Reliance Steel & Aluminum (RS)

Updated August 14th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	$283	**5 Year CAGR Estimate:**	-1.9%	**Market Cap:**	$15.3 B
Fair Value Price:	$256	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	8/16/24
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	8/30/24
Dividend Yield:	1.6%	**5 Year Price Target**	$231	**Years Of Dividend Growth:**	14
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 $15.3 billion.

In late July, Reliance Steel & Aluminum reported (7/25/24) financial results for the second quarter of fiscal 2024. Shipments grew 4% sequentially thanks to healthy demand in construction and aerospace but average realized prices decreased. As a result, revenue remained flat and earnings-per-share decreased -12%, from $5.30 to $4.65, and missed the analysts' consensus by $0.07. Due to excess inventory in the supply chain, the company provided guidance for a 2.5%-4.5% sequential decline of sales and a similar decline in the average realized price in the third quarter. As a result, it expects earnings-per-share of $3.60-$3.80 in the third quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.83	$4.16	$4.16	$5.47	$8.75	$10.34	$7.19	$21.97	$30.03	$22.62	***$19.70***	***$17.81***
DPS	$1.40	$1.60	$1.65	$1.80	$2.00	$2.20	$2.50	$2.75	$3.50	$4.00	***$4.40***	***$5.50***
Shares	77	72	73	73	67	67	64	62	60	58	***57***	***54***

As a commodity producer, Reliance Steel & Aluminum has exhibited a somewhat volatile performance record. Nevertheless, thanks to favorable commodity prices in the last three years, the company has grown its earnings-per-share at an average annualized rate of 18.7% 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 not cut its dividend for 64 consecutive years and has raised its dividend for 14 years in a row. It has grown its dividend by 12.1% per year on average over the past decade. Given the markedly low payout ratio of 22% and the rock-solid balance sheet of the company, we expect it to keep raising its dividend for many more years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.4	14.2	17.1	14.1	9.9	9.3	14.5	6.9	6.3	11.4	***14.4***	***13.0***
Avg. Yld.	2.0%	2.7%	2.3%	2.3%	2.3%	2.3%	2.4%	1.8%	1.8%	1.6%	***1.6%***	***2.4%***

Reliance Steel & Aluminum (RS)

Updated August 14th, 2024, by Aristofanis Papadatos

Reliance Steel & Aluminum has traded at an average price-to-earnings ratio of 11.8 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 14.4. If the stock trades at our assumed fair valuation level in five years, it will incur a -2.0% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

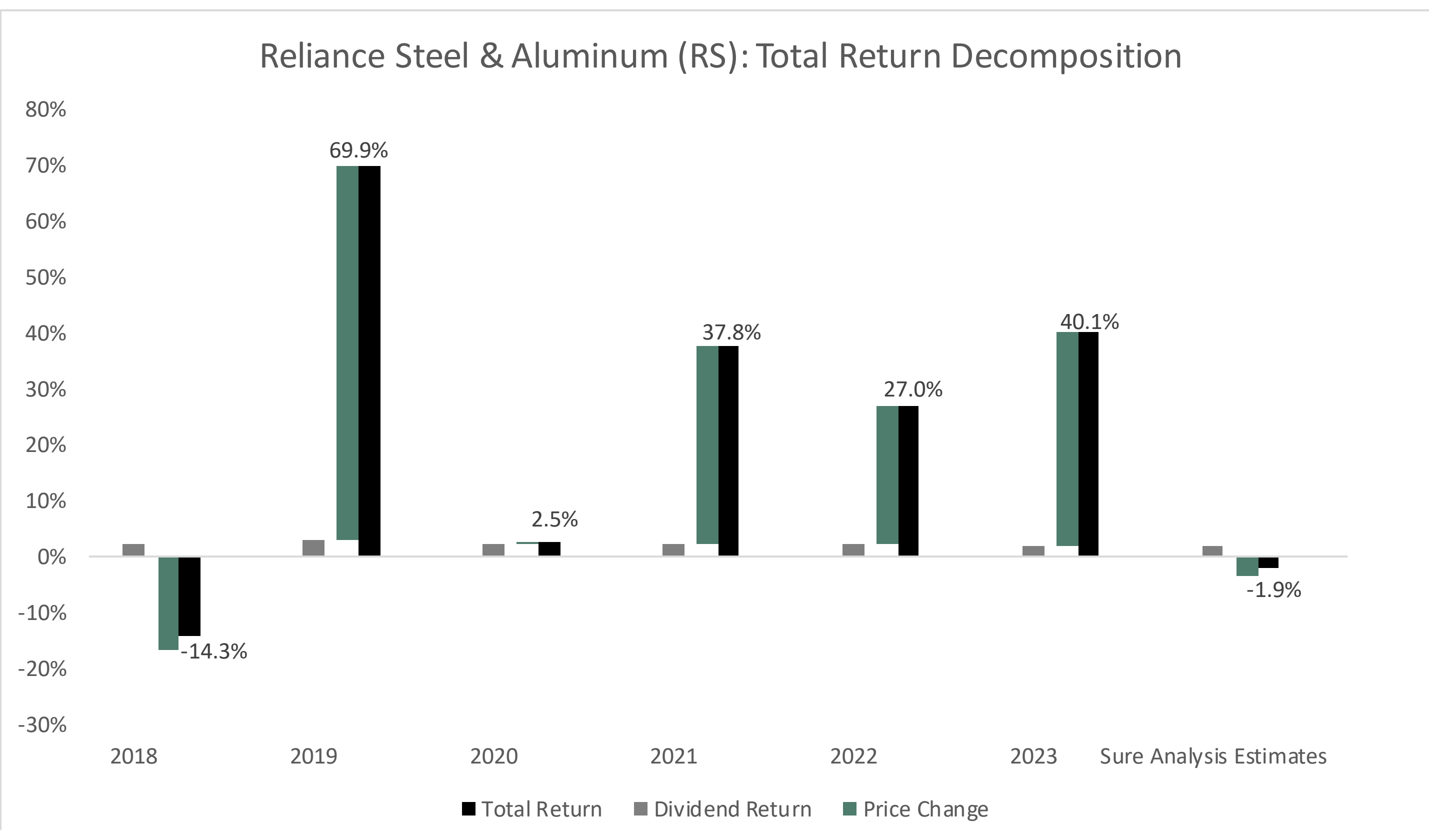
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	29%	38%	40%	33%	23%	21%	35%	13%	12%	18%	***22%***	***31%***

Reliance Steel & Aluminum has averaged a payout ratio of 26% over the past decade. Thanks to a markedly low payout ratio of 22% 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 likely to benefit from a booming demand for steel from the semiconductor industry in the long run, we consider the stock unattractive due to its cyclical nature and its nearly 100% rally since early 2022. The stock could offer a -1.9% average annual total return over the next five years, as its 1.6% dividend may be offset by a -2.0% annualized valuation headwind and 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



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.

Reliance Steel & Aluminum (RS)

Updated August 14th, 2024, by Aristofanis Papadatos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10,452	9,351	8,613	9,721	11,535	10,974	8,812	14,093	17,025	14,806
Gross Profit	2,621	2,547	2,590	2,788	3,282	3,329	2,775	4,490	5,251	4,547
Gross Margin	25.1%	27.2%	30.1%	28.7%	28.4%	30.3%	31.5%	31.9%	30.8%	30.7%
SG&A Exp.	1,799	1,735	1,809	1,914	2,104	2,108	1,887	2,321	2,504	2,562
D&A Exp.	214	219	222	218	215	219	227	230	240	245
Operating Profit	608	593	559	655	962	1,002	660	1,939	2,507	1,740
Op. Margin	5.8%	6.3%	6.5%	6.7%	8.3%	9.1%	7.5%	13.8%	14.7%	11.8%
Net Profit	372	312	304	613	634	702	369	1,413	1,840	1,336
Net Margin	3.6%	3.3%	3.5%	6.3%	5.5%	6.4%	4.2%	10.0%	10.8%	9.0%
Free Cash Flow	166	853	472	237	425	1,059	1,001	563	1,777	1,203
Income Tax	170	143	120	(37)	209	223	106	466	586	401

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,822	7,122	7,411	7,751	8,045	8,131	8,107	9,536	10,330	10,480
Cash & Equivalents	106	104	123	154	128	174	684	301	1,173	1,080
Acc. Receivable	1,145	917	960	1,087	1,242	1,068	926	1,683	1,566	1,472
Inventories	1,752	1,436	1,533	1,726	1,817	1,646	1,420	2,065	1,995	2,043
Goodwill & Int.	2,964	2,850	2,979	2,955	2,943	3,035	2,882	3,185	3,126	3,092
Total Liabilities	3,695	3,179	3,232	3,051	3,365	2,917	2,984	3,442	3,234	2,748
Accounts Payable	287	247	302	347	339	275	259	454	412	410
Long-Term Debt	2,302	1,929	1,929	1,901	2,204	1,589	1,645	1,647	1,648	1,142
Total Equity	4,099	3,914	4,149	4,667	4,672	5,207	5,115	6,087	7,087	7,722
LTD/E Ratio	0.56	0.49	0.47	0.41	0.47	0.31	0.32	0.27	0.23	0.15

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.9%	4.2%	4.2%	8.1%	8.0%	8.7%	4.5%	16.0%	18.5%	12.8%
Return on Equity	9.3%	7.8%	7.5%	13.9%	13.6%	14.2%	7.2%	25.2%	27.9%	18.0%
ROIC	6.0%	5.1%	5.1%	9.7%	9.4%	10.3%	5.4%	19.5%	22.3%	15.2%
Shares Out.	77	72	73	73	67	67	64	62	61	59
Revenue/Share	133.0	124.8	117.8	132.2	159.2	161.7	135.0	219.1	276.85	250.88
FCF/Share	2.11	11.39	6.45	3.23	5.86	15.61	15.34	8.75	28.89	20.38

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