

Commercial Metals

Notes from the road with our top pick in steels: infra inflection + catalysts. Buy

Maintain Rating: BUY | PO: 58.00 USD | Price: 53.80 USD

Well placed to benefit from rising infrastructure demand

Earlier this week, we hosted Commercial Metals' (CMC) SVP and CFO, Paul Lawrence and Director of IR, Jason Brocius for investor meetings in Chicago, IL. Several indicators point to stronger U.S. infrastructure spend in 2024, and we are constructive on steel rebar pricing and margins. With its Arizona 2 (AZ2) mill ramping up, CMC is well placed to benefit from strong demand, and limited imports. Further, CMC sees significant optimization opportunities in its steel segments and strong growth potential for its Emerging Businesses Group (EBG), with a potential 2024 investor day to provide detail. CMC is our top [2024 stock pick](#) (see report) among our North American steel coverage. Maintain Buy.

Infrastructure demand inflection in spring/summer 2024

CMC seemed increasingly confident that infrastructure spend (40% of US rebar demand) could begin to inflect from spring/summer 2024, with many projects related to the Infrastructure Investment and Jobs Act (IIJA) set to enter the construction phase. Per Portland Cement Association (PCA), cement consumption in infrastructure is to rise 5.5% year-over-year in 2024, following a flat 2023, and consistent with the American Road & Transportation Builders Association (ARTBA) and Dodge (exhibits 1 & 2). Private non-residential activity (35% of demand) is to remain stable, with stronger manufacturing and energy offsetting weakness in (rate sensitive) commercial. Residential markets (25% of demand), stabilized in H2'23, and should inflect once interest rates begin to decline.

Significant self-help and growth potential; details soon?

With CMC's new CEO, Peter Matt at the helm, CMC re-segmented to manage its traditional, mature, cyclical steel business using different approaches vs. its high margin, stable, growth focused emerging businesses. For its steel segments, the focus will be on footprint optimization and improving efficiencies. For EBG, the focus will be on accelerating organic and inorganic growth (with CMC seeing significant potential for both). Details (EBITDA improvement for steel, growth outlook for EBG, and mid-cycle EBITDA targets) could be provided at a potential 2024 investor day.

EBG: immense growth potential; a path to re-rate

CMC highlighted multiple possible growth drivers for key businesses within EBG. Tensar: increased penetration + leveraging a recently launched proprietary product. Construction Services: more product & services and expanding beyond Texas. Anchoring Systems: venture into wind towers. Impact Metals: stronger growth in armors. Performance Steel: leverage robust port/LNG investments. In addition, CMC sees strong inorganic growth optionality into adjacent markets. CMC's earnings volatility is likely to improve as EBG grows (9% of consolidated EBITDA in 2023), and we see a path for the stock to re-rate.

Other highlights: 1) **Poland:** EBITDA break-even in Q3'24, on higher pricing and lower (natural gas) costs. 2) **Capital returns:** positive dividend profile + \$500m of buybacks over 2.5-3.0 years. 3) **AZ2:** on track for 250kt in FY'24 and exiting 2024 at full run-rate.

09 February 2024

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Stock Data

Price	53.80 USD
Price Objective	58.00 USD
Date Established	1-Feb-2024
Investment Opinion	C-1-7
52-Week Range	39.85 USD - 58.06 USD
Mrkt Val (mn) / Shares Out (mn)	6,481 USD / 120.5
Free Float	98.9%
Average Daily Value (mn)	60.38 USD
BofA Ticker / Exchange	CMC / NYS
Bloomberg / Reuters	CMC US / CMC.N
ROE (2024E)	14.4%
Net Dbt to Eqty (Aug-2023A)	13.6%
ESGMeter™	High

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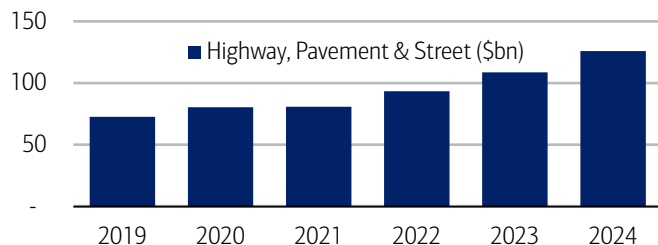
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Timestamp: 09 February 2024 05:00AM EST

Exhibit 1: ARTBA 2024 market outlook

ARTBA expects Highway construction to grow 16% YoY to \$126bn in 2024

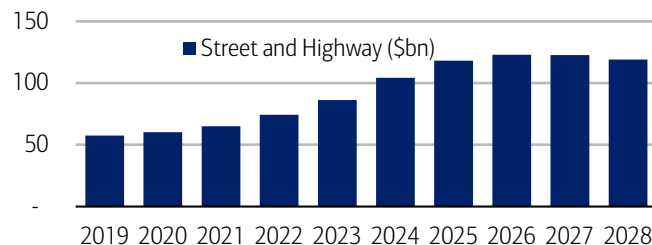


Source: American Road & Transportation Builders Association (ARTBA)

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Exhibit 2: Dodge Street & Highway spending forecast

Dodge expects Street/Highway spend to grow 21% YoY to \$104bn in 2024

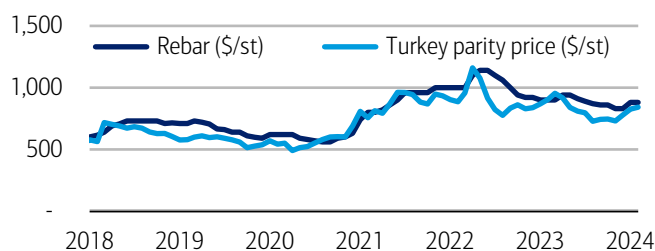


Source: Dodge Construction Network

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Exhibit 3: U.S. rebar vs. Türkiye export parity price

Import arbitrage is currently less than \$30/st

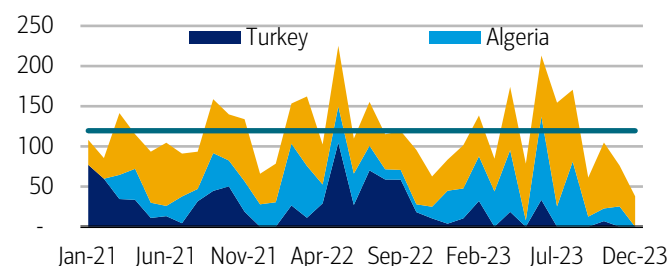


Source: BofA Global Research, CRU, Platts

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Exhibit 4: U.S. rebar imports by country (k st)

Imports from Türkiye could remain subdued

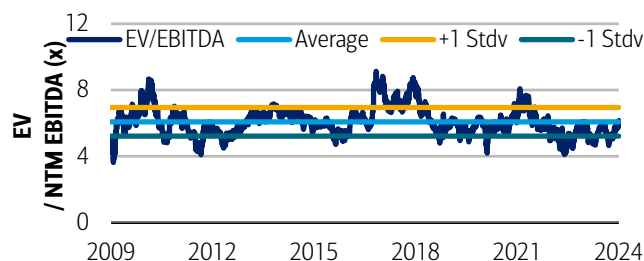


Source: BofA Global Research, US Census Bureau

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Exhibit 5: CMC EV/NTM consensus EBITDA

CMC trading at 6.2x (5.7x on BofAe), vs. a long-term average of 6.0x.

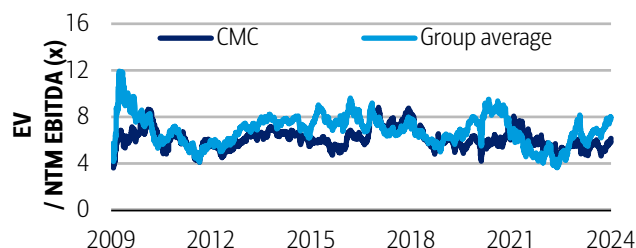


Source: BofA Global Research, FactSet. NTM = Next Twelve Month

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Exhibit 6: CMC EV/NTM consensus EBITDA vs Group average

CMC trading at 6.2x, about 23% below sector average of 8.0x



Source: BofA Global Research, FactSet. NTM = Next Twelve Month

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Exhibit 7: North American steel companies' valuation table

CMC trades at a significant EV/EBITDA discount to the other North American (Electric Arc Furnace) steel companies (NUE and STLD)

					MC	EV	EV/EBITDA (CY)		P/E (CY)		FCF yield (CY)		P/B	EBITDA margin		Div Yield	
Company	Ticker	REC (QRQ)	Price	Curr	US\$mn	US\$mn	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2024E	2025E	2024E	2025E
North America							6.4x	7.2x	10.5x	12.6x	5%	6%	1.6x	15.9%	14.3%	1.2%	1.3%
Cleveland-Cliffs	CLF	NEU (C-2-9)	USD 19.78	USD	9,971	13,019	5.0x	4.9x	8.4x	7.5x	12%	12%	1.2x	11.7%	12.8%	0.0%	0.0%
Commercial Metals	CMC	BUY (C-1-7)	USD 53.80	USD	6,290	6,682	5.6x	5.6x	9.9x	9.9x	8%	6%	1.4x	14.1%	13.8%	1.2%	1.3%
Nucor	NUE	BUY (C-1-7)	USD 186.21	USD	44,657	45,935	6.7x	7.9x	10.6x	13.1x	4%	6%	1.9x	20.5%	17.8%	1.3%	1.3%
Steel Dynamics	STLD	NEU (C-2-7)	USD 124.56	USD	20,484	21,806	6.4x	8.3x	8.8x	12.3x	4%	7%	2.1x	18.1%	14.5%	1.6%	1.8%
US Steel	X	No Rating	USD 46.07	USD	12,416	13,859	5.7x	7.0x	11.9x	19.4x	0%	4%	1.0x	13.9%	12.6%	0.4%	0.4%
Reliance Steel & Al	RS	NEU (B-2-7)	USD 298.26	USD	16,552	16,670	8.9x	9.2x	13.3x	13.4x	7%	7%	2.0x	13.0%	12.7%	1.6%	1.8%

Source: BofA Global Research estimates

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Price objective basis & risk

Commercial Metals (CMC)

Our \$58 per share price objective for Commercial Metals (CMC) is based on a blended 6.0x FY24E EV/EBITDA, 5.5x FY25E EV/EBITDA and 1.0x our NAV. The 6.0x 2023E EV/EBITDA target multiple is in-line its historical trading average. The 6.0x multiple is below the sector average multiple of 6.7x and the target multiples used for mini-mill peers (6.5-7.0x for STLD/NUE) given its lack of product / end-market diversification. This is partly offset by CMC's leverage to infrastructure demand, which is set to see strong growth from significant increase in federal spending (management forecasts around 1.5mn ton per annum of incremental demand against a 9-10mn U.S. rebar market).

Upside risks to our price objective are: 1) better-than-expected construction / reshoring demand, 2) higher steel pricing, 3) better-than-expected pricing power in global long products that support pricing and limit imports, 4) additional trade relief, 5) cash deployment for organic or inorganic growth.

Downside risks to our price objective are: 1) sluggish demand due to delay in federal funding and/or tightened credit availability for private projects, 2) lower steel pricing, 3) execution risk related to Tensar and new micro-mills, 4) any rollback of trade relief, particularly related to Section 232, 5) threat of lower priced imports and 6) potential medium term oversupply from various new entrants in the domestic rebar market.

Analyst Certification

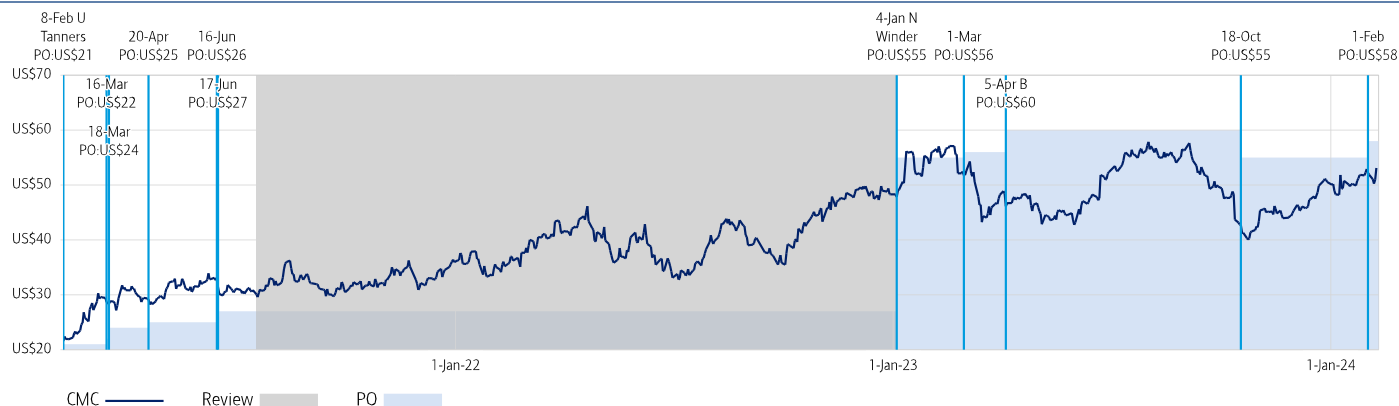
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Commercial Metals (CMC) Price Chart



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 ^{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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