

Reliance Steel(RS)

\$88.85 (As of 05/08/20)

Price Target (6-12 Months): **\$79.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: C

Summary

Reliance Steel's earnings for the first quarter of 2020 surpassed the Zacks Consensus Estimate, while sales missed. The company faces headwind from a weak metal pricing environment. It expects overall metal pricing to further fall from the current levels. Lower year over year prices are likely to put downward pressure on selling prices of Reliance Steel and crimp its margins in the second quarter of 2020. The company is also seeing weakness across certain end-use markets including energy and heavy industry. Soft drilling and completion activities are hurting demand in the energy space. The company is also seeing weakness across aerospace and automotive markets. Softness across these markets are likely to persist in the near term. Shutdowns due to coronavirus are also likely to affect volumes in the second quarter.

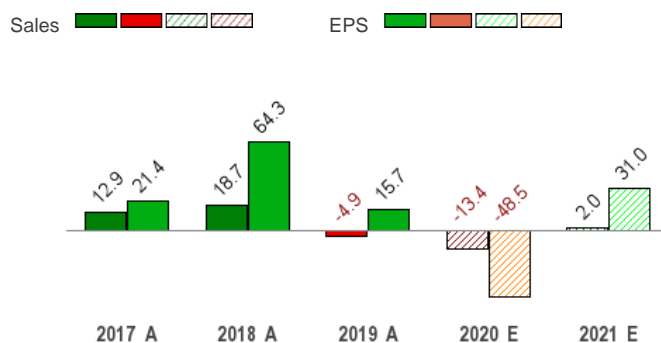
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$122.17 - \$70.57
20 Day Average Volume (sh)	446,932
Market Cap	\$5.9 B
YTD Price Change	-22.5%
Beta	1.11
Dividend / Div Yld	\$2.50 / 2.7%
Industry	Metal Products - Distribution
Zacks Industry Rank	Bottom 29% (180 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	-19.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	9.3
P/E F1	16.7
PEG F1	1.9
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,440 E	2,440 E	2,452 E	2,343 E	9,695 E
2020	2,573 A	2,241 E	2,345 E	2,312 E	9,501 E
2019	2,957 A	2,884 A	2,686 A	2,448 A	10,974 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.95 E	\$1.94 E	\$1.96 E	\$1.88 E	\$6.98 E
2020	\$2.45 A	\$0.43 E	\$1.30 E	\$1.42 E	\$5.33 E
2019	\$2.80 A	\$2.71 A	\$2.39 A	\$2.44 A	\$10.34 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

Overview

Los Angeles, CA-based Reliance Steel & Aluminum Co. is a leading metals service center company engaged in value-added materials management and metals processing services. It also distributes over 100,000 metal products to more than 125,000 customers across a vast spectrum of industries. Reliance Steel is the biggest North American metals service center company based on revenues with more than 300 locations.

Reliance Steel recorded net sales of \$10,973.8 million in 2019. Its major products are carbon steel (53% of 2019 sales), aluminum (20%), stainless steel (14%) and alloy (6%).

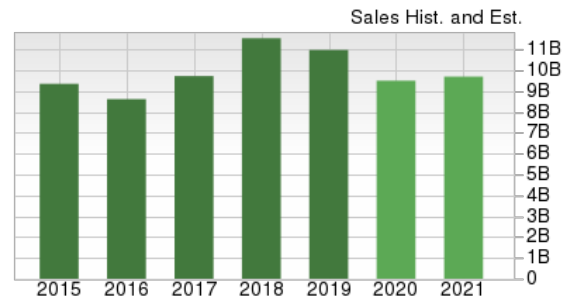
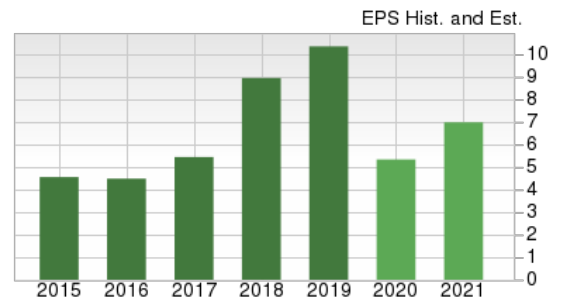
Reliance has 200 processing and distribution centers spread across 39 states in the United States and in foreign countries such as Belgium, Canada, China, Malaysia, Mexico, Singapore, South Korea and the United Kingdom. Although the company has a diverse geographic presence, the southeastern region of the United States generates majority of its sales.

Reliance Steel provides metals processing services such as cutting-to-length, blanking, slitting, burning, plasma burning, and precision plate sawing, sawing, and shearing, among others, all to customer specifications. These services save time and labor and reduce overall manufacturing costs for the customer.

The company improves its operating results through strategic acquisitions and the expansion of its existing operations. It has made 59 acquisitions since its 1994 IPO. These include DuBose and All Metals.

The company, in March 2018, completed its purchase of all of the issued and outstanding capital stock of DuBose National Energy Services, Inc. (DuBose Energy) and its affiliate, DuBose National Energy Fasteners & Machined Parts, Inc. (DuBose Fasteners) for an undisclosed price. DuBose Energy and DuBose Fasteners specialize in fabrication, supply and distribution of metal and metal products to the nuclear industry including utilities, component manufacturers and contractors.

Moreover, Reliance Steel, in November 2018, completed the purchase of all of the membership interests of All Metals Holding, LLC, including its operating subsidiaries, All Metals Processing & Logistics, Inc. ("AMPL") and All Metals Transportation and Logistics, Inc. ("AMTL"). AMPL specializes in toll processing for automotive, construction, appliance and other diverse-end markets.



Reasons To Sell:

- ▼ Reliance Steel faces pressure on metal pricing. It is seeing pricing pressure as witnessed in the last reported quarter due to the coronavirus pandemic. Average prices per ton sold fell 11% year over year in the last reported quarter. The company expects overall metals pricing to further fall from current levels. As such, lower year over year prices will likely put downward pressure on selling prices of Reliance Steel and crimp its margins in 2020. The company do not intend to offer any guidance related to metal pricing for the second quarter of 2020 due to macroeconomic uncertainties.
- ▼ While there has been a recovery in demand in the non-residential construction market (Reliance Steel's biggest end-market) of late, demand levels remain significantly below the peak level achieved in 2006. Reliance Steel is also seeing weaker demand in the energy space due to sluggish activities amid slumping crude oil prices. It expects reduced activity in this market in 2020. Soft drilling and completion activity are hurting demand in the energy market. Notably, the company has permanently closed three of its businesses, supporting the energy end market. Also, Reliance Steel recognized impairment and restructuring charges of \$137.5 million from the energy business in the first quarter of 2020. A material improvement in demand is also not expected in Reliance Steel's heavy industry end-markets (including railcar, truck trailer, tank manufacturing, wind & transmission towers and shipbuilding) in the near term. Demand in heavy industry (both construction equipment and agriculture) was steady during the last reported quarter. Reliance Steel expects activity to decline in the near term.
- ▼ The company is seeing weakness across aerospace and automotive markets. Aerospace demand was relatively steady in the last reported quarter. Notably, aerospace tons fell 3.2% year over year in the first quarter of 2020. Moving ahead, the company anticipates commercial aerospace activities to decline in the second quarter due to the coronavirus outbreak. Weak demand has also been witnessed in the automotive market. The sudden closure of many automotive OEMs as well as steel and aluminum mills in mid-March on account of the pandemic has considerably reduced demand.
- ▼ Reliance Steel faces some headwinds from the coronavirus outbreak in China. The company saw additional downtime due to the extension of the Chinese New Year holidays. Shutdowns associated with coronavirus and fewer days due to the extended holidays have impacted the company's volumes in the first quarter of 2020, leading to a year-over-year decline in sales volumes. Notably, the impacts of the coronavirus pandemic are also expected to hurt the company's volumes in the second quarter of 2020.

Reliance Steel faces headwinds from lower metal prices. It is also seeing weakness across energy and heavy industry markets. Shutdowns due to coronavirus are also likely to affect its volumes.

Risks

- Reliance Steel's core business strategy is to enhance operating results by strategic acquisitions. With the acquisition of Metals USA, it added about 48 service centers, which are strategically located throughout the United States. The buyout of Tubular Steel also boosts the company's long-term growth strategy and strength by expanding its product portfolio and end market diversification. The acquisition of Best Manufacturing also highly complements the company's existing service center network with its specialty high margin products, value-added processing capabilities and strong focus on customer service. The Ferguson acquisition also diversifies its product portfolio. The buyout of All Metals also further strengthens the company's toll processing and logistics services businesses. The acquisition of Fry Steel Company supports its customer and product diversification strategy. Moreover, the buyout is in sync with the company's strategy of investing in high quality and high margin businesses.
 - Reliance Steel remains committed to offer incremental returns to its shareholders. In the last reported quarter, it repurchased roughly 3.3 million shares of its common stock for \$300 million. Its board, on Apr 21, 2020, declared a quarterly cash dividend of 62.5 cents per share. Notably, this marks the 61th consecutive year of quarterly dividend payment. The company generated cash flow from operations of \$170.8 million in the last reported quarter. Reliance Steel has sufficient liquidity and cash flows to support dividend payouts and share buybacks moving ahead.
 - The company's efforts to reduce its debt levels appear encouraging. At the end of the first quarter of 2020, its long-term debt was \$1,772.3 million, down from \$2,122.2 million in the year-ago quarter. Its current debt was \$65 million as of Mar 31, 2020. With a cash balance of \$172.1 million at the end of the most recent quarter, the company has ample liquidity to meet its short-term debt obligations.
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Last Earnings Report

Reliance Steel's Q1 Earnings Beat, Sales Lag Estimates

Reliance Steel posted profits of \$61.7 million or 92 cents per share in the first quarter of 2020, down from \$190.1 million or \$2.80 in the year-ago quarter.

Barring one-time items, adjusted earnings per share (EPS) came in at \$2.45 that beat the Zacks Consensus Estimate of \$2.10.

Reliance Steel recorded net sales of \$2,572.9 million, down around 13% year over year. The figure missed the Zacks Consensus Estimate of \$2,653 million.

Volumes and Pricing

Shipments rose 6.8% sequentially owing to a relatively healthy demand environment. Moreover, demand in non-residential construction was solid during the first quarter with ongoing strength in shipment volumes of tubing and carbon steel structural products.

Average prices per ton sold in the first quarter fell 11% year over year to \$1,742. Prices also declined 1.2% on a sequential-comparison basis.

Financials

Reliance Steel ended the first quarter with cash and cash equivalents of \$172.1 million, up 28.4% year over year. Long-term debt was \$1,772.3 million, down 21.5% year over year.

The company generated cash flow from operations of \$170.8 million, up 45.7% year over year.

The company repurchased \$300 million of its common stock or 3.3 million shares in the first quarter. As of Mar 31, it had around 3.1 million shares available for repurchase under the stock repurchase program. The company's board declared a quarterly cash dividend of 62.5 cents per share on Apr 21, which is payable on Jun 12 to stockholders of record as of May 29.

Outlook

Reliance Steel did not provide any projections for the second quarter due to macroeconomic uncertainty stemming from the coronavirus pandemic. Per the company, future demand trends, metal pricing and conditions in the end markets that it serves could not be predicted at present.

However, the company believes that demand trends may recover once construction activities increase after coronavirus-related restrictions are lifted. The sudden closure of many automotive OEMs as well as steel and aluminum mills in mid-March has considerably reduced demand. This resulted in cutting production at the company's toll processing operations in the United States and Mexico. Further, the duration of closures is uncertain at present. Notably, Reliance Steel believes that it is well positioned to support higher production levels when the automotive market recovers.

Quarter Ending 03/2020

Report Date	Apr 23, 2020
Sales Surprise	-3.02%
EPS Surprise	16.67%
Quarterly EPS	2.45
Annual EPS (TTM)	9.99

Valuation

Reliance Steel's shares are down 22.5% in the year-to-date period and up 6.7% over the trailing 12-month period. Stocks in the Zacks Metal Products – Distribution industry and Zacks Basic Materials sector are down 50.3% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21% and 8.3%, respectively.

The S&P 500 index is down 9% in the year-to-date period and up 4% in the past year.

The stock is currently trading at 6.68X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 5.72X for the Zacks sub-industry, 9.67X for the Zacks sector and 10.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.1X and as low as 5.19X, with a 5-year median of 8.51X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$79 price target reflects 13.34X forward 12-month earnings per share.

The table below shows summary valuation data for RS:

Valuation Multiples - RS					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.68	5.72	9.67	10.64
	5-Year High	13.1	13.48	18.01	12.86
	5-Year Low	5.19	3.29	6.53	8.28
	5-Year Median	8.51	6.75	10.85	10.77
P/E F12M	Current	15.69	33.43	15.62	21.15
	5-Year High	18.73	33.43	21.06	21.15
	5-Year Low	7.26	8.48	9.79	15.19
	5-Year Median	12.48	12.65	13.49	17.45
P/B TTM	Current	1.21	0.94	1.77	3.85
	5-Year High	1.59	2.73	3.57	4.55
	5-Year Low	0.91	0.79	1.22	2.84
	5-Year Median	1.27	1.35	2.17	3.64

As of 05/08/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Alcoa Corp (AA)	Neutral	3
Allegheny Technologies Incorporated (ATI)	Neutral	3
Constellium SE (CSTM)	Neutral	4
Haynes International Inc (HAYN)	Neutral	3
Lawson Products Inc (LAWS)	Neutral	3
MitsuiCo (MITSY)	Neutral	4
Olympic Steel Inc (ZEUS)	Neutral	4
Worthington Industries Inc (WOR)	Underperform	4

Industry Comparison Industry: Metal Products - Distribution				Industry Peers		
	RS	X Industry	S&P 500	AA	CSTM	LAWS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	A	-	-	D	-	D
Market Cap	5.91 B	1.25 B	20.19 B	1.50 B	NA	309.83 M
# of Analysts	5	3	14	6	1	1
Dividend Yield	2.69%	0.00%	2.12%	0.00%	%	0.00%
Value Score	C	-	-	C	D	C
Cash/Price	0.03	0.08	0.06	0.58	NA	0.02
EV/EBITDA	6.21	6.23	11.95	6.24	NA	20.02
PEG Ratio	1.90	1.36	2.60	NA	NA	0.77
Price/Book (P/B)	1.21	0.91	2.75	0.26	NA	2.65
Price/Cash Flow (P/CF)	6.72	5.74	10.78	2.83	NA	21.40
P/E (F1)	17.09	13.51	19.85	NA	NA	13.51
Price/Sales (P/S)	0.56	0.49	2.03	0.15	NA	0.84
Earnings Yield	5.74%	6.57%	4.83%	-13.38%	NA%	7.40%
Debt/Equity	0.39	0.24	0.75	0.31	-17.91	0.16
Cash Flow (\$/share)	13.82	2.85	7.01	2.85	2.58	1.61
Growth Score	A	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	23.26%	31.09%	10.87%	NA	34.19%	117.31%
Proj. EPS Growth (F1/F0)	-48.45%	-12.24%	-9.87%	-9.26%	-78.72%	9.44%
Curr. Cash Flow Growth	6.75%	3.76%	5.88%	-62.43%	6.98%	0.78%
Hist. Cash Flow Growth (3-5 yrs)	9.18%	9.18%	8.55%	-2.71%	30.49%	37.37%
Current Ratio	4.20	1.52	1.24	1.50	1.04	2.99
Debt/Capital	28.18%	23.66%	44.23%	23.66%	NA	13.86%
Net Margin	5.41%	4.21%	10.68%	-8.38%	0.11%	4.21%
Return on Equity	13.43%	8.64%	16.36%	-2.93%	-51.51%	12.71%
Sales/Assets	1.30	1.30	0.55	0.69	1.34	1.81
Proj. Sales Growth (F1/F0)	-13.42%	-11.97%	-2.26%	-15.48%	-21.31%	-11.97%
Momentum Score	C	-	-	D	-	C
Daily Price Chg	4.52%	4.52%	2.40%	7.74%	NA%	4.36%
1 Week Price Chg	0.72%	7.55%	0.53%	7.55%	NA%	11.23%
4 Week Price Chg	3.37%	5.89%	2.68%	8.91%	NA%	8.20%
12 Week Price Chg	-20.20%	-18.39%	-19.20%	-48.76%	NA	-28.92%
52 Week Price Chg	2.88%	1.32%	-8.44%	-67.47%	NA	2.99%
20 Day Average Volume	446,932	182,891	2,398,409	9,357,922	0	19,610
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-85.82%	50.00%
(F1) EPS Est 4 week change	-19.41%	-3.65%	-6.95%	-1.25%	-90.51%	32.47%
(F1) EPS Est 12 week change	-38.79%	-64.96%	-15.68%	-415.08%	-91.13%	24.09%
(Q1) EPS Est Mthly Chg	-76.52%	-54.51%	-13.12%	-11.11%	-139.42%	-32.50%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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