


METALS & MINING

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Steel margin pick-up beyond Q2CY24: ArcelorMittal

- ArcelorMittal's (MT) Q1CY24 results confirm bottoming out of steel margins in the western world
- MT's guidance suggests flattish EBITDA in Q2CY24 with no signs of restocking yet; elevated China steel exports also weigh on margin
- MT still expects 3-4% steel demand growth outside China, baking in absence of destock in H2; benefit of recovery to flow only in CY25

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Steel margins bottom out in western world: MT's (Not Rated) Q1CY24 EBITDA at US\$ 2bn was up 25% QoQ with recovery in margins and shipments. Unit EBITDA/t rose US\$35/t QoQ to US\$ 145/t, driven by improved activity levels with end of destocking, higher selling prices, partially offset by higher raw material costs. In Q1CY24, margins improved sequentially in North America and Brazil, but were still muted in Europe. Similarly, shipments recovered QoQ in North America and Europe, but declined in Brazil.

Q2 likely to be flat: MT does not yet see signs of restocking as customers remain in a 'wait-and-watch' mode. The company expects EBITDA to remain at similar levels as Q1. With pull-back in prices, margins are likely to decline in North America and Brazil but improve in Europe with sharper cost reduction. The company expects volume to be stable in North America and Europe but improve in Brazil sequentially.

Reiterate steel demand growth outlook for CY24: MT retains its forecast of apparent steel demand growth of 3-4% for World ex-China. MT highlights that it is baking in only absence of destock in H2 for the western world due to low inventories in the system and expects the benefit of economic recovery only in CY25.

China exports unsustainable: MT currently sees China demand growing sideways with stronger infrastructure and manufacturing offsetting pressure on real estate. With elevated production levels, demand-supply balance and margins are under pressure in China leading to higher exports. While MT sees the situation as unsustainable, it refrains from specifying any timeline for back-down of exports.

Margin down for AMNS in Q1CY24: ArcelorMittal Nippon Steel India's (Not Rated) EBITDA at US\$ 312mn was down 37% QoQ impacted by a sharp 42% QoQ decline margin to US\$ 155/t (including impact of natural gas hedges).

Our Ferrous sector view: We expect Indian steel margins to stay at mid-cycle level over the next two years. While we expect global steel demand to stabilise gradually, we believe supply pressure from a likely surplus in China will keep a lid on margins.



We have summarised read-across for Indian steel ferrous players from the Q1CY24 results of global steel major ArcelorMittal (MT, Not Rated).

Additional takeaways

Q1CY24: Steel margins bottomed out

- MT sees that sentiment has reached a floor, and volume-weighted PMIs (Purchasing Manager’s Index) for their areas of operation have started approaching expansion.
- The company highlights a low inventory environment particularly in Europe and expects a rebound in apparent demand as soon as real demand improves.
- European steel spreads have normalised from unsustainably low levels in 4Q’23.
- US steel prices are showing signs of stabilisation after volatility in Q1. The volatility was driven by low inventory in the US steel market.

Fig 1 – MT Q1CY24: Western markets bottomed out

	Shipments Q1CY25			EBITDA margin Q1CY25			EBITDA		
	mt	YoY (%)	QoQ (%)	US\$/t	YoY (%)	QoQ (%)	US\$ mn	YoY (%)	QoQ (%)
North America	2.8	(1.6)	8.0	252	23.6	49.2	705	21.4	61.4
Brazil	3.2	8.3	(10.7)	125	(7.7)	78.0	396	0.3	59.8
Europe	7.2	(5.0)	12.9	47	(36.9)	7.3	343	(40.0)	21.1
MT	13.5	(1.6)	5.0	145	(1.8)	32.7	1956	(8.6)	34.5
India JV	2.0	10.2	7.9	155	(16.9)	(42.1)	312	(8.5)	(37.5)

Source: Company, BOBCAPS Research

Q2CY24: Profitability pick-up still away

Fig 2 – MT looks for Q2 EBITDA to be at similar level as Q1

Segments	Margins QoQ		Volumes QoQ	
	Q1CY24	Q2CY24	Q1CY24	Q2CY24
North America	Up	Down	Up	Stable
Brazil	Up	Down	Down	Up
Europe	Modest up	Up	Up	Stable
MT	Up	-	Up	-
India JV	Down	Up	Up	Stable

Source: Company, BOBCAPS Research

Retail annual steel demand growth outlook for CY24

- The company retains its apparent demand growth outlook for regional markets as well. The company is looking for apparent steel consumption growth of 1.5-3.5% in US, 2-4% in Europe, 0.5-2.5% in Brazil and 6.5-8.5% in India
- The company remains positive on the medium/long-term steel demand outlook and believes it is optimally positioned to execute its strategy of growth with capital returns.

Other takeaways

- **Acquisition of a global steel tube leader:** ArcelorMittal has agreed to acquire a 28% stake in Vallourec for ~US\$1.1bn. Vallourec is a global steel tube leader serving four markets – oil & gas, industry, energy transition and iron ore. Vallourec has vertically integrated assets supplying premium downstream products in a focus geography with 80% of EBITDA derived from Americas.
- **XCarb developing green steel market:** MT sold 229kt of XCarb products in CY23 and believes it will more than double its sales in CY24. XCarb steel is a recycled and renewably-produced product which offers a carbon footprint as low as 300kg CO₂/t.
- **Ukraine steel plant restarts:** MT has restarted its second blast furnace in Ukraine and plans to run at 45-50% utilisation in Q2CY24. The restart is supported by improvement in domestic demand in Ukraine but is facing the challenge of availability of power.

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