Reliance Steel & Aluminum (RS)

Updated February 22nd, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	$242	**5 Year CAGR Estimate:**	1.3%	**Market Cap:**	$14.6 B
Fair Value Price:	$260	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	3/9/23
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date[1]:**	3/24/23
Dividend Yield:	1.7%	**5 Year Price Target**	$235	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Reliance Steel & Aluminum (RS) is a diversified metal solutions provider and metal services company. It was founded in 1939 and offers over 100,000 metal products (including alloy, aluminum, brass, copper, steel, titanium, etc.) across its ~315 locations. The company has a degree of recession resiliency, as it has remained profitable every year since its IPO in 1994, and is well positioned to benefit from global supply shortages. The revenues of the company are diversified across regions and commodities, with the 3 largest regions being the Midwest (35%), West/Southwest (21%), and the Southeast (20%), and the 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. Reliance Steel & Aluminum has consistently enhanced its gross margins, from 25%-27% in the past to 29%-31%, which management considers sustainable in the long run. The stock has a market capitalization of $14.6 billion.

In mid-February, Reliance Steel & Aluminum reported (2/16/23) financial results for the full fiscal 2022. It posted record sales of $17.0 billion and record earnings-per-share of $30.03 thanks to strong demand in most end markets and blowout metals prices. Management raised the dividend by 14%. It also provided guidance for the first quarter of 2023, expecting sales volumes to grow 1%-3% over last year's quarter and average selling prices to dip 3%-5% sequentially, to more normal levels. We expect steel prices to moderate this year, but we still expect Reliance Steel & Aluminum to post strong earnings-per-share of about $20.00 this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.28	$4.83	$4.16	$4.16	$5.47	$8.75	$10.34	$7.19	$21.97	$30.03	***$20.00***	***$18.08***
DPS	$1.26	$1.40	$1.60	$1.65	$1.80	$2.00	$2.20	$2.50	$2.75	$3.50	***$4.00***	***$5.00***
Shares	77	77	72	73	73	67	67	64	62	60	***59***	***55***

As a commodity producer, Reliance Steel & Aluminum has exhibited a somewhat volatile performance record. Nevertheless, thanks to favorable commodity prices in the last two years, the company has grown its earnings-per-share at an average annualized rate of 24.2% over the last decade. Commodity prices are likely to remain favorable in the short run but it is prudent to expect them to moderate in the upcoming years, especially given their historical wild swings. We thus expect the earnings-per-share of Reliance Steel & Aluminum to decline by -2.0% per year on average beyond this year.

Reliance Steel & Aluminum has raised its dividend for 13 consecutive years. It has grown its dividend by 12.3% per year on average over the past decade. Given the markedly low payout ratio of 20% and the rock-solid balance sheet of the company, we expect it to keep raising its dividend for many more years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.2	14.4	14.2	17.1	14.1	9.9	9.3	14.5	6.9	6.3	***12.1***	***13.0***
Avg. Yld.	1.8%	2.0%	2.7%	2.3%	2.3%	2.3%	2.3%	2.4%	1.8%	1.8%	***1.7%***	***2.1%***

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Reliance Steel & Aluminum has traded at an average price-to-earnings ratio of 12.3 over the past decade. We assume a fair price-to-earnings ratio of 13.0 for this stock, which is currently trading at an earnings multiple of 12.1. If the stock trades at our assumed fair valuation level in five years, it will enjoy a 1.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

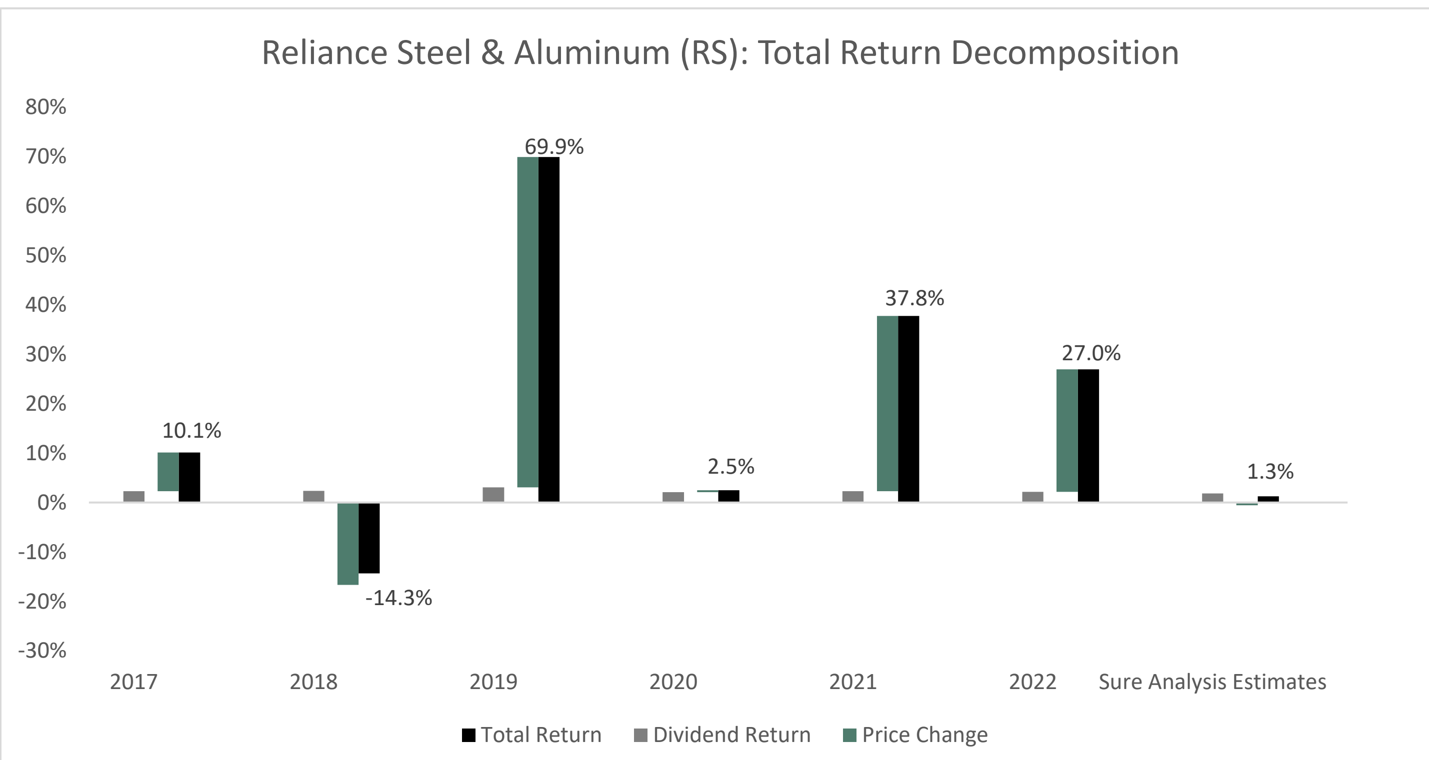
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	29%	38%	40%	33%	23%	21%	35%	13%	12%	***20%***	***28%***

Reliance Steel & Aluminum has averaged a payout ratio of 27% over the past decade. Thanks to a markedly low payout ratio of 20% and an essentially debt-free balance sheet, the dividend is safe for the foreseeable future. The strong balance sheet is paramount in this cyclical business, as it helps the company endure downturns without any problem. Reliance Steel & Aluminum has a competitive advantage as the largest metals service company in North America. It has also proved fairly resilient to recessions, as it has remained profitable through every recession since its IPO in 1994.

Final Thoughts & Recommendation

Reliance Steel & Aluminum offers investors an opportunity to invest in a company that is currently benefiting from a strong steel market. Although the business is currently benefiting from tailwinds like the global supply shortage, we consider the stock unattractive due to its cyclical nature and its 39% rally over the last 12 months. The stock could offer a 1.3% average annual total return over the next five years thanks to a 1.7% dividend and a 1.4% annualized valuation tailwind, partly offset by a -2.0% annual decline in earnings-per-share. We thus rate the stock as a sell. While Reliance Steel & Aluminum is likely to keep thriving in the near term, we find it prudent to maintain a cautious long-term perspective due to the high cyclicality of the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9,224	10,452	9,351	8,613	9,721	11,535	10,974	8,812	14,093	17,025
Gross Profit	2,398	2,621	2,547	2,590	2,788	3,282	3,329	2,775	4,490	5,251
Gross Margin	26.0%	25.1%	27.2%	30.1%	28.7%	28.4%	30.3%	31.5%	31.9%	30.8%
SG&A Exp.	1,647	1,799	1,735	1,809	1,914	2,104	2,108	1,887	2,321	2,504
D&A Exp.	192	214	219	222	218	215	219	227	230	240
Operating Profit	558	608	593	559	655	962	1,002	660	1,939	2,507
Op. Margin	6.1%	5.8%	6.3%	6.5%	6.7%	8.3%	9.1%	7.5%	13.8%	14.7%
Net Profit	322	372	312	304	613	634	702	369	1,413	1,840
Net Margin	3.5%	3.6%	3.3%	3.5%	6.3%	5.5%	6.4%	4.2%	10.0%	10.8%
Free Cash Flow	465	166	853	472	237	425	1,059	1,001	563	1,777
Income Tax	154	170	143	120	(37)	209	223	106	466	586

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,341	7,822	7,122	7,411	7,751	8,045	8,131	8,107	9,536	10,330
Cash & Equivalents	84	106	104	123	154	128	174	684	301	1,173
Acc. Receivable	984	1,145	917	960	1,087	1,242	1,068	926	1,683	1,566
Inventories	1,540	1,752	1,436	1,533	1,726	1,817	1,646	1,420	2,065	1,995
Goodwill & Int.	2,905	2,964	2,850	2,979	2,955	2,943	3,035	2,882	3,185	3,126
Total Liabilities	3,457	3,695	3,179	3,232	3,051	3,365	2,917	2,984	3,442	3,234
Accounts Payable	280	287	247	302	347	339	275	259	454	412
Long-Term Debt	2,109	2,302	1,929	1,929	1,901	2,204	1,589	1,645	1,647	1,648
Total Equity	3,875	4,099	3,914	4,149	4,667	4,672	5,207	5,115	6,087	7,087
LTD/E Ratio	0.54	0.56	0.49	0.47	0.41	0.47	0.31	0.32	0.27	0.23

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.9%	4.9%	4.2%	4.2%	8.1%	8.0%	8.7%	4.5%	16.0%	18.5%
Return on Equity	8.7%	9.3%	7.8%	7.5%	13.9%	13.6%	14.2%	7.2%	25.2%	27.9%
ROIC	6.0%	6.0%	5.1%	5.1%	9.7%	9.4%	10.3%	5.4%	19.5%	22.3%
Shares Out.	77	77	72	73	73	67	67	64	62	61
Revenue/Share	118.79	133.0	124.8	117.8	132.2	159.2	161.7	135.0	219.1	276.85
FCF/Share	5.99	2.11	11.39	6.45	3.23	5.86	15.61	15.34	8.75	28.89

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