

PREPARED FOR FIN 4710: ADVANCED INVESTMENT
ANALYSIS



Price Target:
\$95.74 (STRONG
BUY)

FALL 2021 ANALYSIS

WINNIE YOUNG

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Company Profile: Steel Dynamics, Inc. - STLD

Headquarter: Fort Wayne, Indiana, US

CEO: Mark Millet

Founded: 1993

Industry: Chemicals/Metals

Products/Services: Steel and Metal production, Recycling, & Fabrication

Market Cap: \$13.184 Billion



Steel Dynamics, Inc. is one of the United States largest domestic steel and metal producers and recyclers with over 7,700 employees. To this date, the company has 6 steel mills, 8 steel processing facilities, 2 iron production facilities, 90 metal recycling locations, and 6 steel fabrication plants. The company was founded in 1993 and went public in 1996. Steel Dynamics, Inc is currently run by Mark Millet (CEO), Theresa Wagler (CFO), Russ Rin (COO). Headquartered in Indiana, Steel Dynamics plants and facilities are also located across four other states: Florida, Virginia, Arkansas, and Mississippi.

The three main services/products Steel Dynamics provides is steel production, metal recycling, and fabrication.

Steel production at Steel Dynamics, Inc accounts for over 60% of its sales. In 1996, Steel Dynamics, Inc produced only one type of steel, hot roll steel coils. Over the years, Steel Dynamics has expanded and now provides many other types of steel products, such as: flat roll, structural, rail, merchant bar, and specialty types. Flat roll steel is their most popular product, consisting of 61% of their steel orders with structural steel products second in place at 15%. Steel Dynamics has also grown to provide customized steel products to their customers as well.

Steel Dynamics sells most of their steel to steel service centers and distributors which are then sold for use in automotive, construction, manufacturing, and energy markets. The majority of Steel Dynamic's steel is used in the construction market.

Through its metal recycling business, Steel dynamics acquired OmniSource in 2007. As Steel Dynamic's subsidiary, OmniSource has over 90 locations across the United States and processes and distributes secondary metals. OmniSource is the US's second largest processor of ferrous and nonferrous scrap. OmniSource sells ferrous metals and recycles reusable forms and different grades of nonferrous (ex: copper, brass, aluminum, & stainless steel). The customers of Steel Dynamic's metal recycling operations consist of metal refineries, ingot manufacturers, smelters, and mills.

New Millennium Building Systems formed from Steel Dynamic's first fabrication plant in 2000. Through its fabrication operations, Steel Dynamics fabricates steel joists, decking, trusses, girders, form, roof, and decking.

Steel Dynamics Fabrication Customers:

- Nonresidential steel fabricators
- Metal building companies
- General construction contractors, developers
- Brokers and government entities

Steel Dynamics, Inc has been moving towards a sustainable approach. The firm has been making moves to commit to a sustainable clean future. Steel Dynamics limits carbon emissions by using electric arc furnace technology and recycling ferrous scraps. The company also takes a huge stand in limiting the production of primary products and focusing on reusing secondary materials to not waste material. Steel Dynamics has put in place plans for the coming years up to 2050 to reduce its greenhouse gas emissions and promote sustainable steel production.

Competitive Landscape

Steel Dynamics, Inc's main competitors are Nucor Corporation and United States Steel Corporation.



NASDAQ: STLD

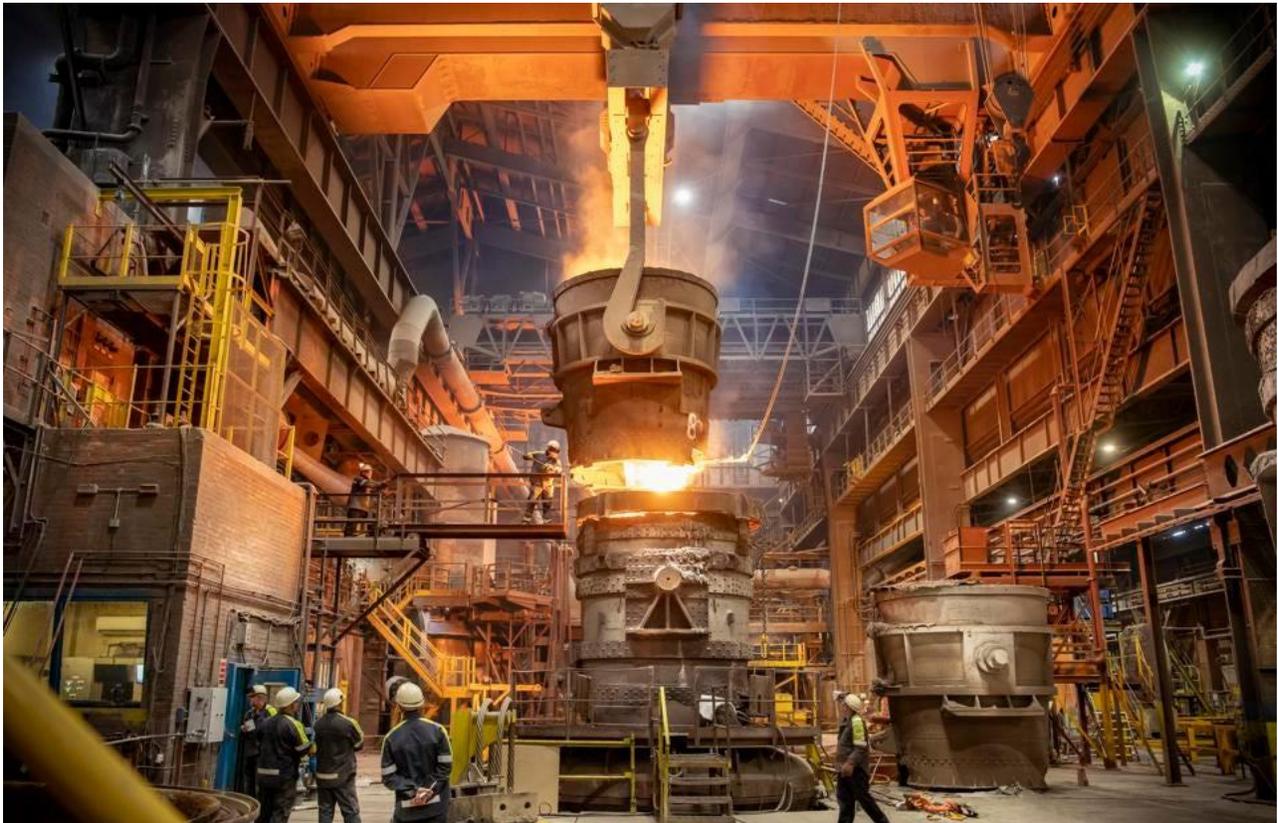
As of November 11, 2021, Steel Dynamics traded a price of \$66.25 per share on NASDAQ under the ticker symbol: STLD. With a market cap of \$13.15 Billion, the firm has 213.55 million shares outstanding. The firm has also paid \$.26 per common share as of October 15, 2021.

Nucor Corporation is one of Steel Dynamics main competitors being the largest steel producer and recycler in the United States. As of November 11, 2021, the corporation is trading at a price of \$113.37. It has a market cap of \$32.401 billion and is traded on the NYSE with the ticker symbol: NUE. Like Steel Dynamics, Nucor Corporation produces steel and other raw materials, engaging in the fabrication and distribution of these products.

Another large competitor is United States Steel Corp, trading at \$26.62 (closing 11/11/2021). USS has a market cap of \$7.19 Billion and is also traded on NYSE as X. Aside from producing flat rolled steel products, USS also provides railroad services and real estate operations in the US and Europe.

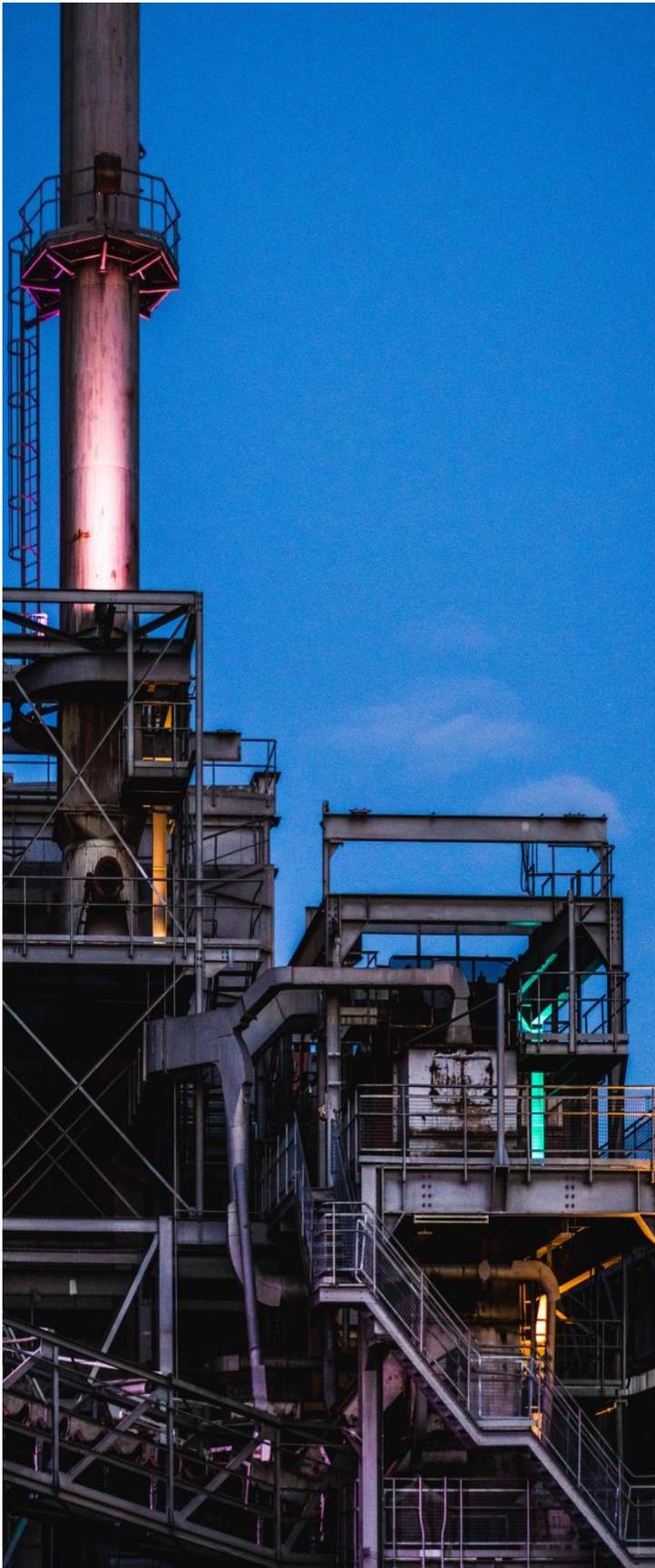


Based on the chart above, we can make comparisons on the stock performance of the 2 competitors and the market compared to Steel Dynamics. In the last quarter, we can see that all 3 steel production companies had a negative average return in their stock performance, with Steel Dynamics performing the best out of them (lowest negative average return of -2.99%). Steel Dynamics, Inc generally had better returns on its stock, with a faster increase in stock price than Nucor Corporation and USS. This is shown by Steel Dynamics steeper line. Compared to the market, which is the S&P 500 index in this case, Steel Dynamics underperforms, with negative average stock return compared to S&P 500's positive average stock returns.



In October 2021, the stock performance of all 3 steel companies as well as the market's dropped but quickly recovered. This is largely due to the supply chain shortage. The raw material shortage was due to low employment as the economy slowly picks up after the pandemic with vaccines rolling out. Due to many facilities being closed during the pandemic, supply is relatively low but as the economy picked up rapidly, so did the demand for material. The shortage has caused an elevation in steel prices, but this has also been counterbalanced by the result of shortages in other complementary materials as well. Steel is a metal that is essentially used in everything and is predicted to be a growing industry. During the pandemic, most steel facilities stayed open since it was a deemed a necessity, however, only essential steel was produced, thus a lower supply at the time.

Financial Analysis



Revenue increased between FY 20-21 by 64% due to the reopening of the economy after the pandemic. One can see that following a decrease in revenue growth in FY 19-20 of -8% and -11% due to the closing down of facilities and COVID-19; there is finally growth.

Gross Profit increased by 25.8% from 2020 to 2021. Prior to this, the growth rates were also positive but lower at 15-20%. The growth rate in 2021 is largely due to the supply chain crisis, with rising demands and rocketing material prices for steel.

Operating expenses has also increased from 2020 to 2021 to a total operating expense of over \$800,000 in the last twelve months. Total operating expenses were much lower in the last 4 years, with a range of \$500k - \$600k each year. This is a 60% increase from stable operating expenses in the past years. The increase in operating expenses is consistent with the revenue growth.

Net income increased tremendously from FY 20-21, at a record rate of 63.51%. In FY 19-20, net income decreased 9.8% due to the pandemic. Prior to that, net income increased at a much lower rate than the LTM at 9.4%.

Total debt has also increased throughout the years from 12.43% in 2018 to 2019, 14.02% in 2019 to 2020, and 34.15% from 2020 to 2021. This also explains the increase in total debt to cap ratio.

Net cash at the end of the year was a total net change in cash outflow of \$191,330 (in 000's) from December 2020 to the last quarter of 2021. This could largely be explained by quite a large amount of long-term debt repayments, dividends paid, and purchases of treasury stock in 2021. The prior year, there was also a total cash outflow, but of \$32,684 (in 000's). Steel Dynamics, Inc issued more total debt that year, but this was also followed by lots of debt repayments and very low net income in 2020. The firm closed many facilities due to the virus which also resulted in lower operating activities. In FY 2018-2019, Steel Dynamics had a net change cash inflow of \$187,166,000. This was prior to the pandemic; thus, the company didn't have much debt obligations or spend much on capital.

The Capitalization Ratio has increased steadily over the years to 43% in 2021, which means that Steel Dynamics, Inc is investment grade. Its total debt to capitalization is below 50%, which means the firm is did not take on more debt than it can pay afford to pay off. The **Coverage Ratio** increased tremendously in the last year, to 53.7x from 12.6x. This is a good sign as the company can manage its liquidity, cashflows, and cover its interest payments.

Financial Ratio Analysis

Financial Ratio Analysis	LTM				
	9/30/21	12/31/20	12/31/19	12/31/18	12/31/17
EBITDA (\$000's)	\$ 3,496,568	\$ 1,192,340	\$ 1,307,962	\$ 2,039,607	\$ 1,365,880
TREND ANALYSIS					
Revenue Growth	64%	-8%	-11%	24%	
LIQUIDITY RATIOS					
Current Ratio	3.4x	3.4x	4.2x	4.0x	4.0x
Quick Ratio	1.7x	1.9x	2.5x	2.1x	2.2x
Cash Ratio	0.6x	1.1x	1.4x	0.8x	1.2x
Accounts Receivable Turnover	11.0x	10.6x	11.1x	12.4x	22.0x
Accounts Receivable Days	33.30	34.52	32.93	29.53	16.62
SOLVENCY RATIOS					
Total Debt / Total Capitalization (Cap Ratio)	43.0%	42.5%	41.1%	38.6%	42.7%
EBITDA / Interest (Coverage Ratio)	53.7x	12.6x	10.3x	16.1x	10.2x
Total Debt / EBITDA (Leverage Ratio)	1.2x	2.6x	2.1x	1.2x	1.7x
PROFITABILITY RATIOS					
Gross Margin	25.8%	14.9%	14.6%	19.6%	16.6%
EBITDA Margin	22.3%	12.4%	12.5%	17.3%	14.3%
ROA	19.3%	6.5%	8.1%	16.6%	23.3%
ROE	48.8%	14.1%	16.8%	34.7%	50.1%

Income Statement

Income Statement	LTM				
	9/30/21	12/31/20	12/31/19	12/31/18	12/31/17
(\$000's)					
Total Revenue	\$ 15,699,438	\$ 9,601,482	\$ 10,464,991	\$ 11,821,839	\$ 9,538,797
Cost Of Revenue	\$ 11,656,598	\$ 8,166,754	\$ 8,934,007	\$ 9,499,025	\$ 7,956,783
Gross Profit	\$ 4,042,840	\$ 1,434,728	\$ 1,530,984	\$ 2,322,814	\$ 1,582,014
Total Operating Expense	\$ 892,702	\$ 568,177	\$ 544,104	\$ 600,405	\$ 515,133
EBIT (Operating Income or loss)	\$ 3,150,138	\$ 866,551	\$ 986,880	\$ 1,722,409	\$ 1,066,881
Interest Expense	\$ 65,077	\$ 94,877	\$ 127,104	\$ 126,620	\$ 134,399
Other Income Expense	\$ 64,022	\$ 66,196	\$ 15,561	\$ 23,985	\$ 2,753
(EBT) Pretax Income	\$ 3,021,039	\$ 705,478	\$ 844,215	\$ 1,571,804	\$ 929,729
Tax Expense	\$ 672,972	\$ 134,650	\$ 197,437	\$ 363,969	\$ 129,439
Net Income	\$ 2,348,067	\$ 570,828	\$ 646,778	\$ 1,207,835	\$ 800,290

Statement of Cash Flows

Cash Flow Analysis		LTM				
(\$000's)	9/30/21	12/31/20	12/31/19	12/31/18	12/31/17	
Net income	\$ 2,348,067	\$ 570,828	\$ 677,900	\$ 1,255,805	\$ 805,796	
Depreciation & Amortization	\$ 346,430	\$ 325,789	\$ 321,082	\$ 317,198	\$ 298,999	
Deferred income tax and adjustments	\$ 267,204	\$ 134,380	\$ 100,765	\$ 103,899	\$ (85,634)	
Cash Income	\$ 2,961,701	\$ 1,030,997	\$ 1,099,747	\$ 1,676,902	\$ 1,019,161	
Working Capital Activities						
Account Receivables	\$ (974,806)	\$ (111,920)	\$ 237,805	\$ (145,873)	\$ (139,054)	
Inventories and Other Assets	\$ (1,312,928)	\$ (152,143)	\$ 231,601	\$ (249,688)	\$ (238,695)	
Accounts Payables	\$ 533,307	\$ 182,509	\$ (86,445)	\$ 37,904	\$ 96,062	
Income Tax Payables/Receivables	\$ 86,091	\$ 32,551	\$ (12,095)	\$ 26,471	\$ (33,889)	
Accrued Expenses	\$ 305,414	\$ (14,371)	\$ (74,323)	\$ 69,753	\$ 36,021	
Total Change in Working Capital	\$ (1,362,922)	\$ (63,374)	\$ 296,543	\$ (261,433)	\$ (279,555)	
Operating Cash flow	\$ 1,598,779	\$ 967,623	\$ 1,396,290	\$ 1,415,469	\$ 739,606	
Investment Activities						
Capital expenditure	\$ (1,144,855)	\$ (1,198,055)	\$ (451,945)	\$ (239,390)	\$ (164,935)	
Purchases of Short-term investments	\$ -	\$ (149,359)	\$ (396,159)	\$ (268,783)	\$ -	
Proceeds from Short-term investments	\$ -	\$ 411,533	\$ 362,768	\$ 40,000	\$ -	
Acquisition of Business, net of cash required	\$ (1,000)	\$ (60,012)	\$ (97,106)	\$ (433,998)	\$ (6,192)	
Other investing activities	\$ 4,206	\$ 2,634	\$ 5,756	\$ 6,907	\$ 32,022	
Net Cash Provided by Investing Activities	\$ (1,141,649)	\$ (993,259)	\$ (576,686)	\$ (895,264)	\$ (139,105)	
Financing Activities						
LT debt Issuance	\$ 1,971,419	\$ 2,523,356	\$ 1,573,962	\$ 445,607	\$ 620,041	
LT Debt Repayments	\$ (1,627,383)	\$ (2,177,527)	\$ (1,264,152)	\$ (455,491)	\$ (609,914)	
Dividends Paid	\$ (213,616)	\$ (209,248)	\$ (200,271)	\$ (168,913)	\$ (145,565)	
Purchases of Treasury Stock	\$ (730,814)	\$ (106,529)	\$ (348,608)	\$ (523,569)	\$ (252,242)	
Other Financing Activities	\$ (48,066)	\$ (37,100)	\$ (27,561)	\$ (18,501)	\$ (25,655)	
Net Cash Provided by Financing Activities	\$ (648,460)	\$ (7,048)	\$ (266,630)	\$ (720,867)	\$ (413,335)	
Net Change in Cash	\$ (191,330)	\$ (32,684)	\$ 552,974	\$ (200,662)	\$ 187,166	
Cash in Beginning of Year	\$ 1,287,031	\$ 1,401,302	\$ 828,486	\$ 1,028,882	\$ 841,483	
Cash at End of the Year	\$ 1,095,701	\$ 1,368,618	\$ 1,381,460	\$ 828,220	\$ 1,028,649	

Balance Sheet

Balance Sheet		LTM				
(\$000's)	9/30/21	12/31/20	12/31/19	12/31/18	12/31/17	
Assets						
Current Assets						
Cash & Cash Equivalents	\$ 1,095,701	\$ 1,368,618	\$ 1,381,460	\$ 828,220	\$ 1,028,649	
Other short term investments	\$ -	\$ -	\$ 262,174	\$ 228,783	\$ -	
Total Cash	\$ 1,095,701	\$ 1,368,618	\$ 1,643,634	\$ 1,057,003	\$ 1,028,649	
Net Receivables	\$ 1,892,795	\$ 971,918	\$ 844,336	\$ 1,043,756	\$ 868,837	
Inventory	\$ 2,894,970	\$ 1,843,548	\$ 1,689,043	\$ 1,859,168	\$ 1,519,347	
Other Current Assets	\$ 104,106	\$ 74,363	\$ 76,012	\$ 72,730	\$ 91,509	
Total Current Assets	\$ 5,987,572	\$ 4,258,447	\$ 4,253,025	\$ 4,032,657	\$ 3,508,342	
Non Current Assets						
Gross property, plant, equipment	\$ 9,978,940	\$ 7,331,616	\$ 6,124,714	\$ 5,684,970	\$ 5,165,508	
Accumulated depreciation	\$ (2,000,017)	\$ (3,226,047)	\$ (2,988,828)	\$ (2,739,203)	\$ (2,489,604)	
Net property, plant, and equipment	\$ 7,978,923	\$ 4,105,569	\$ 3,135,886	\$ 2,945,767	\$ 2,675,904	
Goodwill	\$ 539,283	\$ 457,226	\$ 452,915	\$ 429,645	\$ 386,893	
Intangible assets	\$ 400,539	\$ 324,577	\$ 327,901	\$ 270,328	\$ 256,909	
Other long term assets	\$ 149,299	\$ 119,743	\$ 106,038	\$ 25,166	\$ 27,684	
Total Non-current assets	\$ 9,068,044	\$ 5,007,115	\$ 4,022,740	\$ 3,670,906	\$ 3,347,390	
Total Assets	\$ 15,055,616	\$ 9,265,562	\$ 8,275,765	\$ 7,703,563	\$ 6,855,732	
Liabilities						
Current Liabilities						
Accounts Payable	\$ 1,220,437	\$ 769,455	\$ 513,344	\$ 550,754	\$ 489,448	
AP Related parties	\$ 80,167	\$ 2,386	\$ 2,014	\$ 7,468	\$ 3,696	
Accrued Liabilities	\$ 389,321	\$ 400,052	\$ 401,984	\$ 436,681	\$ 346,580	
Current portion of LT debt	\$ 55,056	\$ 86,894	\$ 89,356	\$ 24,234	\$ 28,795	
Total current Liabilities	\$ 1,744,981	\$ 1,258,787	\$ 1,006,698	\$ 1,019,137	\$ 868,519	
Non-Current Liabilities						
Long Term Debt	\$ 4,045,576	\$ 3,015,782	\$ 2,644,988	\$ 2,352,489	\$ 2,353,145	
Deferred tax liabilities	\$ 2,384,499	\$ 536,288	\$ 484,169	\$ 435,838	\$ 305,949	
Other non-current liabilities	\$ 722,220	\$ 106,479	\$ 75,055	\$ 8,870	\$ 21,811	
Total non-current liabilities	\$ 7,152,295	\$ 3,658,549	\$ 3,204,212	\$ 2,797,197	\$ 2,680,905	
Total Liabilities	\$ 8,897,276	\$ 4,917,336	\$ 4,210,910	\$ 3,816,334	\$ 3,549,424	
Reedemable Non-Controlling Interests	\$ 722,220	\$ 158,614	\$ 143,614	\$ 111,240	\$ 111,240	
Stockholders' equity						
Common stock	\$ 648	\$ 648	\$ 646	\$ 645	\$ 644	
Treasury Stock	\$ (2,344,477)	\$ (1,623,747)	\$ (1,525,113)	\$ (1,184,243)	\$ (665,297)	
Additional Paid in Capital	\$ 1,219,438	\$ 1,207,392	\$ 1,181,012	\$ 1,160,048	\$ 1,141,534	
Retained Earnings	\$ 6,721,734	\$ 4,758,969	\$ 4,419,296	\$ 3,958,320	\$ 2,874,693	
Accum Other additional income	\$ 10,583	\$ 1,902	\$ (7)	\$ 301	\$ -	
non controlling interests	\$ (171,806)	\$ (155,552)	\$ (154,593)	\$ (159,082)	\$ (156,506)	
Total Stockholders' Equity	\$ 5,436,120	\$ 4,189,612	\$ 3,921,241	\$ 3,775,989	\$ 3,195,068	
Liabilities and Stockholders Equity	\$ 15,055,616	\$ 9,265,562	\$ 8,275,765	\$ 7,703,563	\$ 6,855,732	
<i>Error</i>	\$ -	\$ -	\$ -	\$ -	\$ -	

Projection Analysis

Steel Dynamics' revenue growth projections were based on a series of many different ongoing and anticipated events/circumstances.

Steel Dynamics finished the third quarter of 2021 with very high revenue growth of 63.5%. In the previous years, the firm experienced revenue growth of 29.5% and then a decrease in revenue of -11.5% before the pandemic. Projections of operating expenses and cost of revenue is generated by taking the average of the historical costs/expenses. The historical expenses and costs changes from year to year were generally in the same range.

Steel Dynamics, Inc.

Projection Analysis

	HISTORICAL					PROJECTED					
	Dec 31 2017	Dec 31 2018	Dec 31 2019	Dec 31 2020	Sep 30 2021	Dec 31 2021	Dec 31 2022	Dec 31 2023	Dec 31 2024	Dec 31 2025	Dec 31 2026
(\$000's)											
Total Revenue	9,538,797	11,821,839	10,464,991	9,601,482	15,699,438	15,554,401	14,465,593	14,754,905	15,241,816	16,003,907	16,884,122
<i>Revenue Growth</i>		23.9%	-11.5%	-8.3%	63.5%	-0.9%	-7.0%	2.0%	3.3%	5.0%	5.5%
Cost of Revenue	7,956,783	9,499,025	8,934,007	8,166,754	11,656,598	11,548,910	12,013,042	12,253,303	12,657,662	13,290,545	14,021,525
Gross Profit	1,582,014	2,322,814	1,530,984	1,434,728	4,042,840	4,005,491	2,452,551	2,501,602	2,584,155	2,713,362	2,862,597
<i>Gross profit</i>	16.6%	19.6%	14.6%	14.9%	25.8%	25.8%	17.0%	17.0%	17.0%	17.0%	17.0%
Total Operating Expenses	515,133	600,405	544,104	568,177	892,702	839,784	780,999	796,619	822,908	864,053	911,576
EBIT (Operating Income or Loss)	1,066,881	1,722,409	986,880	866,551	3,150,138	3,165,707	1,671,552	1,704,983	1,761,247	1,849,309	1,951,021
Interest Expense	134,399	126,620	127,104	94,877	65,077						
EBT & other Income/Expenses	932,482	1,595,789	859,776	771,674	3,085,061						
Other Income/Expenses Net	2,753	23,985	15,561	66,196	64,022						
EBT	929,729	1,571,804	844,215	705,478	3,021,039						
Income Tax Expense	129,439	363,969	197,437	134,650	672,972						
Net Income	800,290	1,207,835	646,778	570,828	2,348,067						
Depreciation	298,999	317,198	321,082	325,789	346,430	460,714	428,464	437,034	451,456	474,028	500,100
Working Capital	(279,555)	(261,433)	296,543	(63,374)	(1,362,922)	(399,916)	(371,922)	(379,360)	(391,879)	(411,473)	(434,104)
Capital Expenditure	(164,935)	(239,390)	(451,945)	(1,198,055)	(1,144,855)	(418,554)	(389,255)	(397,040)	(410,143)	(430,650)	(454,336)
Current Portion of Long Term Debt	28,795	24,234	89,356	86,894	55,056						
Long Term Debt	2,353,145	2,352,489	2,644,988	3,015,782	4,045,576						
Total Debt	2,381,940	2,376,723	2,734,344	3,102,676	4,100,632	3,895,600	3,690,569	3,485,537	3,280,506	3,075,474	2,870,442
OPERATING ASSUMPTIONS											
EBITDA (\$ 000's)	1,365,880	2,039,607	1,307,962	1,192,340	3,496,568	3,626,421	2,100,016	2,142,016	2,212,703	2,323,338	2,451,121
Revenue Growth		23.9%	-11.5%	-8.3%	63.5%	62.0%	-7.0%	2.0%	3.3%	5.0%	5.5%
Cost of Revenue as % of Revenue	83.4%	80.4%	85.4%	85.1%	74.2%	74.2%	83.0%	83.0%	83.0%	83.0%	83.0%
Operating Expense as % of Revenues	5.4%	5.1%	5.2%	5.9%	5.7%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
Working Capital as % of Revenues	2.9%	2.2%	-2.8%	0.7%	8.7%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Capex % Revenue	1.7%	2.0%	4.3%	12.5%	7.3%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Depreciation % Revenue	3.1%	2.7%	3.1%	3.4%	2.2%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total Debt	2,381,940	2,376,723	2,734,344	3,102,676	4,100,632	3,895,600	3,690,569	3,485,537	3,280,506	3,075,474	2,870,442
Debt Repayment \$						205,032	205,032	205,032	205,032	205,032	205,032
Estimated Debt Repayment % of 12/2020					5.00%						

From 2020 to 2021, the projected revenue growth is 62%, slightly lower than to the third quarter of 2021 because although the firm was going to finish strong, news of Omicron has depleted stock value and slight steel demand, causing several investors to sell their stock. Prior to this, in the beginning of 2021, the economy was opening back up and many employees were able to return to the steel manufacturing facilities. This with a mixture of high demand for steel production in the supply chain crisis for auto and products launched the revenue of the company to further take off. With people getting vaccines and the reopening of the economy in 2021 with high demand and low supply, this would explain the high revenue growth in 2021's last quarter. 62% is an outlier and large revenue growth from the previous year.

Following 2021, revenue growth is much lower. In 2022, projected revenue growth is -7%. This is since 2021's revenue growth is highly inflated due to the simultaneous reopening of the economy and supply chain shortage. 2022's revenue is going to decrease slightly. This is due to the prior year's growth being highly inflated and due to investor speculation. According to Barron's, investors are also worried that in 2022, steel prices may collapse due to the entrance of new suppliers of metal/steel in the market. This is also backed by Biden's administration plans on easing important tariffs of steel and aluminum from Japan and Europe which was previously placed by Trump's administration to protect domestic steel producers like Steel Dynamics. This is a concern for investors if competitors were to re-enter the market in the US and pose a threat for Steel Dynamics, Inc. Domestic steel prices will decrease following lower import tariffs. However, it is only a slight decrease in revenue growth because the anticipated new steel tariff is expected to only allow imports of steel to a certain amount, which is then taxed after the cap.

From 2023 to 2026, projected revenue growth goes from 2% to 3.3% to 5%, and then 5.5%. This is because the steel industry is undervalued. Steel prices increased 4x pre pandemic. After revenue growth stabilizes after covid-19, Omicron, supply chain shortages, and tariff regulations, demand for steel will continue to grow. Many steel analysts from different banks have stated their idea that steel stocks are undervalued and have great balance sheets where most expect to decrease debt over time. Steel Dynamics has also been paying a steady dividend to its investors. "The industry's improving financial condition could lead to higher dividends and a loftier valuation" (Bary, Page 1). The reason why the growth rates aren't that high is because of the anticipation of easing of import steel tariffs. "The growth rate in U.S steel demand is likely to average 3%--4% annually in coming years," says Woodworth, a steel Director at Credit Suisse. One of Steel Dynamic's greatest strengths is that it is a leader in environmental sustainability. The firm's greenhouse gas emissions are nearly 70% less than the industry average. Steel Dynamics is finishing up the opening of its new mill at the end of 2021, anticipating it to be done with major capital expenditures as well.



Valuation Analysis

Enterprise Valuation Analysis								
	EV (000's)	Debt (000's)	Cash (000's)	Eq Value (000's)	Shares Outs (000's)	Stock Price	Recom.	
Market Value / Using the Stock Price	\$ 16,189,211	\$ 4,100,632	\$ 1,095,701	\$ 13,184,280	212,000	\$ 62.19		
Average EBITDA Industry Trading Multiple	\$ 21,661,066	\$ 4,100,632	\$ 1,095,701	\$ 18,656,135	212,000	\$ 88.00	BUY (+41.5%)	
Discount Cash Flow Valuation Analysis	\$ 24,943,918	\$ 4,100,632	\$ 1,095,701	\$ 21,938,987	212,000	\$ 103.49	BUY (+66.4%)	
Average of Methods	\$ 23,302,492			\$ 20,297,561		\$ 95.74	BUY (+53.9%)	

(Analysis value is based on closing stock values as of 12/7/2021)

Market Value (Using Stock Price):

Company	Ticker Symbol	Stock Price	Stocks Outstanding (\$000)	Equity Value (\$000)	Debt (ST & LT) (\$000)	Cash (\$000)	Enterprise Value. (\$000)
Steel Dynamics, Inc.	STLD	\$ 62.19	212,000	\$13,184,280	\$ 4,100,632	\$ 1,095,701	\$16,189,211

Average EBITDA Industry Trading Multiple:

Company	Ticker Symbol	Stock Price	Stocks Outstanding (\$000)	Equity Value (\$000)	Debt (ST & LT) (\$000)	Cash (\$000)	Enterprise Value (\$000)	EBITDA (\$mm) 2019 - PreCovid	EBITDA Multiple	Beta (5Y)
Nucor	NUE	\$ 114.01	276,344	\$ 31,506,000	\$ 5,667,812	\$ 2,011,540	\$ 35,162,272	\$ 2,702,490	13.0x	1.4x
Cleveland - Cliffs Inc	CLF	\$ 21.17	481,200	\$ 10,187,000	\$ 3,350,000	\$ 90,000	\$ 13,447,000	\$ 514,400	26.1x	2.2x
Stelco Holdings	STZHF	\$ 31.69	74,408	\$ 2,358,000	\$ 67,000	\$ 410,900	\$ 2,014,100	\$ 101,000	19.9x	2.2x
U.S. Steel Corporation	X	\$ 23.52	260,247	\$ 6,121,000	\$ 4,541,000	\$ 2,044,000	\$ 8,618,000	\$ 581,000	14.8x	2.1x
Commercial Metals Company	CMC	\$ 32.45	118,860	\$ 3,857,000	\$ 1,069,781	\$ 497,745	\$ 4,429,036	\$ 498,888	8.9x	1.2x
Steel Dynamics	STLD	\$ 62.19	212,000	\$ 13,184,280	\$ 4,100,632	\$ 1,095,701	\$16,189,211	\$ 1,307,962	12.4x	1.5x
EBITDA * Average Multiple	\$ 1,307,962	16.6x						Average	16.6x	1.8x
Steel Dynamic's Enterprise Value	\$ 21,661,066	Stock Val =	\$ 88.00							

(Analysis value is based on closing stock values as of 12/7/2021)

DCF (Discounted Cash Flow Analysis):

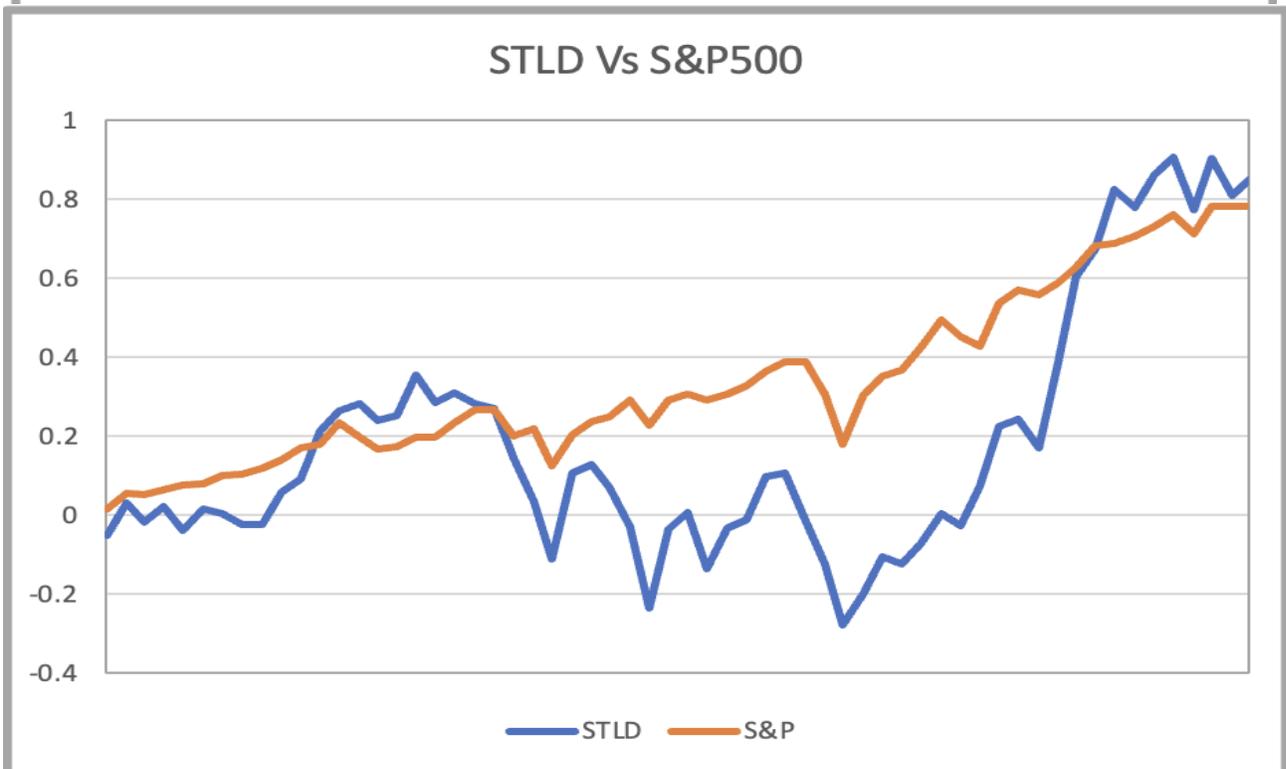
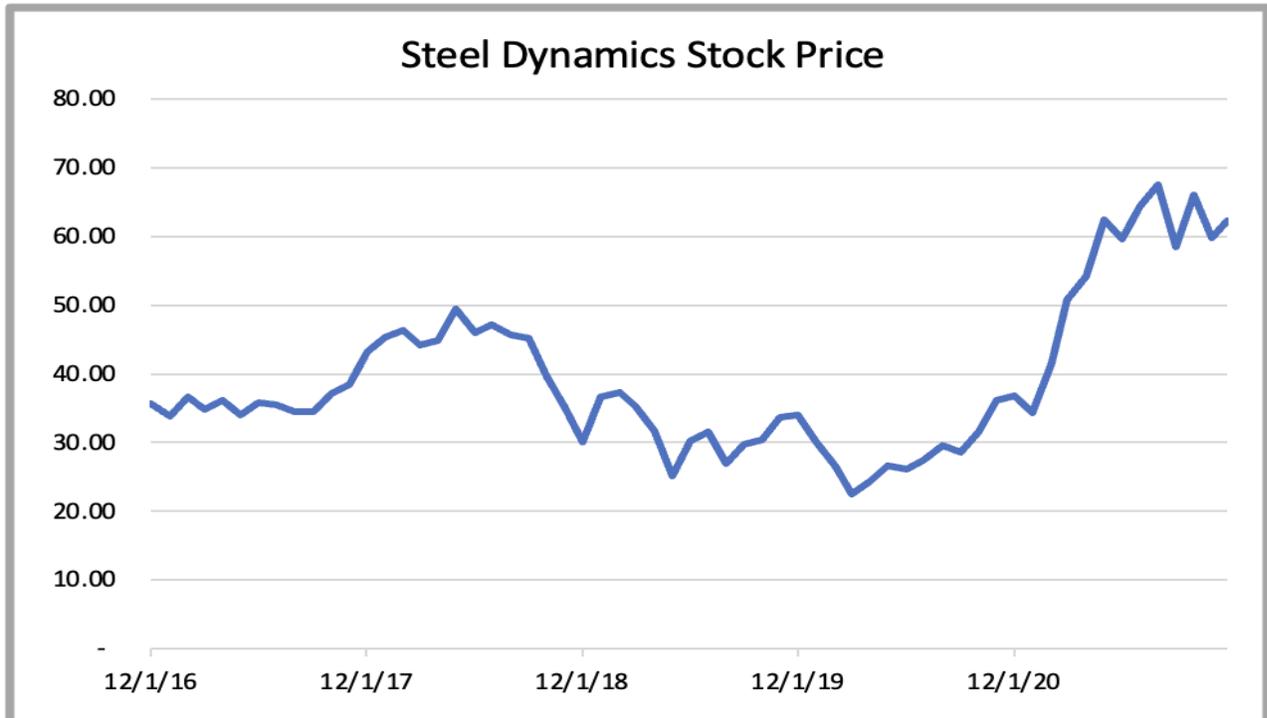
Discount Cash Flow Valuation Analysis									
	HISTORICAL		PROJECTED				EXIT YEAR		
	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26
Revenues	11,821,839	10,464,991	9,601,482	15,554,401	14,465,593	14,754,905	15,241,816	16,003,907	16,884,122
Revenue Growth		-11.5%	-8.3%	62.0%	-7.0%	2.0%	3.3%	5.0%	5.5%
Cost of Revenues (CoGS)	(9,499,025)	(8,934,007)	(8,166,754)	(11,548,910)	(12,013,042)	(12,253,303)	(12,657,662)	(13,290,545)	(14,021,525)
Operating Expenses (Excl. Non-rec.)	(600,405)	(544,104)	(568,177)	(839,784)	(780,999)	(796,619)	(822,908)	(864,053)	(911,576)
EBIT	1,722,409	986,880	866,551	3,165,707	1,671,552	1,704,983	1,761,247	1,849,309	1,951,021
Less Taxes (tax rate x of EBIT)	22.00%			(696,455)	(367,741)	(375,096)	(387,474)	(406,848)	(429,225)
Plus Depreciation				460,714	428,464	437,034	451,456	474,028	500,100
Less Working Capital				(399,916)	(371,922)	(379,360)	(391,879)	(411,473)	(434,104)
Less Capex				(418,554)	(389,255)	(397,040)	(410,143)	(430,650)	(454,336)
Cash Flow				2,111,495	971,097	990,519	1,023,207	1,074,367	1,133,457
EBITDA			1,192,340	3,626,421	2,100,016	2,142,016	2,212,703	2,323,338	2,451,121
Debt (assuming 5% reduction of intial principal per year)			4,100,632	3,895,600	3,690,569	3,485,537	3,280,506	3,075,474	2,870,442
Terminal Value	Assumptions	Growth							
EBITDA Multiple Method	16.56x	(EBITDA x EBITDA Multiple)						38,476,634	
Perpetuity Method	8.68% WACC	5.50% Next Year's Cash Flow / (Discount Rate - Growth)						35,639,925	
Average		(using 80% of WACC)						37,058,280	
Less Debt Outstanding (at Exit)								(3,075,474)	
Plus Cash (at Exit)								33,982,806	Assume \$0
Equity Value at Terminal									
		PV (for \$1)							
Equity Cash Flows	14.17%		2,111,495	971,097	990,519	1,023,207	35,057,172		
	PV (1) =	1.0000000	\$1,849,512						
	PV (2) =	1.0000000	\$745,070						
	PV (3) =	1.0000000	\$665,678						
	PV (4) =	1.0000000	\$602,326						
	PV (5) =	1.0000000	\$18,076,402						
	PV=		\$21,938,987						
Enterprise Value =	PV of Equity + PV of Debt								
PV of Equity =			\$21,938,987						
+ PV of Debt =			4,100,632						
- PV of Cash =			(1,095,701)						
Enterprise Value			24,943,918						
	Stock Val=	\$	103.49						

Cost of Equity Calc		Interest Calculation	
Risk Free Rate (5 year)	1.50%	3,601,654	Avg Debt
Premium based on MC =	8.50%	65,077	Interest
STLD Beta =	1.49x	1.81%	Rate
Expected Equity Return =	14.17%		

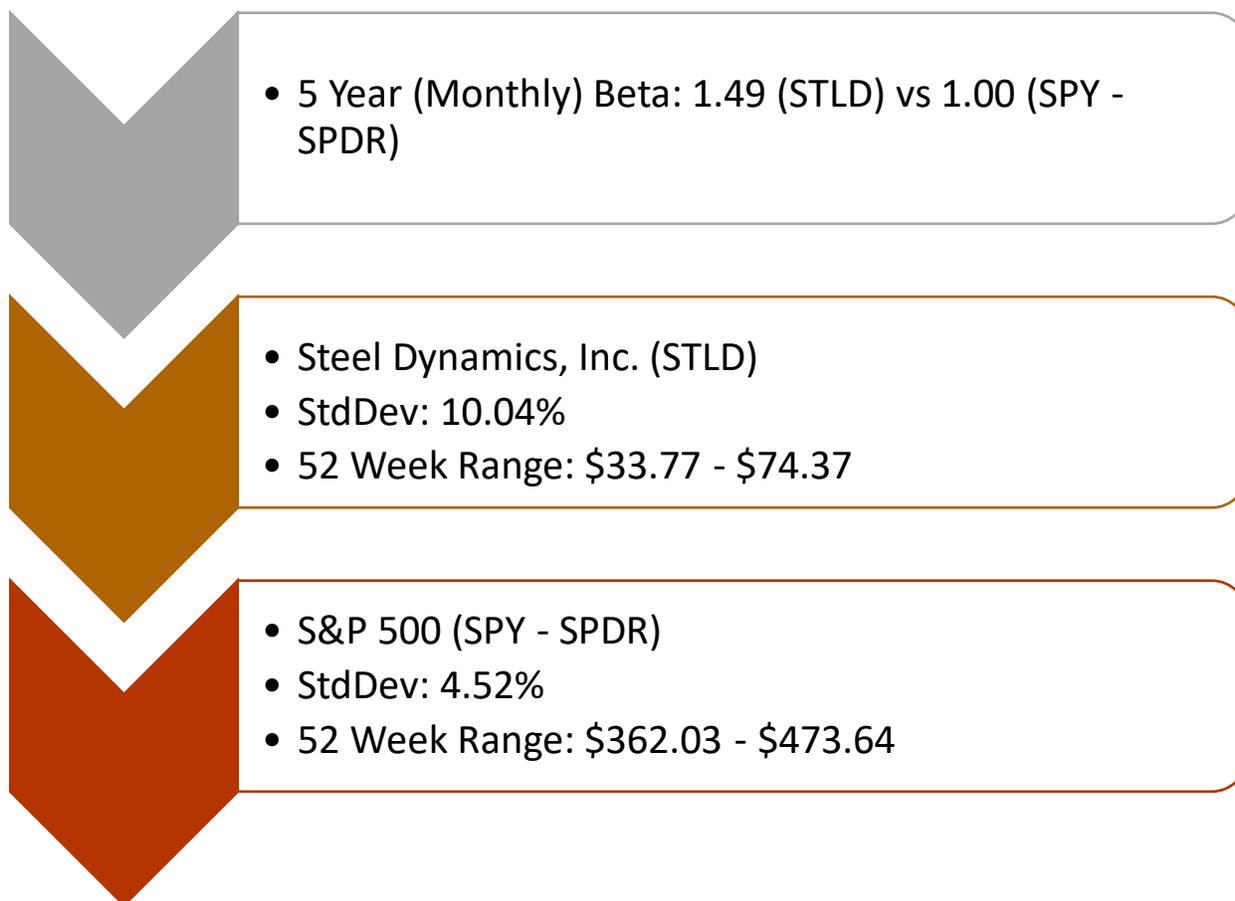
WACC Calc:	Amount	% Cap	RoR	AT RoR	WACC
Total Debt	4,100,632	43.0%	1.81%	1.41%	0.61%
BV Equity	5,436,120	57.0%	14.17%	14.17%	8.07%
	9,536,752	100.0%			8.68%

Technical Analysis

HISTORICAL PRICE STOCK ANALYSIS



Beta = 1.4927



When comparing the stock performance of Steel Dynamic, Inc., and the market (using S&P 500), STLD has a much higher standard deviation, of 10.04%, over 2x that of the markets. This means that Steel Dynamic's is a highly volatile stock because it has a widespread from the mean of its historical stock performance. This is also because the data was based on December 2016 to November 2021. This is where we see the steel industry experience rising prices of steel pre pandemic and then the fall during the pandemic then a recent skyrocketing of steel demand when the economy reopens.

The beta of STLD is 1.49 compared to the market's beta of 1. This means that Steel Dynamic's stock price moves 1.49 relative to the markets.

Discussions & Recommendations

Stock Price	\$62.19
Trading Multiple	\$88.00
Discounted Cash Flow	\$103.49
Average	\$95.74

The results of the valuations would be a recommendation to buy the stock as it will hit a target price of \$95.74.

Using the current stock price and market value, STLD's enterprise value is \$16.19 billion, valuing the stock at \$62.19. STLD exhibits high beta and standard deviation, meaning it is highly risky and volatile.

Using the comparable EBITDA trading multiples method, STLD's enterprise value is \$21.66 Billion, putting the stock price at \$88. This is a 41.5% increase from the current trading stock price of \$62.19. When comparing STLD's EBITDA multiple to its competitor's, its multiple is 12.4x, slightly below the industry average of 16.6x. 2019, pre-Covid EBITDA values were used for the comparable analysis because although Steel Dynamics did not perform poorly during 2020 as steel manufacturing was considered essential, many of its competitors were drastically affected, even with negative EBITDAs.

Using DCF analysis, the enterprise value is \$24.9 Billion and theoretical stock price is \$103.49 per share. This is an upside of 66.4% from the current market price of STLD. This is tremendous growth in stock value given the revenue projections. If this valuation and prediction were correct, that means that steel analysts in the industry today are correct as

well. STLD is heavily undervalued and has high potential for an increase in stock value. This is all based on anticipated events in the coming years for STLD as well as the past recent news. Steel prices have skyrocketed pre COVID-19 and has only continued to do so when the economy opened and there was a shortage of supply compared to a high demand. In the coming years, if Biden were to implement looser import tariffs on steel which might decrease revenue growth slightly, the industry for U.S. steel companies is still looking bright.

Averaging the results from the valuation methods, we get the theoretical stock price of \$95.74, a 53.95% increase from the current market price of \$62.19 as of December 7, 2021. We must also take into consideration that the stock price fell slightly recently due to news from Omicron. This shows STLD is undervalued, and it is recommended that investors **BUY** STLD at its current trading price in hopes that it is indeed undervalued and will eventually increase to its actual value of **\$95.74** per share.



Appendix & Cited Sources

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Yahoo Finance, Steel Dynamics (STLD): Historical Prices, Financial Data

Yahoo Finance, S&P500: Historical Prices

This report contains predictive statements related to future conditions of Steel Dynamic, Inc. including its value, trading price, and performance. These predictive statements and projections are not guarantees of the actual outcome. Write/Analyst has no responsibility over viewer's actions. Statements are made in "forward looking" aspects and actual performance may turn out differently than anticipated.