Reliance Steel & Aluminum (RS)

Updated November 9th, 2022, by Thomas Richmond

Key Metrics

Current Price:	$201	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$11.8 B
Fair Value Price:	$370	**5 Year Growth Estimate:**	-9.0%	**Ex-Dividend Date[1]:**	11/18/22
% Fair Value:	54%	**5 Year Valuation Multiple Estimate:**	13.0%	**Dividend Payment Date[1]:**	12/03/22
Dividend Yield:	1.7%	**5 Year Price Target**	$231	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Reliance Steel & Aluminum (RS) is a diversified metal solutions provider and metal services company. The business was founded in 1939 and offers over 100,000 metal products (including alloy, aluminum, brass, copper, steel, titanium, etc.) across its ~315 locations. The business has a degree of recession resiliency since the company has remained profitable every year since its IPO in 1994, and Reliance is currently well-positioned to benefit from global supply shortages. Over the next few quarters, the business's earnings-per-share are expected to decrease as the business starts to see a more normalized environment. The company's revenues are diversified across regions and commodities, with the 3 largest regions being the Midwest (35%), West/Southwest (21%), and the Southeast (20%), and their 3 largest products being carbon steel (55%), stainless steel (17%) and aluminum (15%). Some investors may consider this company to be a play on the steel markets since ~72% of revenues come from steel. Across end markets, about one-third of revenue comes from general manufacturing, one-third comes from non-residential construction, and one-third comes from transportation. The business has continued to expand gross margins, moving up over time from gross margin targets of 25-27%, then 28-30%, and now currently, management has an estimated sustainable range for gross margins of 29-31%. Over the past 5 years, the business has allocated roughly 28% of capital to capital expenditures, 19% to acquisitions, 32% to share repurchases, and 21% of capital to dividends, for a total of $3.854 billion of capital allocated to growing the business and returning money to shareholders.

On October 27th, 2022, Reliance Steel & Aluminum reported Q3 2022 results for the period ending September 30th, 2022. The business earned $6.48 in non-GAAP earnings-per-share for the quarter, which beat analysts' estimates by 28 cents for the quarter. Sales increased 10.4% year-over-year to $4.25 billion, beating estimates by $110 million. Management gave its estimate that the business will earn $4.30-$4.50 in adjusted earnings-per-share for Q4 of 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.34	$4.28	$4.83	$4.16	$4.16	$5.47	$8.75	$10.34	$7.19	$21.97	***$28.45***	***$17.75***
DPS	$0.80	$1.26	$1.40	$1.60	$1.65	$1.80	$2.00	$2.20	$2.50	$2.75	***$3.50***	***$3.86***
Shares	76	77	77	72	73	73	67	67	64	62	***60***	***55***

Over the past 9 years, Reliance Steel & Aluminum has seen earnings-per-share grow at an average annualized rate of 17.0%, and over the past 5 years, the business has seen earnings-per-share grow at 39.2% annually. Management's earnings-per-share guidance for the full year 2022 is $28.35-$28.55, which guided our estimate of about $28.45 in earnings-per-share for the fiscal year 2022. We forecast that over the next 5 years, earnings-per-share will fall from current highs by about 9% annually, leading to a 2027 earnings-per-share of around $17.75.

Over the past 9 years, the business has grown dividends by 14.7% annually, and over the past 5 years, dividends have grown by 14.4% annually. Over the next 5 years, we forecast dividend growth of about 2% annually, due to our expectation of a drastic decrease in earnings-per-share. This company does have a reliable history of dividend growth, with 16 years of consecutive dividend payments and 12 consecutive years of dividend increases.

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[1] Estimated Date.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.0	16.2	14.4	14.2	17.1	14.1	9.9	9.3	14.5	6.9	***7.1***	***13.0***
Avg. Yld.	1.5%	1.8%	2.0%	2.7%	2.3%	2.3%	2.3%	2.3%	2.4%	1.8%	***1.7%***	***1.7%***

Over the past 9 years, Reliance Steel & Aluminum has averaged a P/E ratio of 12.7, and over the past 5 years, the business has averaged a P/E ratio of 10.9. We estimate that over the intermediate term, the business will trade for a P/E ratio of around 13, as earnings-per-share fall. Today, the stock offers a low 1.7% dividend yield, which isn't ideal for investors seeking dividend income, but investors may find this business attractive if they have a good understanding of the metal market and see an opportunity.

Safety, Quality, Competitive Advantage, & Recession Resiliency

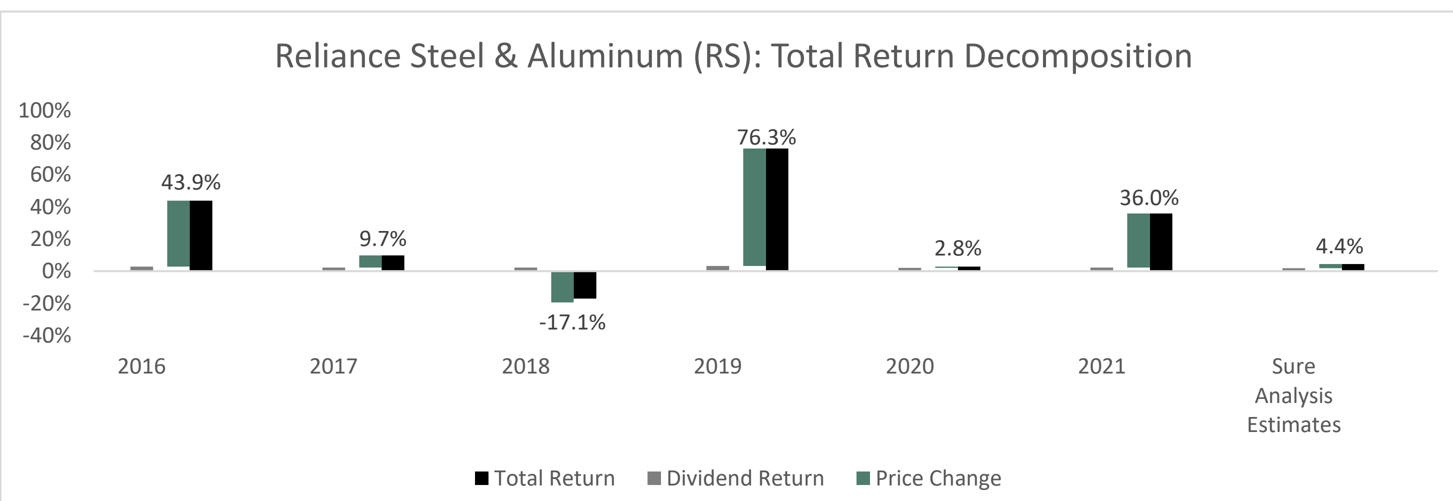
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	15%	29%	29%	38%	40%	33%	23%	21%	35%	13%	***12%***	***22%***

The business has averaged a payout ratio of 27.6% over the past 9 years, and 24.9% over the past 5 years. With a low payout ratio below 40%, we expect that the dividend is safe from any cuts or decreases – even if earnings-per-share drop over the next 5 years as we forecast. The business has a strong balance sheet, with more current assets on the balance sheet than total liabilities. Reliance has a competitive advantage as the largest metals service company in North America, and the business has extra recession resiliency because the business was able to stay profitable through every recession since the company's IPO in 1994.

Final Thoughts & Recommendation

Reliance Steel & Aluminum offers investors an opportunity to invest in a company that is currently benefiting from the strong steel market. Although the business is currently benefiting from tailwinds like the global supply shortage, we expect earnings-per-share to fall over the intermediate term, which leads us to rate the stock as a Hold because total return prospects come in at 4.4% annually over the next five years driven by a 1.7% dividend yield, a 9.0% annual drop in earnings-per-share, and a 13% annual increase in the stock's valuation multiple. We take a longer-term view on the companies that we evaluate, so even though the stock doesn't look attractive to us over the intermediate term, commodity investors may be interested in this company as a way to invest in the steel industry.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	8,442	9,224	10,452	9,351	8,613	9,721	11,535	10,974	8,812	14,093
Gross Profit	2,207	2,398	2,621	2,547	2,590	2,788	3,282	3,329	2,775	4,490
Gross Margin	26.1%	26.0%	25.1%	27.2%	30.1%	28.7%	28.4%	30.3%	31.5%	31.9%
SG&A Exp.	1,404	1,647	1,799	1,735	1,809	1,914	2,104	2,108	1,887	2,321
D&A Exp.	149	192	214	219	222	218	215	219	227	230
Operating Profit	654	558	608	593	559	655	962	1,002	660	1,939
Op. Margin	7.7%	6.1%	5.8%	6.3%	6.5%	6.7%	8.3%	9.1%	7.5%	13.8%
Net Profit	404	322	372	312	304	613	634	702	369	1,413
Net Margin	4.8%	3.5%	3.6%	3.3%	3.5%	6.3%	5.5%	6.4%	4.2%	10.0%
Free Cash Flow	388	465	166	853	472	237	425	1,059	1,001	563
Income Tax	201	154	170	143	120	(37)	209	223	106	466

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,858	7,341	7,822	7,122	7,411	7,751	8,045	8,131	8,107	9,536
Cash & Equivalents	98	84	106	104	123	154	128	174	684	301
Acc. Receivable	808	984	1,145	917	960	1,087	1,242	1,068	926	1,683
Inventories	1,272	1,540	1,752	1,436	1,533	1,726	1,817	1,646	1,420	2,065
Goodwill & Int.	2,251	2,905	2,964	2,850	2,979	2,955	2,943	3,035	2,882	3,185
Total Liabilities	2,290	3,457	3,695	3,179	3,232	3,051	3,365	2,917	2,984	3,442
Accounts Payable	256	280	287	247	302	347	339	275	259	454
Long-Term Debt	1,207	2,109	2,302	1,929	1,929	1,901	2,204	1,589	1,645	1,647
Total Equity	3,558	3,875	4,099	3,914	4,149	4,667	4,672	5,207	5,115	6,087
LTD/E Ratio	0.34	0.54	0.56	0.49	0.47	0.41	0.47	0.31	0.32	0.27

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.0%	4.9%	4.9%	4.2%	4.2%	8.1%	8.0%	8.7%	4.5%	16.0%
Return on Equity	12.0%	8.7%	9.3%	7.8%	7.5%	13.9%	13.6%	14.2%	7.2%	25.2%
ROIC	8.7%	6.0%	6.0%	5.1%	5.1%	9.7%	9.4%	10.3%	5.4%	19.5%
Shares Out.	76	77	77	72	73	73	67	67	64	62
Revenue/Share	111.5	118.79	133.0	124.8	117.8	132.2	159.2	161.7	135.0	219.1
FCF/Share	5.12	5.99	2.11	11.39	6.45	3.23	5.86	15.61	15.34	8.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.