

PNC'S METALS INDUSTRY UPDATE

Issue 36

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Welcome to Issue #36 of PNC's *Metals Industry Update*.

We kicked off the year with [Issue #35](#) and an outlook provided by PNC Economics titled, *Steady as She Goes*. Since then, we have seen (among other things) the Federal Reserve turn hawkish and the war break out between Russia and Ukraine. The global response to Russia is disrupting the flow of commodities around the world. How these factors will play out over the balance of the year remains unclear, but to date the U.S. metals sector is holding up quite well.

Our cover story looks at the equity performance for a group of 29 publicly traded metals companies. Valuations for these companies continue to grow and the equity performance continues to outperform the broader equity indexes.

Metals prices across most of the products we track were higher at the end of March than they were at the beginning of the year, helping these businesses to sustain revenues and margins. The bond market, which is feeling the impact of the outlook for continued Fed rate increases, remains open, and spreads for both investment-grade and high-yield issuers remain favorable. Finally, the syndicated bank loan market remains supportive. We remain optimistic for the balance of 2022. It will be fun to follow.

Thanks for being a reader of PNC's *Metals Industry Update*. Our goal is to deliver information and content that can be used in your everyday activity. As always, we welcome your questions and comments. Please feel to reach out to Dave Gookin or Joe McElhinny.

METALS EQUITIES CONTINUE TO OUTPERFORM THE BROADER MARKET

Summary

- Focus on supply chain challenges, the tight labor market, rampant inflation, and an increasingly hawkish Federal Reserve
- Russian invasion of Ukraine changed the outlook for commodity prices

Issue #32 detailed the strong equity performance for the metals equities we follow for the 12 months ended April 14, 2021. The equity performance for that year on a percentage basis was three times greater than the broader averages. At that time, given our understanding of the cyclicity of metals equities, we questioned whether metals could continue to outperform the broader equity markets. Nevertheless, driven by the earnings expansion enjoyed during 2021 for almost all the 29 names we track, our metals companies reported share price appreciation of 17% (for the 8.5-month period from April 12, 2021, to year-end 2021)

METALS EQUITIES CONTINUE TO OUTPERFORM THE BROADER MARKET *(Continued)*

compared to 15% for the S&P 500, 5% for the S&P Industrials and 8% for the DJIA over the same period. Cumulative market caps grew by \$18.8 billion.

The top three performers on a percentage appreciation basis were Alcoa (up 88%), Ryerson (up 63%) and Ferroglobe (up 93%). Winners outpaced losers almost three to one. The three largest losers in our group over this period were dealing with the lagging recovery in aerospace: Carpenter Technology (down 29%), Allegheny Technologies (down 27%) and Universal Stainless (down 20%).

As 2022 began, equity investors turned their focus to supply chain challenges, the tight labor market, rampant inflation and an increasingly hawkish Federal Reserve. The consensus view became a slower growing economy with a heightened risk for recession. Not a great environment for equities in general and an even worse scenario for metals.

The Russian invasion of Ukraine changed the outlook for commodity prices, as the commodity-rich Russia was disrupted from its dealings with the global economy. Investors view this as generally more favorable for our metals businesses than the broader market. This view is reflected in the first quarter 2022 stock prices as our group of companies are up 22% versus the broader indexes all being down.

Metals winners outnumber losers by almost five to one, and the cumulative market caps are up another \$40 billion. During the quarter, the three largest gainers spanned our segments: Allegheny Technologies (up 68%), Olympic Steel (up 64%) and U.S. Steel (up 59%). The biggest losers were Arconic (down 22%), Harsco (down 27%) and GrafTech (down 19%).

As we enter the first quarter earnings season, we have seen strong reported earnings from Commercial Metals Company and Schnitzer Steel. Very favorable earnings guidance was reported by Nucor, Steel Dynamics and U.S. Steel. The firms in our group that deal in predominantly carbon products are trading at very low EV/EBITDA multiples with many below five times. These same firms have recently increased their dividend payouts and established or refreshed share repurchase programs. We feel the stage is set for equity performance of these metals companies to extend their performance streak beyond the past two years.

The charts shown on page 3 provide support for the information discussed in this cover story.

METALS EQUITIES CONTINUE TO OUTPERFORM THE BROADER MARKET *(Continued)*

Summary		Detail							
Average Price Change		Share Price			Market Cap (\$MM)				
		04/12/21	12/31/21	•	04/12/21	12/31/21	•		
Distribution	11%	Olympic Steel, Inc.	Distribution	\$ 28.46	\$ 23.50	-17%	\$ 315.19	\$ 260.32	\$ (54.87)
Mill Svc & Supply	24%	Reliance Steel & Aluminum Co.	Distribution	156.59	162.22	4%	9,975.95	10,163.82	187.87
Mills	23%	Russel Metals Inc.	Distribution	27.41	33.63	23%	1,707.52	2,119.92	412.40
Other - Mills	13%	Ryerson Holding Corporation	Distribution	15.96	26.05	63%	608.35	1,000.17	391.81
Specialty Metals	8%	Worthington Industries, Inc.	Distribution	66.97	54.66	-18%	3,548.80	2,751.26	(797.55)
S&P500	15%	Ferroglobe PLC	Mill Svc & Supply	3.22	6.21	93%	544.69	1,162.02	617.32
S&P500 Industrials	5%	GrafTech International Ltd.	Mill Svc & Supply	11.53	11.83	3%	3,081.22	3,113.92	32.70
DJIA	8%	Harsco Corporation	Mill Svc & Supply	18.00	16.71	-7%	1,421.88	1,323.49	(98.39)
		Sims Limited	Mill Svc & Supply	14.94	16.06	7%	3,004.82	3,106.21	101.39
		Alcoa Corporation	Mills	31.77	59.58	88%	5,919.42	11,147.61	5,228.18
		Allegheny Technologies Incorporated	Mills	21.97	15.93	-27%	2,794.59	2,027.07	(767.53)
		Carpenter Technology Corporation	Mills	41.30	29.19	-29%	1,983.47	1,406.58	(576.89)
		Century Aluminum Company	Mills	14.19	16.56	17%	1,277.89	1,492.54	214.65
		Cleveland-Cliffs Inc.	Mills	17.54	21.77	24%	8,750.82	10,886.97	2,136.15
		Commercial Metals Company	Mills	29.70	36.29	22%	3,579.16	4,412.70	833.54
		Nucor Corporation	Mills	80.53	114.15	42%	24,053.40	31,082.92	7,029.52
		Steel Dynamics, Inc.	Mills	51.83	62.07	20%	10,947.48	12,317.87	1,370.39
		Stelco Holdings Inc.	Mills	29.09	41.22	42%	2,580.67	3,186.94	606.27
		TimkenSteel Corporation	Mills	11.81	16.50	40%	538.57	762.44	223.87
		United States Steel Corporation	Mills	21.23	23.81	12%	5,706.25	6,434.24	727.99
		ArcelorMittal S.A.	Other - Mills	28.95	31.83	10%	25,661.67	25,651.79	(9.88)
		Schnitzer Steel Industries, Inc.	Other - Mills	39.47	51.92	32%	1,084.03	1,444.61	360.58
		Tenaris S.A.	Other - Mills	21.56	20.86	-3%	10,759.41	10,872.74	113.33
		Arconic Corp	Specialty Metals	26.45	33.01	25%	2,910.14	3,515.15	605.01
		Constellium SE	Specialty Metals	14.86	17.91	21%	2,079.85	2,537.44	457.60
		Haynes International, Inc.	Specialty Metals	29.32	40.33	38%	366.75	501.04	134.29
		Howmet Aerospace Inc.	Specialty Metals	32.32	31.83	-2%	14,014.43	13,598.35	(416.08)
		Kaiser Aluminum Corporation	Specialty Metals	111.04	93.94	-15%	1,746.97	1,482.68	(264.29)
		Universal Stainless & Alloy Products, Inc.	Specialty Metals	9.88	7.94	-20%	87.88	70.89	(16.99)
				Average		17%	Total		18,782.39

Source: S&P Capital IQ

Summary		Detail								
Average Price Change		Share Price			Market Cap (\$MM)			EV / EBITDA		
		12/31/21	03/31/22	•	12/31/21	03/31/22	•	03/31/22		
Distribution	21%	Olympic Steel, Inc.	Distribution	\$ 23.50	\$ 38.46	64%	\$ 260.32	\$ 427.82	\$ 167.50	3.79x
Mill Svc & Supply	3%	Reliance Steel & Aluminum Co.	Distribution	162.22	183.35	13%	10,163.82	11,313.54	1,149.73	5.66x
Mills	42%	Russel Metals Inc.	Distribution	33.63	33.12	-2%	2,119.92	2,090.25	(29.66)	3.55x
Other - Mills	15%	Ryerson Holding Corporation	Distribution	26.05	35.02	34%	1,000.17	1,344.56	344.40	4.12x
Specialty Metals	1%	Worthington Industries, Inc.	Distribution	54.66	51.41	-6%	2,751.26	2,537.80	(213.45)	5.19x
S&P500	-5%	Ferroglobe PLC	Mill Svc & Supply	6.21	7.70	24%	1,162.02	1,440.83	278.81	14.32x
S&P500 Industrials	-3%	GrafTech International Ltd.	Mill Svc & Supply	11.83	9.62	-19%	3,113.92	2,532.52	(581.40)	5.24x
DJIA	-5%	Harsco Corporation	Mill Svc & Supply	16.71	12.24	-27%	1,323.49	969.72	(353.77)	7.02x
		Sims Limited	Mill Svc & Supply	16.06	21.56	34%	3,106.21	4,117.77	1,011.56	5.78x
		Alcoa Corporation	Mills	59.58	90.03	51%	11,147.61	16,603.40	5,455.79	6.23x
		Allegheny Technologies Incorporated	Mills	15.93	26.84	68%	2,027.07	3,350.83	1,323.76	15.98x
		Carpenter Technology Corporation	Mills	29.19	41.98	44%	1,406.58	2,026.35	619.77	63.68x
		Century Aluminum Company	Mills	16.56	26.31	59%	1,492.54	2,400.30	907.77	18.04x
		Cleveland-Cliffs Inc.	Mills	21.77	32.21	48%	10,886.97	16,891.24	6,004.26	4.32x
		Commercial Metals Company	Mills	36.29	41.62	15%	4,412.70	5,056.66	643.96	5.06x
		Nucor Corporation	Mills	114.15	148.65	30%	31,082.92	39,953.99	8,871.07	4.25x
		Steel Dynamics, Inc.	Mills	62.07	83.43	34%	12,317.87	15,811.52	3,493.65	3.79x
		Stelco Holdings Inc.	Mills	41.22	51.99	26%	3,186.94	3,788.73	601.80	1.76x
		TimkenSteel Corporation	Mills	16.50	21.88	33%	762.44	1,014.83	252.39	3.01x
		United States Steel Corporation	Mills	23.81	37.74	59%	6,434.24	9,832.31	3,398.06	2.10x
		ArcelorMittal S.A.	Other - Mills	31.83	32.01	1%	25,651.79	26,647.86	996.07	1.71x
		Schnitzer Steel Industries, Inc.	Other - Mills	51.92	51.94	0%	1,444.61	1,445.16	0.56	5.53x
		Tenaris S.A.	Other - Mills	20.86	30.07	44%	10,872.74	16,238.28	5,365.54	10.02x
		Arconic Corp	Specialty Metals	33.01	25.62	-22%	3,515.15	2,690.74	(824.41)	6.35x
		Constellium SE	Specialty Metals	17.91	18.00	1%	2,537.44	2,550.19	12.75	5.64x
		Haynes International, Inc.	Specialty Metals	40.33	42.60	6%	501.04	530.62	29.58	18.17x
		Howmet Aerospace Inc.	Specialty Metals	31.83	35.94	13%	13,598.35	15,055.44	1,457.09	15.74x
		Kaiser Aluminum Corporation	Specialty Metals	93.94	94.16	0%	1,482.68	1,486.39	3.70	11.79x
		Universal Stainless & Alloy Products, Inc.	Specialty Metals	7.94	8.68	9%	70.89	77.58	6.69	13.15x
				Average		22%	Total		40,393.56	

Source: S&P Capital IQ

METALS PRICING

Pricing for ferrous and non-ferrous products behaved differently during the first quarter, but almost all prices reacted to the unfolding events caused by the Russian invasion of Ukraine on February 24. Ferrous prices began the quarter declining significantly from January to February. Hot-rolled coil prices declined the most (down 23%). Other downstream carbon flat-roll prices also declined. Most carbon long products also fell but modestly (less than \$10 per ton). Following the invasion, carbon prices rebounded to levels above those starting the year.

Carbon plate and rebar were outliers and remained stable in price throughout the quarter. Unlike carbon, non-ferrous prices continued to rise during the quarter only to accelerate following the invasion.

During the quarter, we saw price increases of 14% for 3003 aluminum, 7% for 304 stainless, 7% for copper and 53% for nickel. We also saw dramatic increases in key steel making inputs with HMS and shred up 30%, iron ore pellets up 13% and low-vol met coal up 52%. It is open for debate about whether prices in the month of March came in like a lamb, but they certainly went out like a lion.

For details on the 21 prices we track, please see the following charts.

Carbon Flat-Rolled Steel \$/NT January–March 2022			
Product	January	February	March
Hot-Rolled	1,310	1,000	1,300
Cold-Rolled	1,800	1,650	1,810
Galvanized	1,820	1,680	1,850

Discrete Plate \$/NT January–March 2022			
Product	January	February	March
A36	1,815	1,815	1,815
A514	2,375	2,375	2,375
AR400	2,395	2,395	2,395

Wide Flange Beam \$/cwt. January–March 2022			
Size	January	February	March
24"x12¾"	67.25	67.00	70.50
18"x6"	65.25	65.00	68.50

MBQ \$/cwt. January–March 2022			
Shape	January	February	March
1" 1018 round	58.00	57.75	65.00

Rebar \$/cwt. – Grade 60 January–March 2022			
Size	January	February	March
16 mm - #5	50.50	50.50	52.00

SBQ \$/cwt. – 1" round January–March 2022			
Grade	January	February	March
HR 4140 Q&T	96.85	93.80	99.55

Pipe & Tube \$/NT January–March 2022			
Product	January	February	March
OTCG J55	1,920	2,040	2,050
Linepipe, ERW	1,825	1,600	1,600

Aluminum \$/lb January–March 2022			
Alloy	January	February	March
3003	2.46	2.65	2.80

Stainless \$/lb – Cold-Rolled Coil January–March 2022			
Grade	January	February	March
304	1.99	2.03	2.13

Copper \$/lb January–March 2022			
	January	February	March
Comex Avg.	4.43	4.50	4.74

Nickel \$/lb January–March 2022			
	January	February	March
LME Avg.	10.12	10.96	15.47

Ferrous Scrap \$/GT Midwest January–March 2022			
GRADE	January	February	March
No. 1 HMS	410	410	535
Shredded	470	470	615

Iron Ore \$/LT U.S. January–March 2022			
GRADE	January	February	March
Furnace Pellets	128	137	145

Met Coal \$/MT U.S. East Coast January–March 2022			
GRADE	January	February	March
Low-vol	355	370	540

The metals market price guide is courtesy of Sector3 Appraisals, Inc., provider of asset valuation and advisory services for asset-based lending (ABL) lenders, specializing in metals, chemicals and commodities. For more information, contact Michael Dawson – Editor, Market Research at mdawson@sector3appraisals.com.



PRICING FOR PUBLIC NOTES AND BONDS

METALS BOND UPDATE: HIGH-YIELD PRIMARY VOLUME CURBED BY VOLATILE MARKET BACKDROP IN FIRST QUARTER 2022

The overall market backdrop in first quarter was defined by periods of heightened volatility as markets reacted to hawkish Fed policies aimed at combating inflation, and the outbreak of war between Russia and Ukraine. During the quarter, the 10-year U.S. Treasury yield increased 115 basis points from 1.51% to 2.66%. With Treasury rates on the rise and equity investors taking a more “risk-off” posture, all-in bond yields moved consistently wider, curbing new issue volume and leaving some opportunistic issuers sidelined.

In the investment-grade market, rising Treasury rates created a sense of urgency for issuers looking to tap the market, resulting in new issue volume of \$471.6 billion, up 4.0% from first quarter 2021's \$453.5 billion total. A-rated and BBB-rated credit spreads widened 18 basis points and 23 basis points, respectively. Nucor was the only investment-grade metals issuer in first quarter 2022, pricing \$550 million 10-year notes at T+130 basis points and \$550 million 30-year notes at T+165 basis points on March 11. Looking specifically at the PNC IG Metals Bond Index, spreads widened by 17 basis points while yields increased 1.20% in first quarter 2022.

First quarter 2022 high-yield volume of just \$43.2 billion was the slowest start to the year since 2016 (\$32.2 billion), and the second lightest first quarter issuance volume since the Great Recession. The high-yield market was very “event driven,” with M&A-related transactions comprising the bulk of the new issue supply volume compared to 2021, which was dominated by opportunistic refinancings. BB-rated yields increased 1.93% and B-rated yields increased 2.00%, on average. Compared to the previous quarter, average spreads of companies in the PNC HY Metals Bond Index tightened approximately 4 basis points while yields increased 1.56%. Carpenter Technology was the only high yield metals issuer in first quarter 2022, pricing \$300 million 8NC3 notes at 7.625% on March 16.

METALS BOND INDEX*

As of Date	PNC IG Metals Bond Index			PNC HY Metals Bond Index		
	4/7/2022	1/18/2022	Change	4/7/2022	1/18/2022	Change
Effective Maturity (Years)	9.13	8.45	0.68	6.07	6.26	-0.19
Composite Rating	BBB+	BBB+	–	BB-	BB-	–
Weighted Average Coupon	3.71%	3.74%	-0.03%	5.68%	5.65%	0.03%
Yield to Worst	3.54%	2.34%	1.20%	5.21%	3.65%	1.56%
Option Adjusted Spread to Treasuries (bps)	95.9	79.2	16.7	210.9	214.9	-4.0

*Index members are market-value weighted.

Note: PNC IG Metals Bond Index excludes bonds of size less than \$300 million.

Source: Bloomberg

SYNDICATED BANK LOAN MARKET

2022 began with an increase in total value to \$4.55 billion versus \$3.68 billion for the same period last year. However, the number of deals transacted declined in first quarter 2022 from 18 to 12. First quarter 2021 benefited from pent-up demand caused by adverse bank market financing conditions during much of 2020, attributed to the COVID-induced economic shutdowns.

Leading the way for deals this quarter was a \$1.2 billion ABL Revolver for Arconic, as the company increased its facility by \$400 million to capture suppressed availability in its increased working capital base.

Other notable transactions include: \$450 million for Kloeckner Metals Corporation, \$500 million for Consolidated Mill Supply and \$500 million for O'Neal Steel.

Terms remain favorable for borrowers. See the charts below for details on some of this quarter's transactions. The bank loan market (unlike the bond and equity markets) has yet to show evidence of any fallout from the war between Russia and Ukraine. We will continue to watch market conditions closely.

(\$ in millions)	Alter Trading Corporation	Kataman Metals Inc.	Kloeckner Metals Corporation
Date	March 2022	December 2019 (Amended March 2022)	(Amended March 2022)
Deal Size	\$250.0	\$300.0	\$120.0 / \$330.0
Facility Type	ABL Revolver	ABL Revolver	ABL Revolver
Tenor	5 years	5 years	<i>Not disclosed</i>
Purpose	Corporate Purposes	Corporate Purposes	Corporate Purposes
Ratings			
S&P	NR	NR	NR
Moody's	NR	NR	NR
Amortization	-	-	-
Pricing at close (bps)			
All-in Spread	150.0	150.0	250.0 / 250.0
SOFR Margin	150.0	150.0	250.0 / 250.0
Facility Fee	-	<i>Not disclosed</i>	-
Commitment Fee	25.0	<i>Not disclosed</i>	37.5 / 50.0
Sustainability Adjustment	<i>Not disclosed</i>	<i>Not disclosed</i>	<i>Not disclosed</i>
Pricing Detail (bps)	<i>Not disclosed</i>	<i>Not disclosed</i>	<i>Not disclosed</i>
SOFR Adjustment	<i>Not disclosed</i>	<i>Not disclosed</i>	<i>Not disclosed</i>
Rate Floor	<i>Not disclosed</i>	<i>Not disclosed</i>	<i>Not disclosed</i>
Financial Covenants			
Interest Coverage Ratio	<i>Not disclosed</i>	<i>Not disclosed</i>	<i>Not disclosed</i>
Debt to Capital Ratio	<i>Not disclosed</i>	<i>Not disclosed</i>	<i>Not disclosed</i>
Fixed Charge Coverage	<i>Not disclosed</i>	<i>Not disclosed</i>	<i>Not disclosed</i>
Secured	Yes	Yes	Yes

Sources:
S&P Capital IQ, Moody's,
Refinitiv Loan Connector

SYNDICATED BANK LOAN MARKET *(Continued)*

<i>(\$ in millions)</i>	O'Neal Steel Inc.	Consolidated Mill Supply Inc.	Arconic Corporation			
Date	February 2022	September 2021 (Amended February 2022)	May 2020 (Amended February 2022)			
Deal Size	\$500.0	\$500.0	\$1200.0			
Facility Type	ABL Revolver	ABL Revolver	ABL Revolver			
Tenor	5 years	5 years	5 years			
Purpose	Corporate Purposes	Corporate Purposes	Corporate Purposes			
Ratings						
S&P	NR	NR	BB			
Moody's	NR	NR	Ba3			
Amortization	-	-	-			
Pricing at close (bps)						
All-in Spread	<i>BSBY (Not disclosed)</i>	135.0	175.0			
SOFR Margin	<i>BSBY (Not disclosed)</i>	135.0	175.0			
Facility Fee	-	<i>Not disclosed</i>	-			
Commitment Fee	25.0	<i>Not disclosed</i>	37.5			
Sustainability Adjustment	<i>Not disclosed</i>	<i>Not disclosed</i>	-			
Pricing Detail (bps)			Avg. Excess Avail.	SOFR Spread	Avg. Utilization	Comm. Fee
	<i>Not disclosed</i>	<i>Not disclosed</i>	≥ 66.7%	175.0	≥ 50.0%	25.0
			≥ 33.3%	200.0	< 50.0%	37.5
			< 33.3%	225.0		
SOFR Adjustment	-	<i>Not disclosed</i>	1-mo: 10 bps 3-mo: 15 bps 6-mo: 25 bps			
Rate Floor	<i>Not disclosed</i>	<i>Not disclosed</i>	0.75%			
Financial Covenants						
Interest Coverage Ratio			-			
Debt to Capital Ratio	<i>Not disclosed</i>	<i>Not disclosed</i>	-			
Fixed Charge Coverage			1.00x when Avail < the greater of i) \$50.0 million and ii) 10% of Line Cap			
Secured	Yes	Yes	Yes			

Sources:
S&P Capital IQ, Moody's,
Refinitiv Loan Connector

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