

Steel Dynamics, Inc.:

STLD: New Columbia City Mill Nearly "Ready to Roll"; BUY with \$50 Target

KeyBanc Capital Markets Inc.
 Member NYSE/FINRA/SIPC

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Rating	BUY
Price	\$37.06
12-Mo. Price Target	\$50.00
Dividend	\$0.40
Yield	1.1%
52-Wk. Range	\$17-\$40
Trading Volume	4,272,000
Market Cap. (mm)	\$7,386.8
Shares Out. (mm)	199.32
Book Value	\$15.43

Fiscal Year End	December
2009E	\$4.00
2008E	\$3.50
2007A	\$2.04
2009 P/E	9.3x
2008 P/E	10.6x
First Call 2009E	\$3.51
First Call 2008E	\$3.37

Next Quarter	June
Estimate	\$0.90
Vs.	\$0.51
First Call Estimate	\$0.89

CY EBITDA	\$1,481.6
Total Debt (mm)	\$2,017.9
Total Debt/Cap	55.5%
Cash (mm)	\$58.9

ACTION STATEMENT

We are maintaining our 2008 EPS estimate of \$3.50 for Steel Dynamics, Inc. (STLD-NASDAQ). Our 2Q08 estimate of \$0.90 vs. \$0.51 sits at the upper end of the Company's \$0.80-\$0.90 guidance range. Our 2009 estimate is unchanged at \$4.00.

Our price target of \$50 represents less than 7.5x EV/EBITDA based on our 2009 outlook, within a normalized historical range of 6-9x. Near \$37/share, the stock is currently trading at EV/EBITDA multiples of 6.7x and 5.8x based on our 2008 and 2009 estimates, respectively, each near the low end of a normalized historical range of 6-9x.

Our recent visit to STLD's Columbia City operation was encouraging, and we sense start up of its new rolling mill will be in early 3Q08. Anecdotal commentary during our visit appeared to reflect a very strong operating environment for both beams and flat-rolled products. We sense pricing and order momentum remains firm across these product lines despite little evidence of domestic end demand recovery.

Our ongoing field inputs, including both buyers and sellers of carbon steel, are yielding impressive market strength heading into the seasonally weak July/August time frame. While we are seeing evidence of weaker non-residential construction momentum, lack of imports and abundant export opportunities appear to be providing reasonable offsets for the time being.

We reiterate our **BUY** rating on the stock based on excellent operational execution, success with outpacing input cost increases (enhanced by OmniSource), solid domestic market positioning in flat-rolled and beam, and robust global pricing in metals recycling.

KEY INVESTMENT POINTS

VISIT HIGHLIGHTS

Prime Scrap Pressures Continue, But Execution Remains Key Focus

While the Company expects some moderation in the cost of obsolete ferrous resources on a go-forward basis, near-term momentum appears likely to show further upside to the \$70/tonne increase in prompt (prime) scrap grades via ongoing shortages and tight global dynamics.

The almost \$200/tonne spread between prompt and obsolete grades for the June buy is unprecedented, as prompt material flows may be down more than 20% vs. last year. The relative lack of high quality prompt scrap required to produce flat-rolled steel adds further support to our view that pricing momentum can be maintained through the seasonally weak 3Q.

STLD continues to make good progress implementing pig iron replacement technologies. The long maligned Iron Dynamics operation at the Company's Butler, Indiana flat-rolled facility revealed solid operational momentum during 1Q08, and

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anecdotal commentary suggests that this momentum has continued into the 2Q.

In addition, STLD is working aggressively to implement a commercial scale Mesabi Nuggets module in Northern Minnesota. This high quality iron product offers superior chemical and process performance vs. traditional pig iron with exceptional financial return potential given current pig iron market prices approaching \$900/tonne (includes freight).

Capacity Upgrade Nearing Completion; Working Capital Focus Enhanced

STLD's 15-stand medium section rolling mill (600,000-800,000 tons of annual capacity) appears nearly complete. With the reheat furnace, materials handling and the cooling bed in place, we estimate initial commissioning of the mill could begin early in the 3Q. The construction of a second caster has also begun. While the completion date remains a bit unclear, we believe the project could be completed by year-end.

A bit surprisingly, we noticed much lower than normal beam inventories at Columbia City, and view this not only as further evidence of tight supply in the North American beam market, but also as the Company's commitment to maintain lean finished product inventories.

Signs of Non-Residential Weakening vs. 2007

We sense there is no change since 1Q commentary, which points to deck and joist volumes below last year's record levels. We sense STLD continues to have excess production capacity in this area; however, the Company is seeing a normal seasonal pick-up over the course of the year-to-date. Despite tighter competitive conditions, the highly variable nature of the Company's cost structure in this product area has and should continue to minimize downside leverage if weakness persists. We also note benefits from restructuring of STLD's deck and joist operations at Roanoke may provide stability at the margin over the next 12-18 months.

North America Likely to Remain "Steel-Tight"

Credit availability is increasingly an issue affecting purchasing power, helping to subdue inventory accumulation. Higher global steel pricing and the weak dollar have also created a clear import-export dynamic. Based on May license data, finished steel imports of 10.5 million tons are down 14% year-to-date, with flat-rolled products of 2.6 million tons down 17%. Export opportunities are robust, potentially further tightening domestic supply as the year progresses, with recent anecdotal inputs suggest increasing export momentum in the July/August time frame.

VALUATION

Near \$37/share, the stock is currently trading at EV/EBITDA multiples of 6.7x and 5.8x based on our 2008 and 2009 estimates, respectively, each near the low end of a normalized historical range of 6-9x. Our \$50 price target represents less than 7.5x EV/EBITDA based on our 2008 estimate.

RISKS

The key risks that could impede the stock from reaching our price target include unexpected reductions in steel metal spreads, sudden reduction in the demand for the Company's products, or failure to successfully integrate recent acquisitions of "The Techs" or OmniSource.

EPS (Net) Summary

	2007A	%CHG	2008E	%CHG	2009E	%CHG
1Q	\$0.50	31.6%	\$0.72A	44.0%	--	--
2Q	\$0.51	15.9%	\$0.90	76.5%	--	--
3Q	\$0.53	-1.9%	\$1.00	88.7%	--	--
4Q	\$0.50	-2.0%	\$0.88	76.0%	--	--
YEAR	\$2.04	7.9%	\$3.50	71.6%	\$4.00	14.3%

Source: KeyBanc Capital Markets Inc. estimates

KeyBanc Capital Markets Inc. Disclosures and Certifications

Steel Dynamics, Inc. - STLD

On 4/1/08, KeyBanc Capital Markets changed its rating scale from a 5-tiered system to a 3-tiered system. The rating change from Aggressive Buy to Buy on 4/1/08 reflects this transition, and not a rating downgrade or change in opinion.

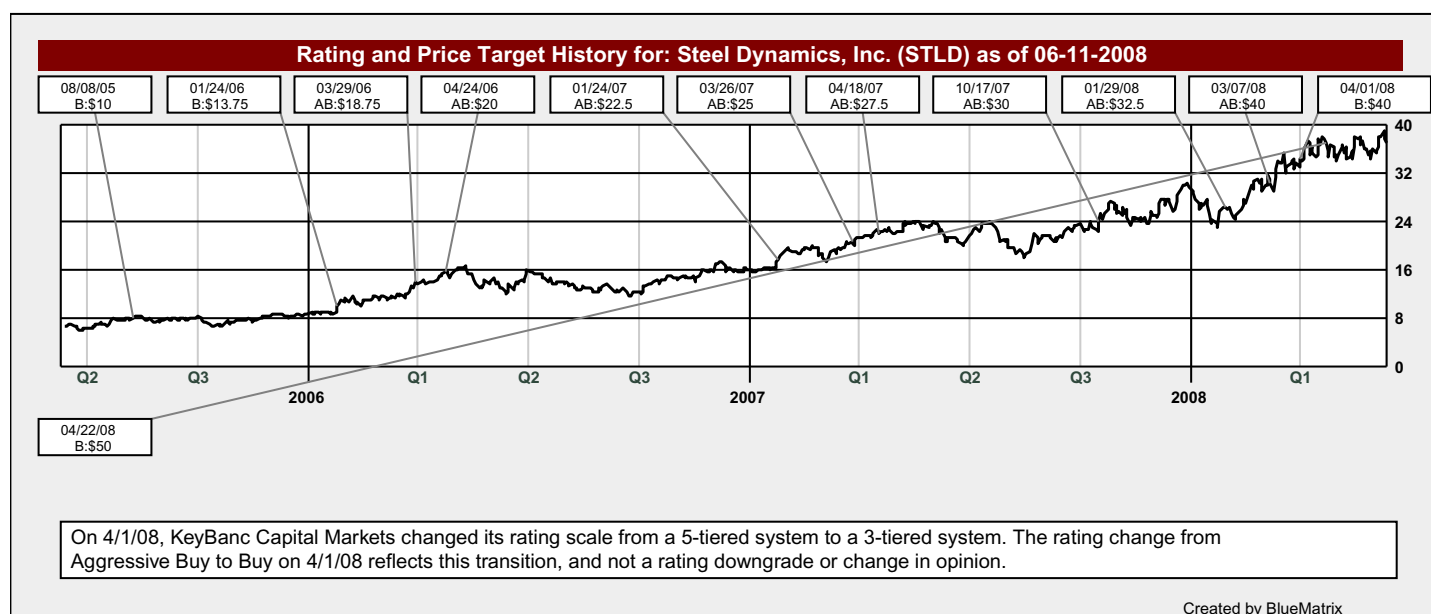
We expect to receive or intend to seek compensation for investment banking services from Steel Dynamics, Inc. within the next three months.

As of the date of this report, we make a market in Steel Dynamics, Inc.

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that: (1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three-Year Rating and Price Target History



Rating Disclosures

KeyBanc Capital Markets					INDUSTRIAL				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	138	43.81	34	24.64	BUY [BUY]	68	47.22	11	16.18
HOLD [HOLD]	170	53.97	38	22.35	HOLD [HOLD]	76	52.78	14	18.42
SELL [UND]	7	2.22	0	0.00	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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