

Cleveland-Cliffs

2024E EBITDA reduced but lower net debt, fewer shares drive higher PO to \$22

Reiterate Rating: NEUTRAL | PO: 22.00 USD | Price: 19.75 USD

Strong FCF potential; Reit. Neutral on cautious HRC view

Cleveland-Cliffs (CLF) reported Q4'23 adjusted EBITDA in-line with BofAe & Visible Alpha (VA) consensus. Free cash flow (FCF) was better-than-expected with net debt (ND) below CLF's \$3 billion (bn) target. CLF also reduced its net pension/OPEB liabilities to \$586 million (m) (vs. \$717m in Q3'23) (see our [first-take](#) report). For Q1'24, CLF guided for a \$60/short ton (st) quarter-over-quarter (QoQ) increase in realized pricing, modestly below our prior expectations. As a result, we lower our Q1'24E EBITDA by 20% to \$544m. However, we raise our Price Objective (PO) from \$20 per share (/sh) to \$22/sh (methodology unchanged), on better-than-expected ND (and legacy liabilities) and lower share count (as we factor in aggressive buybacks). We like CLF's automotive pricing power, strong FCF generation and subsequent deleveraging/share buyback potential. Yet, we reiterate our Neutral rating given our cautious view on U.S. hot-rolled coil (HRC) amid the ongoing correction in lead times and an anticipated increase in supply.

Q1'24E EBITDA slightly below consensus

For 2024, CLF guided for shipments of 16.5m st (above prior BofAe 16.2m st), \$30/st lower costs (on top of \$80/st achieved in 2023) and capex of \$675-725m (in-line BofAe \$700m). For Q1'24, CLF guided for ~\$60/st increase in pricing on lagged benefit from higher spot index and flat auto fixed price contracts. But, it was below our prior forecast of +\$100/st, due to lower prices for non-auto contracts, stainless and tinplate products. Further, the \$30/st cost tailwind is guided to be realized mainly from Q2'24. We lower our Q1'24E adjusted EBITDA to \$544m, 4% below Bloomberg consensus at \$564m. Our 2024E adjusted EBITDA declines to \$2.6bn (from \$2.9bn) and EPS to \$2.36 (from \$2.81).

CLF to focus on aggressive buybacks in 2024

CLF management is disappointed (to say the least) with the outcome of their bid to acquire US Steel (X), but vowed to "put a stronger focus on aggressive share buybacks". CLF expects to use 50/50 of its expected strong free cash flow (FCF) towards buybacks/debt repayment (vs. a 15/85 split in prior years). We forecast FCF of \$1.15bn in 2024E, driving a 19% reduction in ND to \$2.4bn and 6% reduction in share count to \$476m.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.65	1.08	2.36	2.63	2.69
GAAP EPS	2.54	0.78	2.36	2.63	2.69
EPS Change (YoY)	-50.5%	-59.2%	118.5%	11.4%	2.3%
Consensus EPS (Bloomberg)			1.92	1.88	2.07
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	7.5x	18.3x	8.4x	7.5x	7.3x
GAAP P/E	7.8x	25.3x	8.4x	7.5x	7.3x
EV / EBITDA*	4.1x	6.8x	5.0x	4.9x	5.0x
Free Cash Flow Yield*	14.8%	16.3%	11.6%	12.4%	10.8%

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

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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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Timestamp: 07 February 2024 05:00AM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	20.00	22.00
2024E Rev (m)	22,519.5	22,115.2
2025E Rev (m)	20,758.4	20,603.3
2024E EPS	2.81	2.36
2025E EPS	2.48	2.63
2026E EPS	2.44	2.69

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Stock Data

Price	19.75 USD
Price Objective	22.00 USD
Date Established	7-Feb-2024
Investment Opinion	C-2-9
52-Week Range	13.61 USD - 22.83 USD
Mkt Val (mn) / Shares Out (mn)	9,971 USD / 504.9
Free Float	98.2%
Average Daily Value (mn)	175.68 USD
BofA Ticker / Exchange	CLF / NYS
Bloomberg / Reuters	CLF US / CLF.N
ROE (2024E)	14.3%
Net Dbt to Eqty (Dec-2023A)	36.2%
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](#)".

EBITDA = Earnings before interest, taxes and depreciation

HRC= Hot-rolled coil

iQprofileSM Cleveland-Cliffs

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.7%	3.5%	9.8%	10.0%	9.5%
Return on Equity	20.9%	7.0%	14.3%	14.0%	12.5%
Operating Margin	8.4%	3.1%	7.8%	8.5%	8.7%
Free Cash Flow	1,480	1,621	1,152	1,237	1,081

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	4.1x	1.6x	1.6x	1.6x
Asset Replacement Ratio	0.9x	0.7x	0.7x	0.7x	0.9x
Tax Rate	23.6%	24.8%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	52.5%	36.2%	27.5%	17.5%	5.4%
Interest Cover	7.0x	2.3x	8.9x	10.9x	10.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	22,989	21,996	22,115	20,603	20,054
% Change	12.4%	-4.3%	0.5%	-6.8%	-2.7%
Gross Profit	2,518	1,391	2,270	2,273	2,244
% Change	-44.5%	-44.8%	63.2%	0.1%	-1.3%
EBITDA	3,156	1,911	2,592	2,640	2,628
% Change	-40.0%	-39.4%	35.6%	1.9%	-0.4%
Net Interest & Other Income	(143)	(80)	(194)	(161)	(161)
Net Income (Adjusted)	1,388	552	1,165	1,231	1,223
% Change	-53.5%	-60.3%	111.2%	5.7%	-0.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,332	398	1,165	1,231	1,223
Depreciation & Amortization	1,034	973	952	952	952
Change in Working Capital	87	722	0	3	(6)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(30)	174	(265)	(250)	(238)
Capital Expenditure	(943)	(646)	(700)	(700)	(850)
Free Cash Flow	1,480	1,621	1,152	1,237	1,081
% Change	-28.8%	9.5%	-29.0%	7.4%	-12.6%
Share / Issue Repurchase	(240)	(152)	(600)	(500)	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(1,103)	(1,114)	(600)	(230)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	26	198	150	656	1,737
Trade Receivables	1,960	1,840	1,999	1,863	1,813
Other Current Assets	5,436	4,598	4,515	4,482	4,481
Property, Plant & Equipment	9,070	8,895	8,643	8,391	8,289
Other Non-Current Assets	2,263	2,006	2,006	2,006	2,006
Total Assets	18,755	17,537	17,313	17,398	18,326
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	3,549	3,508	3,584	3,418	3,361
Long-Term Debt	4,249	3,137	2,537	2,307	2,307
Other Non-Current Liabilities	2,915	2,770	2,505	2,255	2,018
Total Liabilities	10,713	9,415	8,626	7,980	7,685
Total Equity	8,042	8,122	8,687	9,418	10,641
Total Equity & Liabilities	18,755	17,537	17,313	17,398	18,326

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

Company Sector

Steels

Company Description

Founded in 1847 as an iron ore miner, Cleveland-Cliffs (CLF) today is the largest vertically integrated flat-rolled steel maker in North America, with shipments of 15.9mn st in 2021. CLF transformed itself from an iron ore pure play to the largest U.S. sheet mill operator after buying AK Steel in March 2020 and most of the assets of ArcelorMittal USA in December 2020. Combined operations generated 2022 revenue and EBITDA of \$23bn and \$3.2bn.

Investment Rationale

We rate Cleveland-Cliffs (CLF) at Neutral as the benefit of a strong free cash flow (FCF) outlook, and industry leading exposure to higher margin fixed price automotive contracts appears to be largely priced in. Competitive pressure from new U.S. supply for non-automotive business and potential environmental challenges related to aged blast furnace (BF) assets are a longer-term risk.

Stock Data

Average Daily Volume 8,895,079

Quarterly Earnings Estimates

	2023	2024
Q1	-0.11A	0.41E
Q2	0.70A	0.86E
Q3	0.54A	0.69E
Q4	-0.05A	0.40E

CLF model changes

Exhibit 1: CLF key estimate changes

Our 2024E EBITDA / EPS decline 11% and 16% vs. prior, mainly due to lower pricing. 2025/26E EPS are higher due to lower depreciation and share count.

	2024E			2025E			2026E		
(US\$m, except per share data)	Old	New	Var.	Old	New	Var.	Old	New	Var.
Net Sales	22,519	22,115	-2%	20,758	20,603	-1%	20,054	20,054	0%
Adjusted EBITDA	2,916	2,592	-11%	2,670	2,640	-1%	2,647	2,628	-1%
EBITDA margin	12.9%	11.7%	-123bp	12.9%	12.8%	-5bp	13.2%	13.1%	-10bp
Depreciation	980	952	-3%	980	952	-3%	980	952	-3%
Net Earnings	1,397	1,165	-17%	1,234	1,231	0%	1,217	1,223	0%
Adjusted EPS	2.81	2.36	-16%	2.48	2.63	6%	2.44	2.69	10%
Operating Cash Flow	2,125	1,852	-13%	2,057	1,937	-6%	2,226	1,931	-13%
Capex	(700)	(700)	nm	(700)	(700)	nm	(850)	(850)	nm
Free Cash Flow	1,425	1,152	-19%	1,357	1,237	-9%	1,376	1,081	-21%
Net Debt	2,096	2,387	14%	740	1,651	123%	(637)	570	nm
Adjusted EBITDA									
Steelmaking	2,849	2,525	-11%	2,576	2,547	-1%	2,552	2,532	-1%
Other Businesses	67	67	0%	93	93	0%	96	96	0%
Corporate and eliminations	0	0	nm	0	0	nm	0	0	nm
Total adjusted EBITDA	2,916	2,592	-11%	2,670	2,640	-1%	2,647	2,628	-1%
Steelmaking segment									
Steel product shipments (k st)	16,200	16,475	2%	16,000	16,000	0%	16,000	16,000	0%
Average realized pricing (\$/st)	1,205	1,160	-4%	1,117	1,107	-1%	1,078	1,078	0%
Revenues (\$m)	21,819	21,415	-2%	20,041	19,886	-1%	19,318	19,318	0%
COGS (\$m)	19,397	19,408	0%	17,931	17,770	-1%	17,250	17,230	0%
Gross margin (\$m)	2,422	2,007	-17%	2,110	2,116	0%	2,069	2,089	1%
Gross margin (%)	11.1%	9.4%	-173bp	10.5%	10.6%	11bp	10.7%	10.8%	10bp

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Cleveland-Cliffs (CLF)

Our \$22 PO is based on 5.5x 2024E EV/EBITDA, 5.0x 2025E EV/EBITDA and 1.0x net asset value, with each value equally weighted. The 5.5x 2024E EV/EBITDA target multiple is below its historical trading average of 7.0x and sector average of 6.7x due to its higher leverage and above normal near-term steel price forecasts. The 5.5x multiple is also below the target multiple used for mini-mill peers to account for CLF's higher (fixed) cost structure, partly offset by a better product mix and reduced realized pricing volatility due to its exposure to higher margin fixed price automotive contracts.

Downside risks: 1) new capacities pressuring steel prices & margins, 2) obsolescence of its capacity relative to newer supply forcing closures, 3) higher-than-expected capex or interrupted operations to address older mills or environmental liabilities, 4) union representation may keep labor costs high relative to peers, 5) underfunded pension/health care position & high leverage, 6) risks to auto sector demand, including switching to aluminum & alternative materials, 7) higher imports and/or, 8) changes to trade policy.

Upside risks: 1) better steel demand than we anticipate, 2) steel price outperformance, especially if driven by raw materials as CLF is largely vertically integrated, 3) Further reduction in underfunded pension & OPEB liability, 4) resumption of the dividend, 5) better auto negotiating position for longer, and 6) sustained/higher barriers to imported steel.

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

North America - Metals and Mining Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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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Cleveland-Cliffs (CLF) 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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