

Vale

A bolt on acquisition that opens many doors

Maintain Rating: BUY | PO: 20.00 USD | Price: 13.43 USD

4,300Mt iron ore deposit +\$157.5mn for 15% in Minas-Rio

Vale announced this morning that they entered in an agreement with Anglo American to acquire a 15% stake in Anglo's Mina-Rio mine for the Serra da Serpentina and \$157.5mn. If iron ore prices remain above \$100/t or below \$80/t for four years there will be a purchase price adjustment to be paid by Anglo American or Vale, respectively. After the transaction is completed, Vale will receive their equivalent share of Minas-Rio production and will have the opportunity to acquire a 15% additional stake if certain expansion-related events happen. Minas-Rio has a nameplate capacity of 26.5Mt/yr of pellet feed and produced 24Mt in 2023. There is a potential to expand to 31Mt/yr. Serra da Serpentina has 4,300Mt of resources and was not included in Vale's resources, given it was not part of the masterplan. The transaction should be concluded by 4Q24.

Additional high-grade iron ore for minimal disbursement

In our view this deal is positive as it allows Vale to increase their pellet feed output for a minimal cash disbursement plus an asset that was likely not to be used by Vale. The additional pellet feed will be used by Vale for their pellet plants in Brazil and the Mega Hubs, for briquette production. Serra da Serpentina's resources are contiguous to Minas-Rio and the combination will allow for production expansion opportunities for the asset. Under the new agreement, Minas-Rio will also be able to use Vale's rail line and Tubarao port, which should optimize logistics, as well as be an alternative for Anglo American constructing a second pipeline at the Açú port.

Keep Buy on Vale on attractive valuation

We have a Buy rating on Vale as we see it trading at an attractive 3.3x 2024E EV/EBITDA and 17.9% FCF yield in 2024. We see Vale as an attractive option after the underperformance between Vale vs peers and vs iron ore. We are also optimistic on potential bottom-up developments for Vale, including a derisking of new Mariana dam tragedy settlement and potential for extraordinary dividends.

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Stock Data

Price (ADR / Common)	13.43 USD / 66.51 BRL
Price Objective	20.00 USD / 95.00 BRL
Date Established	20-Nov-2023 / 9-Jan-2024
Investment Opinion	B-1-8 / B-1-8
52-Week Range	12.22 USD - 17.49 USD
Market Value (mn)	59,629 USD
Free Float	63.1%
Average Daily Value	330.02 USD
Shares Outstanding (mn)	4,440.0 / 4,440.0
BofA Ticker / Exchange	VALE / NYS
BofA Ticker / Exchange	VALEF / SAO
Bloomberg / Reuters	VALE US / VALE.N
ROE (2023E)	27.1%
Net Dbt to Eqty (Dec-2022A)	21.4%

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Timestamp: 22 February 2024 10:46AM EST

Price objective basis & risk

Vale (VALE / VALEF)

Our US\$20 (R\$95/local share) PO is based on a 50/50 blended valuation approach. On multiples, we use a 4.0x 2024E EV/EBITDA (slightly below its normalized 4.5-5x given elevated prices), and our DCF using a WACC of 12% and terminal growth rate of 2.5%. We use a below normalized 4.0x EV/EBITDA 2024E, below its 5x historical average given our above-normal iron ore forecasts.

Downside risks to our price objective: 1) weaker than expected iron ore prices, 2) a global economic slowdown, negatively impacting metals prices, 3) appreciation of the Brazilian Real and the Canadian Dollar (80% of Vale's costs are denominated in those currencies), without an offsetting increase in metal prices, 4) slowdown in infrastructure spending or global steel production, mainly in China, 5) higher freight rates, reducing Vale's competitiveness in China, 6) higher government intervention, and 7) more fallout from its Brumadinho tailings dam tragedy.

Upside risks: 1) Stronger than expected iron ore prices, 2) stronger than expected global economic growth, 3) acceleration of infrastructure spending or global steel production, mainly in China, and 4) change in China's policy on steel production cuts.

Analyst Certification

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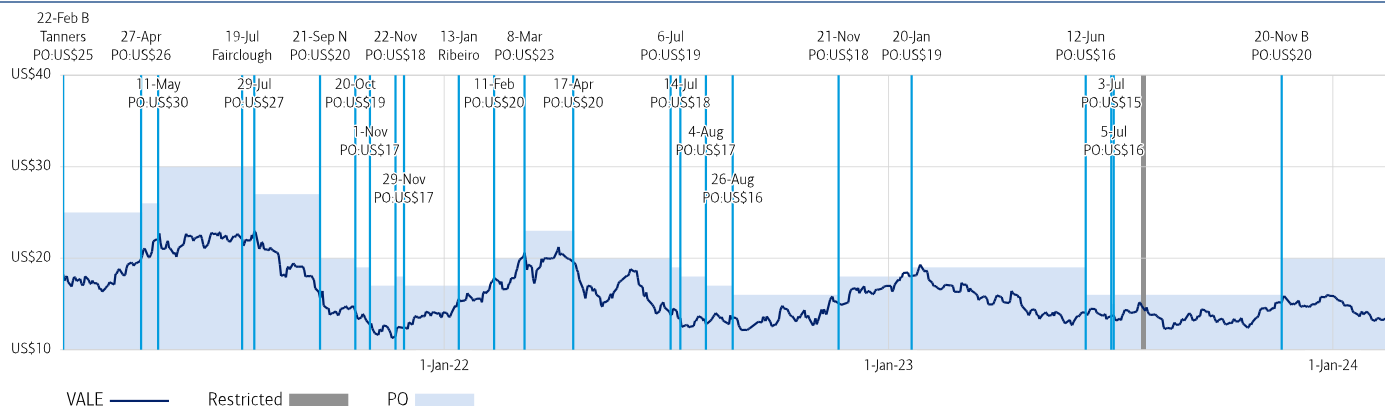
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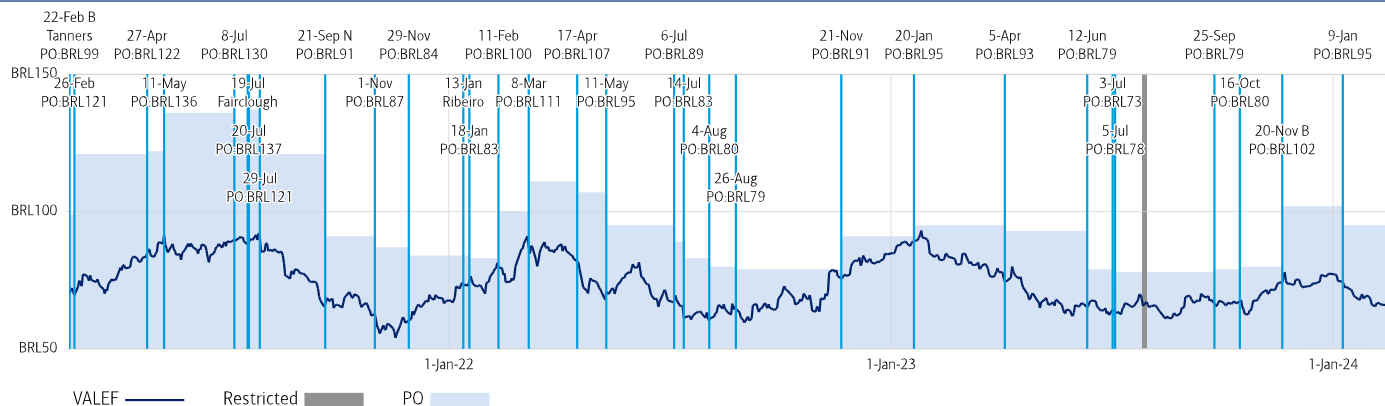
Vale SA (VALE) Price Chart



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

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Vale (VALEF) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

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

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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