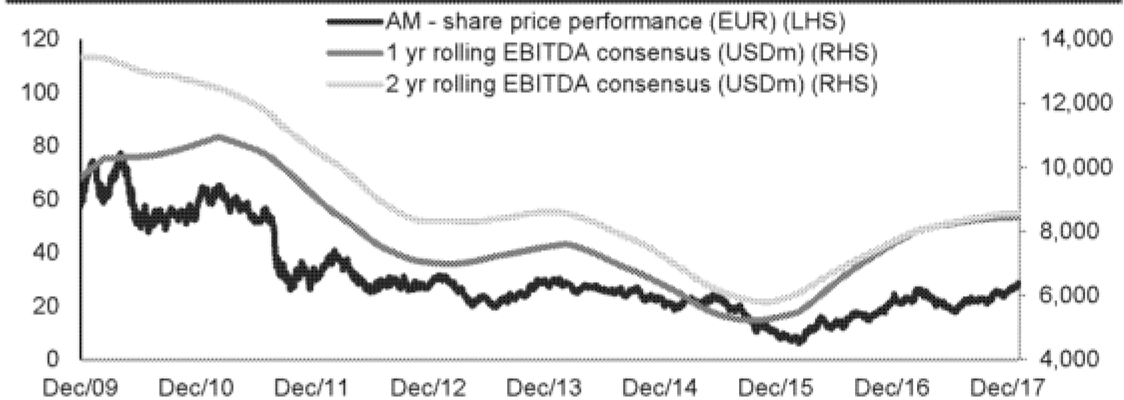
Deutsche Bank

14 ArcelorMittal – Bastian Synagowitz, BUY, close €28.7, €33 tgt, 15% upside

- Despite having performed well recently, we believe the **stock is still priced for a "cautious" $7bn EBITDA scenario**. This appears too bearish as spot conditions remain strong and **three structural changes have removed part of the downside risk**:
- Firstly, Europe is seeing the strongest **consolidation dynamic** since the creation of ArcelorMittal itself.
- Second, **trade policy** continues to become stricter in MT´s US and European core markets.
- Third, **China is aiming to cut capacity** 10-20%. Our checks (and rising margins in China) support the view this is for real.
- Although we model a steel price correction from spot (suggests $10bn EBITDA), we believe the stock comes with **three free options** beyond our base case scenario (stronger developed market margins, Brazilian recovery, commodity price holding up better) **which means it could almost double in a blue sky**.
- MT should end 2017 with net debt of c.$10bn, vs Q4 run rate EBITDA of $8bn. Its strong 2018 FCF yield of 8-11% suggest high potential for attractive cash returns mid-term: $2.9bn of FCF, and just $0.3bn of divis in our model.
- Valuation: MT trades at 5.0x 2018E EV/EBITDA, **14% discount to peers**
- Catalysts: trade policy, steel margins holding up better, further rebound in iron ore. Q4 results 9-Feb.

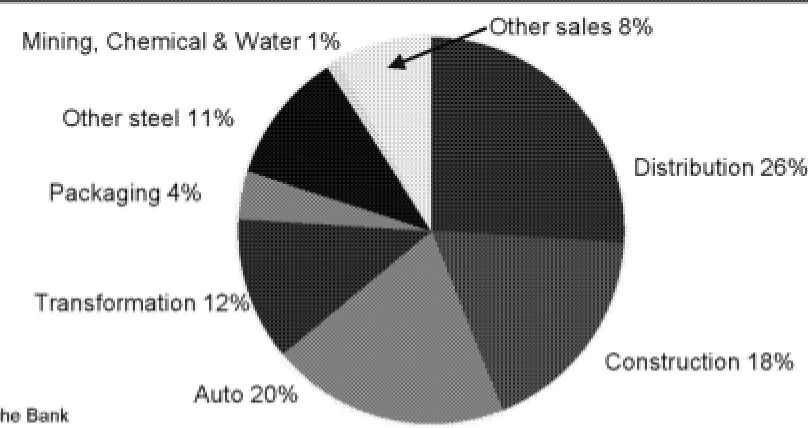
Related DB Research:
Notes from the road: US NDR (Synagowitz)
Another round of upgrades and still room to go – BUY, PT to USD38 (Synagowitz)

Expectations are sensible but the shares do not reflect the ongoing earnings recovery yet



Source: Datastream

Sales by end-market (2016)



Source: Deutsche Bank