



In its Q4CY11 commentary, ArcelorMittal alluded to a rebound in global lead indicators/sentiment, end of destocking, modestly rising steel prices and a better outlook for steel than in the previous quarter. Blended EBITDA/t for European business in Q4CY11 was negative USD9/t which is in-line with our assumption for Tata Steel Europe (TSE). The company is expecting a recession in Europe in H1CY12, but a recovery in the next half. CY12 global steel demand growth guidance has been maintained at ~5% given the soft landing in China (5% growth in CY12). Developing world, ex-China, would see acceleration in steel demand from 3.8% in CY11 to 5.7% in CY12.

European business: EBITDA/t turns negative as expected

European flats segment's adjusted EBITDA/t was negative USD22 while longs did better with a positive EBITDA/t of USD19, leading to blended EBITDA/t of negative USD9. For Tata Steel Europe (TSE), we had assumed EBITDA/t at negative USD10 for Q4CY11 hence the above was in line. Combined volume for ArcelorMittal's European business declined 2.6% QoQ while for TSE, we have taken a volume decline of 6% QoQ.

Expect global steel consumption to grow 4.5%-5% in CY12

Most regions are expected to slow down in CY12 as compared to the growth seen in CY11. Steel demand growth across regions for CY12 would be: NAFTA at 5.5% YoY (CY11 : 9.7% YoY), EU27 at ~0% YoY (CY11 : 6.1% YoY) and China at 5% YoY (CY11 : 7.7% YoY). ArcelorMittal expects a soft landing in China and that the country's exports might remain at low levels.

EBITDA in-line with consensus expectations

ArcelorMittal's revenues and EBITDA at USD24.2bn and USD1.7bn respectively were in line with expectations. Net profit at (a loss of) USD1bn was marred by non-cash charges of USD1.3bn, related to a reduction in deferred tax assets and restructuring charges. Steel shipments in 4QCY11 were 20.6Mt, down 2.5% QoQ, driven by destocking in Europe.

Outlook: Improvement seen ahead

ArcelorMittal has provided a more optimistic outlook than the guidance in November 2011. Global lead indicators have rebounded in Q1CY12 as encouraging signs emanate from the US market. Europe, likely to witness a recession in H1CY12, may recover in H2CY12. The company expects volume for H1CY12 to be flat YoY while EBITDA for H2CY12 is likely to be up over H2CY11 level of ~USD4 bn, but below H1CY11 levels of ~USD6bn.

Financials

Year to December	Q4CY11	Q4CY10	% change	Q3CY11	% change
Net revenue (USD mn)	22,449	20,699	8.5	24,214	(7.3)
EBITDA (USD mn)	1,714	1,853	(7.5)	2,408	(29)
Net profit (USD mn)	(1,000.0)	(233.0)	NA	659	NA
EPS (USD/share)	(0.65)	(0.51)	NA	0.43	NA

EDELWEISS RATINGS

Not rated

MARKET DATA (B: MT US)

CMP (USD)	: 22.1
52-week range (USD)	: 38.5/14.77
Share in issue (mn)	: 1,560
M cap (USD mn)	: 36,605

PRICE PERFORMANCE (%)

	Stock	S&P
1 month	3	2.1
3 months	6.8	3.3
12 months	(49.2)	(0.5)

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Detailed operational summary of European business

ArcelorMittal's Flat Carbon Europe (FCE) division reported ~6% QoQ decline in blended realisations at ~USD1,132/t for Q4CY11 while the adjusted EBITDA/t dropped sharply to negative USD22/t from a positive USD37/t in Q3CY11. FCE volume also dropped ~3% QoQ, led by weak seasonality and destocking.

The Long Carbon Europe (LCE) business fared better with a positive EBITDA/t of USD19 in Q4CY11, which, however, was down from USD28 in Q3CY11. Volume dropped by just 1.4% QoQ.

On a combined basis, volume for the European business was down 2.6% QoQ while EBITDA/t was negative USD9. In comparison, for Tata Steel Europe (TSE), we have assumed a negative USD10/t EBITDA/t in Q4CY11, down from USD32/t in Q3CY11. However, we have assumed a sharper volume drop of 6% QoQ for TSE.

Table 1: Summary of FCE operational results

(USD mn)	4Q11	4Q10	Y-o-Y (%)	3Q11	Q-o-Q (%)
Sales	7,003	6,817	2.7	7,696	(9.0)
EBITDA	26	543	(95.2)	367	(92.9)
Adjusted EBITDA	(137)	455	NA	238	NA
Steel Shipment ('000 t)	6,188	6,593	(6.1)	6,385	(3.1)
Revenue/t (USD) - Blended	1,132	1,034	9.5	1,205	(6.1)
Revenue/t (USD) - Reported	954	907	5.2	1,021	(6.6)
EBITDA (USD/t)	4	82	(94.9)	57	(92.7)
Adjusted EBITDA/t	(22)	69	NA	37	NA

Source: Company, Edelweiss research

Note: Adjusted EBITDA is reported EBITDA less hedging gains

Table 2: Summary of Long Carbon Europe operational results

	4Q11	4Q10	Y-o-Y (%)	3Q11	Q-o-Q (%)
Steel shipments - '000 t	2,993	3,018	(0.8)	3,037	(1.4)
EBITDA - USD mn	58	103	(43.7)	84	(31.0)
EBITDA/t - USD/t	19	34	(43.2)	28	(29.9)

Source: Company, Edelweiss research

Table 3: Summary of combined European business

	4Q11	4Q10	Y-o-Y (%)	3Q11	Q-o-Q (%)
Steel shipments - '000 t	9,181	9,611	(4.5)	9,422	(2.6)
EBITDA - USD mn	(79)	558	NA	322	NA
EBITDA/t - USD/t	(9)	58	NA	34	NA

Source: Company, Edelweiss research

Highlights of market outlook

Improvement in macro and select end-sectors

- Global leading indicators and sentiments have rebounded in the last two months. PMIs for 12 out of 16 major countries have seen a surge. Accordingly, steel and iron ore prices have also seen a marginal uptick.
- Expects its volume for H1CY12 to be flat YoY. EBITDA for H2CY12 to be up over H2CY11 levels (~USD4 bn), but below H1CY11 levels of ~USD6bn.
- US steel demand encouraging led by energy, equipment investment and automotive sectors. US construction is also expected to recover in H2CY12. US price increase in January 2012 reflects this sound fundamentals as well as the cost curve.
- In Europe, uncertainty over the euro debt crisis is dragging growth in North Europe while South Europe is in recession. The only bright spot is Germany.
- However, overall construction activity in the developed world remains at low levels. Accounting for ~33% of the developed world steel demand, a pick-up is required in this segment to sustainably improve the profitability.

Slower growth in China, but output to rebound from current levels

- Expect a soft landing in China but a recovery could be delayed to Q2CY12 due the slower loosening of the Chinese monetary policy.
- Construction slowed down rapidly in Q4CY11 in China. However, expect some improvement in steel demand and output in Q1CY12 with an acceleration in Q2CY12.
- Chinese steel consumption to grow 5% in CY12, following a 7.7% growth in CY11
- Do not see growth in Chinese exports. Production is disciplined and the government is also not providing any export incentives as in the past.

Expect global steel consumption to grow 4.5%-5% in CY12 after growing at 6.3% in CY11

- Expect most regions to slow down in CY12 as compared to the growth seen in CY11. Growth rates for CY12 across regions to be : NAFTA at 5.5% YoY (CY11 : 9.7% YoY); EU27 at ~0% YoY (CY11 : 6.1% YoY) and China at 5% YoY (CY11 : 7.7% YoY)
- The above assumes a recession in Europe in H1CY12 followed by a recovery in H2CY12.
- Apparent demand receded strongly in Q4CY11 with the global consumption declining by ~5% QoQ. China showed the largest fall - ~10% QoQ while Europe and US declined by ~3% and 4% QoQ respectively, in line with seasonal trends.
- The company also believes that destocking has ended in all major markets. The most amount of destocking in Q4CY11 was seen in Europe and Brazil.

Financial snapshot (consolidated)

	(USD mn)				
	Q4CY11	Q4CY10	% change	Q3CY11	% change
Sales	22,449	20,699	8.5	24,214	(7.3)
Less: Operating expense	20,735	18,846	10.0	21,806	(4.9)
EBITDA	1,714	1,853	(7.5)	2,408	(28.8)
Less: Depreciation & Impairment	1,448	1,456	(0.5)	1,240	16.8
EBIT	266	397	(33.0)	1,168	(77.2)
Less: Interest	429	413	3.9	477	(10.1)
Other Income	-	-	NA	-	NA
PBT	(163)	(16)	NA	691	NA
Tax	833	(450)	NA	154	440.9
Adjusted net profit	(996)	434	NA	537	NA
Extra-ordinary items	(206)	(787)	NA	85	NA
Reported net profit	(1,202)	(353)	NA	622	NA
Share of profit of associates	177	74	139.2	6	NA
Minority interest	25	46	(45.7)	31	(19.4)
Profit after minority interest and taxes	(1,000)	(233)	NA	659	NA
Weighted average common shares outstanding (mn)	1,549	1,515	2.2	1,549	0.0
Basic earnings per share	(0.65)	(0.51)	NA	0.4	NA
Total shipments ('000 kt)	20,600	21,100	(2.4)	21,100	(2.4)
Revenue/tonne (US\$/t)	1,090	981	11.1	1,148	(5.0)
EBITDA/tonne (US\$/t)	83	88	(5)	114	(27)

Company Description

ArcelorMittal is the world's leading integrated steel and mining company, with a presence in more than 60 countries.

ArcelorMittal is the leader in all major global carbon steel markets, including automotive, construction, household appliances and packaging, with leading R&D and technology. The Group also has a world class mining business with a global portfolio of over 20 mines in operation and development, and is the world's 4th largest iron ore producer. With operations in over 22 countries spanning four continents, the Company covers all of the key industrial markets, from emerging to mature, and has outstanding distribution networks.

In 2011, ArcelorMittal had revenues of USD 94.0 billion and crude steel production of 91.9 mt, representing ~6% of world steel output. The Group's mining operations produced 54 mt of iron ore and 8.3 mt of metallurgical coal.

ArcelorMittal is listed on the stock exchanges of New York (MT), Amsterdam (MT), Paris (MT), Brussels (MT), Luxembourg (MT) and on the Spanish stock exchanges of Barcelona, Bilbao, Madrid and Valencia (MTS).

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