

# **Steel Dynamics, Inc. (STLD) Q2 2024 Earnings Call Transcript**

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**Body**

Steel Dynamics, Inc. (STLD)

Q2 2024 Earnings Conference Call

July 18, 2024 11:00 AM ET

Company Participants

David Lipschitz - Director, IR

Mark Millett - Chairman & CEO

Theresa Wagler - EVP & CFO

Barry Schneider - President & COO

Conference Call Participants

Carlos De Alba - Morgan Stanley

Martin Englert - Seaport Research Partners

Tristan Gresser - BNP Paribas Exane

Timna Tanners - Wolfe Research

Katja Jancic - BMO

Andrew Keches - Barclays

Bill Peterson - JPMorgan

Alex Hacking - Citi Investment Research

John Tumazos - Very Independent Research

Chris LaFemina - Jefferies

Presentation

Operator

Good day and welcome to the Steel Dynamics Second Quarter 2024 Earnings Conference call. At this time, all participants are in a listen-only mode. After management's remarks, we will conduct a question-and-answer session and instructions will follow at that time. Please be advised this call is being recorded today, July 18, 2024, and your participation implies consent to our recording of this call. If you do not agree to these terms, please disconnect.

At this time, I'd like to turn the conference over to David Lipschitz, Director, Investor Relations. Please go ahead.

David Lipschitz

Thank you, Matt. Good morning and welcome to Steel Dynamics second quarter 2024 earnings conference call. As a reminder, today's call is being recorded and will be available on our website for replay later today.

Leading today's call are Mark Millett, Chairman and Chief Executive Officer of Steel Dynamics; Theresa Wagler, Executive Vice President and Chief Financial Officer; and Barry Schneider, President and Chief Operating Officer. The other members of our senior leadership team are joining us on the call individually.

Some of today's statements, which speak only as of this date maybe forward-looking and predictive, typically preceded by believe, expect, anticipate or words of similar meaning. They are intended to be protected by the Private Securities Litigation Reform Act of 1995, should actual results turn out differently. Such statements involve risks and uncertainties related to integrating or starting out new assets, the aluminum industry, the use of estimates and assumptions in connection with anticipated project returns and our steel metal recycling and fabrication businesses as well as to general business and economic conditions.

Example of these are described in the related press release as well as in our annually filed SEC Form 10-K under the heading Forward-Looking Statements and Risk Factors, found on the Internet at www.sec.gov , and if applicable, in any later SEC Form 10-Q. You also find any referenced non-GAAP financial measures reconciled to the most directly comparable GAAP measures in the press release issued yesterday entitled Steel Dynamics Reports Second Quarter 2024 Results.

Now, I'm pleased to turn the call over to Mark.

Mark Millett

Thank you, David. Good morning, everyone. Appreciate you being with us on our second quarter '24 earnings call. As you likely read, our teams achieved a solid second quarter financial and operational performance. I think most gratifying was achieving another great quarter for safety. Teams have been commissioning and ramping up four new value-added flat rolled steel coating lines at a record rapid pace, which is adding 1.1 million tons of higher margin product diversification. We're experiencing some challenges in the second quarter. The Sinton team continues to make progress, gaining full access to their melting capacity this past week. Steel shipments for the quarter with 3.2 million tons, revenues were $4.6 billion, adjusted EBITDA $686 million. Cash flow from operations was $383 million.

I remain incredibly proud of the Steel Dynamics' team. They are family. It's an honor and pleasure to be honest to be part of the team that looks out for one another and that strives for excellence each and every day. And that's why we're so focused on providing the very best for their health, their safety and their welfare. We're actively engaged in safety at all times and at every level, keeping it top of mind and an active conversation each and every day. That's significant impact the team continues to be deeply focused on our take controller safety program that is yielding an even better safety culture. But as I always say, there's more to do and we will not rest until we consistently achieve our goal of zero injuries.

So with that said, Theresa, would you like to add some color to the quarter?

Theresa Wagler

Thank you, Mark. Good morning everyone. Thanks for joining us and thanks to teams for another followed performance. Our second quarter 2024 net income was $428 million or $2.72 per diluted share with adjusted EBITDA of $686 million. Second quarter 2004 revenue of $4.6 billion was slightly below sequential first quarter results due to lower realized steel pricing. Our second quarter operating income of $559 million was 26% lower than first quarter results driven by steel metal spread contraction as pricing declined more than scrap raw material costs.

Our steel operations generated operating income of $442 million, 34% lower sequentially due to average realized pricing declining $63 to $1,138 per ton, while total shipments were generally steady. Uniquely, all of our steel mills, except for Roanoke had planned maintenance outages in the second quarter, which impacted utilization and related conversion costs for the quarter. Additionally, our Sinton, Texas flat rolled steel division operated close to 60% of capacity for the quarter compared to almost 70% in the first quarter due to required outages to implement needed changes, which Barry will describe in a moment.

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Operating income from our mills recycling operations was $32 million, significantly higher than sequential first quarter results despite lower realized pricing as volumes increase and the team continues to gain operating efficiencies. As many of you already know, we're the largest North American metals recycler processing and consuming ferrous scrap and non- ferrous aluminum, copper and other metals. The team continues to effectively lever the strength of our circular manufacturing model, benefiting both our steel and metals recycling operations and shortly also our aluminum flat rolled operations. Our steel fabrication team achieved strong operating income of $181 million in the second quarter, slightly higher than first quarter sequential results. Earnings were supported with an 11% increase in shipments more than compensating for a 5% reduction in realized pricing.

Our joists and deck backlog extends to the fourth quarter of 2024. Infrastructure Inflation Reduction Act, DOE, decarbonization support and manufacturing onshoring are expected to increase domestic fixed asset investment and in turn related flat and long product steel consumption and joists and deck in consumption later this year and in the coming years.

A reminder, as we construct the aluminum facilities, non-capitalizable expenses are required to flow through SG&A until startup, so you'll see increased costs in this line item until we start operations mid-2025. This amount was $19 million in the second quarter. Our supplemental schedule provides visibility as a separate aluminum segment. We estimate that average similar costs of approximately $25 million per quarter will occur through the first half of 2025. We have expectations to be EBITDA positive in the second half of 2025 for our aluminum investments with plans to initially ramp with industrial type products, as we qualify our can sheet and automotive products.

We expect to be operating the rolling mill at approximately 75% of its capability for the full year 2026 and full thereafter. Mark is going to provide more details related to our ramp and product mix expectations for aluminum investments later on the call, as well as our differentiated cost expectations. The construction of the aluminum rolling mill and the San Luis Potosi recycled slab center is going extremely well. We want to reaffirm the total project costs at $2.7 billion of which $1.5 billion has already been invested through June of 2024. For the remainder of 2024, we expect to invest another $900 million in the aluminum investments. And finally, in 2025, the remaining $250 million.

Our cash generation continues to be strong based on our differentiated circular business model and highly variable cost structure. During the second quarter of 2024, we generated cash flow from operations of $383 million. Inventories were moderately higher in the quarter as we increased product ahead of our new value-added flat roll coding lines.

Additionally, estimated tax payments were $273 million in the quarter, representing a 23% cash tax rate for the first half of the year. We ended the quarter with strong liquidity of $2.7 billion, comprised of cash and short-term investments of $1.5 billion and our fully available unsecured revolver of $1.2 billion for 2024. We believe total capital investments will be in the range of $2 billion of which we have already funded $793 million this year.

In February, we increased our quarterly cash dividend 8% to $0.46 per common share, continuing our positive dividend profile as through cycle cash flow grows. We also repurchased $607 million of our common stock in 2024, representing 3% of our outstanding shares. Our capital allocation strategy prioritizes high return strategic growth with shareholder distributions, comprised of a base positive dividend profile that's complimented with a variable share repurchase program. While we remain dedicated to preserving our investment grade credit designation.

Our free cash flow profile has fundamentally changed over the last five years from an annual average of $540 million to currently $2.9 billion, excluding our large strategic sentence in aluminum investments. In July, we successfully issued $600 million of 5.375% investment grade notes with 10-year tenure. The proceeds will be used for general purposes and anticipation of repaying our $400 million notes due December, 2024. We are very pleased with the transaction. We thank those who invested.

Lastly, sustainability is a significant part of our long-term value creation strategy. In that regard, we remain excited about our joint venture with Aymium, a leading producer of renewable biocarbon products. We believe our first joint venture facility, which we plan to start commissioning late in the fourth quarter to decrease our steel Scope 1 greenhouse gas emissions by as much as 35%. We uniquely have an actionable path towards carbon neutrality that is more manageable and we believe is considerably less expensive than may lay ahead for many of our industry peers. Our sustainability and carbon reduction strategy is an ongoing journey and we're moving forward with the intention to make a positive difference.

Finally, for those of you on the call that track categories of our flat rolled steel shipments, in the second quarter, we shipped hot-rolled and P&O of 1,004,000 tons, cold rolled products of 124,000 tons and coated products of 1,245,000 tons. Barry?

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Barry Schneider

Thank you, Theresa. Our steel fabrication operations performed well in the second quarter, achieving strong earnings and steady volume aligned with first quarter results. The market segments that we participate in influence the mix of joist deck that we engineer for each job. Our team's ability to engineer and manufacture the best solution for each segment remains a core strength. Our steel fabrication order backlog remains at a healthy level, not extending through the end of the year. We continue to have high expectations for the business, continued onshoring and manufacturing, continue with infrastructure spending and fixed asset investment related to the IRA programs should provide momentum for additional construction spending later this year and through 2025.

Our steel fabrication platform provides meaningful volume support for our steel operations, critical and softer demand environments allowing for higher through-cycle utilization compared to our peers, but also helps to mitigate the financial risk of lower steel prices. Our metals recycling operations improved earnings in the second quarter, as increased demand for North American steel producers supported higher ferrous scrap volume, more than compensating for the challenging price environment. We believe ferrous scrap prices have stabilized and should remain relatively stable through the rest of the year subject to seasonal moves. The North American geographic footprint of our metals recycling platform provides a strategic competitive advantage for our steel mills and for our scrap generating customers.

In particular, our Mexican recycling locations competitively advantaged our Columbus and Sinton raw material positions. They also strategically support increased procurement of aluminum scrap for our future flat rolled aluminum operations. Our metals recycling team is partnering even more closely with both our steel and aluminum teams to expand scrap separation capabilities through both process and technology solutions. This will help mitigate potential prime ferrous scrap supply issues in the future. It will also provide us with a significant advantage to materially increase the recycled content in our aluminum flat rolled products and increase our earnings potentials.

Field team had a solid quarter, achieving shipments of 3.2 million tons. During the second quarter of 2024, the domestic steel industry operated at an estimated production utilization rate of 78%, while our steel mills operated at a rate of 81%. We consistently operate at higher utilization rates due to our value added steel product diversification, our differentiated customer supply chain solutions in the support of our internal manufacturing businesses. The higher through cycle utilization of our steel mills is a key competitive advantage, supporting our strong and growing cash generation capability and best-in-class financial metrics.

Our realized steel pricing declined across product portfolios as prices weakened throughout second quarter. However, value-added flat rolled steel pricing spreads remained very resilient during the same time frame, supporting our earnings as we already are the largest producer of these products in North America. And we are growing with the new addition of four coating lines with 1.1 million tons of additional capacity.

Underlying demand remains steady, but customers remain hesitant to place orders due to the continuing decline of scrap prices throughout the quarter. Additionally, a surge in steel imports put pressure on the supply dynamics. However, order activity has increased over the last month, especially within the last several weeks, stabilizing our lead times, we believe this is the bottom ranch for pricing with positive moves in the future.

The Sinton steel team continues to make improvements in operating efficiency and consistency. We are planning for setting to see additional improvements in production and profitability as the team took two different four day outages during the second quarter to, among other things, resolved the transform limitations we have previously discussed. The outages were necessary to install the necessary additional safety circuits and restore our electrical capacity, which will now allow us to access 100% of our the melting capacity versus the previous 80%. Also, the additional two new value line -- coating lines that's in were successfully commissioned and have commenced operations with great success, improving the mill's value added product mix and improving the operating efficiency of the facility. The additional alliance will support increased volume and margins as we head through this year.

Regarding the steel market environment, North America automotive production estimates for 2024 recently revised was strong 16 million units, with continued growth expected in '25 and 2026. This forecast is based on demand resilience of stronger production results as supply chain constraints continue to dissipate. Automotive dealer inventories also continue to remain below historical norms despite the recent cyber disruptions. Non-residential construction remained stable with slowdowns across some building types due to hesitancy around higher interest rates.

Additionally, onshoring and infrastructure spending should provide further meaningful support to fixed asset investment and related construction oriented projects in the coming years. As for the energy market, the sole industry continues to grow and keep oil and gas activity steady. However, increasing OTCG and line pipe imports created a challenging second quarter environment for the domestic producers. Looking forward, we are optimistic regarding steel demand and pricing dynamics for 2024.

And with that, I'll turn it over to Mark.

Mark Millett

Well, thank you, Theresa. Thank you, Barry. I appreciate that. But looking toward continued growth, our consistently strong through cycle operating and financial performance continues to support our cash generation and growth investment strategies. The four value added flat rolled steel coating lines are increasing volume and have performed extremely well. These types of high return investments are key to our value added product and supply chain differentiation strategies.

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Regarding Sinton's progress, Barry will provide some more information but the team completed a key task this week. And as we look forward to the rest of the year, we have confidence in increased volume and profitability from them.

Aluminum growth strategy, I believe, is especially compelling. We're achieving fast paced progress on the construction of our aluminum flat rolled investments. There continues to be strong commercial support for a new and innovative supply chain solution from Steel Dynamics for the aluminum industry has become to consider a well-known and highly regarded metals producer today. Responses from existing and new customers across the markets still remain incredible.

As a quick overview of the project is a 650,000 metric ton aluminum flat rolled facility in Columbus, Mississippi. So the state-of-the-art plant and with an optimized target mix of 300,000 ton of can stock, as in tons of industrial and construction products. On-site melting and casting slab capacity to 600,000 metric tons and be supported by two satellite recycled aluminum slab casting centers located in UBC scrap ridge regions.

We expanded the product scope to include additional scrap processing and segregation technologies to maximize our aluminum recycled content. Start-up plans right now for the rolling mill to start up in mid-'25, the Mexico slab center in the first quarter '25 with the U.S. slab center coming in online in the second half of '25.

From an investment premise perspective, I think the market environment today in aluminum is similar to the domestic steel industry when we started SDI 30 years ago. It has older assets that has heavy legacy costs, the mills are somewhat inefficient and high-cost operations. As an industry that has difficulty -- or has had difficulty in earning cost of capital and hence, has little investment in facilities and new technologies over time.

Different though than the steel environment 30 years ago is that there's an absolute supply deficit which exists in the market in North America, and that deficit is likely to grow. It's aligned with our business, we can leverage our core competencies of our construction and operational know-how and we can drive performance through our culture, which in turn will drive high efficiency and low-cost operation. It also levers our Omni recycling footprint. Today, Omni is the largest North American aluminum scrap recycler and has developed some very unique and innovative separation technologies that can segregate the different aluminum supply streams coming to them. So very, very cost effective and a high-return growth opportunity for us.

The team plans to begin production of slabs in San Luis Potosi, Mexico, as I said in the first quarter '25 followed by the commission on the Roanoke mill mid-'25, and those are both on schedule for those days. In '25, we plan to begin production with a mix heavier weighted to industrial and construction product sectors, as we qualify our can sheet and automotive products. We believe volumes for the second half of 25% will be at 50% of capacity, growing to 75% in 2026. Through the first 24 months, we will continue to transition the product mix to more can sheet in automotive targeting the 45% can sheet, 30%-35% automotive in probably 2027. We have some key can and auto customers that are keen in helping us achieve the highest quality in a shorter time as possible. And I know our team is up to it.

The total project cost, including the recycled slab centers is $2.7 billion, and we are confident in the budget. Virtually all equipment and construction contracts are complete. And we also expect to add about $650 million to $700 million of through-cycle annual EBITDA plus an additional $40 million to $50 million for the Omni recycling platform, and we are confident in our operating cost assumptions. And some of you have asked us to try and quantify these areas of savings as we've outlined them in the past and help you differentiate our project to the rest of the industry.

The most significant savings are in four key areas: labor, recycled content, yield and logistics. The labor, which makes up, in our mind, about 35% of the differential, we will have a reduced workforce. We would anticipate somewhere around 750 people versus over 1,200 or more for a competitive plan today. That comes from an optimized plant layout and material flow. And we also have a central automated storage system. So when there will be no sort of human touch to the product from slab to truck, eliminating a massive amount of material handling and a huge number of folks, we drive productivity through our culture and our performance-based incentives. We obviously will not have the high legacy costs that some, again, existing competitors have today. And I would suggest that there should be no data that we can achieve these sorts of things, the productivity levels, et cetera, as we have done in steel over the years.

The second differential would be recycled content and that's probably 25% of the differential. I believe can do that through levering the OmniSource platform. Again, the largest non-ferrous recycler in North America today. We already have a secondary aluminum operation that we can also lean on. The satellite facilities will also help being close to UBC rich areas. Again, I think the innovative segregation technologies that we've developed actually in-house will also allow us to increase the recycled content compared to our competitors.

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The third area would be yield. And I think we're being a little conservative here, but that would be about 20% of the differential. Firstly, obviously, we're going to have just a brand-new state-of-the-art facility, which will help for sure. The sculpting technology is an innovative state-of-the-art, it doesn't just rely on just shaving off a half an inch or three quarters of an inch whatever of the slab. It measures the profile of the slab, measures the quality of the slab and we will only take off what is absolutely needed. We will also be utilizing through the mill sort of supersized coils. So the less front-end tails, et cetera, yield loss there. So I think we're comfortable with the substantial improvement in yield.

And then logistics are probably 10% of that. And again, locating the slab satellite lab centers next to or within UBC rich areas, allowing us to melt and cast that material and ship big, heavy, solid slab versus less dense UBC bales and then taking the yield loss there is a considerable freight advantage to that. We're excited, and I think that excitement is palpable within our company as our younger generations want to emulate our steel history and revolutionize the North American aluminum market.

More generally, we're impassioned by our current and future growth plans as they will continue to drive the high return growth momentum we've consistently demonstrated over the years. A disciplined, intentional organic and acquisition strategy focused on differentiated value added supply chain solutions is providing sustainable cash generation.

Near-term, the continued symptom ramp-up of four new coating lines, closely followed by our aluminum strategy will significantly increase that through cycle cash flow generation. And I'm excited looking forward. I believe that the market dynamics are in place to support long-term demand growth across all our operating platforms. As Theresa mentioned, North America will benefit from continued onshoring of manufacturing businesses and the U.S. will benefit from the allocation of public monies from the infrastructure program, Inflation Act and other public programs. Geodynamics is levered to benefit from those programs through increased steel joist and deck demand flat and long product steel demand and the associated higher demand for recycled scrap and aluminum. Furthermore, and I don't believe it should be understated, we were blessed with the best-in-class carbon footprint.

Our integrated peers, both domestic and global will be spending substantial CapEx to bring their carbon footprint down. Those that are including hydrogen-based DRI, but also incur additional operating expense of some $200 per ton. This will materially steepen the global cost curve and will support higher product pricing in the future. And we, SDI being at the bottom of the cost curve will effectively expand our long-term metal spread through the cycle.

In closing, our teams, as I've always said in our foundation, I thank each of them for their passion and their dedication, we are committed to them and remind them to listening today that safety for yourselves, your families and each other is the highest priority. Our culture and our business model continue to positively differentiate our performance leading to best-in-class financial metrics. And we are no longer a pure steel company, but an integrated metals business providing enhanced supply chain solutions to the industry. In turn, mitigating volatility and cash flow generation through all market cycles.

We are competitively positioned and continue to focus on providing superior value for our company, our customers, team members and shareholders alike. We look forward to creating new opportunities for all of us today and in the years ahead. That being said, Matt, would love to listen or here the questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question is coming from Carlos De Alba from Morgan Stanley.

Carlos De Alba

Just wanted to ask you, Mark, can you remind us what is the recycled content that you expect to have in the aluminum project and how that may evolve over time?

Mark Millett

Well, as it depends, to be honest, on the product from an over time, it will improve, obviously. Our target for the UBC is around about 90% to 95%. UBC raw material. But for the can sheet will be 90%, 95% with a certain aim of 95%. And I think that to some degree is reliant -- is achievable because of the segregation technologies that we've developed to get differentiate the 5,000 series from other products. The automotive would be lower than that. And I think our aim would be around about 70%.

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Carlos De Alba

So overall, it's probably going to be something closer to 80%, 85%?

Mark Millett

I've not done the math, but it had intuitively, that sounds right.

Operator

Your next question is coming from Martin Englert from Seaport Research Partners.

Martin Englert

For low copper shredded scrap, can you provide an update on the processing capacity within the internal network and any ongoing growth initiatives there and where you think that capability might be entering next year?

Mark Millett

I think the question was the low copper [shrimp]. Yes, we're continuing to expand that to all our shredding operations. As far as the absolute volume I would just say we -- in addition to the technologies to segregate the scrap, the fare scrap, get the copper residuals out requires quite a bit of know-how in the melt shop to fully utilize that. So we've been expanding that growth down to our Mississippi mill and also into Sinton.

So right now, we have a very healthy mix at our Columbus flat roll or Butler flat roll mill, where we have the requirements we need. So the investments that Omni's making takes that product even further down into the South where we can get better utilization at the other flat rolled mills. So we're very excited about the opportunity and also how to deploy it once it gets to the mills. That's -- as -- probably half of the problem is how to get it usefully into your mix in the mills. And we're making great progress on that as well.

Martin Englert

Are you putting the technology in at the shredding facilities or are you co-locating it at the mills?

Mark Millett

To this point, it's at the shredding facilities. And it is a series of equipment to pull the value streams out along the way. So not only does it reduce the copper in the actual scrap shred for setting to the mills, but it also allows us to obtain better recoveries in the other elements coming out of the scrap stream, the Zorba the Twitch and so forth. So at the facility is the best place to put those. And right now, that's where our focus -- our efforts have been focused.

Martin Englert

And no current estimates as to how much of your capability is for processing that today?

Mark Millett

I can't give you the actual number, but we're confident that we will be able to create a volume that matches our productivity of our sheet mills.

Operator

Your next question is coming from Tristan Gresser from BNP Paribas Exane.

Tristan Gresser

The first one is on Sinton. I think back in April, you mentioned that you had that maintenance and that the transformer issue kind of -- was about to be solved. But now it seems this issue lasted for longer, as you only mentioned that you only got full capability back last week. So if you can explain a little bit of what happened and why it took longer essentially? And also was Sinton EBITDA positive in Q2? And do you expect a significant step-up in profitability into Q3? Or is that going to be a much more gradual process given the market conditions?

Barry Schneider

On the outage front out in Sinton, the work we had to do take place in the high-voltage switchyard. So we bring in transmission voltage in Texas. We're the only facility in the state of Texas that actually brings in 345,000 volts. So in the early April outages, we put the concrete down it's necessary to support the equipment and made bus modifications. And as the equipment arrived, there's a protocol of both testing the equipment, pressurizing it, safely bringing it to a position where we're ready to turn it on. And during that process required us to they have the high voltage also shut off. So as we actually got the equipment fully on-site, fully installed and now turned on the equipment, there's a series of outage that comes along with that. And we kind of identified the kind of the key steps in the process.

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So we did have a slight delay with the hurricane situation in South Texas. And just out of prudence, we decided to make sure we weren't in the process of messing with our high-voltage system when we add hurricane winds. So we're in a much better place now. We're very comfortable that we've addressed the root cause. We put in some new safety gear that works in the electrical world, and that's as deep as I can go into it myself, I'm mechanical guy. But we're confident that we're positioned now to really fully utilize the power in the furnace. And the teams are practice-wise are up to speed. So we do see this as a big key step in getting even more productivity out of the plant.

Mark Millett

And if I could add and perhaps expand a whole further. And we took a little bit of a little below in an hour's report last night with our performance there at Sinton. But I think there needs to be a recognition that we're developing the next-generation technology down there. It is an absolutely phenomenal technology and it's what the world is going to be using going forward.

And the important things such as the product qualities that we wanted to achieve, the improved surface quality, the tougher higher-strength qualities produced through the moment mechanical rolling. But the productivity, the design capability from a productivity standpoint is totally proven. We can produce over 5,000 tons a shift down there. So the technology is absolutely there. All we have to do is simply increase the utilization of that facility.

Tristan Gresser

So I guess Sinton was not EBITDA positive in Q2. And that means there could be a significant step-up in profitability into Q3?

Theresa Wagler

Tristan, you're correct. So for the second quarter, we were basically breakeven from an EBITDA perspective. And so there's very high expectations for the second half of the year as it relates to Sinton.

Tristan Gresser

And maybe a quick follow-up on that -- on the supply outlook as you bring more volume from Sinton. I mean if we look at U.S. HRC prices is down 40% from peak and margin on a spot basis. They haven't been that low for a long period of time. So I guess, why do you think that the market can absorb a higher volume from Sinton? And have you contemplated it instead reducing production more capacity at this time. And lastly, in that type of environment where some of your peers are probably much more difficult conditions, have you been able to gain market share?

Barry Schneider

We're very confident that the products that we offer out of site, as Mark spoke, we had to get new technology to be able to respond to the customer base in that region. We're selling quite a bit of tons into Mexico. And a lot of these tons are heavier, higher strength steels where we find more value, and there are also products that the market needs in that region. So we've been welcomed across the different market segments with the abilities that we brought to the table there. So we do see the market being receptive to having a regional supplier. As you know, the import action in that area is particularly different. It's heightened versus the rest of the country. And so to have a local supply chain of high-value products is welcome right now for the customer base.

And when I say regional, that's Mexico, we're a few short hours truck right in the Monterrey. So we continue to see good response, good results down there. And we're being very judicious with our time. We know we will develop new products in the future. But right now, we have a very good offering. And with the new value lines, both painted and galvanized capability, we're able to really penetrate further into the markets where there wasn't local providers before. So we remain really bullish on what the capability in the market is to absorb high-value tons from a regional source.

Mark Millett

And to be honest, today, we can sell every time we can produce in Sinton, it's not a market restricted shipment number. And I think you also have to look at the incredible growth that will take place in demand growth that will take place in Mexico over the next few years. If you look at we -- and others talk about onshoring, reshoring, transhoring, however you want to look at it, the growth then in Mexico, you've got to be there to witness and experience is absolutely phenomenal. So the market is going to continue to grow as we anticipated back in, I think, '18 -- 2018, 2019, when we came up with the project in the first place.

Operator

Your next question is coming from Timna Tanners from Wolfe Research.

Timna Tanners

Wanted to just one quick follow-up on different take on Sinton. Trying to understand why it's still at 75% guided in your release into second half and not full out? And then also, is there an opportunity to boost exports given that Lazarus Carnis has been down for, I think, almost 1 month, 1.5 months? Or is there any issue with the trade protections against Mexico, does that change the dynamic any?

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Barry Schneider

We don't see the trade dynamics changing with Mexico in the short-term. There is an effort, of course, to stop the surge, and there's been recent activity in the 232. We anticipate that the products that we're currently moving into Mexico will continue to move that way. There is a shortage in the Mexican market because of other outages that are in Mexico. So we'll continue to take advantage of opportunities where it makes sense.

And as we look at the total capacity, we -- like most things, as a steel plant, it's not a light switch, we just turn on. So as we look towards growing through the second half of the year, we believe as we look at the second half, we're going to achieve those utilization rates.

Operator

Your next question is coming from Katja Jancic from BMO.

Katja Jancic

Maybe going back to the aluminum rolling mill for a bit. I think you mentioned that initially, the mix is going to be more tilted to industrial products. Can you talk a little bit -- is there a margin difference between industrial products, the can sheet and auto markets products?

MarkMillett

Yes. I guess the thinner margins tend to be in can sheet, if you were to stack them, again, because of the just the volume of that product. The industrial products, particularly if we were to put them through our paint lines are going to be as valuable as any of the outputs.

Operator

Your next question is coming from Andrew Keches from Barclays.

Andrew Keches

A question for Theresa. Look, you've refinanced the 2024 notes or maybe even some of the '25. You generally just seem to be in a pretty favorable balance sheet position right now that you've been upgraded by two of the agencies in the past year. You got another positive, you through a lot of the aluminum spending, leverage is still pretty low and you'll get the cash flow benefit from that probably by the end of '25 or '26, it sounds like. So I guess just taking a step back, can you just give us an update in terms of what the direction of the balance sheet is from here? Do you see the capacity to carry more leverage knowing how leverage has been relatively conservative at low pricing points? Or do you want to preserve some optionality for future opportunities? I guess that's a hidden second question on what the pipeline might look like for you.

Theresa Wagler

So yes, the balance sheet does have extra capacity for leverage. As you know, ahead of large projects, organic projects, specifically like Sinton at just under $2 billion and now the aluminum investments at $2.7 billion. We like to be a little more conservative with the balance sheet and build cash in advance of those investments so that we can make sure that we still have optionality for growth if there would be a downturn, because we like to have that optionality, you tend to get better value and better valuations and return in a weaker demand environment.

So there is room on the balance sheet. And that's why we've been able to actually stay consistent and grow the shareholder distributions during these high-growth period, which is very important to us and we think is very beneficial to the shareholders as well. So we -- you will likely see us continue -- well, you will see us continue with our strong shareholder distributions. There are other opportunities for growth. There are some organic opportunities that the teams are talking about, they're not nearly at the size or scope of aluminum at Sinton, but they are absolutely beneficial differentiating high return, et cetera.

In addition to that, we do believe that there could be some optionality in transactions. We're very particular. We're very disciplined as it relates to acquisitions, ensuring that there is an appropriate valuation and return for Steel Dynamics. So you do see us being more disciplined than some others in the industry. But that being said, we think that there will be some opportunities along those lines as well. So I would just say more of the same, yet at the same time, we understand that the balance sheet is there to use.

Operator

Your next question is coming from Bill Peterson from JPMorgan.

Bill Peterson

I guess the question is, when do you expect to lock in long-term contracts for the rolling mill maybe across the markets as well as can you update us on your latest thoughts in terms of the qualification time line for packaging and automotive, those markets? How long it will take to kind of just qualify in those markets?

Mark Millett

As we say, I said earlier, the initial material for qualification of the can sheet and auto will start in '25. As you can recognize, the consumer base is not necessarily going to dedicate long, long, long contracts at that moment in time. But come to the end of '26 would expect the longer-term contracts, which in those markets are three, four years duration would be in '26.

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Theresa Wagler

I would just add to that, that we have -- there's a very extensive both demand draw and plan in place for 2025 and 2026 purposely with a numerous number of customers that have already indicated volumes that they would have available to us, for all of the industrial for the automotive and for the can sheet. So it's a very robust commercial dialogue that we're having, and we feel very confident in having the ability to market those materials in the interim.

Operator

Your next question is coming from Alex Hacking from Citi Investment Research.

Alex Hacking

Just a clarification on the aluminum mill. When you talk about 50% utilization in '25 and 75% in '26, is that the average or that's the exit rate?

Theresa Wagler

No. For the 2026, Alex, that's not the exit rate. That's for the full year. The exit rate would be close to full capacity in 2026.

Operator

Your next question is coming from John Tumazos from Very Independent Research.

John Tumazos

Concerning the total steel market, last year, indirect steel imports rose another 3 million tons. And in April and May, total steel imports, including slabs were 30% share. I didn't get it right. I thought with all the new beautiful, new electric furnace steel capacity coming online, domestic shipments would rise and imports would fall. Do you think there's a customer preference for blast furnace metal? Or do you think domestic pricing in hindsight was just too aggressive, too high. It amazes me when the customers want the foreign steel because the delivery window isn't precise, and they have to carry much more inventory and have much more steel price risk, et cetera.

Mark Millett

Well, I think, John, as we see the imports, I think generally for the year, year-to-date are up like 10% or thereabouts and that the licenses are mitigating a little. The propensity is in coated products. They were up minus 60% year-to-date. And obviously, the spread, the hot band, the coated spread is still above $200 or thereabouts and our dear foreign friends have taken advantage of that to some degree.

Operator

Your next question is coming from Carlos De Alba from Morgan Stanley.

Carlos De Alba

I just want to see if you can comment on the pricing for the backlog in the fabrication business. If I heard correctly, the backlog extends into the fourth quarter. Any color that you can offer on the pricing for that material?

Theresa Wagler

Carlos, we can't be specific about that. I would tell you that from a historical basis, it's very strong on a go-forward basis, and there has been stabilization in pricing and specifically around the joist products and the decking products as well. So that's all the color we can give you. I apologize.

Operator

Your next question is coming from Chris LaFemina from Jefferies.

Christ LaFemina

Most of my questions have been asked, but I just had one on the cash flow in the second quarter and in particular, on the working capital build, how should we think about the reversal of that through the second half of the year? And what portion of that working capital build is a function of the aluminum mill and still ramping up? Is some of that going to kind of linger into 2025 and 2026?

Theresa Wagler

None of it related to really the aluminum mill at this point in time because we're still constructing and as it relates to the San Luis Potosi slab center they're just getting ready to kind of start maybe building some scrap reserves in anticipation of slab production in the first quarter of 2025.

As it relates to the build, there has -- there was a structural increase in inventories related to the four value added lines as we were putting substrate in front of those lines in anticipation of ramping them up during this period of time. And so there will still be some increase as Sinton ramps up the second half of the year structurally, but there is also availability of inventory reduction at the long product steel mills and some of the other areas. So I would expect to see working capital not be a significant draw in the second half of the year, but rather potentially be either not neutral or a funding source. The biggest part of the moving cash flow was really our estimated tax payments in the quarter.

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Operator

Your next question is coming from Timna Tanners from Wolfe Research.

Timna Tanners

I was also asking about cash flow. If we think about the $1.2 billion remaining CapEx in the second half, the $400 million debt pay down, I'm just trying to think about if you want to keep the buyback steady as you have over the last several quarters? Or if there's any shifts that you might make to your capital allocation policy given those big uses of cash?

Theresa Wagler

We're very comfortable with our cash flow generation capability at this point in time, given what we can see, there's no expectation of changing our capital allocation policy for the remainder of the year.

Operator

Your next question is coming from Alex Hacking from Citi Investment Research.

Alex Hacking

I'm just curious in your perspective or are you concerned about some of the rhetoric around Mexico and the steel trade with Mexico. The U.S. is a net export for flat steel to Mexico, right? Sinton is targeting Mexico for off take. Are you concerned that some of the rhetoric that's sprung up recently could lead to more tariffs, retaliatory tariffs. And is that a potential risk that you're considering? Or how do you think about that?

Mark Millett

Well, I guess from my perspective, there's certainly some noise and perhaps short-term aggravations going back and forth. But longer term, as I said earlier, the growth -- the steel demand growth within Mexico is going to continue to be considerable. They're going to continue to be still short. They're going to need our products. In particular, they're going to need our coated and downstream products, perhaps more -- a little more so than hot band. But they're going to be still short and in the big picture, I don't see a material problem now.

Operator

Thank you. That concludes our question-and-answer session. I'd like to turn the call back to Mr. Millett for any closing remarks.

Mark Millett

Well, again, thank you, everyone. I just want to close and saying, I think SDI, it's an incredible company doing incredible things. We couldn't do it without our inspirational teams and their families. We can't do it without the support of our loyal customers. We will continue to work with you to create innovative value creating opportunities for you, both of things you need today and what you may not even know you need tomorrow. And again, we need the support of our service providers that you folks are integral with everything we do. And for those that are shareholders, thank you for your faith in us. We treat your investment as our own, and we will continue to grow our company wisely. Thank you. Have a great day. Be safe.

Operator

Once again, ladies and gentlemen, that concludes today's call. Thank you for your participation and have a great and safe day.

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