

Reliance Steel(RS)

\$95.48 (As of 03/11/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Reliance Steel saw higher profits in the fourth quarter. Earnings for the quarter topped the Zacks Consensus Estimate while sales missed expectations. The company is expected to gain from strong demand for its products across aerospace and automotive markets. Reliance Steel is seeing healthy demand for its processing services in the automotive market. It is also expected to benefit from strategic acquisitions, diversified product base and expansion of geographic footprint. Moreover, it is committed to boost shareholders' returns. The company has also outperformed the industry in the past year. However, softer metal prices may hurt the company's margins. Weakness across certain end-use markets including energy is also likely to persist in the near term. Shutdowns due to coronavirus are also likely to affect volumes in the first quarter.

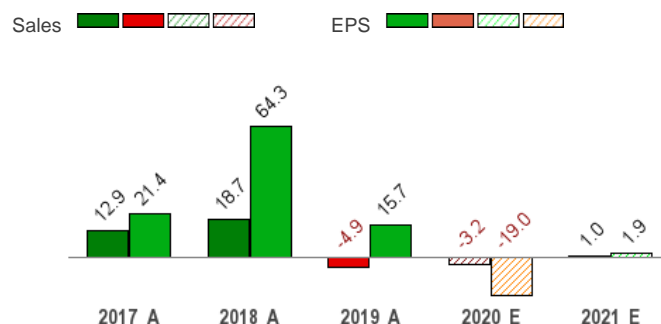
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$122.17 - \$80.10
20 Day Average Volume (sh)	646,733
Market Cap	\$6.4 B
YTD Price Change	-20.3%
Beta	1.28
Dividend / Div Yld	\$2.50 / 2.3%
Industry	Metal Products - Distribution
Zacks Industry Rank	Bottom 29% (180 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	42.7%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-3.8%
Expected Report Date	04/23/2020
Earnings ESP	-2.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,736 E	2,785 E	2,750 E	2,638 E	10,733 E
2020	2,655 E	2,720 E	2,680 E	2,546 E	10,627 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	\$2.25 E	\$2.31 E	\$2.27 E	\$2.19 E	\$8.54 E
2020	\$2.16 E	\$2.27 E	\$2.21 E	\$1.86 E	\$8.38 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.

P/E TTM	9.2
P/E F1	11.4
PEG F1	1.3
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/11/2020. The reports text is as of 03/12/2020.

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%).

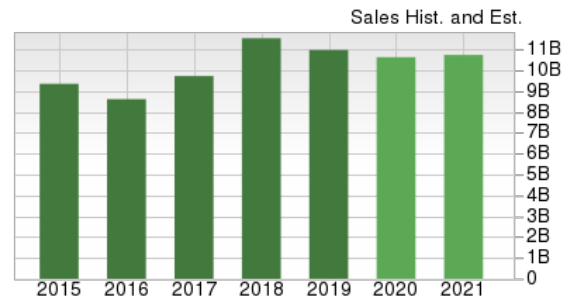
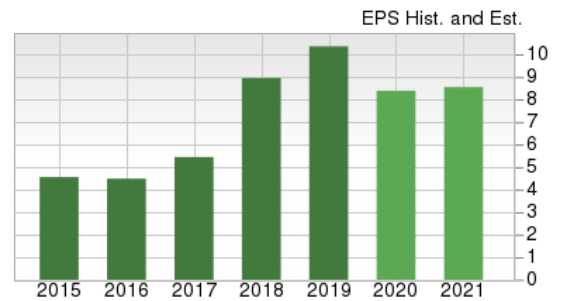
Reliance has 200 processing and distribution centers spread across 39 states in the United States and in foreign countries such as Belgium, Canada, China, Malaysia, Mexico, Singapore, South Korea and the United Kingdom. Although the company has a diverse geographic presence, the southeastern region of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

▲ Reliance Steel's shares have gained 7.8% in the past year, outperforming the industry's rise of 1%. 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.

Reliance Steel should gain from the strong momentum across aerospace and automotive markets. It should also benefit from acquisitions, broad and diversified product base and wide geographic footprint.

▲ The company is seeing continued momentum across aerospace and automotive markets. Aerospace remains a strong market as manifested by solid demand. Demand in this market is expected to be supported by higher commercial aerospace build rates and higher activities from defense customers. The company remains committed to boost its market share in aerospace. Strong demand is also witnessed in the automotive market, backed by increased use of aluminum in the industry. The company is seeing healthy demand for its processing services in this market. To support the demand, the company opened a second line to process aluminum at the Michigan facility and a new facility in Kentucky for aluminum as well as steel processing.

▲ Reliance Steel remains committed to offer incremental returns to its shareholders. The company returned \$201.3 million to its shareholders in 2019 in the form of dividends and share repurchases. Its board, on Feb 18, 2020, declared a quarterly cash dividend of 62.5 cents per share, an increase of 13.6%. The company generated record cash flow from operations of \$1.3 billion in 2019. Reliance Steel has sufficient liquidity and cash flows to support dividend payouts and share buybacks moving ahead.

Reasons To Sell:

- ▼ Reliance Steel faces pressure on metal pricing. It is seeing pricing pressure for certain carbon steel products, as witnessed in the last reported quarter and in 2019. Average prices per ton sold fell around 10% year over year in the last reported quarter. The company is also seeing lower pricing in stainless steel flat products. The company expects overall metals pricing to remain near 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 the first quarter of 2020.
- ▼ 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. 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 stay flat in the near term. Reliance Steel is also seeing weaker demand in the energy space due to sluggish activities and expects reduced activity in this market in 2020. Soft drilling and completion activity are hurting demand in the energy market.
- ▼ 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 are likely to impact the company's volumes in the first quarter of 2020, leading to a year-over-year decline in sales volumes.

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

Last Earnings Report

Reliance Steel's Q4 Earnings Top Estimates, Sales Lag

Reliance Steel posted profits of \$165.6 million or \$2.44 per share in the fourth quarter of 2019, up around 94% from \$85.6 million or \$1.22 in the year-ago quarter. Earnings per share topped the Zacks Consensus Estimate of \$1.71.

Reliance Steel recorded net sales of \$2,447.8 million, down around 13% year over year, impacted by lower volumes and pricing. The figure missed the Zacks Consensus Estimate of \$2,471.9 million.

The company witnessed continued strong demand for its products and services in aerospace and automotive markets during the fourth quarter. Demand in non-residential construction, the company's biggest end-market, was also strong in the quarter.

While demand in heavy industry was steady, Reliance Steel saw low demand in the energy market in the fourth quarter. Demand in semiconductor improved during the reported quarter after weakness in the first three quarters of 2019.

Volumes and Pricing

Overall sales volume went down around 4% year over year to roughly 1.38 million tons in the reported quarter. Volumes also declined around 7% on a sequential-comparison basis. Shipments fell sequentially due to normal seasonal slowdown resulting from customer holiday-related shutdowns and fewer shipping days.

Average prices per ton sold for the quarter fell roughly 10% year over year to \$1,763. Prices also declined around 2% on a sequential-comparison basis.

Full-Year Results

Earnings for 2019 were \$10.34 per share, down from \$8.75 per share a year ago.

Revenues were \$10,973.8 million for the full year, down around 5% year over year.

Financials

Reliance Steel ended 2019 with cash and cash equivalents of \$174.3 million, up roughly 36% year over year. Long-term debt was \$1,523.6 million, down around 29% year over year.

For 2019, cash flow from operations was \$1,301.5 million, up roughly 96% from \$664.6 million a year ago.

Outlook

The company is optimistic about business conditions in the first quarter of 2020. It expects demand to stay relatively healthy in the quarter.

Reliance Steel projects total tons sold to be sequentially up 6%-8% in the first quarter. Overall metals pricing is expected to remain near current levels, which is likely to result in its average selling price per ton sold rising 1%-2% sequentially.

On the basis of these expectations, the company currently projects adjusted earnings in the range of \$2.00-\$2.10 per share for the first quarter.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-0.97%
EPS Surprise	42.69%
Quarterly EPS	2.44
Annual EPS (TTM)	10.34

Recent News

Reliance Steel Launches E-Commerce Platform FastMetals – Feb 19, 2020

Reliance Steel has announced the launch of FastMetals, its new e-commerce platform. FastMetals, situated in Massillon, OH, ships across the nation and has direct access to the company's extensive network of metal service center locations, carrying more than 100,000 products. Notably, it provides a catalog pricing model for a diverse selection of metal items such as stainless, carbon, aluminum and specialty alloy steels.

Per the company, FastMetals was developed in response to the increasing demand from metalworkers of all backgrounds for digital purchasing solutions. It specializes in small orders, with quick turn-around, and excellent customer service in line with the core business strategy of Reliance Steel. Notably, FastMetals is another platform for experiencing the exclusive, customer-focused service of Reliance Steel.

The model of FastMetals is geared to smaller, specialized end-users such as fabricators, artists, hobbyists, machine shops and do-it-yourself practitioners. Notably, FastMetals offers individual customer with instant pricing, shipment on the same day, no minimum order quantity and direct fulfillment.

Reliance Steel Completes Buyout of Fry Steel Company – Jan 2, 2020

Reliance Steel has purchased all of Fry Steel Company's outstanding capital stock effective Dec 31, 2019. However, the terms of the deal have been kept under wraps. Notably, Fry Steel's owner and CEO, retired after the deal was closed.

Fry Steel is a general line and long bar supplier based in Santa Fe Springs, CA. It provides next-day "in-stock" delivery via its proprietary fleet of trucks. The company has developed a reputation for outstanding customer service and stocking hard-to-find items. Notably, Fry Steel's net sales for the year ended Dec 31, 2019 were roughly \$100 million.

Per Reliance Steel's management, the acquisition is in sync with its business model and strategy of investing in high quality and high margin businesses.

Valuation

Reliance Steel's shares are up 7.8% over the trailing 12-month period. Stocks in the Zacks Metal Products – Distribution industry and the Zacks Industrial Products sector are up 1% and down 10.8% over the past year, respectively.

The S&P 500 index is up 1.5% in the past year.

The stock is currently trading at 6.89X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.83X for the Zacks sub-industry, 15.31X for the Zacks sector and 11.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.1X and as low as 6.2X, with a 5-year median of 8.52X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$100 price target reflects 11.9X 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	6.89	6.83	15.31	11.04
	5-Year High	13.1	13.29	17.44	12.87
	5-Year Low	6.2	3.37	10.92	8.49
	5-Year Median	8.52	7.26	14.79	10.79
P/E F12M	Current	11.36	19.03	15.22	16.58
	5-Year High	18.73	22.83	19.89	19.34
	5-Year Low	7.26	8.48	12.6	15.18
	5-Year Median	12.38	12.53	16.43	17.42
P/B TTM	Current	1.22	1.34	4.42	3.88
	5-Year High	1.59	2.73	5.67	4.56
	5-Year Low	0.94	0.85	3.44	2.85
	5-Year Median	1.27	1.38	4.46	3.63

As of 03/11/2020

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



Top Peers

Lawson Products, Inc. (LAWS)	Outperform
Alcoa Corp. (AA)	Neutral
Arconic Inc. (ARNC)	Neutral
Mitsui & Co. (MITSY)	Neutral
Worthington Industries, Inc. (WOR)	Neutral
Allegheny Technologies Incorporated (ATI)	Underperform
Constellium SE (CSTM)	Underperform
Olympic Steel, Inc. (ZEUS)	Underperform

Industry Comparison Industry: Metal Products - Distribution				Industry Peers		
	RS Neutral	X Industry	S&P 500	AA Neutral	ARNC Neutral	CSTM Underperform
VGM Score	B	-	-	C	A	-
Market Cap	6.38 B	1.71 B	19.20 B	1.71 B	9.64 B	M
# of Analysts	6	3	13	6	1	3
Dividend Yield	2.30%	0.00%	2.31%	0.00%	0.36%	%
Value Score	C	-	-	B	A	D
Cash/Price	0.03	0.23	0.05	0.43	0.15	NA
EV/EBITDA	6.39	6.70	11.76	6.64	8.94	NA
PEG Ratio	1.16	1.07	1.73	NA	NA	NA
Price/Book (P/B)	1.22	0.93	2.64	0.29	2.10	NA
Price/Cash Flow (P/CF)	6.91	5.88	10.55	3.23	6.35	NA
P/E (F1)	10.43	11.40	15.66	NA	9.65	NA
Price/Sales (P/S)	0.58	0.49	2.06	0.16	0.68	NA
Earnings Yield	8.78%	7.73%	6.38%	-4.35%	10.36%	NA%
Debt/Equity	0.32	0.31	0.70	0.31	1.07	-25.41
Cash Flow (\$/share)	13.82	2.85	7.01	2.85	3.48	2.58
Growth Score	A	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	21.29%	22.68%	10.85%	NA	-6.23%	4.03%
Proj. EPS Growth (F1/F0)	-19.00%	54.25%	6.02%	59.26%	8.53%	124.11%
Curr. Cash Flow Growth	6.75%	0.78%	6.09%	-62.43%	20.37%	6.98%
Hist. Cash Flow Growth (3-5 yrs)	9.18%	9.18%	8.52%	-2.71%	-9.54%	30.49%
Current Ratio	4.46	1.56	1.24	1.38	1.42	1.06
Debt/Capital	24.29%	23.85%	42.57%	23.41%	51.50%	NA
Net Margin	6.39%	1.95%	11.69%	-10.78%	3.31%	1.04%
Return on Equity	13.98%	8.90%	16.74%	-2.81%	20.28%	-54.43%
Sales/Assets	1.33	1.33	0.54	0.69	0.80	1.37
Proj. Sales Growth (F1/F0)	-3.16%	-2.45%	3.55%	-4.27%	1.09%	-1.74%
Momentum Score	D	-	-	D	D	-
Daily Price Chg	-3.55%	-0.32%	-5.37%	-0.65%	-9.01%	NA%
1 Week Price Chg	0.40%	-1.32%	-0.67%	-20.62%	-11.58%	NA%
4 Week Price Chg	-18.37%	-16.76%	-20.57%	-41.62%	-32.61%	NA%
12 Week Price Chg	-20.99%	-23.95%	-17.57%	-56.09%	-28.14%	NA
52 Week Price Chg	7.78%	-6.06%	-8.21%	-68.25%	16.67%	NA
20 Day Average Volume	646,733	15,866	2,882,511	7,001,851	5,243,612	0
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.83%	-5.20%	-0.23%	-92.06%	-2.55%	-6.58%
(F1) EPS Est 12 week change	-4.45%	-2.66%	-0.60%	-176.72%	-5.50%	-0.86%
(Q1) EPS Est Mthly Chg	-11.72%	-15.50%	-0.52%	-19.28%	-2.04%	-20.69%

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	D
VGM Score	B

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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