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REAL-TIME ANALYSIS

Goldman Sachs: Stealing Itself for Steel

By Ben Levisohn

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Steel stocks like **United States Steel (X)**, **AK Steel (AKS)** and **Steel Dynamics (STLD)** are on the move this morning. For that, investors can thank **Goldman Sachs**.



REUTERS

For starters, Goldman's **Sal Tharani** and **Chelsea Bolton** boosted their view of the steel sector to Neutral from Cautious. They explain why:

...we see the sector heading to a sustainable recovery over the coming years and risks associated with oversupply appear to be largely priced in. Although volatility associated with this deeply cyclical sector will remain a norm, we believe that investors should start to look beyond near-term headwinds. The supply-demand fundamentals for steel are starting to look more appealing, particularly for flat steel, as some supply has been taken out and demand drivers are firmly in place. Second, our very bearish view on input costs (iron ore) bodes well for steel producers in the long run as we believe that mills should be able to expand margins as raw material prices descend. And lastly, although not part of our base case scenario, recently filed trade cases, if successful, could provide some tailwind.

As a result of this more optimistic outlook, Goldman upgraded three stocks--US Steel, AK Steel and Steel Dynamics. Tharani and Bolton explain their reasoning:

We upgrade X to Buy from Sell as we are getting constructive on flat steel fundamentals and also see headwind from its cost cutting measures. We upgrade AKS to Buy from Sell as we expect the company to see notable margin expansion in 2015 and beyond as it executes its new iron ore strategy. We upgrade STLD to Buy from Neutral as we believe that benefits of non-res recovery are not priced into the stock.

The analysts cut **Reliance Steel (RS)**, which they view as "fully valued," but even that downgrade couldn't push the stock into negative territory. Reliance has gained 0.3% to \$74.62 at 11:00 a.m.. US Steel has risen 5.2% to \$27.13, AK Steel has advanced 10% to \$5.06 and Steel Dynamics is up 2.5% to \$18.90.