

Reliance Steel & Aluminum

Q4'23 EPS beat on higher margin and LIFO income; Q1 guide slightly above consensus

Maintain Rating: NEUTRAL | PO: 310.00 USD | Price: 294.65 USD

Dividend raised 10%, rebrands name; Neutral on valuation

Reliance Steel & Aluminum Inc. (RS) reported Q4'23 EPS well above its guidance, and consensus. The beat vs. BofAe was mainly due to higher gross margin / LIFO income and lower taxes. Pricing and shipments were in-line. Free cash flow (FCF) generation was better than expected, driving strong buyback activity during the quarter. RS raised its quarterly dividend by 10% to \$1.10 per share (1.5% annual yield) and rebranded its name to Reliance Inc. to reflect its evolution to "more than metal". RS expects healthy demand trends to continue into Q1'24 and guided for EPS of \$5.30-5.50, slightly ahead of consensus. We like RS for its industry leading margin profile, ability to generate robust countercyclical cash flow and a strong balance sheet that allows it to pursue inorganic growth (M&A). However, we maintain our Neutral rating, on valuation, with the stock trading at 10.0x EV/NTM EBITDA vs. its historical average of 7.7x.

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 expects this 'healthy' level to continue into Q1'24. Semiconductor demand contracted due to excess inventory. However, the long-term outlook remains 'positive'. For Q1'24, RS guided for shipments to increase 9-11% QoQ (BofAe +9%), on typical seasonal patterns. Average realization is to also be up 1-3% QoQ (BofAe +3%), with pricing for many products stabilizing. Overall, RS guides for Q1'24 EPS of \$5.30-5.50, slightly above Bloomberg / Visible Alpha (VA) consensus at \$5.32/\$5.22 and modestly below BofAe of \$5.61.

Q4 EPS beat on higher margins/LIFO income, lower tax

RS reported Q4'23 adjusted EPS of \$4.73, above the guide of \$3.70-3.90 and Bloomberg / VA consensus at \$3.90/\$3.89, and BofAe at \$4.01. Total shipments decreased 4.7% QoQ, in-line to the guide (4-6% down) and BofAe, to 1,354k short tons (st). Realized pricing decreased 3.4% QoQ, slightly better than guide (4-6% down) to \$2,466/st (in-line BofAe) with lower prices for all major products. Gross profit margin decreased 88bps QoQ to 30.6%, above BofAe 29.4%. Excluding LIFO income of \$60 million (m) (vs. guide for \$35m), FIFO gross profit margin was 28.8% (above BofAe 28.4%). The \$25m higher LIFO income = \$0.35 EPS benefit. Tax rate was also lower at 18% vs BofAe 24%.

ND improves QoQ; 54% of net earnings returned in 2023

RS's net debt (ND) decreased 62% QoQ to \$62m, below BofAe at \$108m. Operating cash flow was \$526m, 10% above BofAe (on higher working capital release) and capex was \$6m lower at \$110m, resulting in FCF of \$415m vs. BofAe \$362m. RS repurchased 0.9m (\$240m) shares in Q4'23. Including dividends, RS has returned 110% and 54% of its net earnings in Q4'23 and 2023. In February 2024, RS acquired Cooksey (2023 sales = \$90m) and announced agreement to acquire American Alloy (2023 sales = \$310m).

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Stock Data

Price	294.65 USD
Price Objective	310.00 USD
Date Established	20-Nov-2023
Investment Opinion	B-2-7
52-Week Range	227.87 USD - 302.89 USD
Mkt Val (mn) / Shares Out (mn)	17,695 USD / 60.1
Free Float	99.3%
Average Daily Value (mn)	58.09 USD
BofA Ticker / Exchange	RS / NYS
Bloomberg / Reuters	RS US / RS.N
ROE (2023E)	17.6%
Net Dbt to Eqty (Dec-2022A)	6.7%
ESGMeter™	Medium

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QoQ = quarter-over-quarter

NTM = next twelve months

RS Q4'23 results

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

Q4'23 adjusted EPS beat BofAe on higher margin and LIFO income. Taxes were also lower. Shipments and realized pricing were in-line.

	Q4	Q4		Q3		Q4		Bloomberg		Visible	
(US\$mnn, except per share data)	2023A	2022A	YoY	2023A	QoQ	2023E	Var.	Cons.	Var.	Alpha	Var.
Net Sales	3,337	3,611	-8%	3,623	-8%	3,340	0%	3,306	1%	3,307	1%
EBITDA	388	516	-25%	450	-14%	378	3%	371	5%	371	5%
EBITDA margin	11.6%	14.3%	-267bp	12.4%	-80bp	11.3%	31bp	11.2%	40bp	11.2%	41bp
Adjusted EBITDA	329	417	-21%	405	-19%	343	-4%				
Adjusted EBITDA margin	9.8%	11.6%	-171bp	11.2%	-134bp	10.3%	-42bp				
Depreciation	63	61	2%	61	4%	61	3%	60	4%	63	0%
Adjusted Earnings	274	350	-22%	296	-7%	234	17%	228	20%	228	21%
Adjusted EPS	4.73	5.87	-19%	5.00	-6%	4.01	18%	3.90	21%	3.89	22%
Operating Cash Flow	526	809	-35%	466	13%	479	10%	626	-16%	492	7%
Capex	(110)	(92)	20%	(126)	-12%	(116)	-5%	(121)	-9%	(118)	-7%
Free Cash Flow	415	717	-42%	341	22%	362	15%	547	-24%	374	11%
Net Debt	62	474	-87%	165	-62%	108	-42%	(116)	nm	30	108%
Operating details											
Total shipments ('000 st)	1,354	1,291	5%	1,421	-5%	1,348	0%	1,346	1%	1,344	1%
Carbon steel	1,101	1,037	6%	1,151	-4%	1,094	1%	1,082	2%	1,084	2%
Aluminum	76	74	3%	78	-2%	73	5%	76	0%	75	2%
Stainless	66	69	-5%	70	-6%	65	0%	69	-6%	68	-4%
Average realized price (\$/st)	2,466	2,799	-12%	2,552	-3%	2,477	0%	2,459	0%	2,461	0%
Gross profit - LIFO (\$m)	1,022	1,130	-10%	1,077	-5%	982	4%	974	5%	970	5%
Adjustments	0	0	nm	0	nm	0	nm				
Adjusted gross profit - LIFO (\$m)	1,022	1,130	-10%	1,077	-5%	982	4%	974	5%	970	5%
Adjusted gross profit margin - LIFO (%)	30.6%	31.3%	-68bp	29.7%	88bp	29.4%	121bp	29.5%	114bp	29.3%	128bp
LIFO (income) / expense (\$m)	(60)	(99)	nm	(45)	nm	(35)	nm				
Adjusted gross profit - FIFO (\$m)	962	1,031	-7%	1,032	-7%	947	2%				
Adjusted gross profit margin - FIFO (%)	28.8%	28.6%	23bp	28.5%	34bp	28.4%	48bp				
Adjusted EBITDA (\$/st)	243	323	-25%	285	-15%	254	-5%				

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

BofA GLOBAL RESEARCH

Price objective basis & risk

Reliance Steel & Aluminum (RS)

Our \$310 per share price objective for Reliance Steel & Aluminum (RS) is based on 9.5x 2024E EV/EBITDA, 9.0x 2025E EV/EBITDA and 1.0x NAV, with each value equally weighted. The 9.5x 2024E EV/EBITDA target multiple is above its historical trading average of 7.4x 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 9.5x multiple is more in-line with traditional industrial distributors and higher than the sector average of 6.7x 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.

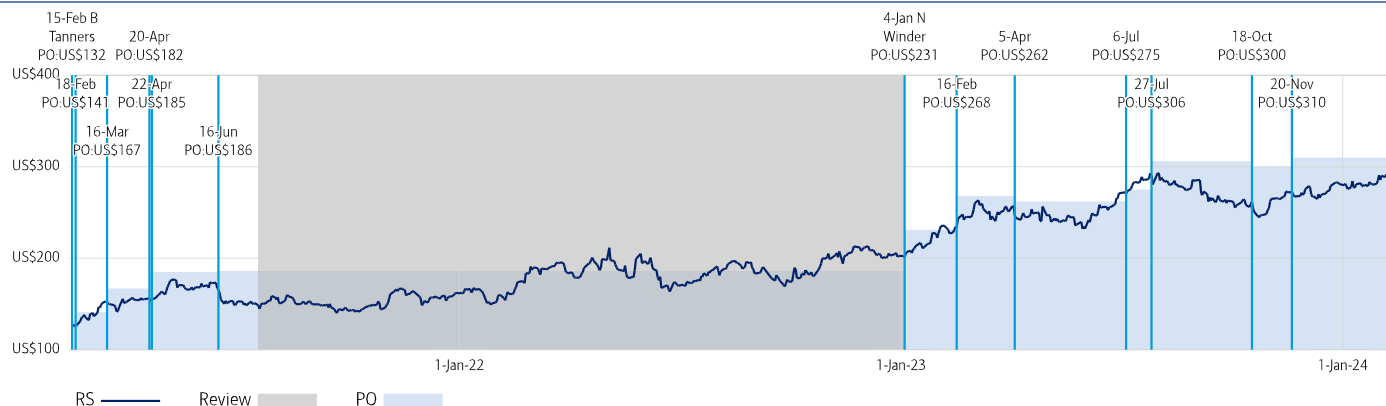
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Reliance Steel & Al (RS) Price Chart



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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%

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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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