



Ryerson Holding Corp. (RYI): Strengthening End Markets, Higher Metals Prices, Solid Current Yield: BUY

On Dec 15, 2017 we initiated on Ryerson Holding Corp's (RYI) 11.0% senior secured notes due 2022 (112 price, 5.8% YTW, 408 OAS) with a Buy rating. We highlight selections from our initiation in the summary below.

Executive Summary

Initially founded more than 175 years ago, Ryerson Holding Corporation (RYI) is a leading metals service center predominantly operating in North America and China. For the LTM period ended September 2017 RYI generated adjusted EBITDA (excluding the impact of LIFO accounting) of \$180mn on revenue of \$3.236bn. As of 3Q17, RYI had cash of \$74mn and debt of \$1.042bn equating to 5.4x net and 5.8x total leverage in a business whose equity trades at ~7.2x.

Recent Operating Performance

Profitability was hindered in 3Q17 by deflationary chrome and nickel costs that in turn deflated EBITDA by approximately \$9.0mn. However, with renewed pricing strength in chrome and nickel driving higher stainless steel prices, we believe this headwind is largely behind RYI. With Chinese steel production slowing temporarily despite a robust macroeconomic demand backdrop in China, imports of steel products into the U.S. are on the decline and domestic manufacturers are having success raising prices for their products to cover any recent raw material inflation. We believe this is a theme that will play out over the course of 4Q17 and view RYI as one of the chief beneficiaries of the positive momentum. While net leverage is currently high at 5.4x, RYI's number one priority is deleveraging its capital structure through FCF generation and debt reduction before the first call date of its 11.0% secured notes due 2022.w

Recommendation

RYI's absolute top priority is to refinance the 11.0% senior secured notes due 2022. At first glance from a YTW perspective the 11.0% notes yield 5.8% at a dollar price of 112.000% for a Caa1/B credit versus the DB HY commodities index's 5.8% YTW. However, the 11.0% notes are not callable until May 2019 at 105.500%, ~1.5 years from today, which makes them more interesting owing to our belief that RYI may elect to redeem them earlier than the first call date since the expensive 11.0% notes now trade ~520bps inside their coupon. Hence, we like the base-case of generating returns in line with the average HY Commodity index with the potential upside for mid-to-high-single digit returns. In the meantime, investors would be situated in a credit with an improving end market outlook reaping a generous current yield of 9.8% with a management team focused on deleveraging the capital structure. Therefore we are initiating on RYI's 11.0% senior secured notes due 2022 with a BUY rating.

Risks

Downside risks include raw material inflation compressing margins, an excess supply of foreign steel and aluminum imports being dumped in the U.S. leading to distressed levels of steel and aluminum pricing, market share losses, an inability to refinance the 11.0% secured notes, sudden price movements that make it difficult for RYI to pass along to its customers, unfavorable tax and regulatory changes that pressure RYI's business and the plausibility of a recession, which would pressure many of RYI's cyclical end markets.