

METALS & MINING

05 May 2023

Steel margin recovery to continue into Jun quarter: ArcelorMittal

- **MT's Q1 print confirms global steel margin recovery backed by a strong revival in shipments with the end of destocking**
- **Guides for further improvement in profitability in Q2 with the lag effect of higher steel spreads, longer lead times and low channel inventory**
- **Steel margins likely to settle at mid-cycle level in FY24; earnings accretion from next expansion wave key to watch. Prefer TATA and JSP**

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MT's Q1 run confirms global steel margin recovery...: ArcelorMittal (MT, Not Rated) posted Q1CY23 EBITDA growth of 45% QoQ driven by a 13% recovery in shipments and a 26% increase in margin. While group EBITDA grew 26% QoQ to US\$ 126/t, the NAFTA segment was up 33% to US\$ 204/t, and Europe almost doubled to US\$ 87/t.

...backed by strong recovery in shipments: Shipments were up 13% QoQ on like-to-like basis with the end of destocking but still declined 4% YoY. Recovery was broad-based with NAFTA growing 22% and Europe 14%. Recovery in automotive production saw flat product shipments rise faster (14% QoQ) than long products (9%). However, European long shipments were also up 11% QoQ from a low base.

Apparent demand recovering: MT notes improvement in apparent demand in Europe and the US. While lead times have extended beyond normal levels in the US, the company also has good visibility on the European order book till August. It further notes improvement in overall sentiment led by Europe, albeit still subdued.

Retains positive CY23 outlook: MT retains its forecast for 2-3% growth in apparent steel consumption outside China and 5% YoY growth in shipments during CY23. Despite continued headwinds to real demand, the absence of any further destocking is likely to be supportive of higher apparent demand.

Guides for further profitability pick-up in Q2: While US prices are holding up well, European prices have held at high levels for the past two weeks. Slab prices are particularly strong, offering an export opportunity. MT also expects lower costs to reflect in the cost base across markets during Q2. In Europe, gas prices are reverting to pre-war levels even as power costs have decreased. Further, lower inventory levels in the absence of restocking is supportive of steel spreads.

Constructive on Indian ferrous players: We expect (i) margins to stabilise at mid-cycle levels in FY24 as recovery in China takes hold, and (ii) investor focus to shift to delivery of the next expansion wave. BUY TATA (TP Rs 140) and JSP (TP Rs 670).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	583	670	BUY
JSTL IN	733	715	HOLD
SAIL IN	83	95	HOLD
TATA IN	109	140	BUY

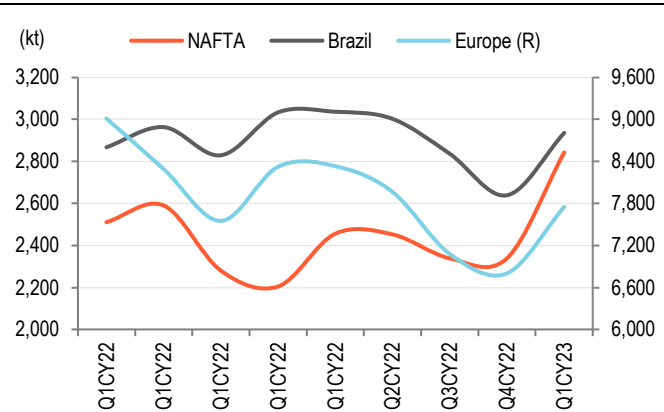
Price & Target in Rupees | Price as of 5 May 2023



Additional takeaways

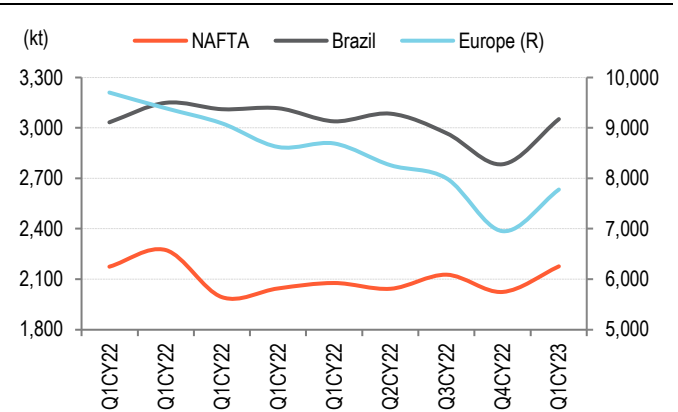
- **MT continues to show confidence in the steel cycle** with another US\$ 2.2bn acquisition of a port-based slab producer, Pecem, and a buyback announcement of another 85mn shares over the next two years.
- **AMNS India reported strong results** with steel shipments recovering 15% QoQ in Q1 along with an increase in crude steel production by 9%. EBITDA margin swelled 83% QoQ to US\$ 186/t.
- **MT was free cash flow neutral** in Q1CY23 even after investing more than US\$ 0.8bn in working capital.
- **MT's NAFTA segment** includes the flat, long, HBI and tubular operations of Canada, Mexico and the US, and also includes all Mexico mines.

Fig 1 – Global shipments



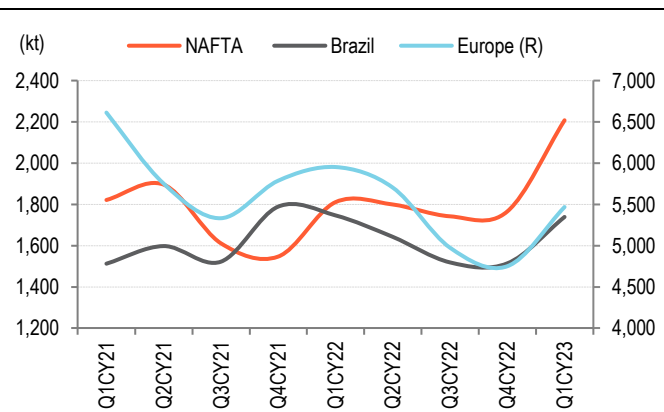
Source: Company, BOBCAPS Research

Fig 2 – Crude steel production



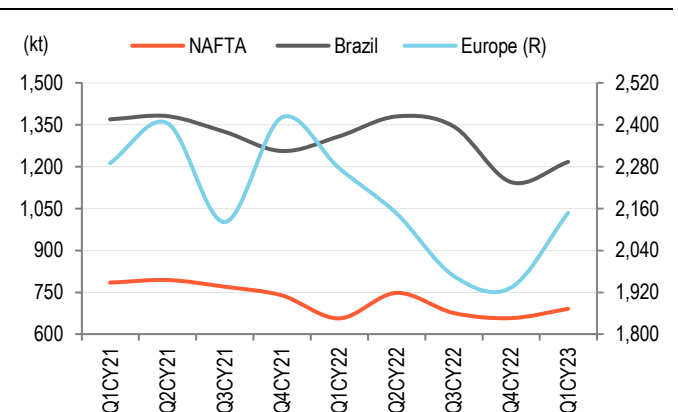
Source: Company, BOBCAPS Research

Fig 3 – Flat product shipments



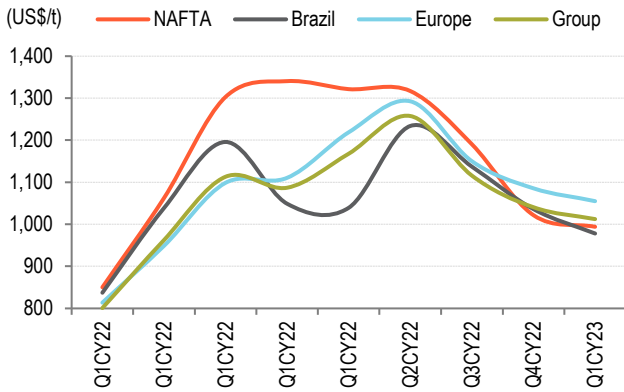
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Fig 4 – Long product shipments



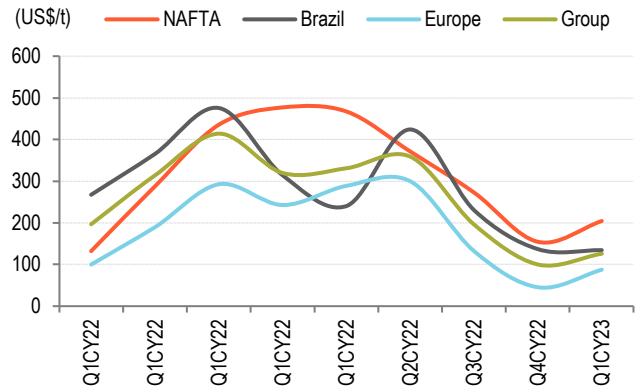
Source: Company, BOBCAPS Research

Fig 5 – Realisation



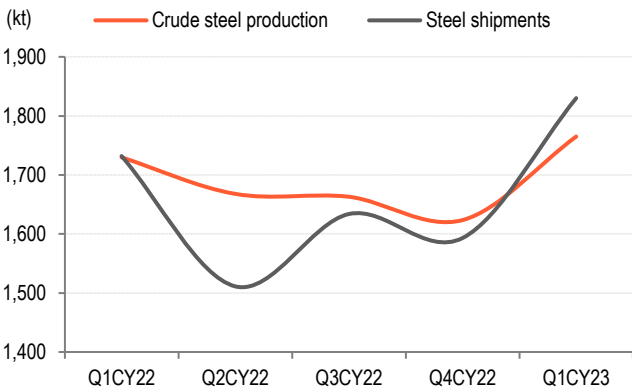
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin



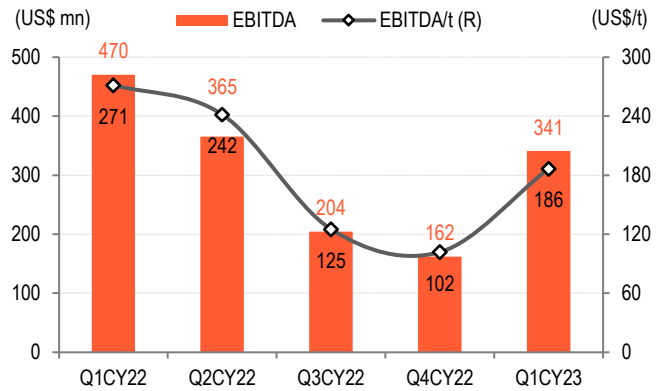
Source: Company, BOBCAPS Research

Fig 7 – India steel production and shipments



Source: Company, BOBCAPS Research

Fig 8 – India steel EBITDA and margin



Source: Company, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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