MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades ArcelorMittal's ratings to Baa3; stable outlook

09 Aug 2021

Frankfurt am Main, August 09, 2021 -- Moody's Investors Service ("Moody's") has today assigned a Baa3 long term issuer rating to Luxembourg-based steel and mining company ArcelorMittal (or "group") and concurrently withdrawn the Ba1 corporate family rating (CFR) and Ba1-PD probability of default rating (PDR), as per the rating agency's practice for corporates transitioning to investment grade.

Moody's has further upgraded the senior unsecured rating on the group's medium-term notes (MTN) programme to (P)Baa3 from (P)Ba1, the senior unsecured ratings to Baa3 from Ba1, the short-term rating on its Commercial Paper to P-3 from NP, and its other short-term rating to (P)P-3 from (P)NP. The outlook on all ratings has been changed to stable from positive.

"The upgrade to Baa3 with a stable outlook reflects ArcelorMittal's significantly strengthened operating performance and recovery in credit metrics over the recent quarters and in particular in the second quarter 2021, with the expectation of further strong improvements through the remainder of the year," says Goetz Grossmann, a Moody's Vice President and lead analyst for ArcelorMittal. "The rating action reflects the expectation that improved metrics should remain in line with the requirements for an investment grade rating even in a scenario of another cyclical contraction. While current strong credit metrics reflect hefty operating performance improvements due to a recovery of steel demand and prices thanks to a cyclical recovery but also an improved structural supply and demand balance in Europe, the upgrade primarily takes into account (1) ongoing efficiency improvements which should support the generation of more elevated EBIT margins through the cycle reflecting the benefits of ArcelorMittal's scale as one of the leading global steel producers, and (2) a more conservative financial policy and explicit commitment to an investment grade rating, as shown by recent voluntary debt repayments, and its consistent strong liquidity."

RATINGS RATIONALE

The upgrade to Baa3 follows ArcelorMittal's markedly improved results for the second quarter of 2021 (Q2 2021), with reported EBITDA surging to $5 billion from $3.2 billion in Q1 2021 and $700 million in Q2 2020, supported by a strong rebound in demand and rising steel prices and spreads across all regions. In addition, strong free cash flow (FCF) generation in the first half of 2021 (H1 2021), well above $0.5 billion net negative cash effects from share buybacks and asset disposal proceeds, helped reduce the group's net debt to $5 billion as of 30 June 2021 from $6.4 billion at year-end 2020. ArcelorMittal's leverage as adjusted by Moody's thereby declined significantly to around 1.8x net debt/EBITDA for the 12 months through June 2021 from 6.4x at the end of 2020. Comparing already strongly with the adjusted net leverage guidance of below 2.5x for a Baa3 rating, Moody's expects the measure to further reduce in H2 2021 as the group's earnings and cash flows will continue strengthening.

Likewise, the rating agency acknowledges ArcelorMittal's recent strong de-leveraging on a gross debt basis. Supported by almost $3.5 billion of debt repayments in H1 2021, its gross debt/EBITDA (Moody's-adjusted) ratio declined to 2.1x at the end of June from over 8x at December-end 2020. These debt repayments, including the repurchase of around $1.5 billion (equivalent) of bonds following a cash tender offer and around €600 million of Schuldschein prepayments during H1 2021, which were not anticipated, also illustrate ArcelorMittal's more explicit and conservative financial policy and its commitment to an investment grade rating, in Moody's view. Although share buybacks from internally generated funds and proceeds from asset disposals will sum up to $4.5 billion in total this year, projected strong FCF and share repurchases capped at 50% of surplus FCF (after dividends) should support additional net debt reductions in the coming quarters. Moody's regards ArcelorMittal's strengthened balance sheet and very good liquidity as commensurate with an investment grade rating. With its commitment to maintain an investment grade rating, Moody's would expect the group to ensure compliance with the required metrics for a Baa3 rating through the cycle and to thoughtfully manage its balance sheet accordingly, also with a view to possible larger acquisitions.

For 2022, the rating agency forecasts ArcelorMittal's adjusted net leverage to increase towards 1.8x from close to 1x expected at the end of 2021. Such increase will be driven by lower adjusted EBITDA of around $8.5 billion after about $17 billion projected for 2021 ($10.5 billion as of LTM June 2021), primarily due to a gradual normalization of steel prices and spreads. At the same time, Moody's leverage forecast is based on expected consistent positive FCF and a continuation of the group's current shareholder return policy with share repurchases linked to FCF and measured dividend payments.

The ratio of cash flows from operations (CFO) less dividends to adjusted debt should remain well above the 20% minimum guidance for a Baa3 rating in 2022 and beyond, assuming working capital reductions on lowering steel prices in 2022, slightly increasing dividends and no additional, albeit possible, debt prepayments.

Moody's expects steel prices to notably retreat from their current record levels over the next two years, but to remain above their historical averages in the medium term, underpinned by more solid demand and supply fundamentals and rising carbon costs on tightening emission reduction policies in some regions, especially in Europe. Demand improvements should be driven by a continued recovery in steel-using end markets, such as (renewable energy) infrastructure and automotive, as Moody's forecasts global light vehicle sales to reach pre-pandemic levels only by the middle of the decade. In addition, an expected re-stocking of still-low inventory levels globally should further fuel steel demand over the next few quarters.

The market environment benefits from structural improvements, as the recent prolongation and tightening of trade defense measures in Europe and the removal of value-added tax rebates on Chinese steel exports, should be supportive of more balanced international trade flows and limit the risk of excessively rising imports pressuring steel prices, as, for instance, seen in Europe in 2018. Based on the assumptions that structural improvements persist but also reflecting ongoing efficiency improvements, Moody's expects ArcelorMittal to be able to maintain profitability at adequate levels for a Baa3 rating, with Moody's-adjusted EBIT margins above 6% over the next two to three years.

LIQUIDITY

With $4.2 billion of cash and cash equivalents and its $5.5 billion undrawn committed revolving credit facility (maturing mainly in 2025), ArcelorMittal has a very strong liquidity profile. This assessment is further predicated on Moody's expectation of the group to generate funds from operations (FFO) of almost $12 billion over the next 12 months, well above expected short-term cash needs. Moody's projects ArcelorMittal's liquidity uses over the next 12 months to sum to around $10 billion. These include capital spending of over $4 billion (Moody's-adjusted), working capital consumption of around $2 billion, $2.6 billion short-term debt maturities as of 30 June 2021, and dividends share buybacks in line with the group's current shareholder returns policy.

ESG CONSIDERATIONS

As to governance, the rating action positively incorporates ArcelorMittal's conservative financial policy, as recently demonstrated by €3.5 billion (mostly voluntary) debt repayments in H1 2021.

In terms of environmental considerations, Moody's expects ArcelorMittal to manage the carbon transition of its industry with various projects already initiated to support its targeted reduction in global carbon emissions (scope 1 and 2) by 25% by 2030 (relative to 2018). Although reaching this goal will require significant investments ($10 billion by 2030 allocated by management), Moody's acknowledges the group's strong cash generation capability, providing it the financial means for such investments, and its well-defined plans to progressively reduce its carbon footprint towards neutrality by 2050. That said, this expectation also incorporates that public funding will become available to support the availability of sufficient clean energy at affordable prices to help steelmakers manage the transition.

OUTLOOK

The stable outlook balances ArcelorMittal's currently strong financial ratios for the assigned Baa3 rating, with the expectation of a moderation in metrics on normalizing steel prices over the next two years, but at levels in line with Moody's requirements for a Baa3 rating.

It also reflects Moody's expectation of ArcelorMittal to adhere to a balanced financial policy, with no excessive increases in dividend payments or debt-funded acquisitions. Expected persistent positive FCF and maintenance of a strong liquidity profile during different economic cycles are further incorporated in the stable outlook.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the ratings would build, if (1) ArcelorMittal could sustain EBIT margins of at least 8%, (2) its leverage reduced towards 1.5x Moody's-adjusted net debt/EBITDA for a prolonged period of time, (3) Moody's-adjusted (CFO - dividends) / debt ratios remained at 30% or higher, (4) very strong liquidity could be maintained at all times. Any upgrade would be conditional on an expectation of greater resilience to cyclical downturns supported by a financial policy sufficiently conservative to maintain debt metrics through such periods.

Moody's could downgrade ArcelorMittal's ratings, if (1) the group's EBIT margin (Moody's-adjusted) weakened to sustainably below 6%, (2) its leverage exceeded 2.5x net debt / EBITDA (Moody's-adjusted) on a sustainable basis, (3) its Moody's-adjusted (CFO - dividends) / debt ratio fell below 20%, (4) liquidity were to contract.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Steel Industry published in September 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1074524 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

ArcelorMittal is one of the world's largest steel companies, with an annual production of over 70 million tons (mt) of crude steel, steel shipments of 69 mt, $53 billion revenue and company-adjusted EBITDA of $4.3 billion (8.1% margin) in 2020. The group operates in more than 60 countries worldwide, with steelmaking operations in 17 countries on four continents. The group also operates iron ore and coking coal mines in several geographies for its own consumption and external sales.

ArcelorMittal's largest market is Europe, which accounted for 48% of its sales in 2020 (18% of EBITDA). NAFTA accounted for 23% of sales (10%), Brazil for 11% (21%), Africa and Commonwealth of Independent States (ACIS, Eastern Europe and South Africa) for 10% (10%) and mining for 8% (41%).

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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