Tenaris

Strengths well understood – reinstate at Neutral

Reinstating Coverage: NEUTRAL | PO: 18.00 EUR | Price: 14.57 EUR

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Equity

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Strongest balance sheet, but fewer catalysts ahead

We reinstate coverage of Tenaris at Neutral, with a DCF-driven PO of US$ 40/EUR 18 (WACC: 9.5%, medium-term tubes ASP: USD 2,900/t, see Exhibit 27) . At 4.3x 2024e EV/EBITDA, Tenaris' historical valuation premium to the sector has narrowed (see Exhibit 20) but we think the company remains attractive versus European OFS peers for three key reasons: 1) thematic exposure to improving Global OCTG macro momentum; 2) organically covered, sector-leading 9% cash returns in 2024e; and 3) a pristine balance sheet with net cash set to grow by $2bn from YE23-25e. Our Neutral rating is predicated on our relative preference for Vallourec, where we see a more-compelling risk/reward profile and stronger catalysts ahead.

Buyback blowout behind us – next stop: payout policy

While we view Tenaris' $1.2bn share repurchase programme as the clearest 'value over volume' signal so far within OFS, this catalyst is now behind us, and we note that the company lacks a formal payout policy which could underpin further announcements in 1H24. Mechanically assisted by a 5% lower share count y/y, we believe that Tenaris will continue to grow DPS: our 2023-25 estimates of $0.60/$0.65/$0.68 imply a 6% CAGR across the period. In our view, confirmation of $0.60/share for FY23 on Feb 21st ($0.2/share pre-announced) would be viewed positively, however, we caution that consensus payout expectations are high from 2024+: our 2024-25 DPS estimates sit –8%/-4% vs Visible Alpha which currently models a CAGR of 11% over the period (see Exhibit 5).

Prefer Vallourec for re-rating potential

We prefer Vallourec to Tenaris because of its: 1) free cash flow growth into 2025; 2) positive momentum on cash returns; and 3) a clearer capital allocation philosophy. Across 2023-25e, we see Tenaris' headline FCF falling ~50% (vs +20% at VK) and cash payout potentially peaking in 2024e as the $1.2bn buyback programme comes to an end. Additionally, from a valuation perspective, we believe the current share price discounts US$ 2,250/t tube ASPs medium-term, +$190/t vs what we see priced at Vallourec.

Estimates (Dec) (USD)	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
EPS (Adjusted Diluted)	0.93	2.16	2.93	2.19	2.31
EPS Change (YoY)	273.4%	132.1%	35.6%	-25.4%	5.7%
Dividend / Share	0.41	0.51	0.60	0.65	0.68
ADR EPS (Adjusted Diluted - US$)	1.86	4.33	5.86	4.37	4.62
ADR Dividend / Share (US$)	0.82	1.02	1.20	1.30	1.35
Valuation (Dec)					
P/E	17.8x	7.19x	5.49x	7.29x	6.90x
Dividend Yield	2.57%	3.20%	3.76%	4.08%	4.23%
EV / EBITDA*	12.1x	4.40x	3.29x	4.31x	4.08x
Free Cash Flow Yield*	-0.64%	4.19%	19.5%	13.3%	10.5%

* For full definitions of *iQmethod*SM measures, see page 27.

Stock Data

Price (Common / ADR)	14.57 EUR / 32.31 USD
Price Objective	18.00 EUR / 40.00 USD
Date Established	16-Jan-2024 / 16-Jan-2024
Investment Opinion	B-2-7 / C-2-7
52-Week Range	11.63 EUR-17.88 EUR
Market Value (mn)	17,076 EUR
Shares Outstanding (mn)	1,172.4 / 586.2
Average Daily Value (mn)	39.90 USD
Free Float	38.0%
BofA Ticker / Exchange	TNRSF / MIL
BofA Ticker / Exchange	TS / NYS
Bloomberg / Reuters	TEN IM / TENR.MI
ROE (2023E)	22.9%
Net Dbt to Eqty (Dec-2022A)	-6.2%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 28 to 31. Analyst Certification on page 26. Price Objective Basis/Risk on page 26. 12646080

Timestamp: 16 January 2024 01:46AM EST

iQprofile[SM] Tenaris

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US$ Millions)					
Sales	6,522	11,763	14,641	13,082	13,961
EBITDA Adjusted	1,302	3,571	4,778	3,650	3,849
Depreciation & Amortization	(595)	(608)	(525)	(575)	(575)
EBIT Adjusted	708	2,964	4,253	3,075	3,274
Net Interest & Other Income	535	203	250	243	168
Tax Expense / Benefit	(189)	(617)	(1,062)	(829)	(861)
Net Income (Adjusted)	1,100	2,553	3,459	2,500	2,595
Average Fully Diluted Shares Outstanding	1,181	1,181	1,180	1,143	1,123
Key Cash Flow Statement Data					
Net Income (Reported)	1,100	2,554	3,459	2,500	2,595
Depreciation & Amortization	595	608	525	575	575
Change in Working Capital	(1,046)	(2,131)	359	299	(350)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(530)	137	42.9	(262)	(213)
Cash Flow from Operations	**119**	**1,167**	**4,386**	**3,112**	**2,607**
Capital Expenditure	(240)	(378)	(708)	(680)	(726)
(Acquisition) / Disposal of Investments	0	0	(270)	0	0
Other CFI	507	215	(2,569)	0	0
Cash Flow from Investing	**268**	**(164)**	**(3,548)**	**(680)**	**(726)**
Share Issue / (Repurchase)	0	0	(215)	(985)	0
Cost of Dividends Paid	(322)	(542)	(656)	(695)	(768)
Increase (decrease) debt	(419)	399	(174)	0	0
Other CFF	93.3	(35.5)	(24.8)	0	0
Cash Flow from Financing	**(648)**	**(178)**	**(1,070)**	**(1,680)**	**(768)**
Total Cash Flow (CFO + CFI + CFF)	**(261)**	**825**	**(232)**	**752**	**1,113**
FX and other changes to cash	(414)	(185)	2,528	0	0
Change in Cash	(675)	640	2,297	752	1,113
Change in Net Debt	256	(241)	(2,471)	(752)	(1,113)
Net Debt (Reported)	(627)	(868)	(3,339)	(4,091)	(5,204)
Net Debt (Adjusted)	(268)	(689)	(3,216)	(3,968)	(5,081)
Key Balance Sheet Data					
Property, Plant & Equipment	5,825	5,556	5,739	5,844	5,995
Goodwill	0	0	0	0	0
Other Intangibles	1,372	1,333	1,333	1,333	1,333
Other Non-Current Assets	1,951	2,073	2,343	2,343	2,343
Trade Receivables	1,299	2,494	1,995	1,783	1,902
Cash & Equivalents	1,040	1,681	3,977	4,729	5,842
Other Current Assets	2,962	4,414	4,395	4,146	4,468
Total Assets	14,449	17,550	19,782	20,178	21,884
Long-Term Debt	111	46.4	94.0	94.0	94.0
Other Non-Current Liabilities	673	681	732	732	732
Short-Term Debt	302	766	544	544	544
Other Current Liabilities	1,257	2,022	1,919	1,757	1,848
Total Liabilities	2,344	3,516	3,289	3,126	3,218
Total Equity	12,106	14,034	16,494	17,052	18,666
Total Equity & Liabilities	14,449	17,550	19,782	20,178	21,884
Business Performance*					
Return On Capital Employed	4.81%	17.1%	20.4%	13.7%	13.4%
Return On Equity	9.47%	19.7%	22.9%	15.0%	14.6%
Operating Margin	10.8%	25.2%	29.0%	23.5%	23.5%
Free Cash Flow (MM)	(120)	789	3,678	2,431	1,881
Quality of Earnings*					
Cash Realization Ratio	0.11x	0.46x	1.27x	1.24x	1.00x
Asset Replacement Ratio	0.40x	0.62x	1.35x	1.18x	1.26x
Tax Rate	15.2%	19.5%	23.6%	25.0%	25.0%
Net Debt/Equity	-5.18%	-6.19%	-20.2%	-24.0%	-27.9%
Interest Cover	29.9x	NM	47.9x	NM	NM

* For full definitions of *iQmethod*[SM] measures, see page 27.

Company Sector

Oil Services

Company Description

Tenaris, based in Luxembourg, is a global supplier of OCTG (Oil Country Tubular Goods) pipe to the oil and gas industry, with an estimated c.40% market share globally. Tenaris has manufacturing facilities and sales offices in key oil- and gas-producing regions and has major welded steel operations serving the U.S. and Latin American markets. Sales in the key seamless tubes business are well distributed across the globe.

Investment Rationale

We rate Tenaris Neutral. It remains a leader in its main markets and should deliver organically covered, sector-leading 9% cash returns 2024e whilst maintaining a strong balance sheet with net cash set to grow by $2bn YE23-25e.

Nonetheless, Tenaris is less-exposed Int'l market torque than Vallourec, and we see limited outperformance from further buyback upgrades 1H24 without a formal payout policy. Furthermore, consensus DPS expectations are high from 2024+.

Stock Data

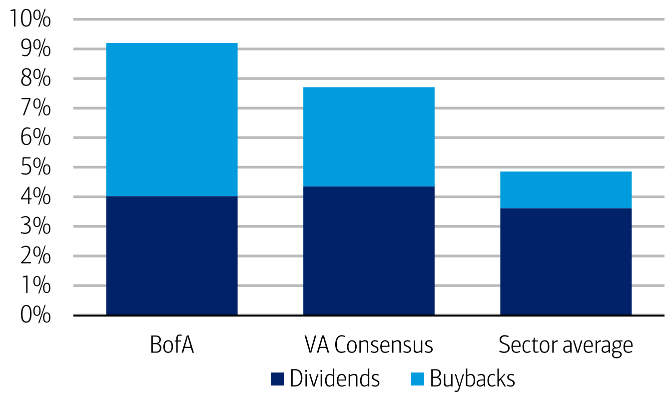
Shares / ADR	2.00
Price to Book Value	1.1x

Quarterly Earnings Estimates

	2022	2023
Q1	0.43A	0.96A
Q2	0.54A	0.95A
Q3	0.51A	0.46A
Q4	0.68A	0.57E

Investment case in 6 key charts

Exhibit 1: Tenaris cash return yield (2024)
Tenaris' sector-leading cash returns are buoyed by $985m of buybacks



Source: BofA Global Research, Visible Alpha

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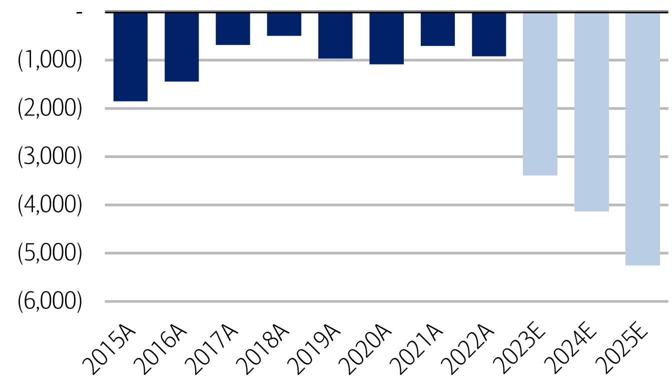
Exhibit 2: Tenaris net debt/(cash) evolution (Post-IFRS 16) ($m)
Tenaris should increase its net cash position by ~$2bn FY23-25e



Source: BofA Global Research estimates

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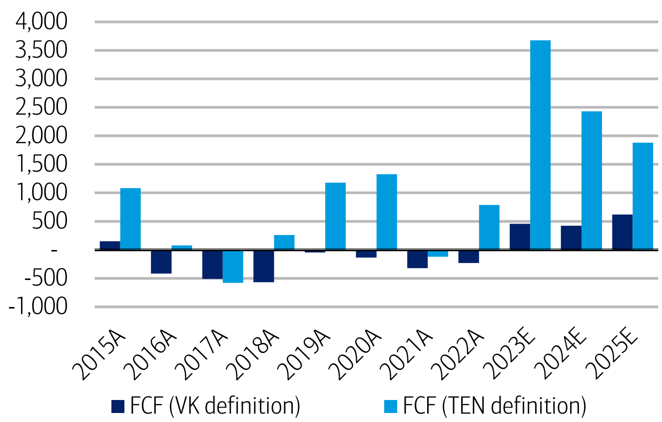
Exhibit 3: Company defined free cash flow (FCF) (US$m)
Tenaris should see FCF drop by ~50% 2023-25e



Source: BofA Global Research estimates

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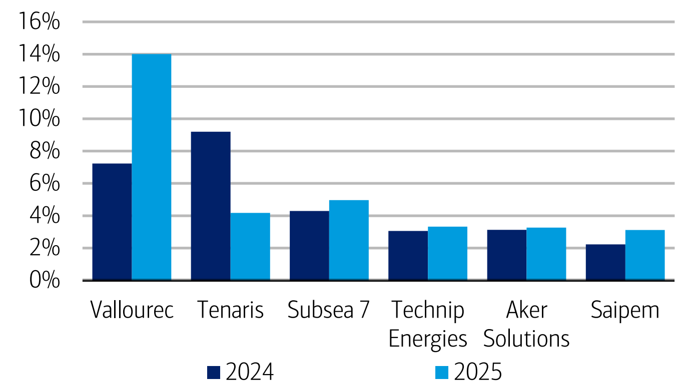
Exhibit 4: OFS cash yields (2024-25e)
VK should return 14% of its market cap to shareholders in 2025e, while TEN could more than halve distributions y/y 2024-25e



Source: BofA Global Research estimates, Visible Alpha

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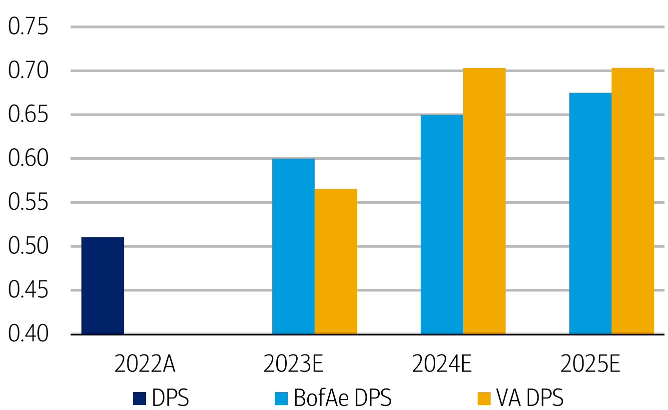
Exhibit 5: DPS: BofA vs VA consensus ($/share)
Our DPS expectations sit below 8/4% below VA 2024/25e



Source: BofA Global Research estimates, Visible Alpha

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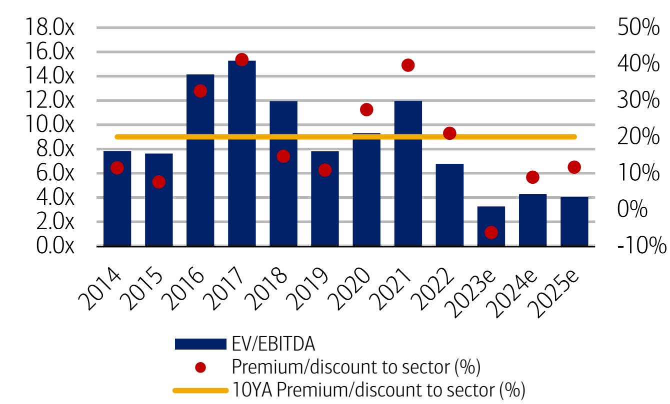
Exhibit 6: Tenaris EV/EBITDA + Premium(discount) to OFS sector
2024-25e EV/EBITDA multiples trade closer to historical averages



Source: BofA Global Research estimates, Visible Alpha

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Fewer catalysts ahead

Our summary financials are below (see Exhibit 7) with full statements later.

- Group EBITDA should fall ~20% 2023-25e, although remain above US$ 3.5bn across each year (>2.5x vs 2021).
- Cumulative FCF generation 2023-25e will amount to US$ ~8bn.
- Gearing will fall by ~15pp YE23-25e as net cash (TEN defined) increases by US$ 2bn.
- DPS will grow at a 6% CAGR 2023-25e.
- Total cash returns will amount to US$ 1.7bn in 2024e, organically covered by 1.5x.

Exhibit 7: Our key financials forecasts
Tenaris: key estimates

Key Metrics	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Tubes Volume (KT)	2,633	1,990	2,618	3,571	3,271	2,397	2,802	3,533	4,101	4,160	4,367
Tubes ASP (EUR/T)	2,447	2,018	1,897	2,025	2,100	2,021	2,139	3,151	3,419	3,001	3,060
Income statement											
Revenue	6,903	4,294	5,289	7,659	7,294	5,147	6,522	11,763	14,641	13,082	13,961
EBITDA	824	603	944	1,427	1,372	16	1,302	3,571	4,778	3,650	3,849
EBIT	166	(59)	335	872	832	(663)	708	2,964	4,253	3,075	3,274
Net Income (group share)	(80)	55	545	876	743	(634)	1,100	2,553	3,459	2,500	2,595
Basic EPS (US$)	(0.08)	0.01	0.38	0.74	0.63	(0.54)	0.93	2.16	2.93	2.19	2.31
DPS (US$)	0.45	0.41	0.41	0.41	0.13	0.21	0.41	0.51	0.60	0.65	0.68
Cash flow statement											
CFFO (TEN definition)	2,215	864	(22)	611	1,528	1,520	119	1,167	4,386	3,112	2,607
Organic CFFO (BofA, ex. WC)	841	515	833	1,349	1,005	461	1,165	3,298	4,027	2,813	2,957
CAPEX	(1,132)	(787)	(558)	(350)	(350)	(193)	(240)	(378)	(708)	(680)	(726)
FCF (TEN definition)	1,084	77	(580)	261	1,178	1,327	(120)	789	3,678	2,431	1,881
Organic FCF (BofA, ex. WC)	(291)	(272)	275	999	655	268	926	2,920	3,319	2,133	2,231
Dividends	(531)	(508)	(484)	(484)	(484)	(83)	(319)	(531)	(637)	(685)	(758)
Increase/(decrease) in equity (net)	-	-	-	-	-	-	-	-	(215)	(985)	-
Cash payout	**(531)**	**(508)**	**(484)**	**(484)**	**(484)**	**(83)**	**(319)**	**(531)**	**(852)**	**(1,670)**	**(758)**
FCF cash coverage (TEN definition)	2.0x	0.2x	-1.2x	0.5x	2.4x	16.1x	-0.4x	1.5x	4.3x	1.5x	2.5x
Organic FCF cash coverage (BofA, ex. WC)	-0.5x	-0.5x	0.6x	2.1x	1.4x	3.2x	2.9x	5.5x	3.9x	1.3x	2.9x
Balance sheet											
Net Debt / (Cash) (TEN definition)	(1,851)	(1,442)	(685)	(495)	(967)	(1,085)	(705)	(921)	(3,384)	(4,136)	(5,249)
Net Debt/ (Cash) (BofA, Post-IFRS16 and excl. non-current investments)	(1,456)	(1,193)	(557)	(377)	(712)	(581)	(268)	(689)	(3,216)	(3,968)	(5,081)
Gearing (TEN definition)	-19%	-15%	-6%	-4%	-9%	-11%	-6%	-7%	-26%	-32%	-40%
Gearing (BofA, Post-IFRS16)	-14%	-12%	-5%	-3%	-6%	-5%	-2%	-5%	-24%	-31%	-38%
Net Debt / EBITDA (x) (TEN definition)	(2.2x)	(2.4x)	(0.7x)	(0.3x)	(0.7x)	(67.8x)	(0.5x)	(0.3x)	(0.7x)	(1.1x)	(1.4x)
Net Debt / EBITDA (x) (BofA, Post-IFRS16)	(1.8x)	(2.0x)	(0.6x)	(0.3x)	(0.5x)	(36.3x)	(0.2x)	(0.2x)	(0.7x)	(1.1x)	(1.3x)

Source: BofA Global Research estimates, company report

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Summary estimates versus consensus – we sit above:

Our financial estimates sit 5-10% above a thin consensus 2023-25e. However, our DPS estimates sit below. Our Tubes division ASPs are in-line, while our volume estimates are above.

Exhibit 8: Summary estimates vs Consensus
US$ m

Financial	4Q23 (Implied)	2023	2024	2025
Group Revenue - BofA	3,187	14,641	13,082	13,961
Group Revenue - Consensus (BBG)	3,127	14,581	12,970	13,020
Delta	2%	0%	1%	7%
Group cash cost - BofA	2,299	9,863	9,433	10,112
Group cash cost - Consensus (BBG)	2,284	9,848	9,398	9,571
Delta	1%	0%	0%	6%
Group EBITDA - BofA	888	4,778	3,650	3,849
Group EBITDA - Consensus (BBG)	844	4,733	3,572	3,449
Delta	5%	1%	2%	12%
Group EBIT - BofA	756	4,253	3,075	3,274
Group EBIT - Consensus (BBG)	685	4,182	3,002	2,901
Delta	10%	2%	2%	13%
Group Net income - BofA	629	3,441	2,488	2,582
Group Net income - Consensus (BBG)	566	3,378	2,439	2,351
Delta	11%	2%	2%	10%
Organic FCF (ex WC) - BofA	460	3,319	2,133	2,231
Organic FCF (ex WC) - Consensus (Visible Alpha)	446	3,304	2,197	2,364
Delta	3%	0%	-3%	-6%
DPS - BofA	na	0.60	0.65	0.68
DPS - Consensus (Visible Alpha)	na	0.57	0.70	0.70
Delta	na	6%	-8%	-4%
Operational	**4Q23 (Implied)**	**2023**	**2024**	**2025**
Tube volumes (KT) - BofA	**966**	4,101	4,160	4,367
Tube volumes (KT) - Consensus (Visible Alpha)	**1,000**	4,135	4,185	4,169
Delta	-3%	-1%	-1%	5%
# brokers		**na**	**3**	**3**
Tube ASP ($/t) - BofA	**3,143**	3,419	3,001	3,060
Tube ASP ($/t) - Consensus (Visible Alpha)	**2,961**	3,373	2,824	2,904
Delta	6%	1%	6%	5%

Source: BofA Global Research estimates, Bloomberg, Visible Alpha

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Value over volume in focus

Cash flow discipline to drive outperformance over time

As global O&G capex growth decelerates into the second half of the decade, OFS earnings growth trends should follow suit (see Exhibit 9). As such, we believe sustainable free cash flow generation and payout will differentiate winners from losers when stock picking – a theme already playing out in Big Oils (see 2024 Year Ahead).

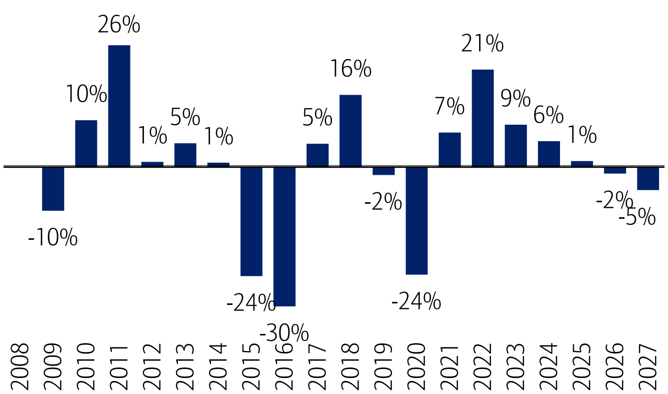
We believe oil services companies that outperform will adopt 'value over volume' strategies that prioritize cash flow discipline. Within our OFS coverage, we see the earliest indications of this mentality shift at Vallourec and Tenaris – and for good reason: according to PipeLogix, Global OCTG demand growth should decelerate this year, recording 3% (vs 4% in 2023 and 21% in 2022, see Exhibit 10).

We believe recent cash return upgrades across the OCTG space can be seen as an early bellwether for the sector's changing attitude to capital allocation towards 'value over volume':

- Under the 'New Vallourec' plan, VK has lowered its production capacity by ~25% and intends to redistribute 80-100% of FCF to shareholders.
- Tenaris is currently implementing a $1.2bn buyback scheme – the first in its history and the only announced buyback within the OFS subsector.

Exhibit 9: Global O&G capex growth (%)

We see global O&G capex growth decelerating before turning negative in 2026e



Source: BofA Global Research estimates

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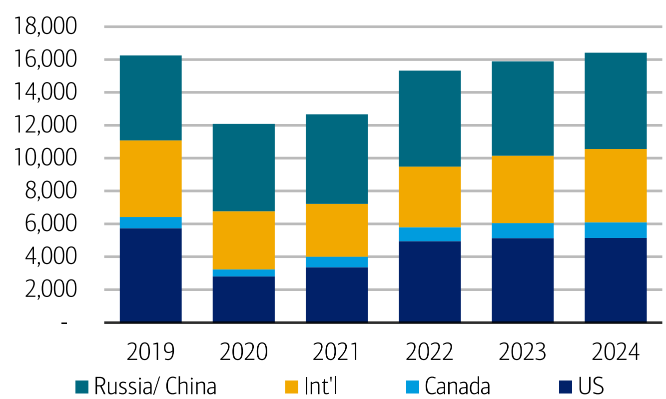
Exhibit 10: Global OCTG demand

Global OCTG demand should equal ~16.5 MT in 2024e (+1% vs pre-pandemic levels)



Source: PipeLogix

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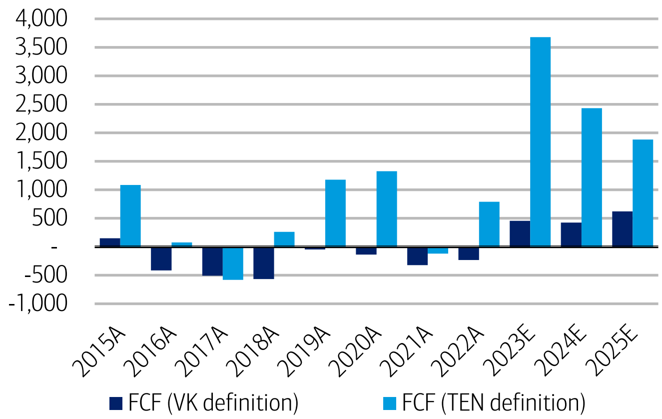
Step 1: Prioritize positive free cash flow generation

We believe that Tenaris and Vallourec will both generate positive FCF across 2023-25, a feat last accomplished in 2015 (see Exhibit 11). On an absolute basis, VK should grow headline FCF by 23% FY23-25e whereas Tenaris' FCF should decline by ~50%. On a 2025e FCF yield basis, we therefore see VK trading at a 7pp discount to TEN – which we argue is mispriced given VK's significant deleveraging across the period (see Exhibit 12).

Exhibit 11: Company-defined free cash flow (FCF) (US$m)
Tenaris should see FCF drop by ~50% 2023-25e



Source: BofA Global Research estimates

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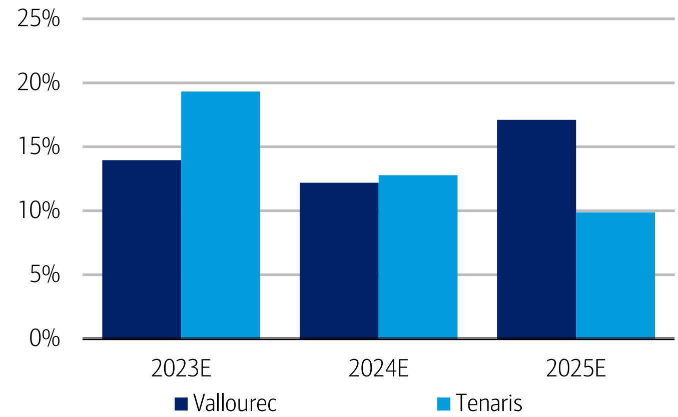
Exhibit 12: Headline FCF yields (2023-25e)
We see VK trading at a 5pp discount to TEN in 2025e



Source: BofA Global Research estimates

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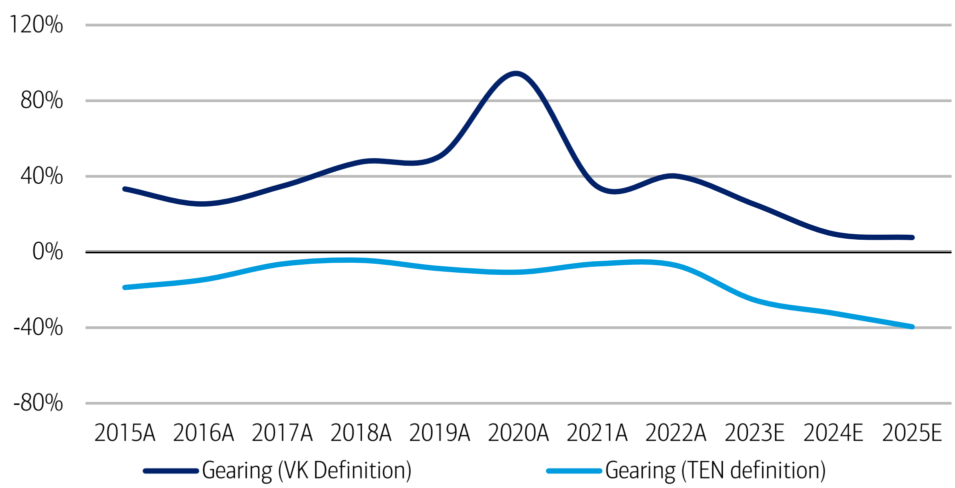
Step 2: Strengthen financial positioning

Whilst current gearing levels are markedly different, the direction of travel is much the same for VK and Tenaris: from YE23-25, we expect 17pp/15pp of de-gearing each (see Exhibit 13). We forecast that Tenaris will grow its net cash pile by US$ 0.8bn in 2024 whilst also organically covering sector-leading US$ 1.6bn of cash returns by 1.5x.

Exhibit 13: Headline gearing (Pre-IFRS16) (%)
VK/TEN should reduce net debt/increase net cash by ~15pp YE23-25e



Source: BofA Global Research estimates, company report

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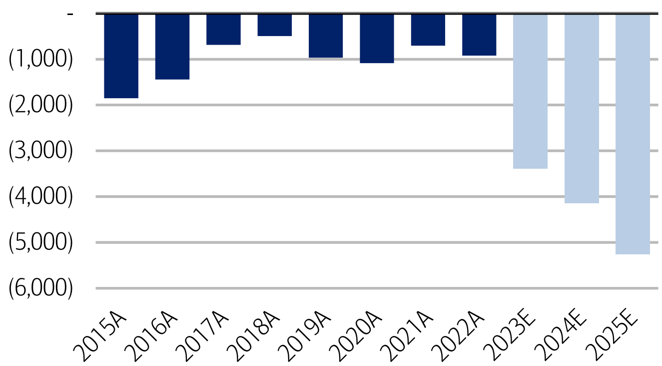
Tenaris to grow net cash pile by $2bn

We forecast that Tenaris will continue to grow its net cash pile into 2025, despite paying out >$3bn of cumulative cash returns over 2023-25. We estimate that the cumulative cash payout for 2023-25 will be covered >2x by organic FCF, allowing net cash to grow by $2bn and average gearing levels to drop by 15pp to -40%. In this scenario, we acknowledge upside risk to shareholder distribution in the form of more buybacks. However, absent any formal payout policy, we see limited outperformance from incremental announcements in the near term.

Exhibit 14: Tenaris net debt/(cash) evolution ($m)
Tenaris should increase its net cash position by ~$2bn FY23-25e



Source: BofA Global Research estimates

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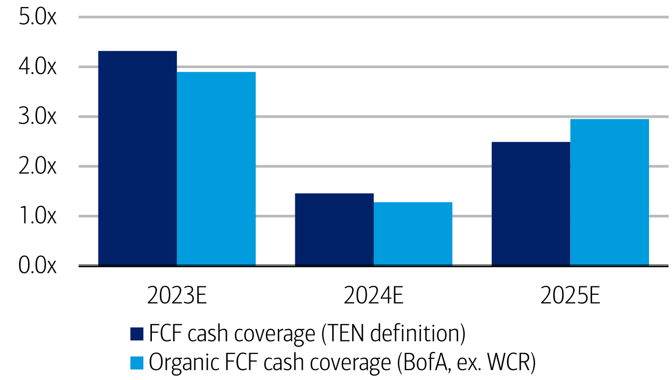
Exhibit 15: Tenaris FCF cash coverage (x)
Tenaris should cover cumulative cash returns 2023-25e by >2x



Source: BofA Global Research estimates

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Step 3: Reward shareholders with cash distributions

Comparing policies across the OFS subsector (Exhibit 16), we highlight two key messages: 1) buyback policies are rare – programmes in place even rarer – and 2) 'value over volume' is best signalled via cash flow-linked targets.

Vallourec is the only OFS name in our coverage to currently link remuneration to cash generation – a best practice, in our view, for two key reasons: 1) it signals a strategic 'value over volume' focus on cash generation; and 2) it re-anchors investor payout expectations across the cycle, allowing management to sustainably manage VK's balance sheet through cutting the cash payout if necessary, whilst also reducing the negative reaction associated with slashing nominal commitments.

Exhibit 16: OFS cash return policies
Tenaris is the only OFS name currently buying back stock; VK's payout policy is the only one based on cash flow metrics

	Dividends	Buybacks	Overview
Tenaris	√	√	No formal payout policy. Dividends paid bi-annually. $1.2bn buybacks 2023-24.
Vallourec	√	√	Aspiration to distribute 80-100% of FCF when net debt targets met by 2025. Considering both Buybacks & Dividends.
Saipem			No dividend paid since 2013.
Technip Energies	√		Aim to pay a dividend annually that is sustainable with potential growth over time.
Subsea 7	√	√	Intention to pay a regular dividend of NOK1.00 with option to pay special dividends. Buybacks permitted.
Aker Solutions	√		Aims to pay annual dividends of 30-50% of adjusted net profit over time.

Source: BofA Global Research, company report

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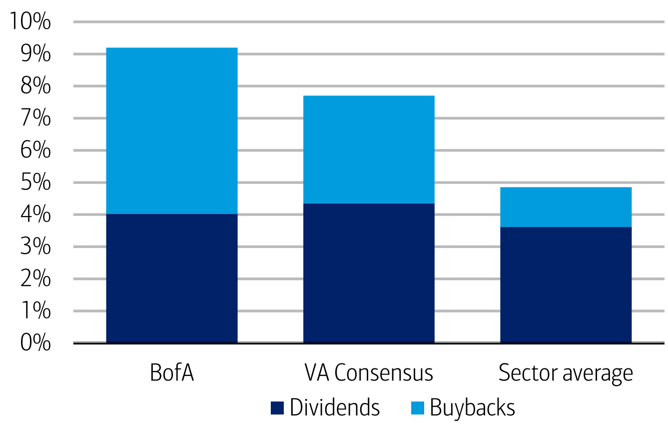
Buyback blowout behind us – next stop: payout policy?

While we view Tenaris' $1.2bn share repurchase programme as the clearest 'value over volume' signal so far within OFS, without a formal payout policy we see limited outperformance from further buyback announcements in 1H24. Acknowledging 1) Tenaris' growing net cash balances (see Exhibit 14); and 2) a more expensive US M&A landscape (see Exhibit 26) we believe that expectations for more medium-term payout visibility will increase across the year.

Exhibit 17: Tenaris cash return yield (2024e)

Tenaris' sector-leading cash returns are buoyed by $985m buybacks



Source: BofA Global Research, Visible Alpha

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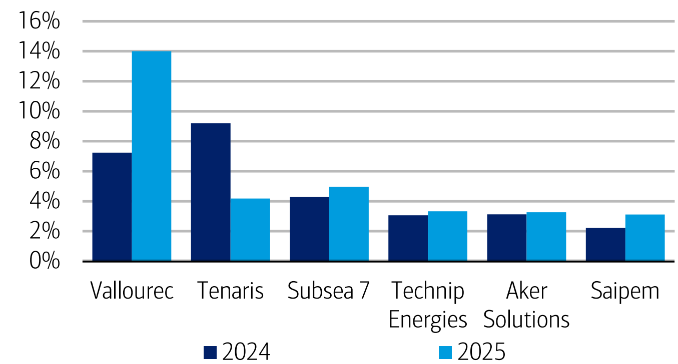
Exhibit 18: OFS cash yields (2024-25e)

VK should return 14% of its market cap to shareholders in 2025e, while TEN could more than halve distributions y/y 2024-25e



Source: BofA Global Research estimates, Visible Alpha

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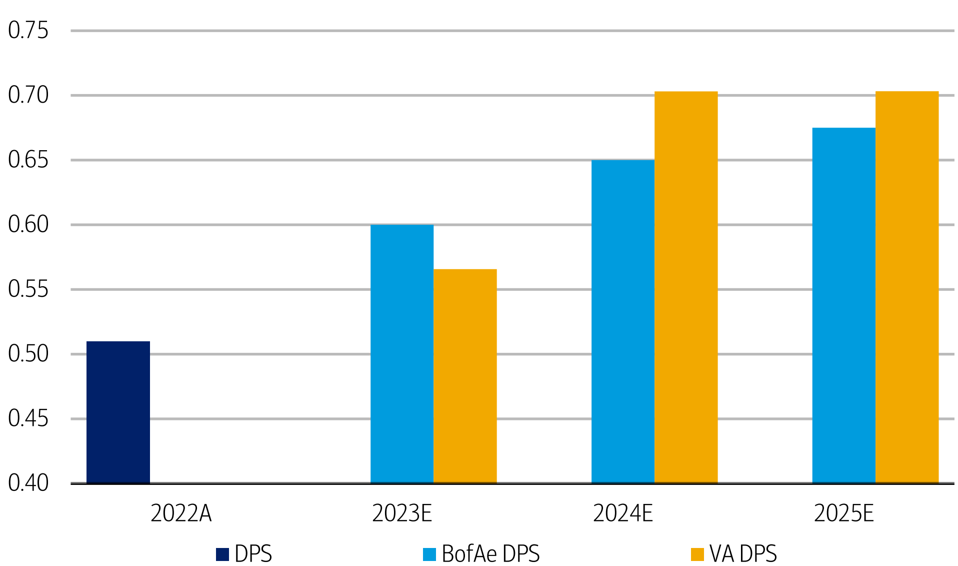
Mechanically assisted by a 5% lower share count y/y, we believe that Tenaris will continue to grow DPS: our 2023-25 estimates of $0.60/$0.65/$0.68 imply a 6% CAGR across the period. In our view, confirmation of $0.60/share for FY23 on Feb 21st ($0.2/share pre-announced) would be viewed positively. However, we caution that consensus DPS expectations are high from 2024+: our 2024-25 estimates sit –8%/-4% vs Visible Alpha which currently models a CAGR of 11% over the period (see Exhibit 19).

Exhibit 19: DPS: BofA vs VA consensus ($/share)

Our DPS expectations sit below 8/4% below VA 2024/25e



Source: BofA Global Research estimates, Visible Alpha

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Valuation in context

OCTG multiples have lost their shine vs OFS averages

Prefer Vallourec > Tenaris rate of change

Exhibit 20 presents a valuation summary for Tenaris and Vallourec within the context of the Oil Services sub-sector. Trading at a lower premium to peers vs history, we believe the rate-of-change argument for a multiple expansion at Vallourec is strong: 1) a structural increase in group profitability, 2) multi-year growth in FCF, and 3) fully covered sector-leading dividend yields 2024e+, and all while delivering 17pp of balance sheet de-gearing.

Exhibit 20: Oil Services valuation matrix

OCTG names trade at average 4.0x EV/EBITDA 2024e

	EV/EBITDA (x)			P/E (x)			FCF Yield (%)			Dividend Yield (%)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
OCTG												
Vallourec	3.6x	3.9x	4.0x	6.8x	6.8x	6.9x	9%	12%	17%	0%	7%	7%
Tenaris	3.3x	4.3x	4.1x	5.5x	7.6x	7.3x	19%	13%	10%	4%	4%	4%
Average	**3.4x**	**4.1x**	**4.0x**	**6.1x**	**7.2x**	**7.1x**	**14%**	**12%**	**13%**	**2%**	**6%**	**6%**
EPC												
Aker Solutions	4.7x	5.8x	5.7x	8.7x	11.4x	11.5x	20%	8%	5%	4%	3%	3%
Saipem	3.5x	2.8x	2.3x	24.4x	9.9x	6.0x	-1%	13%	22%	0%	2%	3%
Subsea 7	7.1x	4.8x	3.8x	60.2x	15.9x	9.3x	-6%	11%	17%	2%	2%	3%
Technip Energies	1.8x	1.4x	1.2x	12.2x	9.8x	8.8x	7%	14%	15%	3%	3%	3%
Average	**4.4x**	**3.1x**	**2.5x**	**36.2x**	**12.8x**	**9.0x**	**0%**	**13%**	**16%**	**2%**	**3%**	**3%**
OFS												
Mean (Mkt Cap weighted)	**3.6x**	**3.9x**	**3.6x**	**14.3x**	**9.1x**	**7.8x**	**12%**	**12%**	**13%**	**3%**	**4%**	**4%**
Median	**3.5x**	**4.1x**	**3.9x**	**10.5x**	**9.8x**	**8.1x**	**8%**	**12%**	**16%**	**2%**	**3%**	**3%**
25th Percentile	2.9x	2.4x	2.0x	6.4x	7.4x	6.6x	-3%	10%	9%	0%	2%	3%
75th Percentile	5.3x	5.1x	4.5x	33.4x	12.6x	9.8x	19%	13%	18%	4%	5%	5%

Source: BofA Global Research estimates, Visible Alpha

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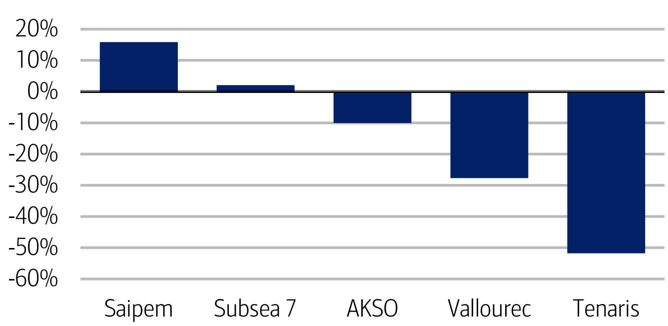
OCTG names de-rated the fastest within OFS across 2023

On a 12-month forward EV/EBITDA basis, Vallourec and Tenaris de-rated by >25% in 2023 (see Exhibit 21), faster than OFS peer averages of 15%. Comparing 2024-26e multiples to 10YA of close to 9.5x suggests that Tenaris and Vallourec currently trade at >50% discounts to history (see Exhibit 22).

Exhibit 21: 12M forward EV/EBITDA multiple (2022 vs 2023)

Vallourec and Tenaris have de-rated faster than peers



Source: BofA Global Research, Refinitiv

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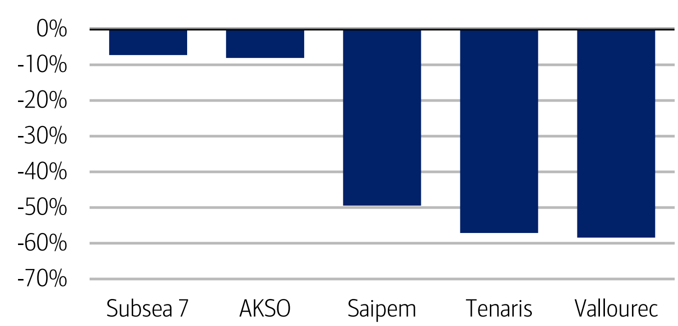
Exhibit 22: 2024-25e EV/EBITDA multiples vs 10YA

VK & TEN currently trade at >50% discounts to history



Source: BofA Global Research, Refinitiv, Visible Alpha

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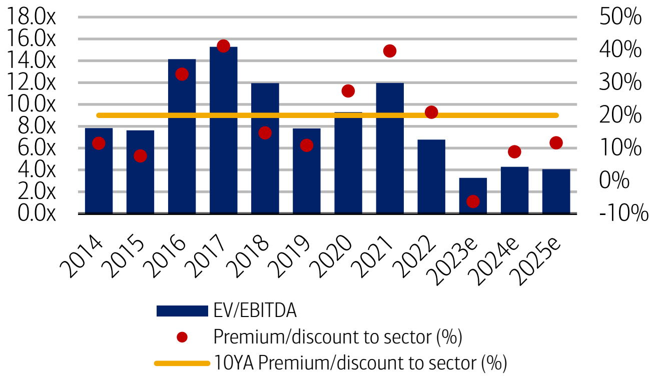
OCTG has lost its valuation premium vs the Oil Services subsector

Additionally, we highlight that OCTG's valuation premium has fallen. On an EV/EBITDA basis, VK and TEN have historically traded at ~20% premia to OFS peers, but current share prices offer significant discounts: implying just 2%/7% premia to peers on a 2024e basis. At ~3.9x EBITDA we see a more compelling re-rating argument at Vallourec. In our view, the stock has multi-year re-rating potential on 1) growth in headline FCF 2023-25e, 2) fully covered sector-leading dividend yields from 2024e, and all while delivering 3) 17pp of balance sheet de-gearing. In contrast, Tenaris has fewer idiosyncratic drivers of multiple expansion, and is relatively less attractive on a 2025e FCF/dividend yield basis.

Exhibit 23: Tenaris EV/EBITDA + Premium (discount) to OFS sector

2024-25e EV/EBITDA multiples trade closer to historical averages



Source: BofA Global Research, Refinitiv, Visible Alpha

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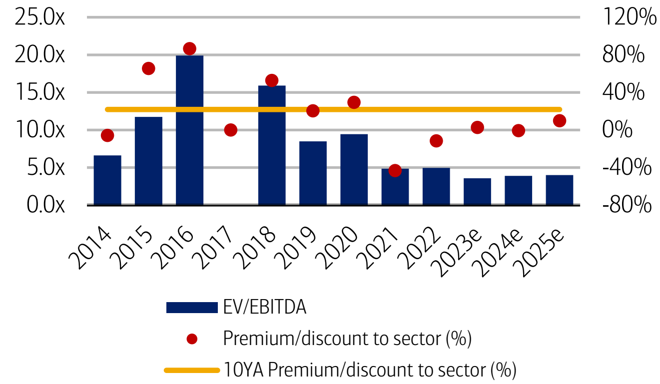
Exhibit 24: Vallourec EV/EBITDA + Premium (discount) to OFS sector

VK currently trades at only an 2% premium to peers 2024e



Source: BofA Global Research, Refinitiv, Visible Alpha

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US Sector view: Year 4 in "multi-year" recovery=multiple compression

See Oilfield Services: 2024 Outlook: INTL/Offshore OFS shines bright in a dark macro

Amidst slowing global oil demand growth, it seems to us now that – (1) NAM/US activity is likely to be range bound over the next 2-3 years, (2) INTL/Offshore growth would start to slow in 2024+ and likely start to peak around the 2025-26 timeframe. Even in International and Offshore OFS, where demand continues to grow and revenue and margins are likely to keep expanding at least through 2025 (and likely through 2026), with 2025 now "Forward Year (FY) 2" for many investors, we suspect multiples would start to compress as "peak earnings" conversations start to pick up.

That said, we think recent commodity macro malaise and recent sell-off in O&G / OFS stocks has created an attractive entry point in INTL/Offshore-levered OFS, where we see at least 2 (and maybe 3) years of strong earnings growth and FCF expansion. But we would caution investors against putting average FY2 multiples on more likely peak-ish 2025 earnings power.

With the large majority of OFS stocks trading below prior cycle FY2 multiples, there is room for stocks to move back up as the macro stabilizes, but we do not think stocks necessarily have to go back to trading at 2006-08 average multiples. In other words, recent pullback has created attractive buying opportunity, but multiples likely start to compress, and stocks may struggle to surpass 2023 peaks in 2024.

Nippon/US Steel read-across: US M&A more costly for foreign strategic buyers

See [United States Steel Corporation: Nippon Steel to acquire US Steel; Cliffs withdraws, but unions oppose]

U.S. Steel (X) announced on December 18th that Nippon Steel Corporation (NSC) would acquire X in an all-cash deal at $55 per share for an equity value of $14.1 billion (bn) and total enterprise value (EV) of $14.9bn.

The offer price of $55/share implies a ~57% premium to Cleveland-Cliffs' (CLFs') original offer and is ~142% above X's unaffected share price on 11 August 2023. The total EV of $14.9bn implies 8.0x/6.6x X's Bloomberg consensus EBITDA for 2024E/25E. This is at a premium to Cleveland-Cliffs' (CLF) 2024/25e EV/EBITDA of 5.8x/5.9x and compares to Nucor's (NUE) 7.9x/8.2x or Steel Dynamics' (STLD) 8.1x/9.0x (see Exhibit 26).

The potential deal has received significant pushback since its announcement from both government and labour unions: The United Steelworkers union (USW) said that it was disappointed with the pending deal and the lack of engagement from both X and NSC. A White House statement issued on December 20th said that the deal deserves 'serious scrutiny' on national security grounds.

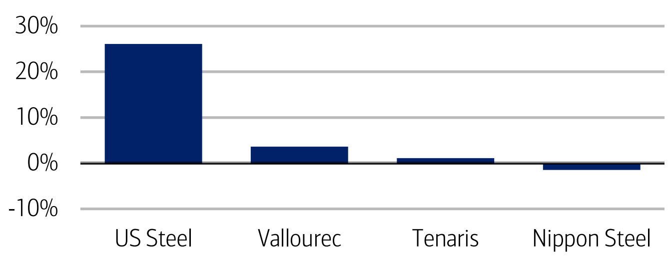
Higher M&A costs make 'value over volume' a more attractive strategy

Whilst share prices reacted only mildly on the day (see Exhibit 25, we see two key implications for VK and TEN: 1) acquisitions of US assets will demand a premium multiple; and 2) acquisitions by foreign entities will be closely watched by federal agencies. In our view, the read-across is most significant for Tenaris where inorganic growth via M&A remains a strategic focus *'in order to further strengthen (our) presence in local and global markets.'* As well as simply having to pay a higher multiple, we believe the negative national security and antitrust feedback could make pursuing this strategy more costly for Luxembourg-based TEN. We note that a major factor in its failed purchase of Benteler in 2023 was the Justice Department's competition concerns about the deal.

In the short term, this supports our preference for Vallourec: its 'value over volume' strategy makes clear its capital allocation priorities and lowers the risk of expensive inorganic growth: 1) de-gear; 2) re-distribute. Nonetheless, increased barriers to US M&A make a pivot towards 'value over volume' more attractive and could accelerate the establishment of a formal payout policy at Tenaris. Ultimately, however, we note that 2024 is a key election year in the US, and the possibility of a regime change could alter the M&A landscape in the medium term.

Exhibit 25: December 18th share price moves (US$ terms)

US Steel rose 25% on the announcement of its acquisition, whereas VK and TEN rose <5%



Source: Refinitiv

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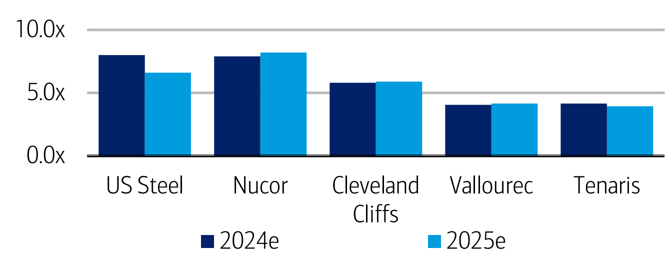
Exhibit 26: EV/EBITDA multiples (2024/25)

Nippon's purchase of US Steel at an EV of $14.9bn implies 8.0x/6.6x X's Bloomberg consensus EBITDA for 2024E/25E



Source: BofA Global Research, Bloomberg

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Tenaris: Strengths well digested

Neutral: PO US$ 40/EUR 18

We reinstate coverage of Tenaris with a Neutral rating. Our PO of US$ 40/EUR 18 is derived from a discounted cash flow (DCF), where we use a 9.5% discount rate, before deducting financial net debt and other balance sheet provisions to arrive at our equity value (see Exhibit 16). Our medium-term Tubes division ASP is $2,900/t.

Exhibit 27: Valuation
We reinstate with a PO of US$ 40/ADR (EUR 18) implying 22% upside

12 Months Base Target (DCF)	
Sum of Cash Flows	1,786
Present Value of Terminal Value	17,360
Enterprise Value	19,146
Net Debt / (cash) ('24)	(3,968)
Other Investments (Non-current) ('24)	92
Minority interest ('24)	129
Provisions ('24)	109
Pensions Liability ('24)	230
Equity Value	22,554
Equity Value Per Share (USD)	19.7
ADR/Share ratio	2x
ADR per share (USD)	39.5
EUR/USD average (2024, BofAe)	1.1
Equity Value Per Share (EUR)	17.8
Current share price (EUR)	14.6
Upside/ Downside	22%

Source: BofA Global Research estimates

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Upside risks to our PO

Upside risks to our PO include: (1) upside to our Tubes price forecast; (2) upside to our Tubes volume forecast; (3) favourable exchange rate movements; and (4) decreases in raw material costs.

Downside risks to our PO

Downside risks to our PO include: (1) downside to our Tubes price forecast; (2) downside to our Tubes volume forecast; (3) unfavourable exchange rate movements; (4) increases in raw material costs; and (5) global trade issues, including possible anti-dumping duties

Investment thesis

At 4.3x 2024e EV/EBITDA, Tenaris' historical valuation premium to the sector has lost some shine (see Exhibit 23) , however we think the company remains attractive versus European OFS peers for three key reasons: 1) thematic exposure to improving Global OCTG macro momentum; 2) organically covered, sector-leading 9% cash returns 2024e; and 3) a strong balance sheet with net cash set to grow by $2bn YE23-25e. Nonetheless, we believe the stock is well priced with less obvious catalysts ahead. On a top-line basis, Tenaris is less-exposed than Vallourec to Int'l market torque, and we see limited outperformance from further buyback upgrades in 1H24. Furthermore, we caution that consensus DPS expectations are high from 2024+. Our 2024-25 estimates sit –8%/-4% vs Visible Alpha which currently models a CAGR of 22% across the period.

Tenaris is due to report FY23 earnings on February 21st, 2024.

What does it do and how does it do it?

Leader in manufacturing & supply of steel pipe products

Tenaris is a leading global manufacturer and supplier of steel pipe products and related services for the world's energy industry and other industrial applications. Customers include most of the world's oil & gas companies. It operates an integrated network of steel pipe manufacturing, research, finishing and service facilities with industrial operations in the Americas, Europe, the Middle East, Asia and Africa. Through its 'Other' division, Tenaris also supplies pipes and tubular components for non-energy applications such as geothermal wells, waste-to-energy (bio-energy) power plants, hydrogen storage and transportation, and carbon capture and storage.

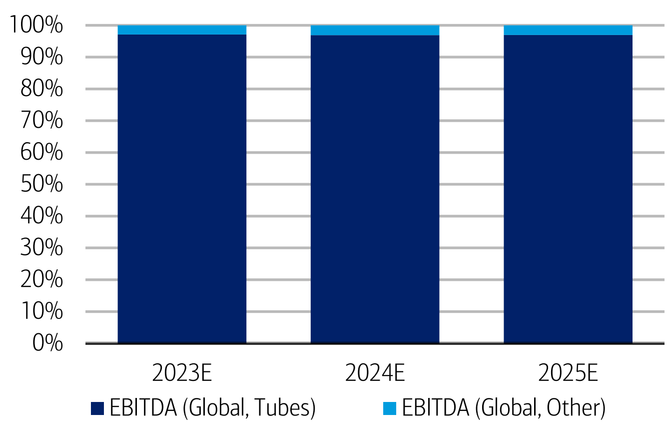
RigDirect: partnering from mill to well

A key difference between Tenaris and competitors is its "RigDirect" distribution model. Instead of using distributors, it partners directly with O&G operators throughout their drilling projects across North America (NAM) and Latin America. Tenaris expects 85% of US volumes to be sold under RigDirect by YE23 (vs 65% in 2022), which it say grants greater transparency to all administrative aspects from call-out to delivery to invoicing. Key benefits include: 1) higher margins on pipe sold and 2) better visibility on demand trends. A key drawback of the model, in our view, is the need for higher levels of inventory on hand compared to peers, which makes Tenaris' headline CFFO more variable in volatile OCTG markets due to swings in working capital.

Divisional split: EBITDA

Tenaris' reporting lines are split into two divisions: Tubes and 'Other.' Tubes accounts for the bulk of earnings – >95% of EBITDA based on our 2023-25 estimates. 'Other' will contribute 3% of group EBITDA in 2023-25e (see Exhibit 28 and Exhibit 29).

Exhibit 28: Tenaris divisional EBITDA split (%)
Tubes accounts for the bulk of earnings



Source: BofA Global Research estimates

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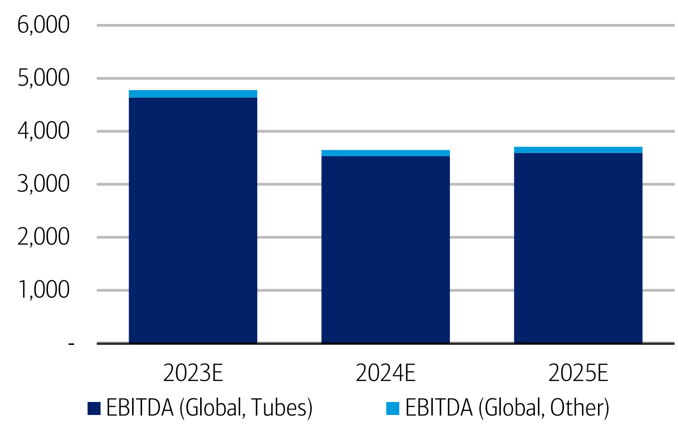
Exhibit 29: Tenaris divisional EBITDA split
EBITDA will fall 20% 2023-25



Source: BofA Global Research estimates

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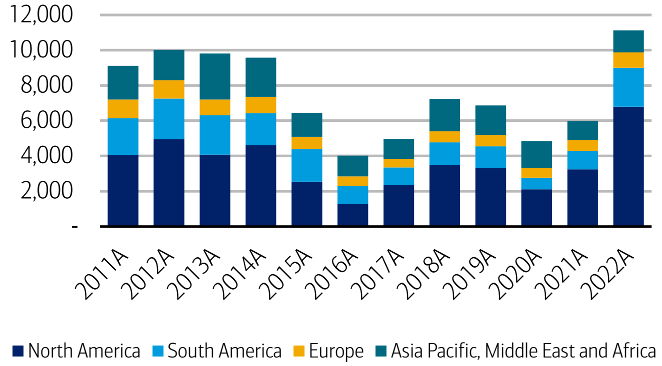
Geographical split: Tubes revenue

From 2013-22, Tenaris generated ~45% of Tube revenue from North America and 55% elsewhere (see Exhibit 30). APAC, Middle East & Africa was its second-most important market, representing ~25% of revenues for the period. After falling to 40% in 2022, we estimate that Int'l (non-NAM) revenues should recover its share of group sales to ~60% by 2025 as positive pricing tailwinds feed into financials (see Exhibit 31).

Exhibit 30: Tubes revenue by geography (US$ m)
NAM is Tenaris' largest market by revenue



Source: BofA Global Research estimates, company report

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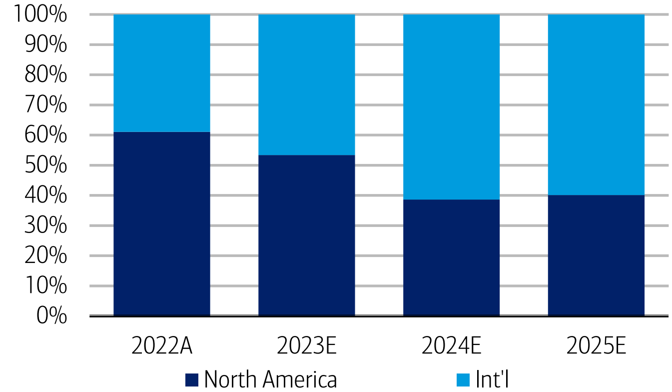
Exhibit 31: Tubes revenue split (%)
Int'l revenue should regain historic group share by 2025



Source: BofA Global Research estimates, company report

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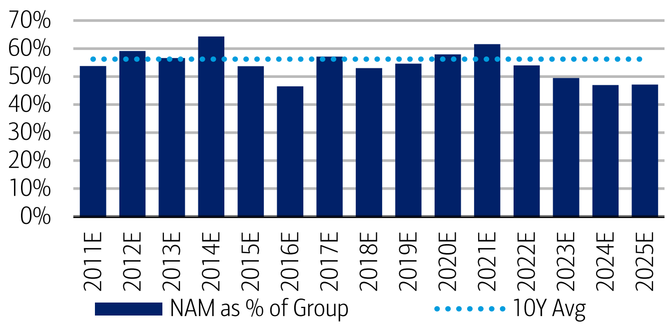
Geographical split: Tubes shipments

We estimate that North America accounted for ~55% of tube volumes 2013-22 (see Exhibit 32). We forecast that NAM shipments will reach 2MT in 2023, giving Tenaris roughly 35% share of total OCTG volumes or ~60% of seamless OCTG demand. In Exhibit 33, we highlight the strong relationship between changes in D&C capex and Tenaris shipments across the continent. By our estimates, % changes in Tenaris' volumes demonstrated a >90% correlation to changes in D&C capex over the last 10 years with an r-squared of 85%.

Exhibit 32: North America contribution to group volumes (KT)
NAM historically contributed ~55% of group volume



Source: BofA Global Research estimates

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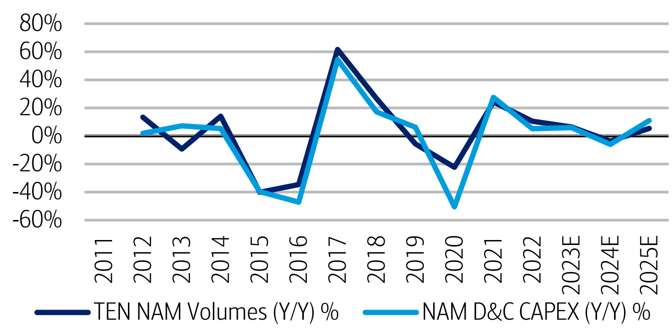
Exhibit 33: NAM VK volumes vs NAM D&C capex
Changes in NAM volumes have shown a strong correlation to D&C capex changes



Source: BofA Global Research estimates, WoodMac

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Asset overview

Tenaris' business strategy of consolidating its position as a leading global supplier means it has grown tube production capacity by ~10% since 2015 via strategic M&A. In the most recent large transaction, it purchased IPSCO from TMK in 2020 for $1.1bn, increasing annual production capacity in the US by 1.4MT (split 400KT seamless/1MT welded), as well as growing US steelmaking capacity by 450KT. In separate transactions, Tenaris has since acquired a Pipe Coating Business Unit from Mattr for $166m and increased its stake in Brazilian steelmaker Usiminas to 10%.

In July 2022, the company agreed to buy 100% of the shares of Benteler Steel & Tube Manufacturing Corporation, a US producer of seamless steel pipes for $460m. However, in February 2023, Benteler exercised its right to unilaterally terminate the agreement, after the Justice Department's Antitrust Division raised competition concerns about the deal.

As of December 31st 2022, Tenaris' effective production capacity was split as follows:

- Steel bars – 4.5MT
- Tubes – Seamless: 4.7 MT (55% NAM, 20% Europe, 20% LATAM, 5% Asia/ME)
- Tubes – Welded: 3.1 MT (52% NAM, 36% LATAM, 12% Asia/ME)

Management & shareholders

Management team

Chairman and CEO – Paolo Rocca

Mr. Rocca is Chairman of the Company's board of directors and Chief Executive Officer. He is a grandson of Agostino Rocca. He is also Chairman of the board of directors of Ternium and a director and President of San Faustin. He is a member of the executive committee of the World Steel Association.

CFO – Alicia Móndolo

Ms. Móndolo was appointed Chief Financial Officer in August 2019. Since April 2023, she has also assumed responsibility for the process improvement and information technology department. Ms. Móndolo joined Techint Group in 1984 and has more than 35 years of experience in accounting and reporting, audit and finance. From 2010 to 2016, she served as Chief Audit Executive of Tenaris.

COO – Gabriel Podskubka

Mr. Podskubka was appointed Chief Operating Officer in April 2023. After graduating as an industrial engineer in Argentina, he joined Siderca (now Tenaris) in 1995 in the marketing department. He held various positions in the marketing, commercial, and industrial areas of Tenaris until he was appointed head of Eastern European operations in 2009 and, in 2013, the president of Eastern Hemisphere operations.

Chief Industrial Officer – Antonio Caprera

Mr. Caprera currently serves as Chief Industrial Officer, a position he assumed in April 2017. He joined the company in 1990. From 2000 to 2006 he served as quality director at Dalmine in Italy, where he later assumed responsibilities as production director until 2012. From that year and until 2015 he served as production director at Siderca (now Tenaris) in Argentina, after which he assumed responsibilities as global industrial coordinator based in Mexico until March 2017.

Chief Supply Chain Officer – Gabriel Casanova

Mr. Casanova serves as Chief Supply Chain Officer, with responsibility for the execution of all contractual deliveries to customers. After graduating as a marine and mechanical engineer, he joined Siderca's (now Tenaris) export department in 1987. In 1995 he became Siderca's Chief Representative in China and from 1997 to 2009 he held several positions in the commercial area in Dalmine. In 2009, he became the head of the supply chain network and in October 2012 he assumed his current position.

Chief Human Resources Officer – Luis Scartascini

Mr. Scartascini was appointed Chief Human Resources Officer on January 1, 2022. After receiving a degree in industrial engineering, he started his career in Siderca in 1997 and then moved to Houston in 2003 to be part of the company's commercial office in the United States. In 2005, he moved back to Argentina to serve as the director of the Global Trainee program before heading to Dubai in 2010 to lead the Middle Eastern Business Unit and later support the acquisition of Saudi Steel Pipes. He returned to the US in 2018 as commercial vice president and played a leading role in the commercial integration of IPSCO.

Chief Technology Officer – Marcelo Ramos

Mr. Ramos serves as Chief Technology Officer. Previously, he was corporate quality director and managing director of NKKTubes. He joined Techint Group in 1987 and has held various positions within Tenaris. He assumed his current position in April 2010, when the quality and technology departments were combined.

President, US – Luca Zanotti

Mr. Zanotti serves as president of operations in the United States. In 2002, he joined Exiros, the procurement company for the Techint Group, as planning and administration director. He was later promoted to raw materials director and in July 2007 became managing director of Exiros, a position he held until 2010. He served as regional manager Europe, and managing director of Dalmine from 2011 to 2015, when he assumed his current position. Before joining the Techint Group, he was a senior manager at A.T. Kearney in Milan, where he worked from 1998 to 2002, and prior to that he held various business development positions in the Far East for Lovato Electric.

President, Mexico – Sergio de la Maza

Mr. de la Maza holds the post of president, Mexico and also serves as managing director and executive vice-president of Tamsa. He first joined Tamsa in 1980. From 1983 to 1988, he held several positions at Tamsa, before becoming manager of its new pipe factory and then later serving as manufacturing manager and quality director of Tamsa. Subsequently, he was named manufacturing director of Siderca. He assumed his current position in 2003.

President, Southern Cone – Javier Martínez Álvarez

Mr. Martínez Álvarez currently is president of operations in the Southern Cone, a position he assumed in June 2010, having previously served as Andean area manager. He began his career at the Techint Group in 1990. In 2006, he joined Tenaris as Venezuela area manager.

President, Europe – Michele Della Briotta

Mr. Della Briotta currently serves as president of operations in Europe, a position he assumed in July 2016. He first joined Tenaris in 1997 and has worked in industrial planning, operations, supply chain and commercial in Italy, Mexico, Argentina and the US. Most recently, he served as Tenaris's area manager for Romania.

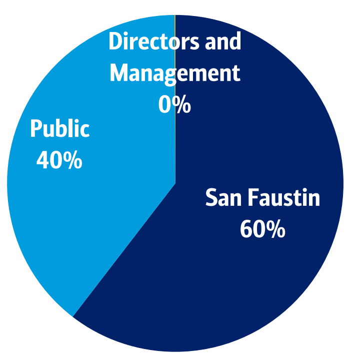
Shareholder information

As of September 30, 2023, per company reports, 60.45% of share capital is owned by major shareholder San Faustin S.A – a financial holding of the Rocca family.

Directors and senior management as a group owned 0.07% of the Company's outstanding shares.

The remainder of shares representing 39.48% are owned by public investors.

Exhibit 34: Tenaris ownership
~60% is owned by the Rocca family through San Faustin



Source: Tenaris

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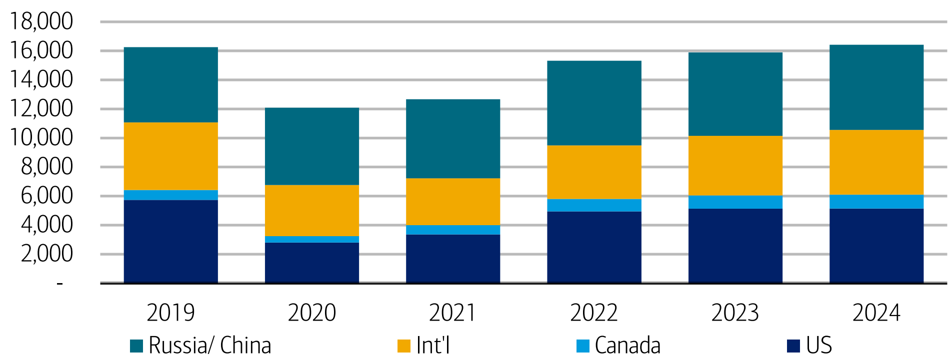
Appendix: OCTG macro framework

For a deep-dive, please see our accompanying sector note: [ ]

Global shipments to surpass pre-COVID levels, but demand growth to slow

According to PipeLogix, demand for OCTG globally will reach 16.5 MT in 2024 (+3% y/y), surpassing pre-COVID levels by 1% (see Exhibit 35). Volumes will be split between North America (6 MT), Russia/China (6 MT), and other Int'l (4.5 MT). Having recovered at a 4% CAGR 2020-23, Int'l demand will accelerate in 2024e (5% y/y), whilst the North American market growth will slow, with consumption +1% y/y (-3pp vs 2023).

Exhibit 35: Global OCTG demand (mt)
Global OCTG demand will equal ~16.5 MT in 2024e (+1% vs pre-pandemic levels)



Source: PipeLogix

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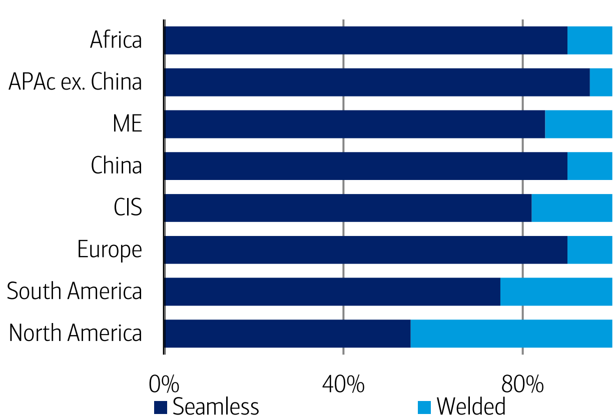
Quality matters (and hence region)

The US is the only OCTG market where welded material continues to make up a significant share. Moreover, it has some of the lowest consumption intensity. For instance, a deep water well can consume >1k tonnes of tubes, with the product mix dominated by higher-margin premium connections, while an average shale well typically requires 3-4 times less volume of a lower-grade, commoditised product (average premium component is <10%).

Exhibit 36: OCTG demand: seamless versus welded
The US is the only OCTG market where welded material continues to make up a significant share



Source: BofA Global Research

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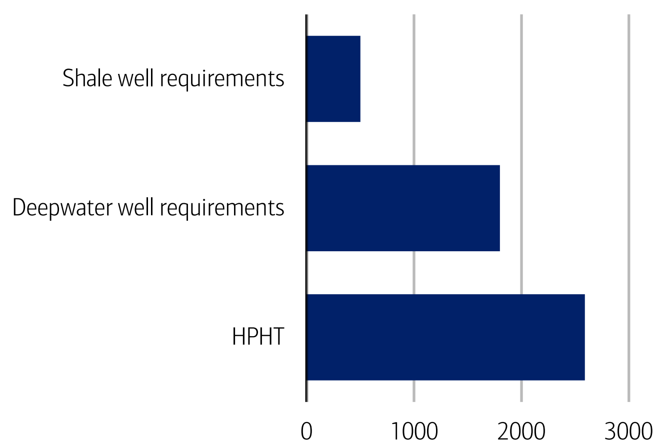
Exhibit 37: Tons per well
The type of rig also dictates the amount of tonnage required



Source: Tenaris

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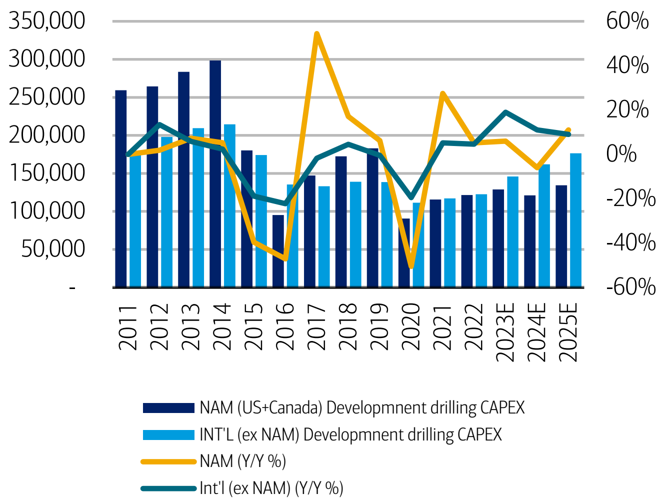
Int'l spending growth to remain in double-digit territory

The key driver of OCTG demand growth is increased capital expenditure on drilling and completion (D&C) activities. Our US colleagues have just downgraded their forecasts for Global D&C capex growth (see 2024 US OFS Year Ahead) and now see +3% y/y in 2024 (-4pp vs +7% previously). Despite their downgrade, they believe that Int'l D&C capex growth will remain robust at 11% (+15pp vs 10YA: -3%) (see Exhibit 38). Within Int'l, they highlight Europe and the Middle East as the fastest-growing segments (see Exhibit 39), expected to deliver +15% growth y/y. Both are key markets for VK and TEN, with ~40%/35% of tube revenue historically generated in the regions.

Exhibit 38: Global D&C capex (LHS: US$m; RHS % y/y)
NAM/Int'l D&C capex growth is expected at -6%/11% in 2024



Source: BofA Global Research estimates, WoodMac

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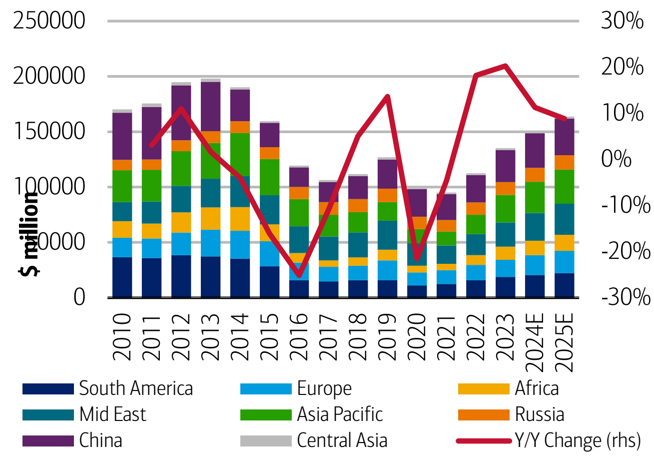
Exhibit 39: International i.e., non-NAM Drilling & Completion (D&C) Capex – 2010-25E
We see International D&C spending in 2025 reaching the highest level since 2014



Source: Spears & Associates, BofA Global Research

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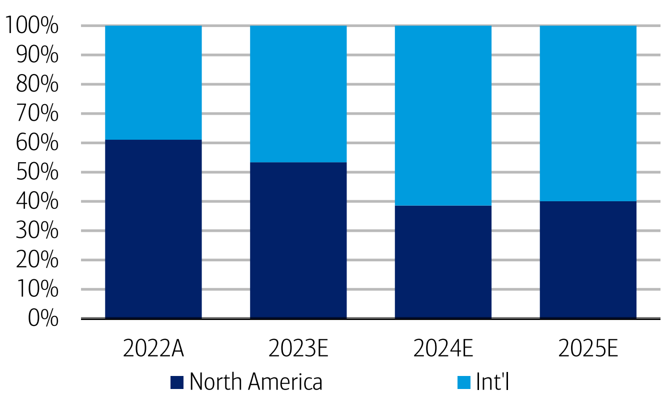
Vallourec more exposed to Int'l torque than Tenaris

From a top-line perspective, VK's Tubes division is more exposed to Int'l torque than TEN, with 70% of revenue generated outside of NAM 2013-22 vs TEN at 45%. We estimate that the Int'l segment as a % of group revenue should grow at both VK and TEN to above historical levels by 2025 (70%/60%) as positive pricing and shipment momentum feeds into financials (see Exhibit 31 and Exhibit 41).

Exhibit 40: Tenaris Tubes division revenue split (%)
Int'l tube revenue should rise to 60% of group by 2025



Source: BofA Global Research estimates, company report

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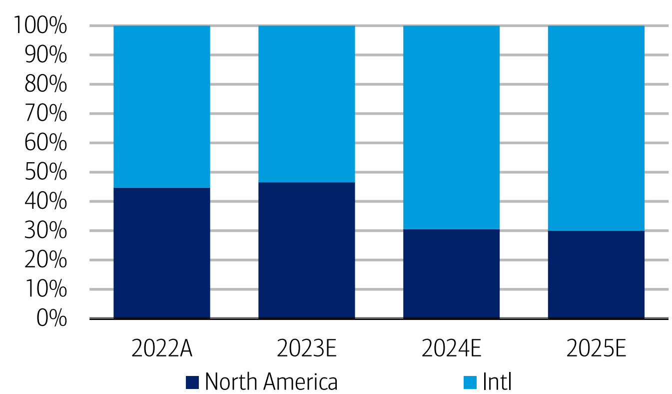
Exhibit 41: Vallourec Tubes division revenue split (%)
Int'l tube revenue should rise to 70% of group by 2025



Source: BofA Global Research estimates, company report

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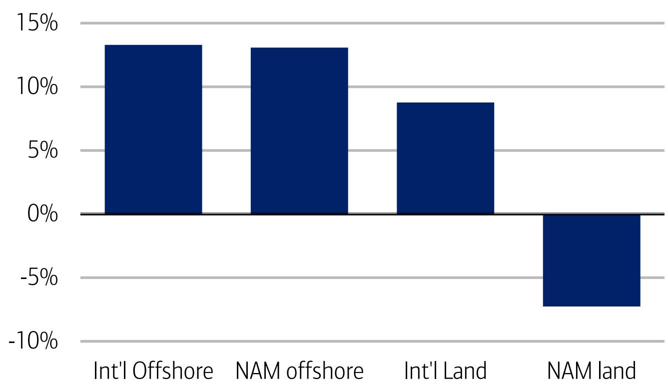
Offshore spending tailwinds to persist in 2024

As 'Tier 1' global producers of premium pipe, we believe that VK and TEN are well positioned to benefit from increased offshore spending trends (NAM +13% & Int'l +13% in 2024e – see Exhibit 42). Offshore markets are less commoditised than onshore and require the most sophisticated tubing to cope with extreme operating conditions. From a pricing perspective, this makes high-end tubing the highest-value segment for producers: according to Vallourec, pricing for tubing with premium connections (suitable for offshore) typically ranges from $3-4,500/tonne (vs <$2,000/t for lesser grades) – see Exhibit 43.

Exhibit 42: D&C capex growth by region (2024e)
D&C spending should increase offshore globally in 2024 (NAM +13% & Int'l +13%)



Source: BofA Global Research estimates

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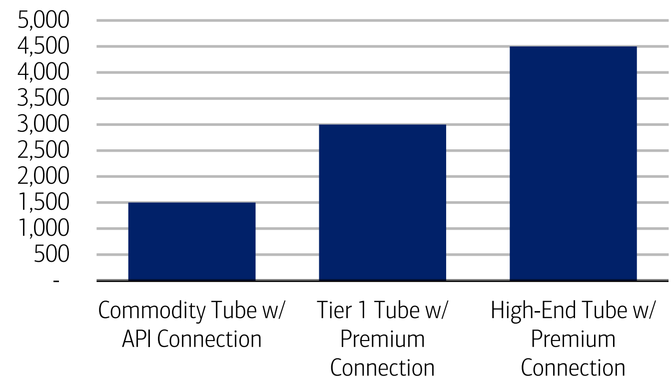
Exhibit 43: Pricing power in OCTG premium products ($/t)
High-end OCTG grades can sell for up to $4,500/tonne



Source: Vallourec

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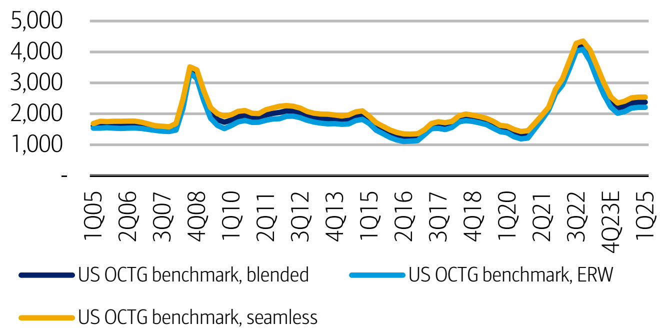
Deepwater drilling seeks the most premium pipe: Case study – US GOM

As noted by Vallourec at their 2023 Capital Markets Day , premiumization strategies can drive significant market share growth in deepwater offshore markets (>500m depth). Prior to introducing the VAM® SLIJ-3, a premium connection designed for extreme performance applications, VK held <25% market share of deepwater US Gulf of Mexico (drilling depth up to 3,000m). Since its release, VK's market share has trebled, rising to >60% in 2023e.

US pricing: inflection imminent

We believe that the North American (NAM) OCTG market will stabilize in 2024 and forecast blended prices averaging $2,300/tonne (15% above 10YA) (see Exhibit 44). As inventories normalize at historical levels we see two key factors supporting a price inflection in 1H24: 1) demand tailwinds from growth in the US land rig count (+5% 4Q23-24); and 2) supply support from structurally lower imports. We are most constructive on the offshore segment where we see double-digit D&C spending growth y/y and attractive pricing dynamics (see Exhibit 43). As raw material cost pressures fade, we believe that cash margins will rise 13%/70% over 1Q-4Q across seamless and electric resistance welded (ERW) products.

Exhibit 44: US OCTG pricing ($/tonne)
Blended OCTG prices should average $2,300/t in 2024 (+15% vs 10YA)



Source: BofA Global Research estimates, PipeLogix

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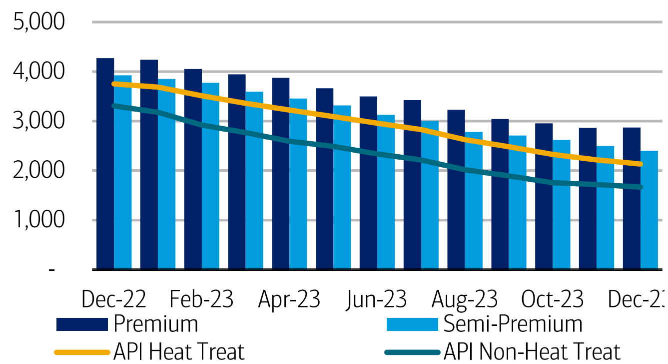
Exhibit 45: US OCTG product group prices ($/short ton)
Premium OCTG prices rose m/m in December, the first time in 2023



Source: OCTG Situation Report

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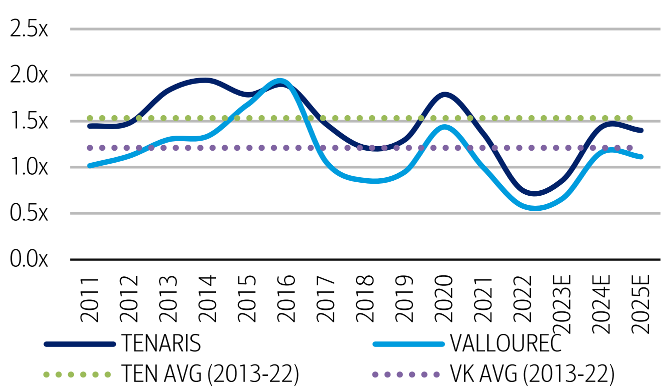
Int'l upcycle should restore premium ASP multiples

We believe 2024 will mark the 'International' leg of the post-pandemic upcycle in OCTG – driving Int'l average selling price (ASP) multiples back to premium averages after 3 years of discount to North America (NAM) (see Exhibit 46). Management commentary confirms that S/D balances remain tight (especially in the Middle East) and pricing for new tenders continues to trend upwards (see Exhibit 47). We are still optimistic that these trends can be sustained and see structural tailwinds from multi-year, offshore capex growth in key end markets like Brazil and Saudi Arabia, boosting demand for premium-grade, higher-value pipe (see Exhibit 43). Consequently, we see earnings tailwinds across 2024e as higher ASPs feed into financials with a 6-9m lag.

Exhibit 46: Int'l ASP multiple vs NAM (BofAe)
Int'l ASPs should return to historical multiples of 1.2x/1.5x vs NAM at Vallourec/Tenaris



Source: BofA Global Research estimates

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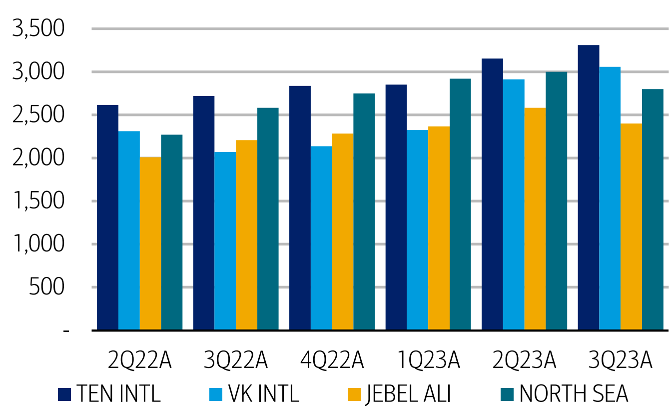
Exhibit 47: Int'l tube ASPs (US$/tonne)
Int'l pricing momentum has trended upwards since 2H22



Source: BofA Global Research estimates, Vallourec

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Full financials

Income statement

Exhibit 48: Income statement for Tenaris

Tenaris income statement (BofAe – US$ m unless stated)

	2020A	2021A	2022A	2023E	2024E	2025E
Tubes	4,844	5,994	11,133	14,024	12,482	13,361
Others	303	528	630	617	600	600
Revenue	**5,147**	**6,522**	**11,763**	**14,641**	**13,082**	**13,961**
COGS	(4,087)	(4,612)	(7,088)	**(8,495)**	**(8,072)**	**(8,709)**
Gross Profit	**1,060**	**1,910**	**4,675**	**6,146**	**5,010**	**5,252**
SGA	(1,119)	(1,207)	(1,635)	**(1,934)**	**(1,935)**	**(1,978)**
Other	19	62	(0)	**41**	**-**	**-**
Impairment	(622)	(57)	(77)	**-**	**-**	**-**
Total Operating Expenses	**(1,722)**	**(1,202)**	**(1,712)**	(1,893)	(1,935)	(1,978)
Operating Income (EBIT)	**(663)**	**708**	**2,964**	**4,253**	**3,075**	**3,274**
Operating Margin	-13%	11%	25%	29%	24%	23%
D&A	(679)	(595)	(608)	**(525)**	**(575)**	**(575)**
EBITDA	**16**	**1,302**	**3,571**	**4,778**	**3,650**	**3,849**
EBITDA Margin	0%	20%	30%	33%	28%	28%
Net Financial income/(Expense)	**(65)**	**23**	**(6)**	**186**	**193**	**118**
Financial Income	18	38	80	210	250	150
Financial Expense	(27)	(24)	(46)	(89)	(57)	(32)
Other financial income and expenses	(56)	8	(40)	65	-	-
Income before equity income and tax	**(728)**	**730**	**2,958**	**4,439**	**3,267**	**3,392**
Share of net income/(loss) of equity affiliates	**109**	**513**	**209**	**64**	50	50
Income Before Minority Interest and Tax	**(619)**	**1,243**	**3,166**	**4,503**	**3,317**	**3,442**
Income Taxes	**(23)**	**(189)**	**(617)**	**(1,062)**	**(829)**	**(861)**
Effective Tax Rate	-4%	15%	19%	24%	25%	25%
Net income from continuing operations	**(642)**	**1,053**	**2,549**	**3,441**	**2,488**	**2,582**
Net Income Margin	-12%	16%	22%	24%	19%	18%
NCI Share	(8)	(47)	(5)	(17)	(12)	(13)
Group share of Net income from continuing operations	**(634)**	**1,100**	**2,553**	**3,459**	**2,500**	**2,595**
(+) Income/(loss) from Discontinued operations	-	-	-	-	-	-
Group share of Income (loss) for the period	**(634)**	**1,100**	**2,553**	**3,459**	**2,500**	**2,595**
Income (loss) for the period (inc. dicont)	**(642)**	**1,053**	**2,549**	**3,441**	**2,488**	**2,582**
Weighted average number of shares outstanding	1,181	1,181	1,181	1,180	1,143	1,123
EPS (US$)	**(0.5)**	**0.9**	**2.2**	**2.9**	**2.2**	**2.3**
EPADR (US$)	**(1.1)**	**1.9**	**4.3**	**5.9**	**4.4**	**4.6**
DPS (US$)	**0.21**	**0.41**	**0.51**	**0.60**	**0.65**	**0.68**
DPADR (US$)	**0.42**	**0.82**	**1.02**	**1.20**	**1.30**	**1.35**

Source: BofA Global Research estimates, company report

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Balance sheet

Exhibit 49: Balance sheet for Tenaris

Tenaris balance sheet (BofAe – US$ m unless stated)

USD Million	2020A	2021A	2022A	2023E	2024E	2025E
Assets						
Inventories	1,637	2,673	3,987	3,867	3,675	3,965
Recievables & prepayments	78	96	184	248	222	237
Current tax assets	136	193	243	280	250	267
Trade Receivables	968	1,299	2,494	1,995	1,783	1,902
Derivatives (Assets for sale)	11	4	31	31	31	31
Other Investments (Current)	872	398	438	3,036	3,036	3,036
Cash and Cash Equivalents	585	318	1,092	819	1,570	2,683
Total Current Assets	**4,288**	**4,981**	**8,469**	**10,276**	**10,566**	**12,121**
Property Plant and Equipment (net)	6,193	5,825	5,556	5,739	5,844	5,995
Intangible Assets (net)	1,429	1,372	1,333	1,333	1,333	1,333
Right of used assets (net)	242	109	112	112	112	112
Investments in associated companies	957	1,384	1,541	1,811	1,811	1,811
Other Investments (Non-current)	247	320	120	92	92	92
Derivatives (Assets for sale)	-	7	-	-	-	-
Deferred Tax assets	206	246	209	209	209	209
Long Term Receivables	154	206	212	212	212	212
Total Non-Current Assets	**9,429**	**9,468**	**9,082**	**9,507**	**9,612**	**9,763**
Total Assets	**13,716**	**14,449**	**17,550**	**19,782**	**20,178**	**21,884**
Liabilities						
Borrowings	303	220	682	516	516	516
Lease liabilities (net)	43	35	29	29	29	29
Derivatives (Liabilities for sale)	3	11	7	7	7	7
Current tax liabilities	91	143	376	376	376	376
Other Current Liabilities	203	204	261	352	314	335
Provisions	12	9	11	11	11	11
Customer Advances	49	92	243	170	152	162
Trade payables	462	845	1,179	1,003	896	956
Total Current Liabilities	**1,166**	**1,560**	**2,788**	**2,463**	**2,301**	**2,392**
Borrowings	316	111	46	46	46	46
Lease liabilities (net)	214	83	84	48	48	48
Deferred Tax Liabilities	255	275	269	403	403	403
Employee Liabilities (Other)	246	232	230	230	230	230
Provisions	73	84	98	98	98	98
Total Non-Current Liabilities	**1,103**	**784**	**727**	**826**	**826**	**826**
Total Liabilities	**2,270**	**2,344**	**3,516**	**3,289**	**3,126**	**3,218**
Shareholders Equity	**11,263**	**11,961**	**13,906**	16,365	16,923	18,537
Share capital	1,181	1,181	1,181	1,181	1,181	1,181
Share premium	610	610	610	610	610	610
Reserves	118	118	118	118	118	118
Currency translation adjustment	(958)	(1,051)	(1,139)	(1,139)	(1,139)	(1,139)
Other reserves	(345)	(336)	(326)	(326)	(326)	(326)
Retained earnings	10,658	11,440	13,462	15,921	16,479	18,093
Minority interest	**184**	**145**	**129**	129	129	129
Total Liabs & Sh Equity	**13,716**	**14,449**	**17,550**	**19,782**	**20,178**	**21,884**

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Cash flow statement

Exhibit 50: Cash flow statement for Tenaris
Tenaris cash flow statement (BofAe – US$ m unless stated)

	2020A	2021A	2022A	2023E	2024E	2025E
Net Income	(642)	1,053	2,549	3,441	2,488	2,582
Income from the sale of Conduit business	--	--	--	-	-	-
D&A	679	595	608	525	575	575
Equity in Net Earnings (Loss)	(109)	(513)	(209)	(64)	(50)	(50)
Income tax accrued	23	189	617	1,062	829	861
Interest Accrued	9	(14)	(34)	(121)	(193)	(118)
Result of sale of subsidiaries	--	(7)	-	-	-	-
Changes in provisions	(13)	7	16	-	-	-
Reclassification of currency translation	--	--	(71)	-	-	-
Taxes Paid	(140)	(154)	(360)	(927)	(829)	(861)
Cash interest (paid)/received (net)	(9)	3	36	76	(7)	(32)
Changes in working capital	1,059	(1,046)	(2,131)	359	299	(350)
Other Operating Cash Flow	42	(52)	70	34	-	-
Impairment Charge	622	57	77	-	-	-
Cash from Operating Activities	**1,520**	**119**	**1,167**	**4,386**	**3,112**	**2,607**
Changes in advances to suppliers of prop	(1)	(5)	(19)	1	-	-
Capital expenditures	(193)	(240)	(378)	(708)	(680)	(726)
Repayment of loan by non-consolidated co	-	-	--	-	-	-
Loan to non-consolidated companies	-	--	--	(3)	-	-
Changes in investments in securities	(887)	390	123	(2,597)	-	-
Purchase of Invest Sec. - Unclassified	-	(1)	-	-	-	-
Investment in non-consolidated companies	--	--	--	(23)	-	-
Proceed-Disposal of PPE,Intangible AST	--	--	--	-	-	-
Proceeds from disposal of property, plan	14	23	49	9	-	-
Acquisition of subsidiaries, net of cash	(1,025)	-	(4)	(270)	-	-
Acquisition of subsidiaries	--	--	--	-	-	-
Dividends received from non-consolidated	0	76	66	44	-	-
Acquisition/Sale of Business, Net	--	24	-	-	-	-
Cash from Investing Activities	**(2,092)**	**268**	**(164)**	**(3,548)**	**(680)**	**(726)**
Payments of lease liabilities	(49)	(49)	(52)	(36)	-	-
Dividends paid to non-controlling intere	(5)	(3)	(10)	(19)	(10)	(10)
Dividends paid	(83)	(319)	(531)	(637)	(685)	(758)
Proceeds from borrowings	658	844	1,512	1,358	-	-
Repayments of borrowings	(897)	(1,121)	(1,094)	(1,525)	-	-
Proceeds from equity issuance	-	-	-	-	-	-
Stock repurchase	-	-	-	(215)	(985)	-
Acquisitions of Non-controlling interest	-	-	(1)	4	-	-
Cash from Financing Activities	**(375)**	**(648)**	**(178)**	**(1,070)**	**(1,680)**	**(768)**
Foreign Exchange Effects	(23)	(6)	(52)	(41)	-	-
Net Change in Cash	**(970)**	**(267)**	**773**	**(273)**	**752**	**1,113**

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk

Tenaris (TNRSF / TS)

Our PO of US$40/EUR 18 for Tenaris is based on our DCF valuation, which assumes a WACC of 9.5% and a perpetuity growth rate of 1.5%.

Upside risks to our PO include: (1) upside to our Tubes price forecast, (2) upside to Tubes volume forecast, (3) favourable exchange rate movements and (4) decreases in raw material costs.

Downside risks to our PO include: (1) downside to our Tubes price forecast, (2) downside to Tubes volume forecast, (3) unfavourable exchange rate movements, (4) increases in raw material costs and (5) global trade issues, including possible anti-dumping duties

Analyst Certification

We, Joseph Charuy and Christopher Kuplent, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Capricorn Energy	CRNZD	CNE LN	Matthew Smith
	Energean	EERGF	ENOG LN	Matthew Smith
	Energean	XMQFF	ENOG IT	Matthew Smith
	Equinor ASA	STOHF	EQNR NO	Christopher Kuplent
	Equinor ASA	EQNR	EQNR US	Christopher Kuplent
	Harbour Energy	PMOIF	HBR LN	Matthew Smith
	Kosmos Energy	KOS	KOS US	Matthew Smith
	Kosmos Energy	XKELF	KOS LN	Matthew Smith
	Neste	NTOIF	NESTE FH	Christopher Kuplent
	Neste	NTOIY	NTOIY US	Christopher Kuplent
	Saipem	SAPMF	SPM IM	Christopher Kuplent
	Shell plc	SHEL	SHEL US	Christopher Kuplent
	Shell Plc	RYDAF	SHEL LN	Christopher Kuplent
	TotalEnergies	TTFNF	TTE FP	Christopher Kuplent
	TotalEnergies	TTE	TTE US	Christopher Kuplent
	Vallourec	VLOUF	VK FP	Joseph Charuy
NEUTRAL				
	Aker Solutions	AKRTF	AKSO NO	Christopher Kuplent
	BP plc	BP	BP US	Christopher Kuplent
	BP plc	BPAQF	BP/ LN	Christopher Kuplent
	Eni	E	E US	Matthew Smith
	Eni	EIPAF	ENI IM	Matthew Smith
	EnQuest	ENQUF	ENQ LN	Matthew Smith
	Ithaca Energy plc	XMFYF	ITH LN	Matthew Smith
	Tenaris	TS	TS US	Joseph Charuy
	Tenaris	TNRSF	TEN IM	Joseph Charuy
	Var Energi	XGZNF	VAR NO	Matthew Smith
UNDERPERFORM				
	Aker BP	DETNF	AKRBP NO	Matthew Smith
	Galp Energia	GLPEF	GALP PL	Matthew Smith
	OMV	OMVJF	OMV AV	Matthew Smith
	OMV	OMVKY	OMVKY US	Matthew Smith
	Repsol	REPYY	REPYY US	Matthew Smith
	Repsol	REPYF	REP SQ	Matthew Smith
	Subsea 7 SA	ACGYF	SUBC NO	Christopher Kuplent
	Technip Energies	THNPF	TE FP	Christopher Kuplent

EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Technip Energies	THNPY	THNPY US	Christopher Kuplent
	Tullow Oil	TUWLF	TLW LN	Matthew Smith

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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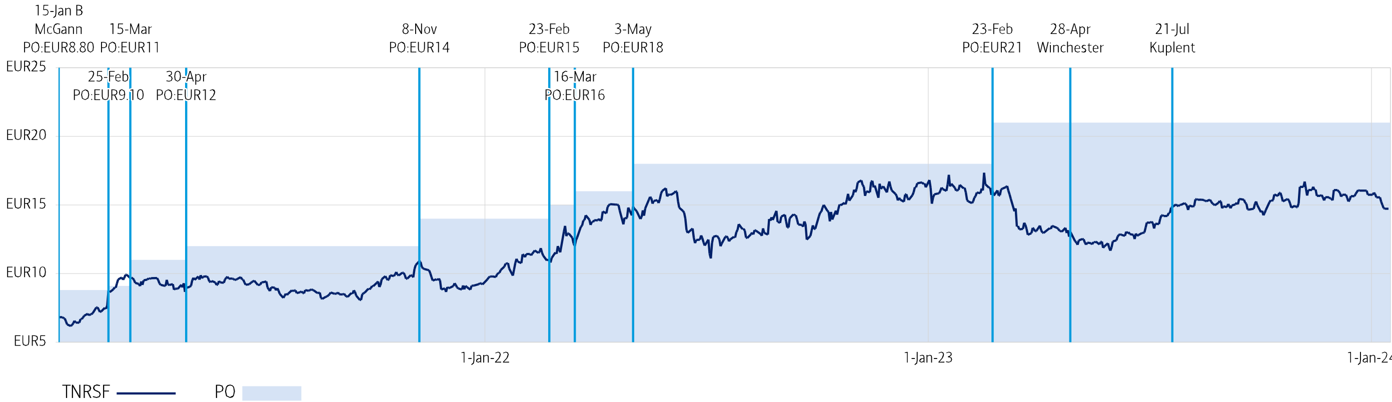
Tenaris (TNRSF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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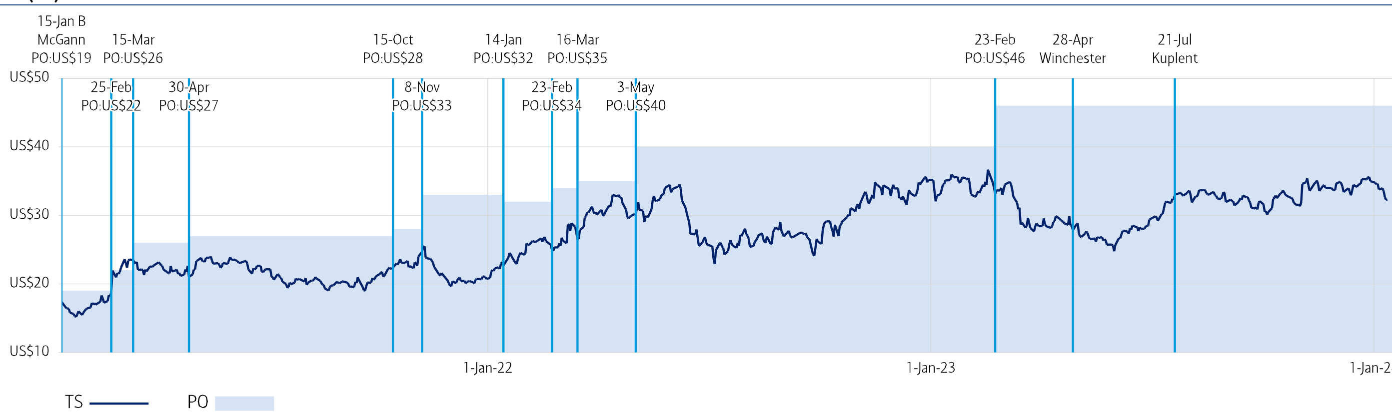
Tenaris (TS) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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