

Vale

New Mariana overhang yet too soon to assume any financial impact

Maintain Rating: BUY | PO: 20.00 USD | Price: 13.85 USD

Federal judge orders R\$47.6bn Mariana payment

A federal judge of the 4th Circuit of the Federal Civil and Agrarian Court of Belo Horizonte determined today that Vale, BHP and Samarco should pay R\$47.6bn in collective moral damages resulting from the Mariana dam rupture. This is a first instance decision so there is still room for appeals. According to the ruling, this decision pertains only to collective moral damages and is not related to the ongoing settlement negotiations between Vale, BHP, Samarco and the government. The ruling also stated that the value to be paid is a 2015 amount and, therefore, accrued interest should apply to adjust the value to today's money.

A new overhang; but too soon to take this at face value

Overall, this ruling comes as a surprise and was not in the market's radar. We expect Vale to appeal this decision and although an overhang, we find it too soon to take these amounts at face value and consequently to assume that provisions will increase by this amount. As a reminder, the Renova foundation has already spent ~R\$35bn and Vale and BHP have another ~R\$34bn in provisions related to the Mariana tragedy which together sums ~R\$69bn. However, our understanding is that none of these amounts are related to collective moral damages.

Discussions w/ government over final settlement continue

Vale, BHP and Samarco are still carrying out parallel discussions with the government on a final settlement amount related to Mariana. It is our understanding that obtaining legal certainty is an important precondition for the three companies to conclude this agreement which could involve extinguishing judicial proceedings related to Mariana. Our base case embeds an assumed final agreement struck around BRL112bn, which should be subtracted by BRL69bn (spent + NPV of provisions) and could lead to a new provision booked between USD1.3-2bn for Vale on an NPV basis, assuming the payment is spread over to 10 to 15 years. Ultimately, the ruling today does add more uncertainty over the final outcome and brings some concern over whether additional settlement amounts could be higher than feared. Yet at this point, the ruling is far from final.

Keep Buy and \$20/shr (R\$95/shr) PO

We have a Buy rating on Vale given our constructive iron ore outlook in the short-term, driven by the combination of seasonal lower iron ore supply and a pick-up in demand in China boosted by restocking. Vale is trading at an attractive 3.4x 2024E EV/EBITDA and 17% FCF yield. We also see room for potential extraordinary dividends given higher iron prices and as expanded net debt should remain well below the cap of \$20bn this year.

25 January 2024

Equity

Caio Ribeiro
Research Analyst
BofAS
+1 646 855 4051
caio.ribeiro@bofa.com

Jason Fairclough >>
Research Analyst
MLI (UK)
+44 20 7995 0225
jason.fairclough@bofa.com

James Redfern >>
Research Analyst
Merrill Lynch (Australia)
+61 2 9226 5746
james.redfern@bofa.com

Carlos Assumpcao, CFA
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4025
carlos.assumpcao@bofa.com

Leonardo Neratika >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4200
leonardo.neratika@bofa.com

Guilherme Rosito >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4363
guilherme.rosito@bofa.com

Stock Data

Price (ADR / Common)	13.85 USD / 68.36 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 - 19.31 USD
Market Value (mn)	61,494 USD
Free Float	63.1%
Average Daily Value	277.17 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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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 26 January 2024 01:48AM 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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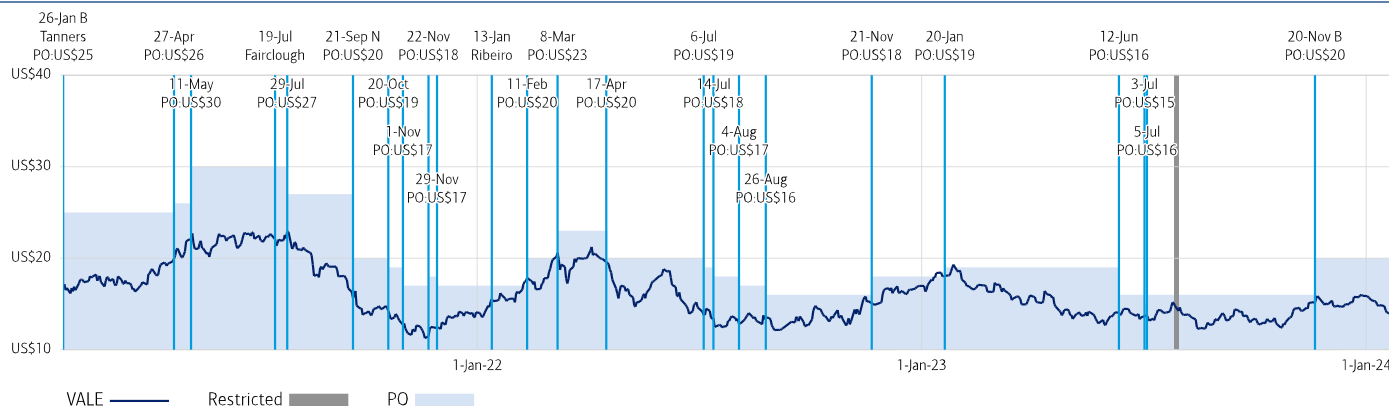
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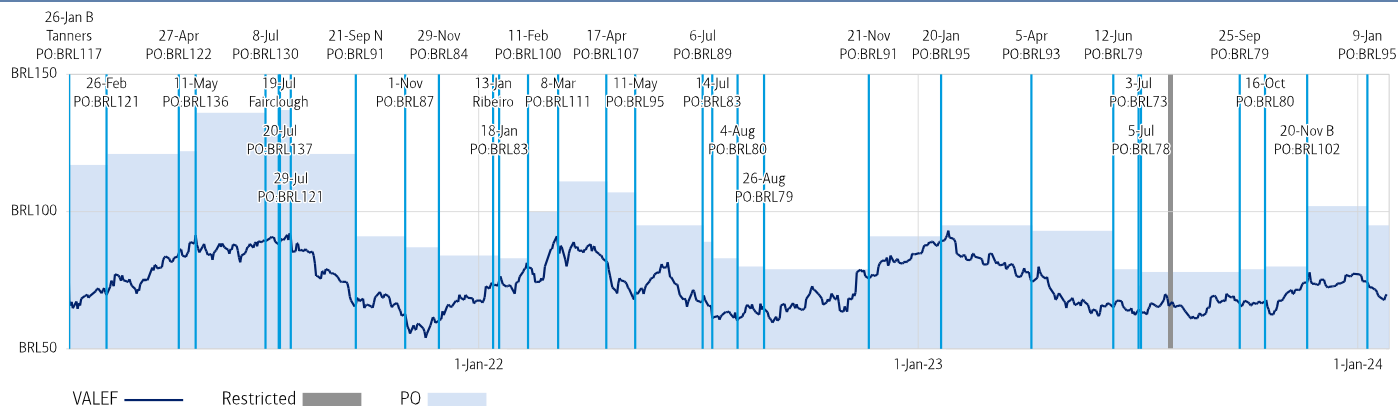
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Vale SA (VALE) Price Chart



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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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Sell	807	22.84%	Sell	383	47.46%

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