

United States Steel Corporation

Q4'23 EBITDA beat, Mini-mill and Tubular segments better; BRS2 capex raised

Reiterate Rating: NO RATING | PO: NA | Price: 46.63 USD

Focus on announced transaction, with discount widening

US Steel (X) reported Q4'23 adjusted EBITDA above its mid-December guidance, and BofA/consensus estimates. The beat vs. BofAe was mainly driven by better performance in the Mini-mill and Tubular segments, driven by higher volumes, lower costs and hedging benefits. Looking into Q1'24, X should see sequential improvement in earnings driven by robust shipments and the lagged benefit of the recent rally in U.S hot-rolled coil (HRC) prices. However, we think investors are more focused on the path forward for the announced acquisition by Nippon Steel Corp. With shares currently trading at ~15% discount to offer price of \$55 per share, investors appear to be increasingly more concerned over a lack of support from the unions and rising rhetoric against foreign ownership (from peers, current administration, and other politicians). Given the pending transaction, we do not think that X trades on fundamentals and maintain a No Rating.

BRS2 on track for H2'24 start, capex raised \$200m

Strategic projects are on track, with Keetac producing its first direct-reduced grade pellet in December. The Big River Steel (BRS) coating line and new mill are to come online in Q2'24. BRS 2 remains on track for an H2'24 start-up, but total capex was increased from \$3.0 billion (bn) to \$3.2bn ('to ensure successful completion'). Given the pending transaction, X will not be hosting the usual earnings conference call tomorrow.

Q4 EBITDA beat on higher Mini-mill/Tubular volumes

X reported Q4'23 adjusted EBITDA of \$330m, above the guide of \$250m, BofAe at \$257m and Bloomberg/Visible Alpha consensus at \$258m/\$256m. At the segment level, Mini mill EBIT at \$29m was well ahead BofAe at a \$24m loss, due to higher shipments, lower outage/service costs and a hedging benefit. Tubular EBIT was also above BofAe at \$113m due to higher volumes and lower operating/labor costs. Flat-Rolled Products (FRP) EBIT at a \$31m loss, was slightly better than BofAe a \$42m loss, mainly due to higher volumes. This was offset by a higher-than-expected loss in the European (USSE) segment (-\$21m vs. BofAe -\$14m), owing to lower realized pricing. Versus Q3'23, FRP / Mini-mill / USSE segment results were down mainly due to reduced pricing. Tubular improved on higher volumes. Net debt rose 27% QoQ to \$1.3bn but was in-line BofAe.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	15.06	9.87	4.33	3.91	2.40
EPS Change (YoY)	NM	-34.5%	-56.1%	-9.7%	-38.6%
Consensus EPS (Bloomberg)			4.25	2.88	3.98
DPS	0.08	0.20	0.20	0.20	0.20
Valuation (Dec)					
P/E	3.1x	4.7x	10.8x	11.9x	19.4x
Dividend Yield	0.2%	0.4%	0.4%	0.4%	0.4%
EV / EBITDA*	2.5x	3.3x	6.7x	5.7x	6.9x
Free Cash Flow Yield*	26.0%	14.0%	-6.2%	1.4%	4.2%

* For full definitions of *IQmethod*SM measures, see page 5.

01 February 2024

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Stock Data

Price	46.63 USD
Price Objective	NA
Date Established	NA
Investment Opinion	-6-
52-Week Range	20.40 USD - 50.20 USD
Mkt Val (mn) / Shares Out (mn)	12,416 USD / 266.3
Free Float	89.0%
Average Daily Value (mn)	388.54 USD
BofA Ticker / Exchange	X / NYS
Bloomberg / Reuters	X US / X.N
ROE (2023E)	10.4%
Net Dbt to Eqty (Dec-2022A)	4.6%
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 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM United States Steel Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	37.7%	17.1%	6.1%	6.8%	4.4%
Return on Equity	66.0%	28.5%	10.4%	8.6%	5.0%
Operating Margin	23.9%	14.9%	5.6%	8.6%	6.4%
Free Cash Flow	3,227	1,736	(765)	174	527

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	1.3x	1.7x	1.7x	2.2x
Asset Replacement Ratio	1.1x	2.2x	2.9x	1.6x	0.8x
Tax Rate	3.9%	22.6%	19.9%	22.5%	22.5%
Net Debt-to-Equity Ratio	15.0%	4.6%	11.5%	9.5%	5.3%
Interest Cover	8.2x	NA	NA	6.3x	4.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	20,696	21,150	17,926	17,451	15,724
% Change	120.2%	2.2%	-15.2%	-2.6%	-9.9%
Gross Profit	5,366	3,582	1,427	1,948	1,502
% Change	NM	-33.2%	-60.2%	36.6%	-22.9%
EBITDA	5,592	4,236	2,066	2,423	1,986
% Change	NM	-24.2%	-51.2%	17.3%	-18.0%
Net Interest & Other Income	(602)	99	242	(239)	(237)
Net Income (Adjusted)	4,221	2,736	1,104	990	608
% Change	NM	-35.2%	-59.7%	-10.3%	-38.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	4,174	2,524	992	976	593
Depreciation & Amortization	791	791	910	925	985
Change in Working Capital	(849)	(32)	361	(104)	(127)
Deferred Taxation Charge	(52)	501	0	0	0
Other Adjustments, Net	26	(279)	(428)	(121)	(121)
Capital Expenditure	(863)	(1,769)	(2,600)	(1,502)	(803)
Free Cash Flow	3,227	1,736	-765	174	527
% Change	NM	-46.2%	NM	NM	202.7%
Share / Issue Repurchase	640	(849)	(175)	0	0
Cost of Dividends Paid	0	0	(45)	(45)	(45)
Change in Debt	(2,499)	(39)	172	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,522	3,504	2,948	3,077	3,559
Trade Receivables	2,089	1,635	1,370	1,469	1,367
Other Current Assets	2,541	2,727	2,521	2,499	2,504
Property, Plant & Equipment	7,254	8,492	10,337	10,914	10,733
Other Non-Current Assets	3,410	3,100	3,089	3,089	3,089
Total Assets	17,816	19,458	20,265	21,048	21,252
Short-Term Debt	28	63	98	98	98
Other Current Liabilities	3,824	3,896	3,555	3,527	3,303
Long-Term Debt	3,863	3,914	4,129	4,129	4,129
Other Non-Current Liabilities	998	1,274	1,326	1,206	1,085
Total Liabilities	8,713	9,147	9,108	8,959	8,615
Total Equity	9,103	10,311	11,157	12,089	12,637
Total Equity & Liabilities	17,816	19,458	20,265	21,048	21,252

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Steels

Company Description

U.S. Steel is an integrated producer of flat carbon steel and tubular products with a total of 22.4M tons of capacity in North America and Slovakia. U.S. Steel's operations include eight blast furnaces in the U.S., three EAFs in the U.S., and three blast furnaces in Slovakia. Combined operations generated \$21.1B in revenues and \$4.3B in EBITDA in 2022.

Investment Rationale

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Stock Data

Average Daily Volume 8,332,416

Quarterly Earnings Estimates

	2022	2023
Q1	3.05A	0.77A
Q2	3.86A	1.92A
Q3	1.95A	1.40A
Q4	0.87A	0.26E

X Q4'23 results

Exhibit 1: X Q4'23 results vs consensus and recent quarters

Q4'23 adjusted EBITDA beat BofAe better performance in the Mini-mill and Tubular segments, driven by higher volumes, lower costs and hedging benefits.

(US\$m, except per share data)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	Q4 2023E	Var.	Bloomberg Cons.	Var.	Visible Alpha Cons.	Var.
Net Sales	4,144	4,338	-4%	4,431	-6%	3,907	6%	3,738	11%	3,802	9%
Adjusted EBITDA	330	431	-23%	578	-43%	257	29%	258	28%	256	29%
EBITDA margin	8.0%	9.9%	-197bp	13.0%	-508bp	6.6%	139bp	6.9%	105bp	6.7%	122bp
Depreciation	241	197	22%	230	5%	235	2%	229	5%	232	4%
Adjusted Earnings	167	226	-26%	350	-52%	62	171%	67	150%	66	151%
Adjusted EPS	0.67	0.87	-23%	1.40	-52%	0.26	161%	0.26	158%	0.27	152%
Operating Cash Flow	389	755	-48%	817	-52%	399	-2%	354	10%	373	4%
Capex	(637)	(631)	1%	(586)	9%	(662)	-4%	(634)	1%	(614)	4%
Free Cash Flow	(248)	124	nm	231	nm	(263)	-6%	(280)	nm	(241)	3%
Net Debt	1,274	473	169%	1,005	27%	1,279	0%	1,308	-3%	1,248	2%
Operating income (EBIT)											
Flat-Rolled Products	(31)	159	nm	225	nm	(42)	nm	(28)	nm	(29)	nm
Mini Mill	29	(68)	nm	42	-31%	(24)	nm	(0)	nm	(18)	nm
Tubular Products	113	205	-45%	87	30%	98	16%	84	34%	85	33%
US Steel Europe	(21)	(68)	nm	(13)	nm	(14)	nm	(12)	nm	(11)	nm
Other Businesses	(1)	6	nm	7	nm	4	nm	(1)	nm	1	nm
Segment EBIT	89	234	-62%	348	-74%	22	311%	43	107%	28	217%
Special items	(320)	(60)	nm	(71)	nm	(55)	nm	(10)	nm	(17)	nm
Total EBIT	(231)	174	nm	277	nm	(33)	nm	33	nm	11	nm
Operating details											
Flat-Rolled Products											
Shipments ('000 st)	2,034	1,885	8%	2,159	-6%	1,900	7%	1,971	3%	2,003	2%
Average realized price (\$/st)	978	1,086	-10%	1,036	-6%	975	0%	964	1%	928	5%
EBITDA (\$/st)	63	151	-58%	175	-64%	59	6%	63	0%	61	4%
Mini Mill											
Shipments ('000 st)	617	636	-3%	561	10%	525	18%	546	13%	533	16%
Average realized price (\$/st)	807	786	3%	901	-10%	843	-4%	813	-1%	783	3%
EBITDA (\$/st)	120	(44)	nm	150	-20%	41	192%	72	68%	30	293%
Tubular Products											
Shipments ('000 st)	132	133	-1%	104	27%	125	6%	118	12%	117	13%
Average realized price (\$/st)	2,390	3,616	-34%	2,927	-18%	2,650	-10%	2,617	-9%	2,678	-11%
EBITDA (\$/st)	955	1,632	-41%	952	0%	877	9%	812	18%	824	16%
US Steel Europe											
Shipments ('000 st)	1,024	715	43%	958	7%	1,000	2%			1,002	2%
Average realized price (\$/st)	770	957	-20%	852	-10%	784	-2%	806	-4%	805	-4%
EBITDA (\$/st)	3	(67)	nm	10	-72%	9	-66%			11	-74%

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Note: we have updated our model for Q4'23 reported results. Given the beat, 2023E EPS increased 9% to \$4.73. Forward estimates are largely unchanged other than higher capex for 2024E at \$1.7bn (vs. \$1.5bn prior).

Price objective basis & risk

United States Steel Corporation (X)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Analyst Certification

I, Lawson Winder, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agnico Eagle Mines	AEM	AEM US	Lawson Winder, CFA
	B2Gold Corp	YBTO	BTO CN	Harmen Puri
	B2Gold Corp	BTG	BTG US	Harmen Puri
	Barrick Gold	GOLD	GOLD US	Lawson Winder, CFA
	Cameco Corporation	YCCO	CCO CN	Lawson Winder, CFA
	Cameco Corporation	CCJ	CCJ US	Lawson Winder, CFA
	Commercial Metals	CMC	CMC US	Lawson Winder, CFA
	Endeavour Mining	YEDV	EDV CN	Harmen Puri
	Endeavour Mining	EDVMF	EDVMF US	Harmen Puri
	Endeavour Mining PLC	XEDVF	EDV LN	Harmen Puri
	Franco-Nevada	YFNV	FNV CN	Lawson Winder, CFA
	Franco-Nevada	FNV	FNV US	Lawson Winder, CFA
	IAMGOLD	YIMG	IMG CN	Lawson Winder, CFA
	IAMGOLD Corp.	IAG	IAG US	Lawson Winder, CFA
	Ivanhoe Mines	YIVN	IVN CN	Lawson Winder, CFA
	Ivanhoe Mines	IVPAF	IVPAF US	Lawson Winder, CFA
	Lundin Mining	XLPRF	LUMI SS	Lawson Winder, CFA
	Lundin Mining Corp	YLUN	LUN CN	Lawson Winder, CFA
	Lundin Mining Corp	LUNMF	LUNMF US	Lawson Winder, CFA
	MP Materials	MP	MP US	Lawson Winder, CFA
	Newmont Corporation	NEM	NEM US	Lawson Winder, CFA
	Newmont Corporation	XNCRF	NEM AU	Lawson Winder, CFA
	Nucor	NUE	NUE US	Lawson Winder, CFA
	Pan American Silver	PAAS	PAAS US	Lawson Winder, CFA
	Teck Resources	YTECK	TECK/B CN	Lawson Winder, CFA
	Teck Resources Ltd	TECK	TECK US	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	YTFPM	TFPM CN	Lawson Winder, CFA
	Triple Flag Precious Metals Corp.	TFPM	TFPM US	Lawson Winder, CFA
	Wheaton Precious Metals	WPM	WPM US	Lawson Winder, CFA
NEUTRAL				
	Alamos Gold	YAGI	AGI CN	Harmen Puri
	Alamos Gold	AGI	AGI US	Harmen Puri
	Alcoa Corporation	AA	AA US	Lawson Winder, CFA
	Cleveland-Cliffs	CLF	CLF US	Lawson Winder, CFA
	First Quantum	FQVLF	FQVLF US	Lawson Winder, CFA
	First Quantum Minerals	YFM	FM CN	Lawson Winder, CFA
	Freeport-McMoRan	FCX	FCX US	Lawson Winder, CFA
	Hudbay Minerals	YHBM	HBM CN	Lawson Winder, CFA
	HudBay Minerals	HBM	HBM US	Lawson Winder, CFA
	Reliance Steel & Aluminum	RS	RS US	Lawson Winder, CFA
	Steel Dynamics	STLD	STLD US	Lawson Winder, CFA
UNDERPERFORM				
	Centerra Gold	YCG	CG CN	Lawson Winder, CFA
	Centerra Gold	CGAU	CGAU US	Lawson Winder, CFA
	Eldorado Gold	EGO	EGO US	Harmen Puri
	Eldorado Gold	YELD	ELD CN	Harmen Puri
	Kinross Gold	KGC	KGC US	Lawson Winder, CFA

North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	New Gold Inc.	YNGD	NGD CN	Harmen Puri
	New Gold Inc.	NGD	NGD US	Harmen Puri
	Nexa Resources	NEXA	NEXA US	Lawson Winder, CFA
	Royal Gold	RGLD	RGLD US	Lawson Winder, CFA
	SSR Mining Inc.	SSRM	SSRM US	Lawson Winder, CFA
	SSR Mining Inc.	YSSRM	SSRM CN	Lawson Winder, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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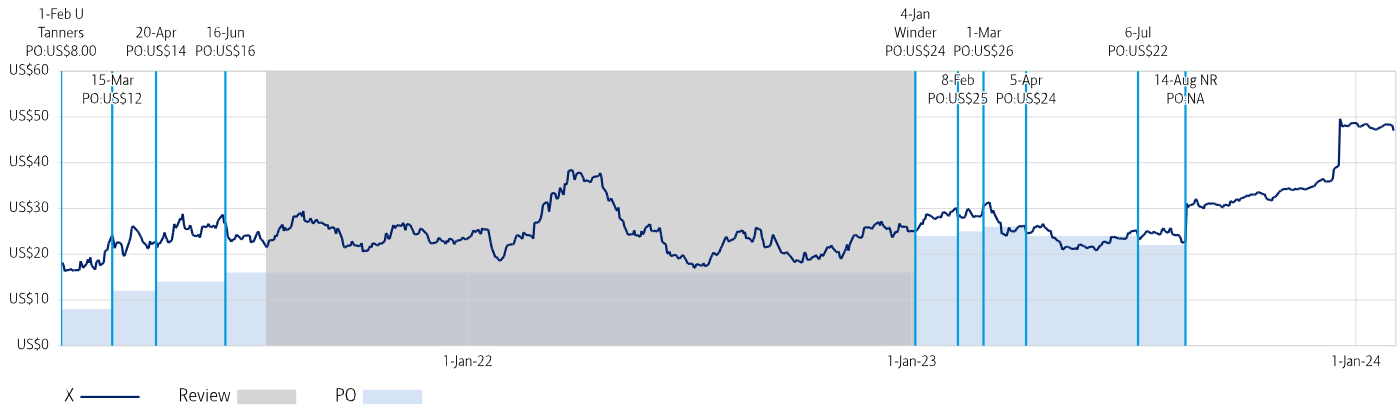
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Important Disclosures

US Steel (X) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	43.75%	Buy	9	64.29%
Hold	12	37.50%	Hold	7	58.33%
Sell	6	18.75%	Sell	3	50.00%

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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