

Reliance Inc.

Q4'23 EPS beat, Q1'24 guide better than consensus. Raise PO to \$360 per share.

Reiterate Rating: NEUTRAL | PO: 360.00 USD | Price: 326.43 USD

Resilient model, solid M&A outlook: Neutral on valuation

Reliance Inc. (RS) reported Q4'23 EPS well above its guidance, and consensus. The beat vs. BofAe was due to higher gross margin / LIFO income and lower taxes (see [RS first-take 15-Feb-24](#)). RS expects healthy demand trends to continue and guided for Q1'24 EPS that was slightly ahead of consensus. We update our model and raise our price objective (PO) from \$310 to \$360 per share based on 12.0x 2024E EV/ EBITDA (vs. 9.5x prior), 11.5x 2024E EV/EBITDA (vs. 9.0x) and 1.0x NAV (unchanged), with each equally weighted. The higher multiple accounts for its resilient business model, counter-cyclical cash generation, an improved M&A landscape, and the recent relative valuation vs. industrial distributors (now at 14.5x NTM consensus EBITDA). However, given the 17% year to date rally and limited upside to our revised PO, we reiterate our Neutral rating.

Demand remains healthy; Q1 guide slightly above Street

Per RS, commercial aerospace, non-residential construction, general manufacturing and auto tolling demand improved in Q4'23 on a year-over-year (YoY) basis and this 'healthy' level is to continue. For Q1'24, RS guided for shipments to increase 9-11% quarter-on-quarter (QoQ) vs. BofAe now at +11% vs. +9% prior). Average realization is to also be up 1-3% QoQ (BofAe +3%). RS guided for Q1'24 EPS of \$5.30-5.50, a tad above Bloomberg / Visible Alpha (VA) consensus at \$5.32/\$5.22. We have updated our model and slightly raise Q1'24E EPS to \$5.64 (vs. \$5.61 prior). Our full year 2024E EPS is up 2% to \$21.17 as lower taxes and interest expense more than offset impact of higher depreciation.

Rebrands + acquires 2 service centers; re-rating continues

Despite competitive pricing (-16% YoY in 2023), RS gained market share and maintained gross margin near the high end of its 29-31% target range. Free cash flow generation beat forecasts, driving strong shareholder returns (54% of net income) and positioning RS to fund the 2 acquisitions announced in February (and potentially more). RS raised its dividend by 10% and rebranded its name to Reliance Inc. to reflect its evolution to "more than metal". A resilient model, coupled with strong organic (2023/24 capex = 2x prior 5yr average) and inorganic growth potential, might support a continued re-rating in our view.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	28.71	22.61	21.17	20.80	23.65
GAAP EPS	28.61	22.64	21.17	20.80	23.65
EPS Change (YoY)	29.8%	-21.2%	-6.4%	-1.7%	13.7%
Consensus EPS (Bloomberg)			19.12	18.62	18.93
DPS	3.31	4.00	4.40	4.84	5.32
Valuation (Dec)					
P/E	11.4x	14.4x	15.4x	15.7x	13.8x
Dividend Yield	1.0%	1.2%	1.3%	1.5%	1.6%
EV / EBITDA*	6.8x	9.4x	10.0x	10.3x	9.4x
Free Cash Flow Yield*	9.5%	6.4%	6.0%	6.4%	6.9%

* For full definitions of *IQmethod*SM measures, see page 5.

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	310.00	360.00
2024E Rev (m)	14,383.2	14,421.2
2025E Rev (m)	14,191.9	14,281.8
2026E Rev (m)	14,760.7	14,859.4
2024E EPS	20.79	21.17
2025E EPS	20.57	20.80
2026E EPS	23.07	23.65

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Stock Data

Price	326.43 USD
Price Objective	360.00 USD
Date Established	18-Feb-2024
Investment Opinion	B-2-7
52-Week Range	229.12 USD - 333.33 USD
Mrkt Val (mn) / Shares Out (mn)	18,695 USD / 57.3
Free Float	99.3%
Average Daily Value (mn)	71.97 USD
BofA Ticker / Exchange	RS / NYS
Bloomberg / Reuters	RS US / RS.N
ROE (2024E)	15.2%
Net Dbt to Eqty (Dec-2023A)	0.8%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 20 February 2024 06:30AM EST

iQprofileSM Reliance Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	21.2%	14.0%	12.5%	11.4%	12.1%
Return on Equity	28.0%	18.0%	15.2%	13.8%	14.6%
Operating Margin	14.7%	11.7%	11.2%	10.8%	11.6%
Free Cash Flow	1,777	1,203	1,128	1,198	1,287

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.3x	1.3x	1.3x	1.2x
Asset Replacement Ratio	1.4x	1.9x	1.9x	1.3x	0.9x
Tax Rate	24.1%	23.0%	23.5%	24.0%	24.5%
Net Debt-to-Equity Ratio	6.7%	0.8%	-1.1%	-6.1%	-11.2%
Interest Cover	40.2x	43.4x	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	17,025	14,806	14,421	14,282	14,859
% Change	20.8%	-13.0%	-2.6%	-1.0%	4.0%
Gross Profit	5,251	4,547	4,443	4,427	4,644
% Change	16.9%	-13.4%	-2.3%	-0.3%	4.9%
EBITDA	2,747	1,985	1,870	1,814	1,987
% Change	25.8%	-27.7%	-5.8%	-3.0%	9.5%
Net Interest & Other Income	(77)	1	(23)	(20)	(15)
Net Income (Adjusted)	1,847	1,335	1,208	1,158	1,284
% Change	29.8%	-27.7%	-9.5%	-4.2%	10.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,840	1,336	1,208	1,158	1,284
Depreciation & Amortization	240	245	261	265	265
Change in Working Capital	(55)	2	158	125	(13)
Deferred Taxation Charge	(7)	16	0	0	0
Other Adjustments, Net	100	72	0	0	0
Capital Expenditure	(342)	(469)	(500)	(350)	(250)
Free Cash Flow	1,777	1,203	1,128	1,198	1,287
% Change	215.7%	-32.3%	-6.2%	6.2%	7.4%
Share / Issue Repurchase	(630)	(480)	(500)	(500)	(500)
Cost of Dividends Paid	(217)	(238)	(251)	(269)	(289)
Change in Debt	(3)	(508)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,173	1,080	1,233	1,662	2,159
Trade Receivables	1,566	1,472	1,580	1,526	1,547
Other Current Assets	2,148	2,219	2,090	2,012	2,023
Property, Plant & Equipment	1,975	2,248	2,711	2,796	2,781
Other Non-Current Assets	3,469	3,460	3,460	3,460	3,460
Total Assets	10,330	10,480	11,074	11,456	11,970
Short-Term Debt	508	0	0	0	0
Other Current Liabilities	867	843	980	973	993
Long-Term Debt	1,139	1,142	1,142	1,142	1,142
Other Non-Current Liabilities	719	762	762	762	762
Total Liabilities	3,234	2,748	2,884	2,877	2,897
Total Equity	7,096	7,733	8,190	8,578	9,074
Total Equity & Liabilities	10,330	10,480	11,074	11,456	11,970

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Steels

Company Description

Reliance Inc. (RS) is the largest metals service center company in North America, operating in more than 315 locations. About half of its business is warehousing and the other half involves some sort of value-add processing or fabricating. RS tends to sell small spot priced tons to customers, with 40% requiring delivery within 24 hours. RS's 2023 revenues and EBITDA were \$15bn and \$2.0bn, respectively.

Investment Rationale

We rate Reliance Inc. (RS) at Neutral. We see RS's ability to generate countercyclical cash flows and pursue attractive M&A opportunities to largely offset the risk of near-term temporary margin compression.

Stock Data

Average Daily Volume

220,488

Quarterly Earnings Estimates

	2023	2024
Q1	6.37A	5.64E
Q2	6.49A	6.09E
Q3	5.00A	5.21E
Q4	4.73A	4.22E

RS model changes

Exhibit 1: RS key estimate changes

Our 2024E/25E EBITDA is largely unchanged. But, 2024E/25E EPS are 2%/1% higher, as lower taxes and interest expense more than offset impact of higher depreciation.

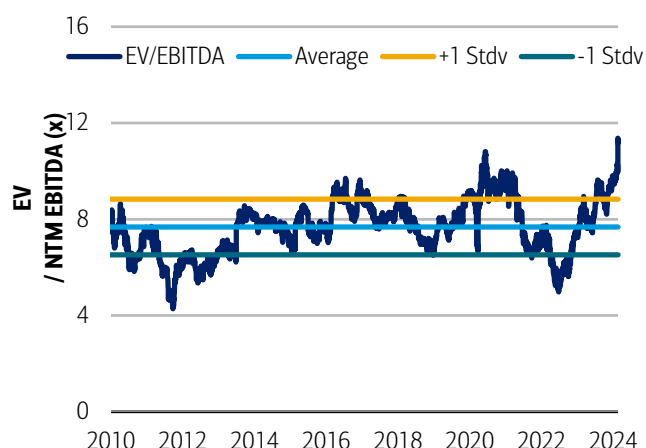
	2023A			2024E			2025E		
(US\$mnn, except per share data)	Old	New	Var.	Old	New	Var.	Old	New	Var.
Net Sales	14,809	14,806	0%	14,383	14,421	0%	14,192	14,282	1%
EBITDA	1,975	1,985	1%	1,867	1,870	0%	1,808	1,814	0%
EBITDA margin	13.3%	13.4%	7bp	13.0%	13.0%	-2bp	12.7%	12.7%	-4bp
Adjusted EBITDA	1,835	1,820	-1%	1,867	1,790	-4%	1,808	1,814	0%
Adjusted EBITDA margin	12.4%	12.3%	-9bp	13.0%	12.4%	-57bp	12.7%	12.7%	-4bp
Depreciation	244	245	1%	244	261	7%	245	265	8%
Adjusted Earnings	1,294	1,335	3%	1,187	1,208	2%	1,147	1,158	1%
Adjusted EPS	21.90	22.61	3%	20.79	21.17	2%	20.57	20.80	1%
Operating Cash Flow	1,625	1,671	3%	1,630	1,628	0%	1,536	1,548	1%
Capex	(475)	(469)	nm	(425)	(500)	nm	(350)	(350)	nm
Free Cash Flow	1,150	1,203	5%	1,205	1,128	-6%	1,186	1,198	1%
Net Debt	108	62	-42%	(447)	(91)	nm	(962)	(520)	nm
Operating details									
Total shipments ('000 st)	5,773	5,779	0%	5,859	5,970	2%	6,027	6,150	2%
Carbon steel	4,682	4,688	0%	4,741	4,872	3%	4,884	5,018	3%
Aluminum	320	324	1%	326	330	1%	336	343	2%
Stainless	284	284	0%	296	281	-5%	302	290	-4%
Average realized price (\$/st)	2,565	3,073	20%	2,455	2,416	-2%	2,355	2,322	-1%
Gross profit - LIFO (\$m)	4,508	4,547	1%	4,370	4,443	2%	4,399	4,427	1%
Adjustments	0	0	nm	0	0	nm	0	0	nm
Adjusted gross profit - LIFO (\$m)	4,508	4,547	1%	4,370	4,443	2%	4,399	4,427	1%
Adjusted gross profit margin - LIFO (%)	30.4%	30.7%	27bp	30.4%	30.8%	42bp	31.0%	31.0%	0bp
LIFO (income) / expense (\$m)	(140)	(165)	nm	0	(80)	nm	0	0	nm
Adjusted gross profit - FIFO (\$m)	4,368	4,383	0%	4,370	4,363	0%	4,399	4,427	1%
Adjusted gross profit margin - FIFO (%)	29.5%	29.6%	11bp	30.4%	30.3%	-13bp	31.0%	31.0%	0bp
Adjusted EBITDA (\$/st)	318	315	-1%	319	300	-6%	300	295	-2%

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Exhibit 2: RS EV/NTM consensus EBITDA

RS is currently trading at 11.2x next twelve-month (NTM) EBITDA, above its long-term average of 7.7x

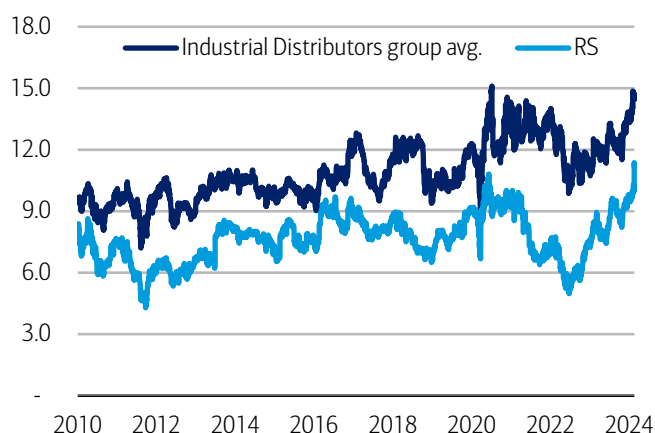


Source: BofA Global Research, FactSet

BofA GLOBAL RESEARCH

Exhibit 3: RS vs. Industrial Distributors' EV / NTM consensus EBITDA

RS is catching up with other Industrial Distributors, that currently trade at 14.5x next twelve month (NTM) EBITDA



Source: BofA Global Research, FactSet; Industrial Distributors include W.W. Grainger (GWW), MRC Global (MRC), MSC Industrial (MSM), WESCO (WCC) and Watsco (WSO).

BofA GLOBAL RESEARCH

Price objective basis & risk

Reliance Inc. (RS)

Our \$360 per share price objective for Reliance Inc. (RS) is based on 12.0x 2024E EV/EBITDA, 11.5x 2025E EV/EBITDA and 1.0x NAV, with each value equally weighted. The 12.0x 2024E EV/EBITDA target multiple is above its historical trading average of 7.7x to account for improved business model with higher sustainable gross profit margin of 29-31% versus 25-27% in 2015/16 and potential growth through M&As. The 12.0x multiple is higher than the sector average of 6.7x and more closer to traditional industrial distributors, as Service Centers merit a higher through-the-cycle multiple compared to steel mills, in our view, because of the countercyclical nature of free cash flows, generally more stable earnings, and less capital-intensive businesses.

Downside risks to our price objective are: 1) a sharp correction in prices (carbon steel, stainless and aluminum), 2) weaker than expected macro, leading to lower metal demand, 3) higher imports and 4) execution risk related its acquisition strategy.

Upside risks to our price objective are: 1) aggressive buybacks or dividend increases, 2) higher metal prices, 3) more attractive consolidation opportunities and 4) a better demand environment.

Analyst Certification

I, Lawson Winder, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agnico Eagle Mines	AEM	AEM US	Lawson Winder, CFA
	B2Gold Corp	YBTO	BTO CN	Harmen Puri
	B2Gold Corp	BTG	BTG US	Harmen Puri
	Barrick Gold	GOLD	GOLD US	Lawson Winder, CFA
	Cameco Corporation	YCCO	CCO CN	Lawson Winder, CFA
	Cameco Corporation	CCJ	CCJ US	Lawson Winder, CFA
	CMC	CMC	CMC US	Lawson Winder, CFA
	Endeavour Mining	YEDV	EDV CN	Harmen Puri
	Endeavour Mining	EDVMF	EDVMF US	Harmen Puri
	Endeavour Mining PLC	XEDVF	EDV LN	Harmen Puri
	Franco-Nevada	YFNV	FNV CN	Lawson Winder, CFA
	Franco-Nevada	FNV	FNV US	Lawson Winder, CFA
	IAMGOLD	YIMG	IMG CN	Lawson Winder, CFA
	IAMGOLD Corp.	IAG	IAG US	Lawson Winder, CFA
	Ivanhoe Mines	YIVN	IVN CN	Lawson Winder, CFA
	Ivanhoe Mines	IVPAF	IVPAF US	Lawson Winder, CFA
	Lundin Mining	XLPRF	LUMI SS	Lawson Winder, CFA
	Lundin Mining Corp	YLUN	LUN CN	Lawson Winder, CFA
	Lundin Mining Corp	LUNMF	LUNMF US	Lawson Winder, CFA
	MP Materials	MP	MP US	Lawson Winder, CFA
	Newmont Corporation	NEM	NEM US	Lawson Winder, CFA
	Newmont Corporation	XNCRF	NEM AU	Lawson Winder, CFA
	Nucor	NUE	NUE US	Lawson Winder, CFA
	Pan American Silver	PAAS	PAAS US	Lawson Winder, CFA
	Teck Resources	YTECK	TECK/B CN	Lawson Winder, CFA
	Teck Resources Ltd	TECK	TECK US	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	YTFPM	TFPM CN	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	TFPM	TFPM US	Lawson Winder, CFA
	Wheaton Precious Metals	WPM	WPM US	Lawson Winder, CFA

North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL	Alamos Gold	YAGI	AGI CN	Harmen Puri
	Alamos Gold	AGI	AGI US	Harmen Puri
	Alcoa Corporation	AA	AA US	Lawson Winder, CFA
	Cleveland-Cliffs	CLF	CLF US	Lawson Winder, CFA
	First Quantum	FQVLF	FQVLF US	Lawson Winder, CFA
	First Quantum Minerals	YFM	FM CN	Lawson Winder, CFA
	Freeport-McMoRan	FCX	FCX US	Lawson Winder, CFA
	Hudbay Minerals	YHBM	HBM CN	Lawson Winder, CFA
	HudBay Minerals	HBM	HBM US	Lawson Winder, CFA
	Reliance Inc.	RS	RS US	Lawson Winder, CFA
UNDERPERFORM	Steel Dynamics	STLD	STLD US	Lawson Winder, CFA
	Centerra Gold	YCG	CG CN	Lawson Winder, CFA
	Centerra Gold	CGAU	CGAU US	Lawson Winder, CFA
	Eldorado Gold	EGO	EGO US	Harmen Puri
	Eldorado Gold	YELD	ELD CN	Harmen Puri
	Kinross Gold	KGC	KGC US	Lawson Winder, CFA
	New Gold Inc.	YNGD	NGD CN	Harmen Puri
	New Gold Inc.	NGD	NGD US	Harmen Puri
	Nexa Resources	NEXA	NEXA US	Lawson Winder, CFA
	Royal Gold	RGLD	RGLD US	Lawson Winder, CFA
	SSR Mining Inc.	SSRM	SSRM US	Lawson Winder, CFA
	SSR Mining Inc.	YSSRM	SSRM CN	Lawson Winder, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

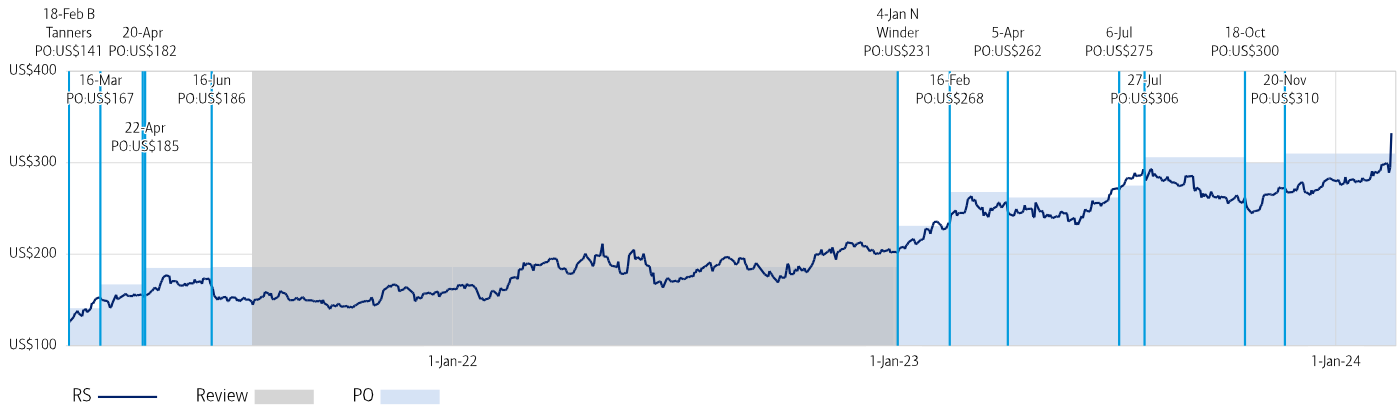
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Disclosures

Important Disclosures

Reliance Steel & AI (RS) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Steel Group (as of 31 Dec 2023)

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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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