled back.

Another area we have to look at is construction. August housing starts increased 9.4% from a year ago, but permits declined 5.5% year-on-year, the slowest since May and that is a more forward looking number that should carry more weight. September Architectural Billing Index fell to 51.1, down from the second highest month of the year in August. The 3Q average score of 51.7 was essentially flat versus 3Q 2017.

There's so many factors at play for X which makes it a really tricky investment. They reported Q3 earnings on November 1st where revenues grew 15% Y/Y to $3.73B and also posted EPS of $1.79 beating estimates by $0.06. They also guided Q4 adjusted EBITDA of $575M, which would compute to full-year EBITDA of $1.8B, slightly below prior guidance of $1.85B-$1.9B; Q3 adjusted EBITDA came in at $526M vs. $525M guidance.

You want our honest opinion on this stock? We wouldn't own it. Why? This company is extremely exposed to not just the price of a commodity but also the global macro and micro economy. I would rather put my money in the S&P500 as at least that diversifies some risk that you get with the global economy. Another reason, take a look at the following performances between the two over history:

S&P500 vs. X - 1 Month = +0.15% vs. -3.28%

S&P500 vs. X - 3 Month = -3.30% vs. -9.15%

S&P500 vs. X - 6 Month = +0.80% vs. -24%

S&P500 vs. X - YTD = +3.5% vs. -22.3%

S&P500 vs. X - 1 Year = +7.5% vs. -0.41%

S&P500 vs. X - 3 Year = +39% vs. +176%

S&P500 vs. X - 5 Year = +70% vs. +4.58%

S&P500 vs. X - Since 1993 (Inception of SPY): +831% vs. +33.9%

As you can see, aside from just the 3 year chart, the S&P500 destroys U.S. Steel. I'm not saying this is the end all be all but when you weigh out the risks, the reward simply isn't there unless you time it perfectly and we all know how that goes. If you're looking to trade it, I think there are so many better things out there to trade