

ArcelorMittal

Acciaierie d'Italia (Taranto, old Ilva) could go into administration

Maintain Rating: NEUTRAL | PO: 29.00 EUR | Price: 24.86 EUR

Press reports: ADI (Italy) into special administration?

Acciaierie d'Italia (ADI), owner of Italy's largest steelmaking facility (Taranto) and a joint venture (JV) between ArcelorMittal (MT) and the Italian Government; could be placed into special administration - according to press reports (AFP Bloomberg). This could be a precursor to finding a new investment partner and/or (re)-nationalisation (again, per press). MT put through a US\$1.4bn impairment of ADI with its FY23 results (we think now zero carrying value). The business has been troubled and the relationship contentious for some time, in our view, and we do not think investors placed much (if any) value on the stake. As such, we think this should have little impact on the market value of MT. We value MT on a P/B multiple (i.e. no value for ADI in our Price Objective). No estimates or rec./PO change. Maintain Neutral, EUR 29ps PO (0.45x P/B multiple unchanged).

JV funding stalled on outstanding conditions precedent

MT and Invitalia (Italian state-owned company) have equal voting and governance rights in ADI although MT owns 62% and Invitalia 38%. Invitalia made an initial equity investment of EUR 400mn for its 38% stake in 2021. It was planned that Invitalia would invest another up to EUR 680mn once conditions precedent (mainly removal of judicial measures encumbering Taranto) were met. This has failed to materialise and, as a "workaround", Invitalia advanced a EUR 680mn convertible loan in 2023 which, when converted, would take it to a 60% stake. However, it appears now that ADI again needs funding, plus the agreement longstop date of May 2024 (already extended by 2 years) is approaching. We think MT is not willing to further commit funds to ADI without the Taranto encumbrances removed; and that Invitalia is likewise "stuck" without majority ownership and/or outright control of ADI. As a result, Invitalia has reportedly asked for ADI to be placed into special administration.

A new investor may raise production = a bigger problem?

We think the under-utilisation of Taranto's significant capacity over the past few years has contributed to lower supply and support European Steel prices. A new investor could result in an increase in European Steel production, potentially depressing steel prices.

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	2.60x	9.95x	6.50x	6.59x	6.31x
Dividend Yield	1.42%	1.64%	1.87%	1.87%	1.87%
EV / EBITDA*	1.59x	2.98x	3.22x	3.19x	3.05x
Free Cash Flow Yield*	27.6%	13.5%	1.90%	0.02%	-0.82%

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

20 February 2024

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Stock Data

Price (Common / ADR)	24.86 EUR / 27.40 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-30.52 EUR
Market Value (mn)	20,413 EUR
Shares Outstanding (mn)	821.3 / 821.3
Average Daily Value (mn)	56.92 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™	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 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 20 February 2024 12:30AM EST

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

Acciaierie d'Italia (ADI)

A brief history

Acquired 2018, JV with Government of Italy in 2021

ArcelorMittal entered into a lease and subsequent purchase agreement for the business of Ilva in 2018. ArcelorMittal subsequently gave notice to withdraw from the agreement in 2019 citing the Italian Parliament's removal of legal protection against the risk of criminal liability over its environmental plan. The Commissioners managing the Ilva insolvency filed suit seeking an injunction to prevent ArcelorMittal's withdrawal. Following negotiations, the parties agreed to settle the litigation and amended the Ilva Agreement.

The Amended agreement included terms for investment by Italian state-sponsored and other private entities; a new industrial plan and additional conditions precedent to the obligation to purchase, to be fulfilled by May 2022. The conditions precedent included the amendment of the existing environmental plan, the lifting of all criminal seizures on the Taranto plant; and the absence of restrictive measures affecting ADI in the context of criminal proceedings where Ilva is a defendant. (These conditions precedent were not fulfilled by May 2022 and the parties amended the longstop date to May 2024.)

Private-Public partnership

In December 2020, ArcelorMittal concluded an "investment agreement" with Invitalia, an Italian state-owned company. In terms of the investment agreement, Invitalia was to invest up to EUR 1.1bn in Acciaierie d'Italia (the old ArcelorMittal Italia) in two tranches. Invitalia invested an initial EUR 400m of new equity for a 38% shareholding & equal voting and governance rights in April 2021. **MT deconsolidated ADI from 2Q21 when it became a joint venture with Invitalia with equal voting and governance rights.** The second tranche of EUR 680m was to be invested on conclusion of the acquisition of Ilva by ADI (and has been delayed by the delay to the fulfilment of the conditions precedent).

With the longstop date for conditions precedent pushed out to May 2024 and ADI facing financial difficulty, Invitalia advanced the EUR 680m in the form of a convertible shareholder loan in February 2023. When this converts, Invitalia's shareholding will increase to 60% (and MT's shareholding reduce to 40%). On conversion, Invitalia will have the right to transfer to a third party a maximum of 20% interest of the share capital of ADI with MT holding a right of first refusal.

We do think the under-utilisation of Taranto's significant capacity contributes to lower supply and higher prices for European steel, which helps MT's other plants in Europe.

Acciaierie d'Italia (ADI) had a carrying value of c.US\$1.2bn / 11% of the total equity accounted investments carrying value as at the end of December 2022. As a result, we believe the reported impairment with the FY23 results of c.US\$1.4bn accounts for all the carrying value of the business.

Exhibit 14: Acciaierie d'Italia (ADI) JV disclosure in ArcelorMittal financials

ADI is being carried at c.US\$1.2bn in ArcelorMittal's balance sheet

Acciaierie d'Italia (100% basis)	31-Dec-21	31-Dec-22
Current assets	3,643	2,558
of which cash and cash equivalents	92	179
Non-current assets	2,669	2,765
Current liabilities	3,313	2,754
of which trade and other payables and provisions	2,840	1,844
Non-current liabilities	1,365	908
of which trade and other payables and provisions	1,342	153
Net assets	1,634	1,661
Company's share of net assets	1,013	1,030
Adjustments for differences in accounting policies and other	146	146
Carrying amount in the statements of financial position	1,159	1,176
Revenue	3,291	4,525
Depreciation and amortization	-119	-157
Interest income	0	0
Interest expense	-12	-34
Income tax benefit (expense)	211	25
Income (loss) from continuing operations	393	106
Other comprehensive income (loss)	0	0
Total comprehensive income (loss)	393	106
Cash dividends received by the Company	0	0

Source: BofA Global Research estimates, company report

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More detail on Acciaierie d'Italia

- **Facilities:** ADI owns Europe's biggest single-site integrated steel facility in Taranto as well as rolling mills in Genova and Novi Ligure. Taranto has crude steel capacity of 7.8Mtpa (design capacity) while achievable capacity is limited to 6mtpa until completion of the environmental plan. In 2021, Taranto produced 4.1Mt of crude steel.

Production currently limited to 6Mtpa by environmental restrictions, targeting growth to 8Mtpa by 2025. ADI's crude steel production is limited to 6Mtpa until the environmental plan is completed. It aims to growth crude steel production to 8Mtpa by 2025 through the construction of a 2.5Mtpa electric arc furnace (EAF) and the relining of blast furnace #5, which are both planned to start producing in 2024. We are sceptical in the time frame given the delays already experienced in the acquisition of the Ilva assets by ADI.

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				
	Acerinox	ANIOF	ACX SQ	Patrick Mann, CFA
	Alleima AB	SAMHF	ALLEI SS	Patrick Mann, CFA
	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
	Hochschild Mining plc	HCHDF	HOC LN	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	VRLAF	VRLA FP	Patrick Mann, CFA
	Yellow Cake Plc	YLLXF	YCA LN	Jason Fairclough

EMEA - Metals & Mining, Steel, Paper Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	ArcelorMittal	AMSYF	MT NA	Patrick Mann, CFA
	ArcelorMittal	MT	MT US	Patrick Mann, CFA
	Imerys	IMYSF	NK FP	Jason Fairclough
	Salzgitter	SZGPF	SZG GY	Patrick Mann, CFA
	Voestalpine	VLPNF	VOE AV	Patrick Mann, CFA
UNDERPERFORM				
	Aperam	XASPF	APAM NA	Patrick Mann, CFA
	Aurubis	AIAGF	NDA GY	Jason Fairclough
	Billerud AB	BLRDF	BILL SS	Patrick Mann, CFA
	Billerud AB	BLRDY	BLRDY US	Patrick Mann, CFA
	Boliden	BOLIF	BOL SS	Jason Fairclough
	Ferrexpo plc	FEEXF	FXPO LN	Jason Fairclough
	Fresnillo plc	FNLPF	FRES LN	Jason Fairclough
	Outokumpu	OUTFF	OUT1V FH	Patrick Mann, CFA
	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	MONDD	MONDD 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.

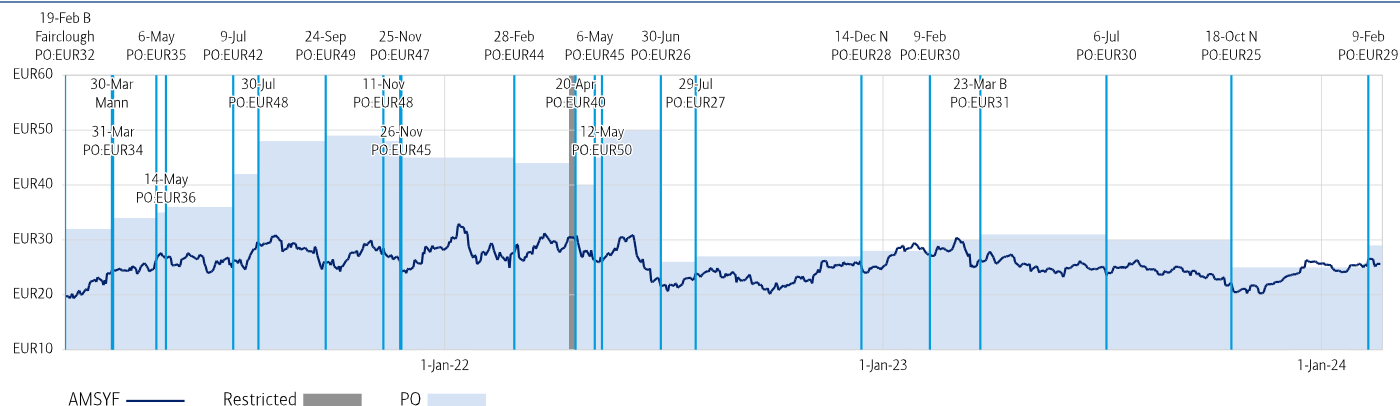
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Disclosures

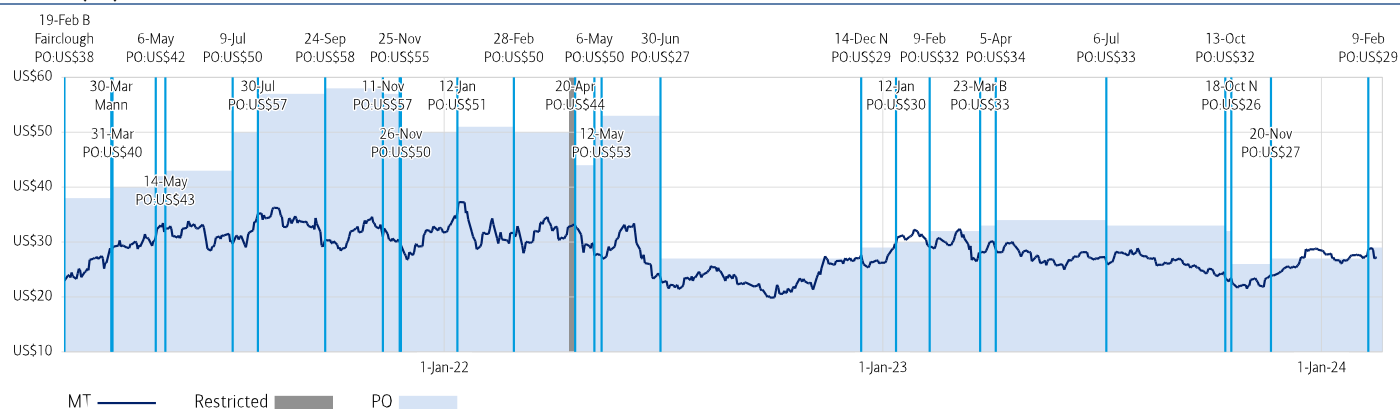
Important Disclosures

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.

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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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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