

ArcelorMittal

Acquiring 28.4% of Vallourec for EUR 955mn / c.3.8x 24E EV/EBITDA

Maintain Rating: NEUTRAL | PO: 29.00 EUR | Price: 24.67 EUR

MT acquiring c.28.4% stake in VK at attractive valuation

ArcelorMittal (MT) announced the acquisition of a 28.4% stake in Vallourec (VK) from Apollo for c.EUR 955mn (EUR 14.64ps). BofAe EV/EBITDA c.3.4x/3.8x FY23A/FY24E (2024E VA consensus). VK produces tubes (2.2mtpa rolling capacity) with production in Brazil and US. MT expects the transaction close in H2 2024. Our initial view: acquisition of the VK shares at an attractive valuation; helps replace/offset some of the recent volumes lost from disposals in Kazakhstan & Italy; is (easily) fundable from ungeared balance sheet. Maintain Neutral.

Vallourec (VK): US and Brazil production base

VK produces seamless steel tubes (capacity c.2.2Mtpa). Oil & Gas (O&G) main market at c.75% of 2022A Tubes revenue, but is also targeting c.10-15% EBITDA to come from "New Energies" by 2030 (Geothermal, Carbon Capture & Hydrogen). VK has recently restructured to focus production footprint in US, Brazil (Europe production volumes transferred to Brazil). VK aims for zero net debt by end 2025 ("at the latest") and to pay out 80-100% of free cash flow. Under "New Vallourec" strategy, mid-cycle EBITDA of EUR 450/t, cashflow c.EUR 450mn p.a. In US (Ohio), VK produces steel from scrap in an Electric Arc Furnace (EAF). In South America, VK owns source of raw material in the form of iron ore mining (c.6mtpa) and forest (c.164k hectare eucalyptus forest, source of charcoal) and produces steel from both EAF and Blast Furnace (BF) route.

Adds to earnings from Associates, in EBITDA per new def.

MT has recently changed its definition of EBITDA to include equity earnings (attributable net income after tax from JVs & associates) prospectively from 2024. We thus expect that 28.4% of VK's net income would be included in MT group EBITDA if/when transaction closes. ([ArcelorMittal: 4Q23 beats. More focus on JV earnings with disclosure changes](#)). We highlight that the c.28.4% stake keeps MT below the 30% level that could trigger a mandatory takeover offer and MT states it does not intend to launch a tender offer for VK shares remaining in the next 6 months.

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Reported)	10.2	2.76	4.12	4.06	4.24
EPS Change (YoY)	-24.6%	-73.0%	49.2%	-1.4%	4.4%
Dividend / Share	0.38	0.44	0.50	0.50	0.50
ADR EPS (Reported - US\$)	10.2	2.76	4.12	4.06	4.24
ADR Dividend / Share (US\$)	0.38	0.44	0.50	0.50	0.50
Valuation (Dec)					
P/E	2.58x	9.87x	6.54x	6.63x	6.35x
Dividend Yield	1.41%	1.63%	1.86%	1.86%	1.86%
EV / EBITDA*	1.60x	3.00x	3.24x	3.21x	3.06x
Free Cash Flow Yield*	27.5%	13.4%	1.89%	0.02%	-0.81%

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Stock Data

Price (Common / ADR)	24.67 EUR / 27.05 USD
Price Objective	29.00 EUR / 28.66 USD
Date Established	9-Feb-2024 / 9-Feb-2024
Investment Opinion	B-2-7 / C-2-7
52-Week Range	19.91 EUR-28.47 EUR
Market Value (mn)	20,257 EUR
Shares Outstanding (mn)	821.3 / 821.3
Average Daily Value (mn)	62.22 USD
Free Float	51.7%
BofA Ticker / Exchange	AMSYF / ENA
BofA Ticker / Exchange	MT / NYS
Bloomberg / Reuters	MT NA / MT.AS
ROE (2024E)	6.1%
Net Dbt to Eqty (Dec-2023A)	5.2%
ESGMeter TM	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](#)".

iQprofileSM ArcelorMittal

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	79,844	68,275	62,955	59,448	60,930
EBITDA Adjusted	14,161	7,558	7,007	7,071	7,400
Depreciation & Amortization	(2,580)	(2,675)	(2,779)	(2,876)	(2,995)
EBIT Adjusted	11,581	4,883	4,228	4,195	4,405
Net Interest & Other Income	983	325	117	80.4	61.0
Tax Expense / Benefit	(1,717)	(238)	(869)	(855)	(893)
Net Income (Adjusted)	10,611	6,273	3,381	3,336	3,481
Average Fully Diluted Shares Outstanding	914	845	821	821	821

Key Cash Flow Statement Data					
Net Income (Reported)	9,302	2,324	3,381	3,336	3,481
Depreciation & Amortization	2,580	2,675	2,779	2,876	2,995
Change in Working Capital	(1,223)	1,604	351	37.5	(214)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(456)	1,042	(1,301)	(1,286)	(1,278)
Cash Flow from Operations	10,203	7,645	5,211	4,964	4,985
Capital Expenditure	(3,468)	(4,613)	(4,793)	(4,960)	(5,165)
(Acquisition) / Disposal of Investments	(1,015)	(1,235)	0	0	0
Other CFI	0	0	0	0	0
Cash Flow from Investing	(4,483)	(5,848)	(4,793)	(4,960)	(5,165)
Share Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	(332)	(369)	(411)	(411)	(411)
Increase (decrease) debt	3,249	(969)	0	0	0
Other CFF	(3,725)	(2,328)	(162)	(162)	(162)
Cash Flow from Financing	(808)	(3,666)	(573)	(573)	(573)
Total Cash Flow (CFO + CFI + CFF)	4,912	(1,869)	(155)	(569)	(753)
FX and other changes to cash	131	238	0	0	0
Change in Cash	5,043	(1,631)	(155)	(569)	(753)
Change in Net Debt	(1,794)	662	155	569	753
Net Debt	2,236	2,898	3,053	3,622	4,374

Key Balance Sheet Data					
Property, Plant & Equipment	30,167	33,656	35,670	37,753	39,923
Goodwill	0	0	0	0	0
Other Intangibles	4,903	5,102	5,102	5,102	5,102
Other Non-Current Assets	22,359	21,919	22,959	23,973	24,987
Trade Receivables	3,839	3,661	3,343	3,488	3,571
Cash & Equivalents	9,414	7,783	7,628	7,059	6,307
Other Current Assets	23,865	21,796	20,145	19,535	19,970
Total Assets	94,547	93,917	94,847	96,911	99,860
Long-Term Debt	9,067	8,369	8,369	8,369	8,369
Other Non-Current Liabilities	7,492	7,711	7,355	6,999	6,643
Short-Term Debt	2,583	2,312	2,312	2,312	2,312
Other Current Liabilities	19,815	19,457	17,840	17,412	17,716
Total Liabilities	38,957	37,849	35,876	35,092	35,040
Total Equity	55,590	56,068	58,971	61,819	64,819
Total Equity & Liabilities	94,547	93,917	94,847	96,911	99,860

Business Performance*					
Return On Capital Employed	14.0%	6.35%	4.66%	4.47%	4.53%
Return On Equity	20.8%	11.7%	6.09%	5.70%	5.65%
Operating Margin	12.9%	3.43%	6.72%	7.06%	7.23%
Free Cash Flow (MM)	6,735	3,032	418	3.96	(180)

Quality of Earnings*					
Cash Realization Ratio	0.96x	1.22x	1.54x	1.49x	1.43x
Asset Replacement Ratio	1.34x	1.72x	1.72x	1.72x	1.72x
Tax Rate	15.3%	8.93%	20.0%	20.0%	20.0%
Net Debt/Equity	4.02%	5.17%	5.18%	5.86%	6.75%
Interest Cover	28.9x	11.5x	10.6x	10.5x	11.0x

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Steels

Company Description

ArcelorMittal is a leader in all major global steel markets, including automotive, construction, household appliances and packaging. Its industrial presence in Europe, Asia, Africa and America gives it exposure to all the key steel markets, from emerging to mature. It is also a significant producer of iron ore. Its recent transaction with Cliffs saw it exit substantially all of its US operations leaving a leaner, more profitable, less leveraged company that is more focussed on Europe & Brazil.

Investment Rationale

MT's valuation is relatively low compared to its history. While this appears to be an attractive entry point, we think that earnings are unlikely to grow from current levels given the weak macro-backdrop and don't see equity outperforming. MT has a low level of net debt relative to its own history and a capital allocation policy to direct 50% of FCF to shareholder returns (dividends & buybacks). We have a Neutral rating.

Stock Data

Shares / ADR	1.00
Price to Book Value	0.4x

Quarterly Earnings Estimates

	2023	2024
Q1	1.28A	0.99E
Q2	2.21A	1.52E
Q3	1.11A	0.95E
Q4	-1.88A	0.66E

Transaction multiple

Exhibit 1: BofA estimate of transaction multiple

We estimate an implied EV of EUR 4,057mn for VK, multiple of 3.4x FY23A / 3.8x FY24E on consensus

EV calculation (EURmn)		
Transaction consideration (EURmn)	955	
Ownership	28.4%	
Implied equity value (100%)	3363	
Net debt (EURmn)	627	
NCI (EURmn)	67	
Enterprise Value	4057	
	2023	2024
Sales	5100	4909.6
EBITDA (EURmn)	1196	1079.6
EV/EBITDA	3.4	3.8

Source: BofA Global Research estimates, company report, Visible Alpha

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Model Summary

Exhibit 2: ArcelorMittal model summary

Model Summary: ArcelorMittal

ASSUMPTIONS	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Europe HRC, EUR/t	471	979	909	709	633	650	640
US HRC, \$/t	627	1745	1128	975	959	799	808
ASP	771	1216	1428	1228	1191	1112	1128
Group EBITDA/t	62	308	253	136	132	132	137
Steel EBITDA/t	45	272	225	115	107	116	120
Group EBITDA margin	8.1%	25.3%	17.7%	11.1%	11.1%	11.9%	12.1%
Steel EBITDA margin	5.8%	21.8%	15.5%	9.2%	8.8%	10.3%	10.5%
Steel shipment growth (YoY)	-18.2%	-8.9%	-11.2%	-0.5%	-4.9%	1.1%	1.0%
Capacity, mt	111.9	85.5	82.1	85.1	78.5	78.5	78.5
Production, mt	71.5	69.1	59.0	58.1	54.1	54.7	55.3
Shipments, mt	69.1	62.9	55.9	55.6	52.9	53.5	54.0
Capacity utilisation based on production	64%	81%	72%	68%	69%	70%	70%
Capacity utilisation based on shipments	62%	74%	68%	65%	67%	68%	69%
Total Group Iron Ore production	58.0	50.9	45.3	42.0	44.5	47.5	52.5
Iron ore group production (Seaborne only)	28.3	26.2	28.6	26.0	28.5	31.5	36.5
Iron ore group shipment (Seaborne only)	28.4	26.0	28.0	26.4	28.5	31.5	36.5
INCOME STATEMENT	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Revenue	53270	76571	79844	68275	62955	59448	60930
Cash costs and one offs in EBITDA	-48969	-57167	-65683	-60717	-55948	-52377	-53530
Reported EBITDA	4301	19404	14161	7558	7007	7071	7400
EBITDA margin	8%	25%	18%	11%	11%	12%	12%
D&A	-2960	-2523	-2580	-2675	-2779	-2876	-2995
Exceptional items in EBIT (restructuring/impairments)	769	95	-1309	-2544	0	0	0
Reported EBIT	2110	16976	10272	2340	4228	4195	4405
Income from associates, JVs, equity accounted, excl. impairment	234	2204	1317	1184	1040	1014	1013
Impairment in equity accounted figure				-1405			
Net financing costs	-421	-278	-213	-145	-218	-222	-233
Other income/expense and FX	-835	-877	-121	-714	-705	-712	-719
Profit before tax	1088	18025	11255	1260	4345	4276	4466
Tax	-1666	-2460	-1717	-238	-869	-855	-893
Effective tax rate	153%	14%	15%	19%	20%	20%	20%
Net Profit	-578	15565	9538	1022	3476	3421	3573
Minorities	-155	-609	-236	-103	-95	-85	-92
Net profit attributable to equity holders	-733	14956	9302	919	3381	3336	3481
Adjustments to EBITDA	0	123	0	0	0	0	0
Adjustments to EBIT	-769	-95	1309	2543	0	0	0
Other adjustments	0	0	0	1406	0	0	0
Net profit adjusted	-1502	14984	10611	4868	3381	3336	3481
Adjustments to EBITDA	0	123	0	0	0	0	0
DDH							
Underlying EBITDA (ex. one offs and DDH)	4301	19527	14161	7558	7007	7071	7400
EPS	-0.64	13.53	10.21	1.09	4.12	4.06	4.24
EPS adjusted	-1.32	13.56	11.65	5.78	4.12	4.06	4.24
DPS	0.00	0.30	0.38	0.44	0.50	0.50	0.50

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Price objective basis & risk

ArcelorMittal (AMSYF / MT)

Our price objective of EUR 29 (US\$28.66/ADR) is based on c. 0.45x P/B, approximately one standard deviation below the historical average. We use a below-average multiple, as steel companies face falling earnings from elevated 2021/2022 levels and spreads coming under pressure, as well as market concerns about the cost of decarbonisation plans.

Upside risks to our price objective are: faster-than-expected economic growth in major steel-consuming sectors and stronger-than-forecast pricing power, the Indian JV, AMNS India, "maturing" faster than expected and growing its contribution to earnings materially.

Downside risks to our price objective are: Economic recession in the EU and US impacting demand for steel. Decline in construction, machinery and automotive spending in MT's key markets (Europe, NAFTA, Brazil and CIS) resulting in lower demand. Demand weakness in another region leading to higher exports pressuring global on prices, M&A that strains the balance sheet. Lower iron ore pressuring prices and earnings in the Seaborne Iron Ore division.

Analyst Certification

I, Patrick Mann, 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.

EMEA - Metals & Mining, Steel, Paper Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Anglo American	AAUKF	AAL LN	Jason Fairclough
	Anglo American plc	NGLOY	NGLOY US	Jason Fairclough
	Antofagasta	ANFGF	ANTO LN	Jason Fairclough
	Atalaya Mining Plc	XPGBF	ATYM LN	Jason Fairclough
	Befesa	BFSAF	BFSA GY	Cameron Needham
	Centamin Plc	CELTF	CEY LN	Jason Fairclough
	Centamin Plc	YCEE	CEE CN	Jason Fairclough
	Ecora Resources Plc	ECRAF	ECOR LN	Cameron Needham
	Eramet	ERMAF	ERA FP	Jason Fairclough
	Glencore	GLCNF	GLEN LN	Jason Fairclough
	Glencore Plc	GLNCY	GLNCY US	Jason Fairclough
	Norsk Hydro	NHYDY	NHYDY US	Jason Fairclough
	Norsk Hydro	NHYKF	NHY NO	Jason Fairclough
	Rio Tinto Plc	RIO	RIO US	Jason Fairclough
	Rio Tinto Plc	RTPPF	RIO LN	Jason Fairclough
	SCA	SVCBF	SCAB SS	Patrick Mann, CFA
	SIG Group	SCBGF	SIGN SW	Patrick Mann, CFA
	Smurfit Kappa	SMFTF	SKG ID	Patrick Mann, CFA
	Smurfit Kappa	XNKFF	SKG LN	Patrick Mann, CFA
	Smurfit Kappa	SMFKY	SMFKY US	Patrick Mann, CFA
	Stora Enso	SEOJF	STERV FH	Patrick Mann, CFA
	Stora Enso	SEOAY	SEOAY US	Patrick Mann, CFA
	Thyssenkrupp	TYEKF	TKA GY	Jason Fairclough
	Verallia	VLRAF	VRLA FP	Patrick Mann, CFA
	Yellow Cake Plc	YLLXF	YCA LN	Jason Fairclough
NEUTRAL				
	ArcelorMittal	AMSYF	MT NA	Patrick Mann, CFA
	ArcelorMittal	MT	MT US	Patrick Mann, CFA
	Imerys	IMYSF	NK FP	Jason Fairclough

EMEA - Metals & Mining, Steel, Paper Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Voestalpine	VLPNF	VOE AV	Patrick Mann, CFA
UNDERPERFORM				
	Aurubis	AIAGF	NDA GY	Jason Fairclough
	Boliden	BOLIF	BOL SS	Jason Fairclough
	Ferrexpo plc	FEEXF	FXPO LN	Jason Fairclough
	Fresnillo plc	FNLPF	FRES LN	Jason Fairclough
	Sappi Limited	SPPJF	SAP SJ	Patrick Mann, CFA
	Sappi Limited	SPPJY	SPPJY US	Patrick Mann, CFA
	SSAB	SSAAF	SSABA SS	Patrick Mann, CFA
	UPM-Kymmene	UPMKF	UPM FH	Patrick Mann, CFA
RSTR				
	DS Smith plc	DITHF	SMDS LN	Patrick Mann, CFA
	Mondi plc	MONDY	MONDY US	Patrick Mann, CFA
	Mondi Plc	MONDF	MNDI LN	Patrick Mann, CFA
	Mondi Plc	XDPMF	MNP SJ	Patrick Mann, CFA
RVW				
	Horizonte Minerals	HZMMF	HZM LN	Jason Fairclough

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

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
Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

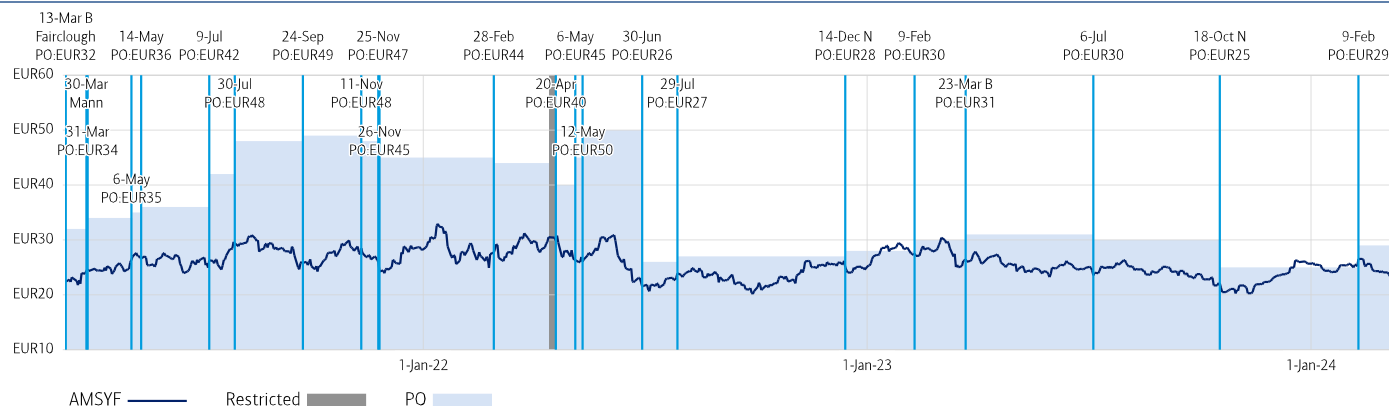
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Disclosures

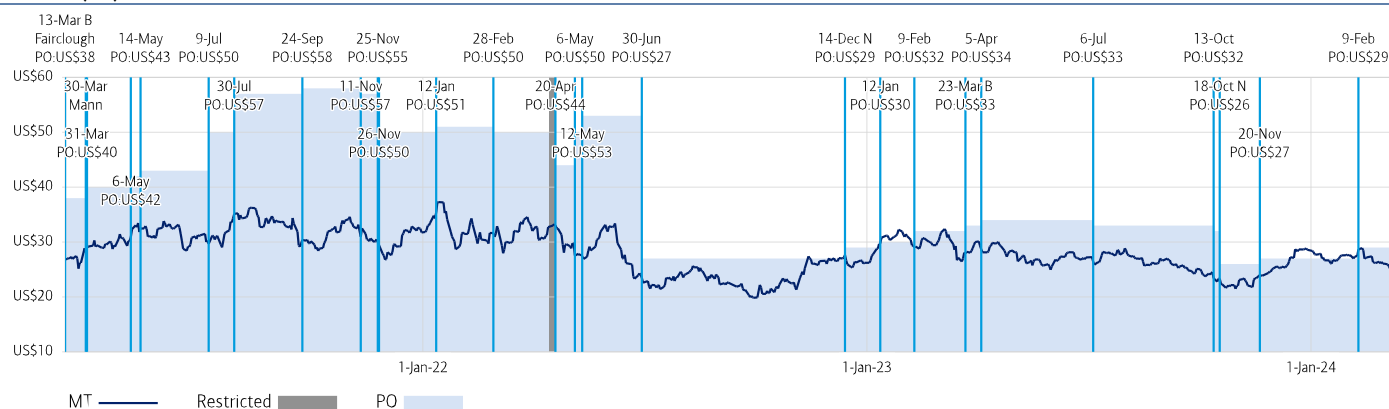
Important Disclosures

ArcelorMittal (AMSYF) Price Chart



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.

ArcelorMittal (MT) Price Chart



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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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