

# **ArcelorMittal S.A. (MT) Q2 2024 Earnings Call Transcript**

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**Body**

ArcelorMittal S.A. (MT)

Q2 2024 Results Conference Call

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Company Participants

Daniel Fairclough - Vice President, Investor Relations

Genuino Christino - Chief Financial Officer

Conference Call Participants

Alain Gabriel - Morgan Stanley

Tristan Gresser - BNP Exane

Patrick Mann - Bank of America

Cole Hathorn - Jefferies

Tom Zhang - Barclays

Ephrem Ravi - Citi

Dominic O'Kane - JPMorgan

Matt Greene - Goldman Sachs

Andrew Jones - UBS

Max Kogge - ODDO

Bastian Synagowitz - Deutsche Bank

Presentation

Daniel Fairclough

Good afternoon, everyone. This is Daniel Fairclough from the ArcelorMittal's Investor Relations Team. Thank you for joining this call to discuss ArcelorMittal's performance and progress over the First Half of 2024. Leading today's call will be our Group CFO, Mr. Genuino Christino.

Before we begin, I would like to mention a few housekeeping items. As usual, we will not be going through the results presentation, which we published this morning on our website. However, I do want to draw your attention to the disclaimers on Slide number 2 of that presentation. As normal, Genuino will make opening remarks before moving directly to the Q&A session. [Operator Instructions] Over to you Genuino.

Genuino Christino

Thanks, Daniel, and welcome everyone.

I will as usual, keep my remarks brief and focus on the theme of the strategic progress. Beginning first, with safety. Across ArcelorMittal, our people are galvanized to improve safety and achieve our goals of being a fatality free organization as quickly as we can. The third-party safety audit, which started at the end of December, is on shadow to be finalized this quarter. All the groundwork has been completed and dss+ are now developing their actions and recommendations. Combined with the considerable airports already underway, this will enable us to deliver the safe results we are striving for.

Moving to our financial performance. We have faced our challenges both macro and nickel during the first half of 2024. But our results have shown good resilience and continue to reflect the positive actions we have taken to optimize our business and high grade our asset portfolio. EBITDA/tonne of $140 in the first half of 2024 compares well with our long-term history.

Our operating results for the second quarter were broadly stable with the first quarter, despite the challenges faced in certain segments, this really highlights the benefits of our PSIFs exposure. Free cash flow during the quarter was slightly positive, but let me remind you that this is after investment in our strategic growth projects.

Stripping that out, the annualized run rate, investible cash flow was about $1.7 billion. Our resilient financial performance and strong balance sheet enable us to be fully focused on a strategic execution. And by strategic execution, I mean delivering on our growth projects, realizing the potential of acquired assets and consistently returning capital to shareholders.

Over the past three and a half years, we have invested almost $3 billion in our strategic growth projects. We are developing our upstream resources, including metallics, renewables, we are adding capacity high-growth markets, including India, and we are developing our capabilities to produce higher margin products and solutions. We recently completed a new code, new complex at Vega, in Brazil and began commissioning our 1-gigawatt renewables project in India.

Our organic growth has good momentum with many projects should be commissioned in the coming periods. The new assets we have acquired in recent periods continue to perform well. We expect to conclude the acquisition of our 28% stake in Vallourec very soon. We have added Italpannelli to support the growth of our construction business within sustainable solutions. The fact that we have been able to maintain our growth strategy despite the challenging macro climate means that we'll enjoy the benefits to EBITDA on top of any cyclical recovery.

Finally, I want to highlight once again our consistent return to shareholders. Over the first half of 2024, we have returned $1.1 billion through buybacks and dividends. This is over 6% of our current market cap. We have now bought back 36% of our equity in less than four years. Given valuation disconnects, our shares remain the best opportunity in the market, so buybacks will continue.

To conclude my opening remarks, we are delivering a Brazilian results and our performance continues to provide evidence that ArcelorMittal can deliver value through all aspects of the steel cycle. We are maintaining a very strong balance sheet. Our strategic growth projects have good momentum and will provide significant structural upside to EBITDA and cash flows on top of any cyclical recovery. And the benefits to our shareholders have been compounded by our continued share buybacks.

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With that, Daniel, we are ready now to go to the Q&As.

Question-and-Answer Session

Operator

[Operator Instructions]

Daniel Fairclough

Great, thank you, Sharon. So we do have a queue of questions already, Genuino. So, we will take them in the order that they've been added into the system. So the first we will take from Alain at Morgan Stanley. Hi Alan, how are you?

Alain Gabriel

Firstly, on the outlook. Daniel or Genuino, that some of your peers have been profit warning over the last two weeks in Europe. In that context, how do you see the business developing for your Europe division over the next quarter? In the U.S. I would say it's the inverse, your competitors have in increasing prices. Do you see this as a genuine inflection and what does that mean for your Q3? That's my first question.

Genuino Christino

Sure, Alain, thank you. And thank you for the question. Let me start first with Europe, as we all know, the market backdrop in Europe is challenging. As we anticipate at the very beginning of the year, we are seeing declining real demand, but we are not changing, even though we have revised downwards our apparent due consumption forecast for Europe for 2024, we are still seeing apparent due consumption to be at least flat or if not a small positive, right? So when we look at our order books also for quarter three, we do see normal seasonality.

We are not really seeing something that is more extraordinary than that. And I think it's also important to note that we don't expect the same level of destock that we saw in 2023. So we do believe that the apparent due consumption in the second half compared to second half of last year should be slightly better this year. So, and then of course as we know in the U.S. right now prices have come down significantly, prices below IPP, which is something unusual. We would expect that to rebalance. So we'll see how it develops.

Alain Gabriel

And what does that mean for the moving part for your business in Europe and in the U.S. for Q3?

Genuino Christino

So I will ask [indiscernible] to talk about the moving parts of all the segments not only in U.S. and Europe, so for the benefit of everyone.

Unidentified Company Representative

Yeah, sure. Thanks, Genuino. So I think as Alan talked about, I think the main moving parts that we're going to see in Q3 relative to Q2 will be the seasonally lower volume in Europe, and the lagged effect of lower spot prices in NAFTA. But to provide a little bit more detail and context that'll go through the various different segments starting first with North America.

So yes, we will see lower spot prices in Q3 relative to Q2 volumes. There'll be stable to marginally lower, quarter-on-quarter. And of course the impact of Mexico in Q3 is expected to be the same, as it was in Q2. In terms of the Brazil segment, look, there, we not anticipating any major movements, so we would expect similar volume and overall pricing to be broadly stable, in the Q3 relative to Q2.

In Europe reiterating again that volumes will be lower, but following the normal seasonal pattern so nothing more exaggerated than our normal seasonal volume pattern in Europe. And that applies to both flat and long products. And yes, we will see the lagged impact of lower prices, but of course we will also see the impact of lower raw material costs coming through as well.

On the India and JVs, I think you will see in Q3 an improvement in volumes. So we had some maintenance in Q2 and so volume should improve in Q3. And then because of those recent higher levels of imports, I think we should probably assume that prices will be slightly lower quarter-on-quarter.

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And then in mining, of course it's difficult to say with accuracy at this point what prices will be quarter-on-quarter, but in terms of volumes, I think we can confidently expect that they will improve relative to the second quarter.

Alain Gabriel

And my second question is on Vallourec. So you expect the deal to close in Q3. When should we expect an update on the synergies so that we better understand the value that this investment brings to you, in addition to the simple consolidation of the additional earning stream from Vallourec?

Genuino Christino

Alain, you're right. So our expectation is that the deal should close very soon should close now in Q3, and then after that, from that point onwards, of course, we are going to be president also at the Board of Vallourec. So we're going to be our main focus, of course, is to try and support that business.

As we said before, we believe that management has been doing a great job, so we want to contribute to that. And I'm sure we'll be in a position to talk more about potential synergies that as we know, being a minority shareholder of this business it will need to be a win-win for both companies. And that's what we are going to for sure, we'll explore possibilities with them.

Daniel Fairclough

We'll move now to the next question which we will be taking from Tristan.

Tristan Gresser

Just a few follow-ups on the Q3 guidance. In North America, you confirm how much time it would take really to restart the blast furnace? And also regarding the other division which includes Ukraine and South Africa, and I think there were expectation of further improvement in second half. So how should we think about that business? Because I believe there's still a lot of tonnes associated with that EBITDA line.

And lastly to the guidance, sorry on Europe, if real demand is down and you expect apparent consumption to be flat to up, does that mean that you expect some level of restocking already in September?

Genuino Christino

Tristan, so let me take the first part of your question. So in Mexico, so you specifically ask about the blast furnace. I think it's important as you know, in Mexico, we have two business, most important one, of course being the plant operations. And that part of the business is up and running. So we have after the end of the block, we have started operations already.

Of course, we'll see an impact as we highlighted in our earnings release in quarter three as well. But that business is up and running. Then we have the blast furnace, which is dedicated to the long business. That part of the business will take a little bit longer to restart. We should be restarting -- it should take us about two months to be able to restart that part of the business.

Then -- so the other divisions, you so specifically about Ukraine, I think Ukraine did well given the circumstances in the second quarter, as we highlighted before we brought back one additional fund. So they run with two funders for most of the quarter. That was helpful. We saw a significant increase in terms of production shipments.

As a result, they were a bit positive in quarter two. So, that's reassuring. Of course, challenges remain as we know, power -- availability of power logistics. So we continue to face a number of challenges. But in quarter two was a good performance.

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And then in Europe, yes, our guidance of course assumes that we will see a bit of restocking overall for the year. I cannot precise if we are going to start to see it already in September, but for the year for sure. Our expectation is that we'll see summary stocking after coming from years in which we were destocking. So that's in a nutshell the position.

Tristan Gresser

That's helpful. And another question then on CBAM. I think, you mentioned that you remain optimistic about the commission strengthening the measures. Is there an ongoing dialogue at this stage or given the election or changes there as is it being posed at the moment? And what specifically are you pushing for? And do you think there is a possibility to extend the 2034 deadline for free allocations?

Genuino Christino

Yes. Tristan, as we know, CBAM is extremely important for the industry in Europe. At the moment, as we all know the industry is paying for high costs for CO2 emissions that nobody else is paying. We still have high energy costs in Europe.

At this point in time, the competition is not very fair, so that's why CBAM is so critical. We have been advocating for it for quite some time and but we know that we need improvements in the way it is designed today.

And the key points, first is to make sure that Europe can be competitive in the export markets so that we have a sort of rebate when we export second, we need to make sure that we avoid the circumvention, that is leakage that produces outside of Europe, pick and choose materials that they will send through Europe.

Also, we need to make it broader because of course there are products coming through Europe that today are not covered by CBAM or finished products. So there are a number of points that we believe needs to be improved so that CBAM can be effective and then can support the industry and the development of the industry going forward.

And then specifically in terms of emissions or certificates, reduction of the certificates, I think this is a dialogue that is ongoing, but at this point in time, we don't really have any specifics to share with you.

Daniel Fairclough

We'll move now to the next question, which we'll take from Patrick at Bank of America.

Patrick Mann

Two questions I wanted to ask. The first one is just on the buyback. So I mean, you're about three quarters of the way through the share buyback program and that's running ahead of schedule or it's I think you're about 60% of the time way through. If it continues at the kind of the same pace, would you wait until May, 2025, the next shareholder AGM, or is it reasonably easy to reload if you find yourself, running up against that 10% authorization?

And then maybe linked to that or second part of that question, how responsive are you to the share price levels? I mean, do you see the stock at, in the 20s, in the low 20s and you think, this is a good opportunity to sort of accelerate the buyback? Or do you try and do it fairly mechanically where you just say, this is a free cash flow, this is allocation, and we're just going to spread it out. That's the first question.

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Genuino Christino

Yes, Patrick, so regarding the first part of the question, that's easy. So we do have more today authorization that we got from our last AGM, so we could potentially increase the size of the buyback. Right now, as you know, we still have, so at the end of second quarter we still had about 24 million shares to be bought. So it's still a sizeable chunk of shares that we need to buy.

And we'll see when, as and when we cross that, we will decide then the next steps. I think that the message is the same, that what we have been discussing, that the policy is not changing, right? So the moment we complete the program, we will, of course, based on our policy make sure that minimal or 50% of the free cash is distributed to shareholders.

Regarding the pace we are not really trying to time the market. I think the objective, the main objective is to return cash to shareholders and that's what we have been doing consistently. And regarding the evaluation, it was low before, it's even lower today, right? So we feel that it is a good investment even though now the share price is even lower. But we believe that when the market conditions improve it will eventually, we'll look back and see that the share buybacks really create a lot of value to our shareholders.

Patrick Mann

And then the second question I wanted to ask was just on the discipline. You know, there's a section in there where you talk about disciplined capital investment and I suppose requiring returns on any decarbonization CapEx that you, that you spend. I mean, I would think that potentially a quite likely outcome of that approach is that there are going to be plants that are not going to make the hurdle rates for decarbonization unless you get substantial government support.

So you, I mean, is it not fair to say that you could end up in a situation where you're stuck in that you can't get a return to decarbonize them? You're not getting the funding, and so in that situation, what happens? Do you just run the plant with no reinvestment until the carbon costs are too high and it becomes uneconomic and you close it? Or, if you stick to that completely, then you know, surely that is quite a high likelihood that at least some plants this is what the ultimate outcome is going to be.

Genuino Christino

Well, yeah, I think we can talk about that, Patrick. So I think we have also been very clear that we'll invest and when it makes economic sense, right? So it's very important that we achieve our decent levels of economic return to justify the investment. I think that's something that we owe to our shareholders, right? So and as I talked a little bit earlier, in Europe we are in a kind of a transition phase where CBAM is not yet effective. Policies, I'm sure they will continue to evolve.

We just heard from our President of the commission [indiscernible] also showing more support of course for the European industry. Of course, we have to see that supported by more actions, right? But I think we should see those moving parts before we can go ahead, commit all the investments, and we'll see. I mean, as we know in Europe today some of some plants, not us, I think the group is in good shape.

We are doing well. But if you look around, you're going to see plants struggling. And that's why in Europe, the industry needs more protection, needs support to develop as we saw in U.S. at Section 232 as an example.

Daniel Fairclough

So we'll now move to the next question which we will take from Cole at Jefferies.

Cole Hathorn

I'd just like to hear your thoughts on some of the new trade barriers that you're seeing in Brazil and how that's impacting your business there or supporting it. And then you made a preamble on how you've improved the EBITDA/tonne of the business. Would you mind just recapping you know, what are the bigger moving parts of what businesses you've sold and the investments that have improved that EBITDA/tonne? If this is the bottom of the cycle.

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Genuino Christino

In Brazil, I mean we had the new quarters and the entire is above the quarters, of course. It's an important development. So we have about 11 products. So most of the products are flat products. So, it should provide some support.

We're seeing the second half, it's not visible really yet in the second quarter. In the second quarter, we have not seen, even though we saw a nice improvement in the apparent steel consumption in the second quarter. But import levels or market share from imports remain relatively stable at high levels. So we'll have to see.

But clearly, I think more needs to be done. So in this environment where you have China exporting so much the regions are being impacted directly or indirectly. So that's why it's so important that we have this trade so that the local industry that is doing the right things, adjusting production, whenever it needs to demand they don't suffer because one player is not behaving economically.

And then in terms of the EBITDA/tonne, that's quite a lot, and thank you for the question because this is something that we try to convey this message that the group has changed over the last many years. We have exhibited a number of businesses that we felt either we were not the right owners or could not be competitive.

And just give a couple of examples. We existed a lot of commodity business in Europe, so investments of Astral, we diverted also rebars in Europe. So we invested more in rails. Of course, we have the acquisitions of Votorantim in Brazil with very high levels of profitability. We invested in Pecém in Brazil. Also covered a number of added value projects that automotive also done. So we have really been working very extensively on the footprint. And that's why it's visible now.

And when you combine that with the balance sheet, with the low level of that that we have today, that's why we feel so comfortable to even in this challenging micro we can continue to push forward with our strategy, our investments, our return to shareholders.

Cole Hathorn

And then just as a follow-up, there's been some obviously political commentary around Mexico and shipments coming across the border into the U.S. Would you just mind giving your thoughts on ArcelorMittal Mexico business and kind of the melt and pour kind of caveat that they were talking about?

Genuino Christino

Yes. As a matter of principle, I mean any agreement, as we had an agreement between the U.S. and the Mexican government with the deal to prevent the convention, we will support that. Coming to our business, Mexico is an important part of our business. We have invested heavily in the last couple of years.

We have this a new, brand new hot strip mill that is performing well. And all of our steel is melted and poured in Mexico. So we are not really part of this debate, because all of our steel is melted and poured and -- in Mexico.

Daniel Fairclough

We'll move to the next question, which we will be taking from Tom at Barclays.

Tom Zhang

Just two for me. The first one, you know, you talked a little bit about how unsustainable steel spreads and steel prices are eating into the cost curve. Maybe you can just give us some thoughts on what needs to happen as a sort of catalyst to actually get that to change. You mentioned sort of swift and effective responses to unfair trade. Have the policies that we've already seen, is that going to be enough?

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Do you need more capacity being taken out? Do you need demand really just to improve? Just curious on what stops it being unsustainable?

Genuino Christino

Do you want to start, Daniel? Provide your thoughts and then I add.

Daniel Fairclough

Thank you, Genuino. I think, there are perhaps several potential triggers, but clearly the best trigger would be an improvement in apparent demand, and that would be triggered really by confidence. So, once the market participants become more confident that the real demand recovery is something that they can look forward to, then they're going to start thinking about replenishing their inventories, and also the raw materials required to produce their inventories.

So I think, one important trigger could be that improvement in confidence and really just a sense that things are brightening and that the outlook is increasingly positive. Triggers for that could be the interest rate cutting cycle as one obvious point. The second trigger can really also be just this sense that, look things can't go any lower.

So, often what we see is that when steel prices have negative momentum, where possible market participants will be destocking, they'll be sitting on their hands taking a wait and see attitude. But when they believe that the risk to the downside is extremely limited then there can be that kind of sense that I want to get a little bit more onto the front foot and start thinking about building some inventory before steel prices start to move in the opposite direction. And that in itself can act as a trigger.

And then the third trigger would be on the supply side. So either you see that the high cost producers having to really cut production. Or we see a better domestic market share, i.e. less import penetration. So those would be the three catalysts. And we'll see which of those is ultimately the trigger to stop moving pricing higher from the current levels.

Tom Zhang

And then just some very quick clarification questions, please. So earlier you mentioned Daniel, Mexico strike impact, you think it'll be the same in Q3? Could I just clarify if that was earnings, volumes or both? And then also in the release, you guys talked about reversing $1.6 billion of networking capital bill that you had an H1. Is that a sort of firm target? Is that like a minimum release that we're sort of expecting? Yeah, just any color that would be helpful.

Genuino Christino

Yeah, so I'll take the second one and Daniel can comment on the impacts of the blockade in Mexico. Nearly we believe that we'll see a reversal of the investments that we made in the second half, as we know is still carrying, by now inventory is because of the weighted average impact, high cost materials coming from Q4, Q1 of last year. So we'll see that, we'll work through that.

But I think the message to the business is that, and given everything that we have just discussed, that we remain hopeful that we'll see a better 2025 in terms of real demand. I think it's very important that we are ready for that. And the instruction to the units is that we should just have the right level of working capital to what we believe we are going to need, looking at the demand that we have in front of us.

So I would not jump that to conclusions that we can see even more. I think I will be happy to see that reversing as we have guided. And then we'll see of course where we landed at the end of the year, as we all know also, that it's challenging to predict so precisely the evolution of working capital. But the $1.6 billion we feel comfortable. Daniel?

Daniel Fairclough

Yeah, sorry, Genuino. So then on Mexico, Tom, I can, yes, I can confirm that. So in terms of the volume, we would expect a similar impact in Q3 and Q2 from the blockade to about 400,000 tonnes. And therefore the same profitability impact of about $0.1 billion. So no delta, quarter-on-quarter.

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Tom Zhang

Got it. Okay. Understood. So there's no sort of like catch up with the sort of bonus payments and back pay, that's not going to have a sort of incremental impact in Q3. It's also baked in.

Daniel Fairclough

So no. So yes, you should just assume no delta from that specific effect Q3 versus Q2.

Tom Zhang

Got it. Thank you.

Daniel Fairclough

Perfect. Thanks Tom. So we will take the next question from Ephraim at Citi Group. So please go ahead, Ephraim, if you can hear us.

Ephrem Ravi

Thank you. Can you hear me?

Daniel Fairclough

Yes, we can.

Ephrem Ravi

Three tiny clarification questions. Firstly, the doubling of the EBITDA in the sustainable solutions by 2028. Is that just the impact from Italpannelli and India renewables? Correct. I mean, it does not include the impact of future acquisitions and things like Vallourec, which I assume will be put on the sustainable solutions. The reason is maybe with roughly a $100 million incremental from India renewables and $150 million from Vallourec plus some from Italpannelli. You are pretty much there for your 2028 target.

Genuino Christino

I not know. I think the Vallourec, as you know, will be part of our JVs. So, it's an equity stake, 28%. So we will be reported as part of JVs. Italpannelli and the renewable project in India. Yes, it will be part of sustainable solutions, but look, I mean, we have a high ambitions for this part of the business. So the renewable project in India and Italpannelli end will not take us through the targets. So we still have work to do and we're excited to see that through. So we have a number of nice projects in front of us that we feel that we're going to be able to add a lot of value.

Ephrem Ravi

Second, how much of the working capital bill was due to Mexico? If you can quantify that just to get comfort around the $1.6 billion release, because that's an easy one.

Genuino Christino

Look, to be honest, it's because -- if you look at the shipments in our long business and after you're going to see that there is actually a bit of an increase. So we were able to mitigate some of the block banks by, in case of loans, because we have different locations, we were able to continue to ship that materials.

And there is of course, some raw materials that could not be transformed. But we are not quantifying that --. But again, I think, you can assume that we feel at this point and seeing what we have in front of us. We feel good about the release in the second half. More so in Q4 than in Q3, as it is typical the department --

Ephrem Ravi

Yes, seasonality. And the third question the DR Pellet projects the 5 million tons from blast furnace to DR Pellets. Can you give us a sense as to the CapEx that's involved in that? Because the DR Pellets premium of blast furnace pellet has been $5, $6 per tonne on average. So just wanted to sense kind of how much incremental return if the spot premiums hold? Obviously, if the premiums go up in the future, it goes up.

Genuino Christino

Danny, do you want to talk about that?

Daniel Fairclough

Sure. So we have announced $200 million was the CapEx on that project. In terms of the premier, I think this past quarter it has been about $8 a tonne. But of course, I think the important thing as we move forward is that we know we're going to need more of this type of material as we look to expand our DRI capacity. We have the Texas project under consideration. And there's an appealing opportunity there to double our capacity the [indiscernible], Texas. So we're going to need more feedstock for that type of project.

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Ephrem Ravi

So would it be fair to say that most of that incremental 5 million tonnes would be going internally to other ArcelorMittal plants?

Genuino Christino

So yes, I think that's a fair assumption, Ephrem. And also I would just add to what Daniel said that we're going to be able to keep the flexibility, right? So we're going to be able to have either DR pellet or BF Pellet. So we are not giving up that flexibility.

Daniel Fairclough

So we will move to the next question, which we will take from Dominic at JPMorgan.

Dominic O'Kane

Just two quick questions for me. Just one on clarification. So again, looking into H2 and on CapEx. So there's a little bit of a step up to the top end of the guidance for CapEx in H2. Is there a risk of an underspend on CapEx? Or you're very, very confident that you'll come in sort of within that range?

And then second question, we hear the commentary -- we sort of see the numbers on inventories for U.S., Europe. But just wondering if you could push you a little bit further on kind of what you see in terms of lead times for U.S. and Europe and the extent to which we could see those markets tighten quite rapidly as we move into an interest rate cutting cycle?

Genuino Christino

Yes. So the CapEx -- yes, I think we are not changing our guidance. So we're still retaining our guidance of $4.5 billion to $5 billion in the H1, I believe we were at about $2.2 billion So slightly if you annualize that a little bit lower than the bottom end of the range. But at this point, we feel comfortable that it's just timing. So we should be within our range.

Then in terms of inventories, I think lead times are short, Dominic. I would say, both in -- and that's typically the case, right, when demand is relatively weak. So lead times remain at, I would say, at the low end of the range. And at the moment -- again, at the moment, we see a rebound in terms of the demand, real demand. We see some pickup in inventories. That is typically when you see that lead times becoming longer and that then tends to drive very quickly -- can drive very quickly prices up.

Daniel Fairclough

Great. So in that case, we will move to our next question, which we will take from Matt at Goldman Sachs.

Matt Greene

Just a quick question on India. You and your peers have described these low-cost imports from China as a predatory pricing strategy. And I guess we've seen the rest of the world move quite quickly to protect domestic markets. So my question is, has the Indian government been receptive to your concerns? And to the extent you can, please comment on Mittal's stance and the level of protections measures you'd like to see introduced.

Genuino Christino

Well, I think the whole industry in India is, of course, concerned about the level of imports coming from China as any other reason in the world at. There is, of course, dialogue. I think the government understands the challenge.

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And I think there is a lot of focus from the involvement to make sure that the industry can continue to develop, right? I mean when you look at our materials, look, the forecast is that we have for apparent steel consumption in India, it will grow so much in the next 10, 12 years that it's absolutely critical that the industry can develop, right? And of course, the involvement doesn't want to be dependent on materials coming from China.

So I think it's a matter of time. So if China doesn't correct course, then I think it's just amount of time to see more protection as we saw back in '15, '16. So that's when a lot of reactions started. And we are, again, starting to see that Mexico, Brazil, South Africa, different parts of the world, all starting to respond to that. And for sure, that should also happen against China.

Matt Greene

That's helpful. And I guess just following on from that, with the JV, you've long said that you expect it to remain self-funded. But I guess if we see EBITDA per tonne at current levels continuing, can this JV continue to self-fund the Phase 1A growth plans?

Genuino Christino

Yes, we feel very, very comfortable about that. As a matter of fact, if you look at -- even in this challenging market conditions, and we had maintenance in our JV in the second quarter, and if you look at the profitability there, still decent. We have very low cash needs. So the normal business in terms of maintenance CapEx, interest costs, extremely low. So this business generates good level of free cash.

But more importantly, of course, we have already signed credit lines that will allow us to complete this -- this was expansion to 50 million tonnes. And that's transformational, right? So when you do that and you achieve this 50 million tonnes and you start to deliver on the EBITDA and then the free cash follows. It makes it much easier than to continue the process to expansion. I think the challenge that we have in India is to make sure that we can keep pace with the market and make sure that we can not only retain but increase our market share in that market.

Matt Greene

That's great. And if I could just ask a quick clarification question. At a group level, you're expecting about a 10 million tonne increase in iron ore into 2025. Can you please give a breakdown on the components coming from Liberia and Serra Azul just given that both the finishing in the second half and will be ramping up next year?

Genuino Christino

Okay. Daniel, do you want to provide that?

Daniel Fairclough

Yes. Thank you, Genuino. So I think, when we look at our bridge from first half 24 million to that 50 million tonne number in 2025. First of all, I think we would be expecting a better volume performance in the second half. Obviously, the Q2 numbers were held back by maintenance in Canada and also the impact of those wildfires. So second half volumes should already be better than the first half run rate.

And then the key delta is in 2025 versus 2024, it really will be Liberia. So we're on course to have the first concentrate available at the end of the year. And then that will continue to ramp up as we move through 2024. So at this stage, we would be expecting at least a 10 million tonne volume performance from Liberia in 2025. So a significant step-up from the 2024 level. And then, yes, you mentioned the Serra Azul. That's really the other main delta when we look at 2025 versus 2024. Hopefully, that works for you, Matt.

Matt Greene

Yes.

Daniel Fairclough

Great. So we will move to the next question, which we will take from Andrew at UBS.

Andrew Jones

Okay. Can you hear me?

Daniel Fairclough

Yes, we can. Thank you.

Andrew Jones

Excellent. So just on the follow-up to 1 of your previous questions about what turns market in Europe. I mean, you obviously talked about potential for restocking, demand picking up, interest rates falling, et cetera, on the demand -- all that's on the demand side then you just mentioned some of the potential high cost blasts for disclosures. In your shipment levels at the moment are running pretty high.

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And in the past, you've been one of the leaders in taking out capacity on those down cycles. So I'm curious to see in the coming months, what planned normal maintenance is very [indiscernible] which blast furnaces potentially will be down?

And then how much worse do things have to get for you to start actually closing blast furnace capacity? Or is it just a case of you're very confident that demand will turn and therefore, you don't feel this time around, you need to do much?

Daniel Fairclough

Yes, Andrew. Well, so you're right. So we are running today all of our finances with the exception of 1 furnace in [indiscernible], as we talked about before. And I think as I said at the beginning also, so when we look at our order books, we feel okay. So we will have the normal seasonality. We will -- we are not -- we don't really have in the second half, any major maintenance foreseen for the furnaces.

As you know, we have -- we did a lot of work on that last year. And we will sell -- we will produce what we can sell, Andrew. So to the extent -- and that's the beauty of the ArcelorMittal footprint, right? So if we feel that we don't have enough demand in front of us, we have the options to reduce capacity to bring down 1 furnace, so we can adjust the capacity of different furnaces. And we will -- and if we get to that point, we will -- as we did in the past, we will take that call. But right now, we don't see the need. So we continue to move forward.

Daniel Fairclough

Great. Thanks, Andrew. So we will now move to our next question, which we're going to take from Max at ODDO.

Max Kogge

Just following on mining. I mean one of your competitors had to -- I mean, one of the other producers of iron ore in the region had to shut down operations because of the wildfire. Is that something that you rule out on your side? Given that this wildfire is still raging at the moment? And in Liberia, you had some difficulties with the railway or they now solve the rehearing some people wanting to access this line and yes, which could perhaps reduce your own shipments. Can you comment on that, too?

Genuino Christino

Yes. So first on Canada, the fire -- you're absolutely right. So we also suffered the impacts of the fire for a couple of weeks. And if you look at the production, now what we published, you can see that there is a lower production part of it because of maintenance, but also because of the impacts of the fire. Largely resolved now. That's why we feel that up sell the repeat of the maintenance work, we will see nevertheless, an improvement in shipments and production in shipments mines in Canada in quarter 3.

In Liberia, we have basically resolved now the issues with the rail. Q2 was still impacted, and that's why then it was also saying that we expect a higher numbers in the second half, we'll see the capacity in Liberia coming back to normal levels in quarter 3. And look, we have an agreement with the government. That is signed that we -- that is valid. So we have, of course, dialogue with the government with different parties, but we are the operators of the rail. We have the concession. And as we have been discussing, we have very ambitious plans for Liberia. We see the potential of the mine. We have plans to take it to 10 million tonnes. And that's what we intend to do.

Max Kogge

Okay. That's clear. And just the last one, it's on Argentina. This is a country that has been dragging down Brazil segment over the last 2 or 3 quarters, but now it seems that it's turning the corner, the economic climate is a lot more constructive. So do you think it will now be quite neutral? And could it even become a big earnings driver for ArcelorMittal, given that you're, by far, the largest producer in the country.

Genuino Christino

Well, starting at the case in quarter 2. And you're right. So in quarter 2, it was very challenging as for Argentina, right? Of course, we have -- Argentina is going through a major transformation, call it, the new government taking very hard measures to try to fix the economy to reduce the inflation. And -- but as a result, a number of projects were cut. So the demand in Argentina in the first half was extremely weak.

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But to the extent that the government can succeed in bringing stability, reducing the level of inflation then that should be temporary, and we should start to see again Argentina contributing more to our results. So I think we are optimistic, but we have, of course, to wait and see. It's early days. But this year so far, we are going through these challenges.

Daniel Fairclough

So we will move to our next question, which we will take from Bastian at Deutsche Bank.

Bastian Synagowitz

If you only have a quick one left on decarbonization. I think you've been moving a bit more mindful here, which clearly has been proving the right approach so far just given very strong momentum in terms of the European infrastructure for things like hydrogen and I guess also the other components on the policy side, which you mentioned earlier. I guess yet, we are getting to the point where the project pace will have to speed up.

And I think most of your peers have seen a significant step-up on decarbonization CapEx already or we'll see that next year. And by now we should have pretty good visibility on what is coming at least in '25. So could you please give us maybe some early gauge on to assume for CapEx on decarbonization for 2025, i.e., will it be more like a $500 million to $1 billion ballpark number? Or will it be possibly above $1 billion. Maybe just any stay on that front, that would be great.

Genuino Christino

You want to talk about it, Daniel?

Daniel Fairclough

So thanks, Genuino. So I think, look, the focus of our work on decarbonization at the moment is as we've been consistently talking about is engineering. So completing the engineering of the various different projects and studies that we have underway to -- on top of that, we've been making progress with the various different governments to make sure that they're obviously supporting these projects, and that's not just on the CapEx side, but very importantly, to make sure that we have the right input factors to make sure that at the end of the day, these projects can be sustainable and cost-competitive.

So then looking into 2025, relative to this year, I don't think we will see a material step-up in CapEx related to our decarb projects. So that would be my expectation rather than the numbers that you were talking about in your question.

Bastian Synagowitz

Okay. And just as a quick follow-up. So this year, so I think you're aiming to spend $300 million to $400 million is going to be the same level. Is that a gross number? Or is that already net of any government basically share of the CapEx wallet basically, which you're budgeting for?

Genuino Christino

Yes. So most of that is, as I say, it's supporting the engineering studies, et cetera. So that's -- we've not yet been able to offset the benefits of the government support. That will help to reduce the sort of the impact as we move forward as certain projects start to accelerate.

Daniel Fairclough

So we have a couple of questions left. So one of them is a follow-up, but we'll take the next question from Allen at Bloomberg Intelligence.

Unidentified Analyst

Most of them have been answered. I just had a clarification question on your strategic projects. You have 3 which are being commissioned this year in the second half, which saw the capability of adding at $285 million EBITDA. Can you just remind us what the profile of that looks like when that will start coming through, I think you already alluded to Serra Azul mainly coming in 2025, but the other 2, that would be helpful.

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Daniel Fairclough

Yes. Hopefully, I get the gist of your question here, along but I think we do have a very useful slide in our presentation back to show the cadence of the EBITDA that we anticipate on an annual basis from the organic investments. So if you get a chance to look at Slide 9 within the presentation deck, it's pretty neatly laid out. But just for everybody's benefit, we would expect some positive impact in the second half from the 2 projects that we've commissioned and begun commissioning over the end of Q2.

So the Vega project in Brazil and the India renewables commissioning. But that will significantly accelerate in 2025. So for the full year of 2025, we're expecting a $500 million benefit from the -- incremental benefit from the strategic projects. And then, of course, on top of that, we should be seeing the EBITDA benefit from Vallourec, from Italpannelli. So year-on-year at next year's delta is $0.7 billion.

Then into 2026, there would be another $0.5 billion step-up as more of the projects step down. And then the remaining amount would be post 2026. So in total, it's a $2 billion uplift, including the $0.3 billion we already have been benefiting from in Mexico, but this is going to be a very sort of significant but also unique driver of ArcelorMittal's profitability relative to our peers as we go through the next 2 or 3 years and would, of course, come on top of any cyclical recovery that we can anticipate.

Unidentified Analyst

Great. If I can, just one additional question on net debt and how that evolves over 3Q and 4Q. It looks like we got the Vallourec payment in 3Q. So net debt climbs plus CapEx is just somewhat second half weighted, but then working capital release in Q4 which will bring net debt back down. Are there any other kind of major moving parts? And is that profile broadly correct?

Genuino Christino

Well, I think you got it right. Yes, those are the moving parts. I would just say that we do expect the company to be free cash flow positive, right? And on top of that, we have the reversal of the working capital investment, you're right. So in quarter 3, we will see an increase because of Vallourec. But then we would expect net debt to come down again by the end of the year. And we should, of course -- we will retain a very strong balance sheet, absolute levels of net debt.

Daniel Fairclough

So we will now move to our last question, actually. So it's a follow-up from Tristan at BNP Exane.

Tristan Gresser

Just on XCarb, you mentioned that your European flat footprint has the capability to produce 8% of all grades and dimensions. So what is that percentage relative to your current product mix? So in other words, with XCarb, which is scrap-based, how much of that mix can you replicate? And if it is a good chunk of your portfolio already, which it could be, does that mean that you don't necessarily need the 5, 6 DRI plants you have announced to build across Europe?

Genuino Christino

Yes. So as you know, we have -- in Europe, I think we are -- when we talk about the carb and there is a lot -- but we are the only one that has today an electric arc furnace that's already producing flat [indiscernible], right? That's our [sastal] plant, which we are in ramping up. So -- and on top of that, of course, we have our facilities in industry.

We have about 50% of our loan capacity or 60% is also [indiscernible] based. And we continue to dedicate a lot of resources into R&D. I mean today, we announced a new line of products under the XCarb umbrella for the development of the hydrogen network in Europe. So we continue to make good progress there.

But in terms of absolute volumes, as we know, we are doubling the volumes this year. We are expecting to complete this year with more than 400 Kt. But of course, we have to decarbonize the footprint, right? So you should not read that because of that, we don't need to progress without decarbonization plans.

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Tristan Gresser

All right. That's helpful. But of your current flat-roll product mix, is that 50% you could replicate with XCarb scrap-based process? Or is it closer to 80%?

Genuino Christino

Well, it's 80%. We are seeing 80% for our industry customers, right?

Tristan Gresser

Industry customers.

Genuino Christino

Industry customers.

Tristan Gresser

All right. That's clear. So it's much lower. And maybe just a quick follow-up. Could you remind us the volume exposure you have of volumes coming from Europe to the U.S. in case we see tariffs returning on U.S. borders? I do believe you had some special rail and other type of products, but I don't remember the volume figure.

Genuino Christino

It's not a big number, Tristan. It's not a big number. But you're right, we do have exports, some specialty steels that in any case, even when Europe, [indiscernible] paying a section to the region. We never stopped them. So these are products that are not available there in the U.S. So I would not expect any implications. And second, the volume is not so significant.

Daniel Fairclough

Great. So that was our last question, Genuino, so I hand back to you to conclude the call.

Genuino Christino

So thank you, everyone. And before we close, I want to reiterate my message from the beginning of the call. Personally, the wholesale ArcelorMittal organization is galvanized to improve safety performance Secondly, our resilient results in the face of challenging market continue to demonstrate structural improvement.

This resilience means that we have been able to focus on our growth agenda. The investments we have been making will provide significant structural upside to EBITDA and cash flows on top of any cyclical recovery. Our ongoing buybacks are compounding to value-creating benefits to our shareholders. And if you need anything further, please do reach out to Daniel and his team. I wish you all a good summer. Stay safe and keep those around you safe as well. Thank you very much.

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