

Steel Dynamics

Q4'23 EPS near low-end of guide; Fab and Recycling segments a tad lower, FCF better

Maintain Rating: NEUTRAL | PO: 125.00 USD | Price: 116.14 USD

Maintain Neutral on anticipated correction in HRC pricing

Steel Dynamics (STLD) reported Q4'23 EPS near the low-end of its mid-December guidance, and slightly below BofA/consensus estimates. Compared to BofAe, EBIT for the Steel Operations segment was in-line but Steel Fabrication (lower pricing) and Metals Recycling (lower non-ferrous volumes/prices) missed slightly. STLD noted that the fabrication order backlog now extends through H1'24 and sees increased demand (from federal initiatives) in all 3 segments. Despite the positive comments, we remain cautious on U.S. hot-rolled coil (HRC) pricing amid an ongoing correction in lead times and an anticipated increase in supply (domestically and from imports). The forward curve reflects this, with March pricing around \$850 per short ton (/st) versus current spot at \$1,020-1,150/st. We maintain our Neutral rating given HRC price concerns, balanced by near-term tailwinds from the lagged flow-through of higher prices and the Sinton ramp.

Order activity solid; focus on fab pricing and dividends

STLD noted that steel pricing has firmed and that mill order activity remains 'solid'. Customer inventories remain low. STLD expects funding from federal initiatives and a rising customer preference for low emission products to result in increased demand across all segments. The focus for tomorrow's call should be on fabrication backlog pricing (post increased Q4'23 activity), the Sinton ramp-up (guided to 80% utilization for full year 2024), the latest thinking on the dividend (following 25-30% YoY hikes in the previous 2 years) and buybacks (given heavy capex planned for 2024), and an update on customer negotiations for its aluminum rolling mill. See [BofA preview; 8-Jan-24](#) report.

Steel segment in-line; fab pricing + recycling EBIT weaker

STLD reported Q4'23 adjusted EPS of \$2.61, near the low-end of \$2.60-2.64 guidance, and slightly below BofAe at \$2.63 and Bloomberg/Visible Alpha (VA) consensus of \$2.65/\$2.66. At the segment level, Steel EBIT decreased 23% quarter-over-quarter (QoQ) to \$365m on lower long product shipments and reduced flat-rolled margins. Versus BofAe, EBIT was largely in-line. Fabrication EBIT of \$250m was down 24% QoQ due to 11% lower pricing (to \$3,501 per st) and 7% lower volumes. Fab pricing was below BofAe, though shipments were modestly higher, resulting in 4% lower EBIT. Recycling EBIT of \$6m was well below BofAe at \$23m, due to lower non-ferrous pricing.

FCF better than expected; 108% of net income returned

STLD's Q4'23 operating cash flow decreased 22% QoQ to \$865m but was above BofAe \$662m due to a stronger working capital release of \$319m. Capex was \$35m lower vs. BofAe at \$515m for free cash flow (FCF) of \$350m vs. BofAe at \$112m. STLD bought \$387m of its shares in Q4'23 implying shareholder returns (including dividend) at 108% of net income. The aluminum project continues to advance to a mid-2025 start. Construction of the four coating lines (1.1m st) is complete: commissioning in Q1'24.

23 January 2024

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Stock Data

Price	116.14 USD
Price Objective	125.00 USD
Date Established	20-Nov-2023
Investment Opinion	C-2-7
52-Week Range	90.55 USD - 136.46 USD
Mkt Val (mn) / Shares Out (mn)	20,428 USD / 175.9
Free Float	93.5%
Average Daily Value (mn)	155.10 USD
BofA Ticker / Exchange	STLD / NAS
Bloomberg / Reuters	STLD US / STLD.OQ
ROE (2023E)	30.2%
Net Dbt to Eqty (Dec-2022A)	10.1%
ESGMeter™	High

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st = short ton

m = million

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Timestamp: 23 January 2024 09:13PM EST

STLD Q4'23 results

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

Q4'23 EBIT was 7% below BofAe mainly due to lower results from Fabrication (lower pricing) and Metals Recycling (lower non-ferrous volumes/prices) segments.

(US\$m, except per share data)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023E	Var.	Bloomberg		Visible Alpha	
								Cons.	Var.	Cons.	Var.
Net Sales	4,233	4,826	-12%	4,587	-8%	4,098	3%	4,233	0%	4,237	0%
Adjusted EBITDA	659	906	-27%	876	-25%	677	-3%	687	-4%	703	-6%
EBITDA margin	15.6%	18.8%	-322bp	19.1%	-354bp	16.5%	-95bp	16.2%	-68bp	16.6%	-104bp
Depreciation	112	102	9%	107	4%	116	-4%	109	2%	113	-1%
Adjusted Earnings	424	769	-45%	577	-26%	428	-1%	429	-1%	437	-3%
Adjusted EPS	2.61	4.37	-40%	3.47	-25%	2.63	-1%	2.65	-2%	2.66	-2%
Operating Cash Flow	865	1,143	-24%	1,114	-22%	662	31%	595	45%	658	31%
Capex	(515)	(344)	50%	(558)	-8%	(550)	-6%	(512)	1%	(521)	-1%
Free Cash Flow	350	799	-56%	555	-37%	112	211%	105	233%	137	155%
Net Debt	954	820	16%	859	11%	1,150	nm	1,055	-9%	1,111	-14%
Operating income (EBIT)											
Steel	365	178	104%	474	-23%	369	-1%	342	7%	375	-3%
Steel Fabrication	250	682	-63%	330	-24%	259	-4%	274	-9%	273	-8%
Metals Recycling	6	14	-55%	19	-65%	23	-72%	19	-66%	21	-70%
Corporate/eliminations	(103)	(116)	-11%	(89)	15%	(91)	13%	(64)	62%	(98)	5%
Consolidated EBIT	519	759	-32%	734	-29%	560	-7%	572	-9%	571	-9%
Operating details											
Steel											
Average external sales price (\$/st)	1,090	1,124	-3%	1,191	-8%	1,065	2%	1,067	2%	1,070	2%
Average ferrous cost (\$/st)	393	414	-5%	405	-3%	367	7%	372	6%	375	5%
Flat Roll shipments	2,265	2,166	5%	2,192	3%	2,215	2%	2,221	2%	2,236	1%
Long Product shipments	798	828	-4%	912	-12%	854	-6%	856	-7%	872	-8%
Total Shipments ('000 st)	3,064	2,994	2%	3,104	-1%	3,069	0%	3,102	-1%	3,109	-1%
External Shipments ('000 st)	2,674	2,614	2%	2,633	2%	2,635	2%			2,661	1%
Steel EBIT (\$/st)	119	60	100%	153	-22%	120	-1%			121	-1%
Metals Recycling											
Nonferrous shipments (m lb)	263	268	-2%	280	-6%	267	-1%			269	-2%
Ferrous shipments ('000 lt)	1,363	1,358	0%	1,443	-6%	1,333	2%			1,408	-3%
External ferrous shipments ('000 lt)	506	528	-4%	548	-8%	475	7%	517	-2%	514	-1%
Steel Fabrication											
Average sales price (\$/st)	3,501	5,222	-33%	3,916	-11%	3,694	-5%	3,709	-6%	3,677	-5%
Shipments ('000 st)	150	209	-28%	162	-7%	146	3%	153	-2%	156	-4%
Steel Fabrication EBIT (\$/st)	1,666	3,263	-49%	2,041	-18%	1,772	-6%	1,794	-7%	1,755	-5%

Source: BofA Global Research estimates, Company reports, Bloomberg, Visible Alpha

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Price objective basis & risk

Steel Dynamics (STLD)

Our \$125 per share price objective for Steel Dynamics (STLD) is based on 6.5x 2024E EV/EBITDA, 6.0x 2025E EV/EBITDA and 1.0x NAV, with each value equally weighted. Our 6.5x target EV/EBITDA multiple is largely in-line the 6.3x historical avg to recognize its industry leading utilization rate, highly variable cost structure, leading value-add product portfolio, strong volume growth from Sinton and investment grade balance sheet partly offset by the higher than normal near term sheet price forecasts and profitability of its Fabrication segment.

Upside risks to our price objective are: better than expected macro leading to stronger steel pricing and spreads than we forecast, continued Fabrication tailwind, aggressive shareholder returns, more protective trade policy, and lower imports.

Downside risks to our price objective are: lower steel and metal spreads, project delays, lower than expected demand, higher imports, and excess industry supply.

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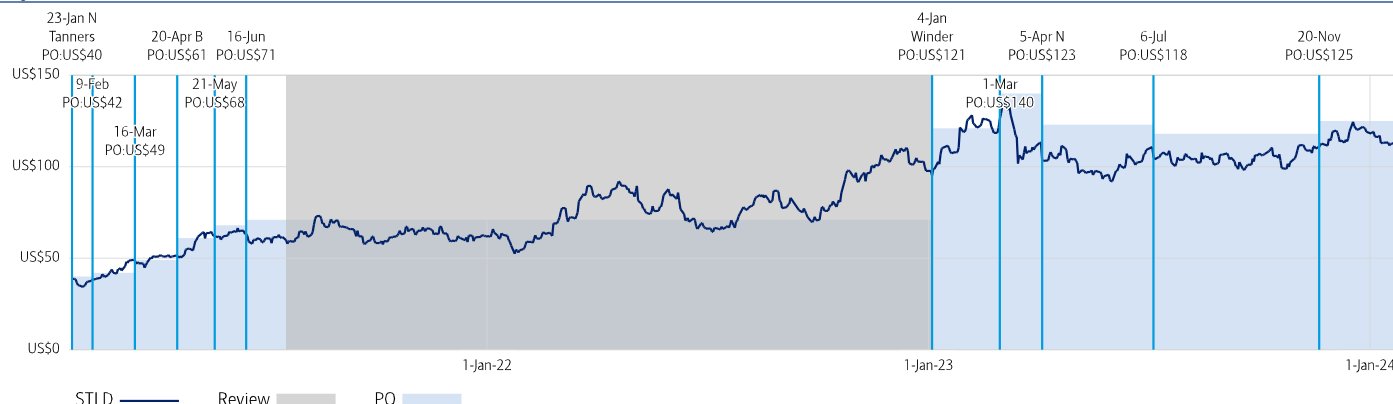
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Steel Dynamics (STLD) Price Chart



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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%

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Sell	807	22.84%	Sell	383	47.46%

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