

Reliance Steel(RS)

\$121.24 (As of 01/14/20)

Price Target (6-12 Months): **\$128.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Earnings estimates for Reliance Steel for the fourth quarter and 2019 have been stable lately. 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. The company 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. Lower sales volume are also expected to exert pressure on the top line. Weakness across heavy industry and semiconductor markets is also likely to persist in the near term.

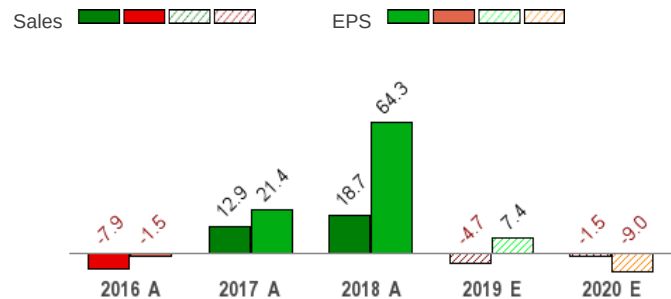
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$122.17 - \$75.40
20 Day Average Volume (sh)	376,178
Market Cap	\$8.1 B
YTD Price Change	1.2%
Beta	1.33
Dividend / Div Yld	\$2.20 / 1.8%
Industry	Metal Products - Distribution
Zacks Industry Rank	Bottom 19% (207 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.3%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	13.5
P/E F1	13.9
PEG F1	1.5
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,842 E	2,796 E	2,738 E	2,541 E	10,831 E
2019	2,957 A	2,884 A	2,686 A	2,470 E	10,996 E
2018	2,757 A	2,989 A	2,975 A	2,814 A	11,535 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.36 E	\$2.08 E	\$2.25 E	\$1.96 E	\$8.74 E
2019	\$2.80 A	\$2.71 A	\$2.39 A	\$1.70 E	\$9.60 E
2018	\$2.30 A	\$3.10 A	\$2.42 A	\$1.08 A	\$8.94 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 01/14/2020. The reports text is as of 01/15/2020.

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 around \$11.5 billion in 2018. Its major products are carbon steel (54% of 2018 sales), aluminum (19%), stainless steel (14%) and alloy (6%).

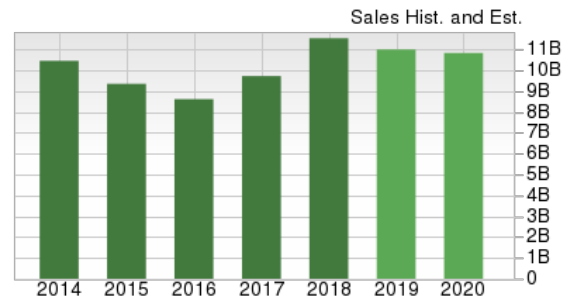
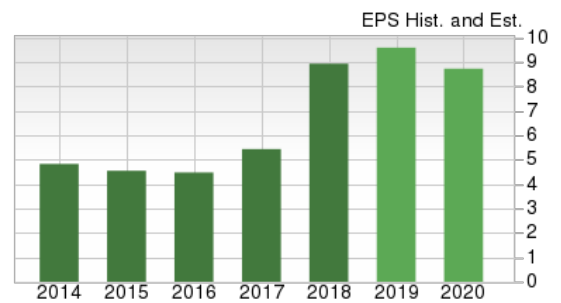
Reliance has 200 processing and distribution centers spread across 39 states in the United States and in foreign countries such as Belgium, Canada, China, Malaysia, Mexico, Singapore, South Korea and the United Kingdom. Although the company has a diverse geographic presence, the southeastern region of 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 59.2% in the past year, outperforming the industry's rise of 54.5%. 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.

▲ Reliance Steel 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 repurchased 6.1 million shares worth record \$484.9 million in 2018. Reliance Steel also raised its quarterly dividend by 10% to 55 cents per share. The company paid \$145.3 million in dividends to its shareholders in 2018. The company also repurchased shares worth \$50 million during the third quarter of 2019. It also paid \$36.8 million in dividends in the last reported quarter. Reliance Steel has sufficient liquidity and cash flows to support dividend payouts and share buybacks moving ahead.

Reasons To Sell:

- ▼ Reliance Steel is likely to face some pressure on metal pricing in the fourth quarter of 2019. It is seeing pricing pressure for certain carbon steel products, as witnessed in the last reported quarter. Average prices per ton sold fell 8.4% year over year in the last reported quarter. The company expects overall metals pricing to remain near current levels, which is likely to result in its average selling price per ton sold to decline 2-3% sequentially in the fourth quarter. As such, lower prices will likely put downward pressure on selling prices of Reliance Steel and crimp its margins in the quarter.
- ▼ The company is facing pressure on its sales volumes. Its overall sales volume fell roughly 1.8% year over year to around 1.48 million tons in the last reported quarter due to lower shipments. Volume pressure on a year over year basis will likely continue in the fourth quarter as indicated by the company's guidance. Customer holiday-related closures and fewer shipping days are likely to exert pressure on the company's performance in the fourth quarter. Reliance Steel expects tons sold to be down 4-7% sequentially in the fourth quarter.
- ▼ 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. Notably, demand in heavy industry (both construction equipment and agriculture) weakened during the last reported quarter. Reliance Steel expects activity to stay flat in the near term. Moreover, the company is witnessing soft demand in the semiconductor market. The company does not expect a recovery in demand in semiconductor this year. Reliance Steel is also seeing weaker demand in the energy space due to sluggish activities and expects the slowdown to continue over the near term. Drilling and completion activity remained soft during the last reported quarter with declining rig counts. The company expects continued lower activity in this market for the rest of 2019.

Reliance Steel faces headwinds from lower metal prices and volume weakness. It is also seeing weakness across heavy industry and semiconductor markets. The company's high debt level is a matter of concern.

Last Earnings Report

Reliance Steel's Q3 Earnings and Sales Surpass Estimates

Reliance Steel posted profit of \$162.7 million or \$2.40 per share in the third quarter of 2019, up from \$148.3 million or \$2.03 in the year-ago quarter.

Adjusted earnings per share (EPS) for the quarter were \$2.39, which beat the Zacks Consensus Estimate of \$1.97.

Reliance Steel recorded net sales of \$2,685.9 million, down 9.7% year over year. Nevertheless, the figure beat the Zacks Consensus Estimate of \$2,668.4 million.

The company's quarterly results benefited from its strategy of focusing on high levels of customer service across diverse products and end markets.

Volumes and Pricing

Overall sales volume went down 1.8% year over year to roughly 1.48 million tons in the reported quarter. Volumes also declined 2% on a sequential-comparison basis.

Average prices per ton sold for the quarter fell 8.4% year over year to \$1,807. Prices also declined 5.1% on a sequential-comparison basis.

Financials

Reliance Steel ended the quarter with cash and cash equivalents of \$166 million, up roughly 48% year over year. Long-term debt was \$1,578.2 million, down 20.3% year over year.

During the first nine months of 2019, cash flow from operations was \$954.1 million compared with \$233.3 million in the year-ago period.

The company did not repurchase any shares of its common stock during the third quarter. As of Sep 30, 2019, around 6.4 million shares remained available for repurchase under its stock repurchase program.

Outlook

The company is optimistic about business conditions in the fourth quarter. Excluding the impact of normal seasonal patterns, it expects end demand to stay relatively steady in the fourth quarter compared with the third quarter.

Reliance Steel projects total tons sold to be sequentially down 4% to 7% in the fourth quarter. Overall metals pricing is expected to remain near current levels, which is likely to result in its average selling price per ton sold to decline 2% to 3% sequentially.

On the basis of these expectations, the company currently projects adjusted EPS in the range of \$1.60-\$1.70 for the fourth quarter.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	0.66%
EPS Surprise	21.32%
Quarterly EPS	2.39
Annual EPS (TTM)	8.98

Recent News

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 59.2% over the trailing 12-month period. Stocks in the Zacks Metal Products – Distribution industry and the Zacks Industrial Products sector are up 54.5% and 16.9% over the past year, respectively.

The S&P 500 index is up 24.7% in the past year.

The stock is currently trading at 8.25X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.66X for the Zacks sub-industry, 16.94X for the Zacks sector and 12.12X 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 \$128 price target reflects 14.62X 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	8.25	7.66	16.94	12.12
	5-Year High	13.1	13.29	17.43	12.86
	5-Year Low	6.2	3.36	10.89	8.48
	5-Year Median	8.52	7.19	14.71	10.67
P/E F12M	Current	13.85	22.11	18.2	19
	5-Year High	18.73	22.54	19.9	19.34
	5-Year Low	7.26	8.48	12.59	15.17
	5-Year Median	12.17	12.46	16.54	17.44
P/B TTM	Current	1.59	1.79	5.68	4.49
	5-Year High	1.59	2.73	5.7	4.49
	5-Year Low	0.94	0.85	3.44	2.85
	5-Year Median	1.26	1.38	4.44	3.61

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (207 out of 254)



Top Peers

Commercial Metals Company (CMC)	Outperform
Steel Dynamics, Inc. (STLD)	Outperform
Kaiser Aluminum Corporation (KALU)	Neutral
Schnitzer Steel Industries, Inc. (SCHN)	Neutral
Worthington Industries, Inc. (WOR)	Neutral
Allegheny Technologies Incorporated (ATI)	Underperform
Ryerson Holding Corporation (RYI)	Underperform
Olympic Steel, Inc. (ZEUS)	Underperform

Industry Comparison Industry: Metal Products - Distribution				Industry Peers		
	RS Neutral	X Industry	S&P 500	CMC Outperform	WOR Neutral	ZEUS Underperform
VGM Score	A	-	-	B	A	B
Market Cap	8.08 B	5.93 B	24.31 B	2.64 B	2.29 B	174.72 M
# of Analysts	6	3	13	6	2	2
Dividend Yield	1.81%	0.00%	1.76%	2.16%	2.35%	0.50%
Value Score	B	-	-	C	A	B
Cash/Price	0.02	0.13	0.04	0.08	0.03	0.05
EV/EBITDA	8.24	7.80	14.08	8.48	8.48	5.50
PEG Ratio	1.54	1.55	2.06	2.40	NA	NA
Price/Book (P/B)	1.59	1.18	3.33	1.55	2.39	0.56
Price/Cash Flow (P/CF)	9.90	7.83	13.62	7.90	8.80	3.01
P/E (F1)	13.84	27.15	18.86	9.11	14.23	16.55
Price/Sales (P/S)	0.71	0.60	2.65	0.44	0.66	0.10
Earnings Yield	7.20%	3.69%	5.27%	10.98%	7.04%	6.04%
Debt/Equity	0.31	0.28	0.72	0.69	0.76	0.79
Cash Flow (\$/share)	12.25	7.55	6.94	2.81	4.65	5.29
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	18.74%	18.73%	10.56%	7.93%	6.82%	47.13%
Proj. EPS Growth (F1/F0)	-8.98%	104.98%	7.52%	17.23%	3.79%	357.14%
Curr. Cash Flow Growth	39.48%	25.08%	14.88%	7.73%	-22.99%	81.41%
Hist. Cash Flow Growth (3-5 yrs)	10.05%	11.43%	9.00%	7.26%	1.53%	13.26%
Current Ratio	4.01	1.48	1.23	3.35	2.13	3.96
Debt/Capital	23.70%	22.83%	42.99%	40.94%	43.18%	44.27%
Net Margin	5.48%	3.48%	11.14%	4.41%	3.20%	0.20%
Return on Equity	12.52%	9.56%	17.16%	18.40%	15.84%	1.80%
Sales/Assets	1.37	1.37	0.55	1.58	1.42	2.26
Proj. Sales Growth (F1/F0)	-1.50%	-1.50%	4.18%	1.63%	-11.76%	-5.24%
Momentum Score	C	-	-	B	A	B
Daily Price Chg	0.60%	0.30%	0.08%	-1.68%	0.86%	-1.30%
1 Week Price Chg	-0.66%	0.00%	0.39%	1.89%	-2.21%	-6.34%
4 Week Price Chg	0.13%	0.00%	1.93%	1.32%	-5.98%	-10.93%
12 Week Price Chg	21.67%	28.28%	6.50%	17.57%	14.50%	9.13%
52 Week Price Chg	61.83%	11.10%	22.56%	40.81%	14.02%	-7.35%
20 Day Average Volume	376,178	7,407	1,571,506	2,168,987	228,419	56,991
(F1) EPS Est 1 week change	-0.34%	0.00%	0.00%	0.08%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.34%	-0.17%	0.00%	10.55%	3.98%	0.00%
(F1) EPS Est 12 week change	4.61%	-9.20%	-0.52%	21.89%	5.89%	-7.69%
(Q1) EPS Est Mthly Chg	6.79%	16.36%	0.00%	1.28%	8.14%	NA

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	B
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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