

# ArcelorMittal (MT NA)

## Asset Disposals to Clear Way for Ilva Acquisition & Accelerate Deleveraging

### Key Takeaway

**News that MT has received a binding offer to sell four Eastern European facilities helps clear the way for a planned acquisition of Italian steelmaker Ilva. While valuation remains confidential, a competitive bidding process likely ensures decent economics, and sale to Liberty House assuages concern that the large furnaces could otherwise fall into the hands of less-disciplined peers. With integration of Ilva likely to boost regional pricing, reiterate Buy MT.**

**Eastern European Asset Disposals a Key Hurdle Met.** MT this morning announced it has received a binding offer from Liberty House Group for the acquisition of Ostrava (Czech Republic), Galati (Romania), Skopje (Macedonia) and Piombino (Italy). These four assets were put up for sale as part of remedy measures required by the European Commission (EC) in MT's planned acquisition of Italian steelmaker Ilva. As discussed in past research, we feared these Eastern European assets were perhaps less attractive than the Western European facilities also put up for sale, and securing disposal on attractive terms was therefore a concern. Positively, sale to Liberty House assuages fears that these assets could be acquired by potentially more disruptive Ukrainian/Russian peers, as previously rumoured. (We note that MT sold its Georgetown, South Carolina mill to Liberty House in 2017.)

**A New Central/Eastern European Steel-making Hub.** Liberty House has been on a tear picking-up assets across Europe (and the world) over recent years. Following acquisition, we estimate that Liberty House will gain capacity of: 7.0mt of crude steel, 5.9mt of HRC, 1.5mt of plate, 2.0mt of CRC, 1.2mt of galv/coated, 2.0mt of sections/wire and 0.4mt of tube/pipe. While Ostrava is perceived as a high quality asset, Galati has been a challenge for MT operating at depressed utilisation.

**Benelux Asset Disposals Remain TBC.** In addition to the before mentioned assets being acquired by Liberty House, MT is also disposing of downstream rolling/finishing lines at Dudelange (Luxembourg) and several lines at Liege (Belgium). On our estimates, these facilities have capacity of: 1.6mt of galv/coated, 0.3mt of CRC and 0.2mt of tinplate. We understand that there has been healthy interest in these assets given their proximity and value-add capabilities for regional peers SZG and NLMK. The EC requires that MT be in a position to sell all assets by calendar year end, and we believe it is probable that details on these asset sales will emerge in coming weeks.

**Remedy Asset Disposals Clearing Way for Ilva Acquisition.** MT aims to complete acquisition of Ilva by the end of this month and take ownership by the 1st of November. The company in September finally secured union and in tandem government support for the acquisition on slightly revised deal terms including an increase in headcount from 10,000 to 10,700. While elevated headcount would ostensibly increase MT's cost base by ~€35m pa, the company has noted this cost pressure has been offset elsewhere, and final terms do not materially change prior guided economics for positive EBITDA contribution in year 1 and positive FCF contribution in year 3, based on 2016 market conditions.

**Deleveraging Accelerated by Disposals:** While MT has not confirmed disposal proceeds, we believe asset sales could accelerate deleveraging and the timeline for shareholder returns. We note that the blast furnaces being acquired by Liberty House have a book value of ~\$1.0b while the Benelux downstream lines could be worth ~\$1.5b (taking a 20% discount to replacement cost). That said, given poor recent earnings track record, all disposal assets would be worth ~\$750-950m on a peer-based EV/EBITDA basis. While there remains a wide range of expectations for disposal proceeds, this is sure to surpass the €180m pa MT is paying the Italian state to acquire Ilva.

*Link to deep dive report on Ilva acquisition & associated disposals: [One Big Step Forward, One Small Step Back](#)*

**BUY**

Bloomberg NXT AM: MT NA  
Price target €39.00  
Price €24.20^

**BUY**

Bloomberg NYSE: MT  
Price target \$46.00  
Price \$28.01^

^Prior trading day's closing price unless otherwise noted.

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## Company Description

### ArcelorMittal

ArcelorMittal is a global steel producer. During the year ended December 31, 2012, ArcelorMittal had steel shipments of approximately 84 million tons and crude steel production of approximately 88 million tons. ArcelorMittal produces a range of finished and semi-finished products. ArcelorMittal produces flat products, including sheet and plate, long products, including bars, rods and structural shapes, and stainless steel products. The company operates in five steel segments: Flat Carbon Americas; Flat Carbon Europe; Long Carbon Americas and Europe; Asia, Africa and Commonwealth of Independent States (CIS) (AACIS), and Distribution Solutions. ArcelorMittal is also the world's fourth largest producer of iron ore by volume. In 2011, the company employed around 261,000 people globally.

## Company Valuation/Risks

### ArcelorMittal

We value MT on an EV/EBITDA basis. Our PT of €39/\$46 implies 4.6x vs hist ave of 6.1x. Key risks: declining steel prices/demand.

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### (Article 3(1)e and Article 7 of MAR)

Recommendation Published	October 12, 2018 , 04:23 ET.
Recommendation Distributed	October 12, 2018 , 04:23 ET.

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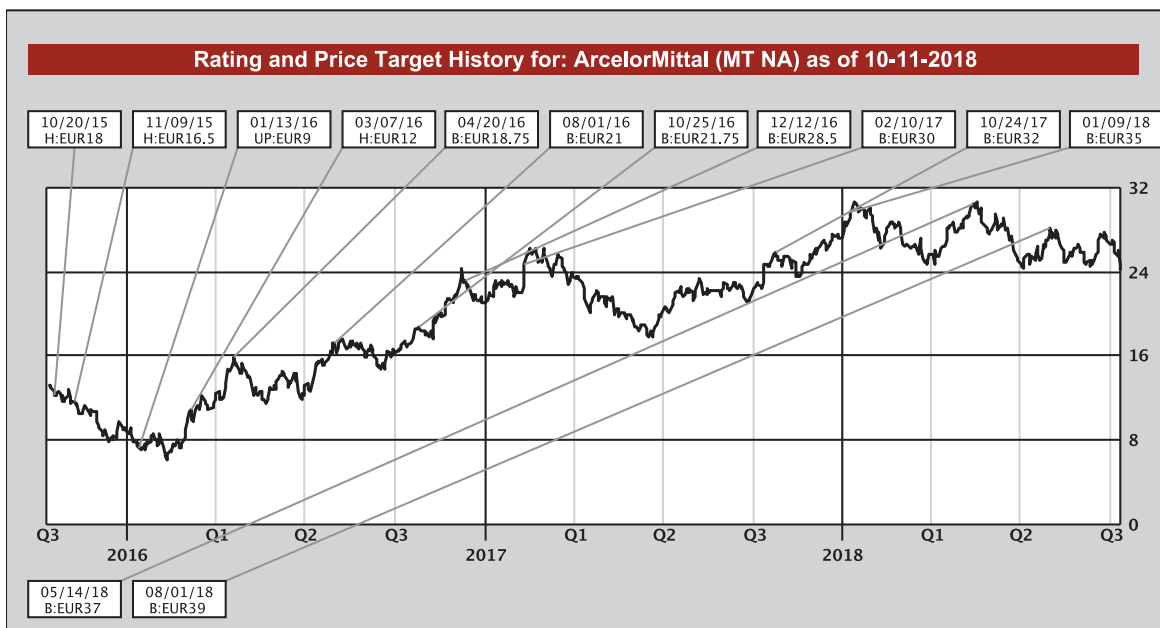
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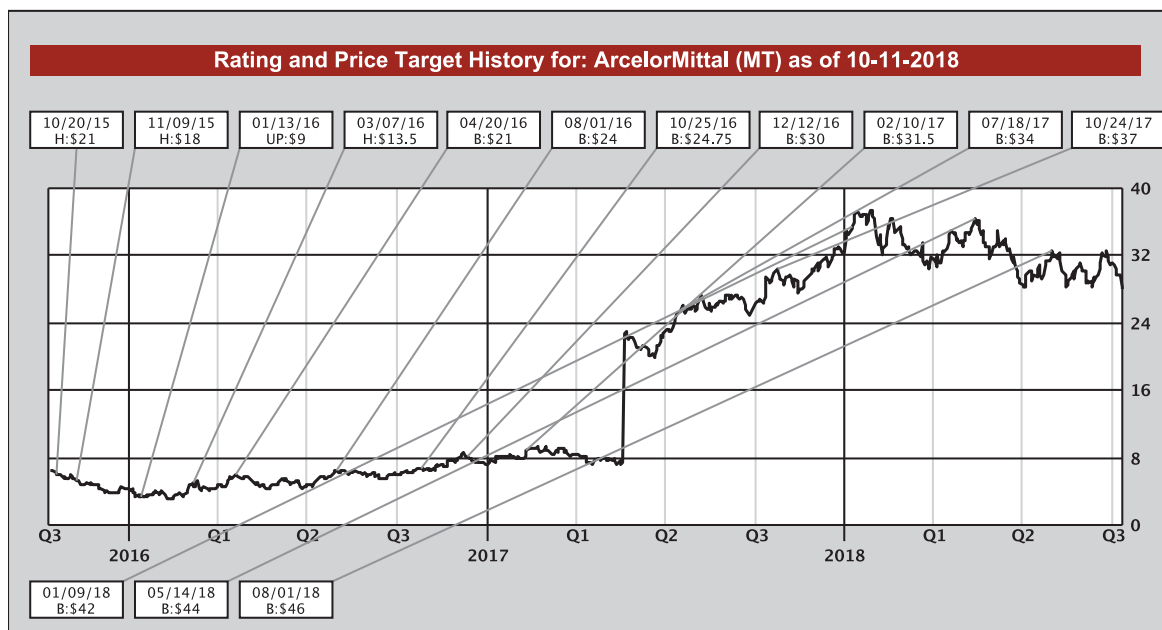
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- ArcelorMittal (MT: \$28.01, BUY)





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			Count	Percent	Count	Percent
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