

Industrials

Sector Review - January



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Industrials Universe:

- Semapa
- Volkswagen
- ArcelorMittal
- Novartis
- Procter & Gamble

This month's detailed company review:

- ArcelorMittal

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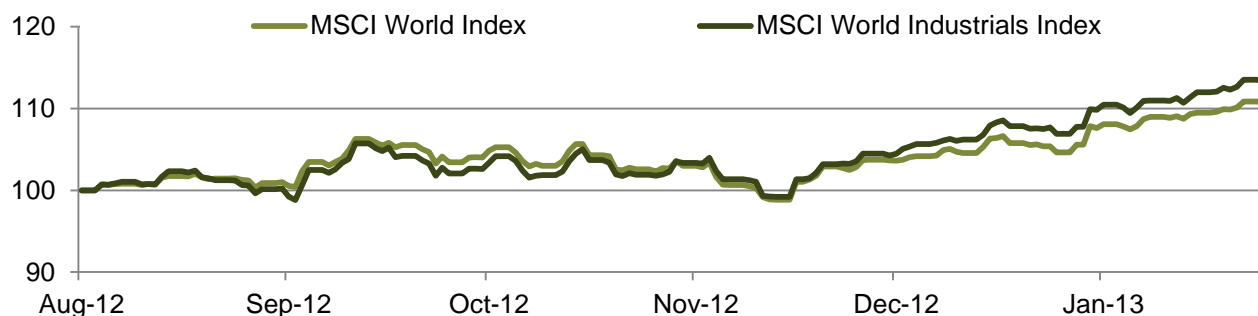
1. Sector Overview

- January was a month where the industrials index, represented by the MSCI World Industrials Index was able to achieve the exact same performance as the MSCI World Index. With a growth of 5.3% for this months, both indexes seem to point towards a shinier 2013.
- This positive trend has started around mid November, as many problems involving the European and American economies have started to seem solved, and we can expect economies to start growing again.
- In the automotive sector companies continue to struggle all around the world. With the economic downturn, both companies and privates start cutting their expenditures on new automobiles. Companies are finding hard to justify customers to change vehicles as they still cannot offer good value for money products in the electric segment. The Volkswagen Group is the exception in this sector, as their recognized quality combined with the financing opportunities seems to be attracting many clients.
- All in all, It has been a good start for the year of 2013. However many questions are still to be answered. Will the economic recovery have visible results this year, and demand more production from industrial companies? Is this a good time for M&A, as many companies are still undervalued?

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Industrial Sector vs. Overall market



- The industrials index is very dependent on the macroeconomic situation and specially on the emerging markets demand for construction materials, automobiles and basic goods. Can these markets' needs overcome the shrinking Europe and push the positive trend to make it last? We sure hope so.

3. Followed Companies

Novartis (Ticker: NVS)

- Daniel Vasella stepped out as Novartis Chairman and Jörg Reinhardt re-enters the company, which he left to join Bayer. Novartis is facing a challenging year now, with many patents coming to their end, and some drug's revenues starting to decline.



| | | |
|---------------------|------|-------|
| Price (USD): | ↑ | 68.21 |
| Target Price (USD): | | 75.00 |
| Up/downside: | | 10.0% |
| Performance 3M: | | 12.1% |
| P/E Ratio: | #N/A | File |
| ROC/WACC: | | 1.2x |

Procter & Gamble (Ticker: PG)

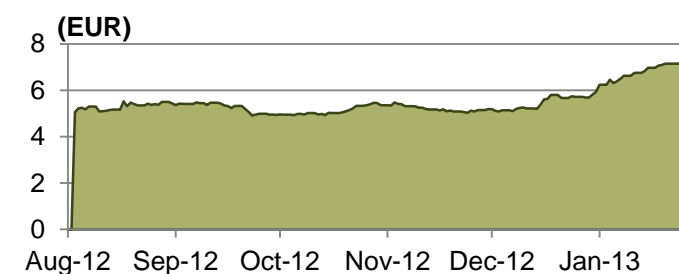
- Struggling to find new products ideas, Procter & Gamble has announced a partnership with General Mills in the search for Silicon Valley start-ups that may be good potential targets to be acquired.



| | | |
|---------------------|---|-------|
| Price (USD): | ↑ | 75.08 |
| Target Price (USD): | | 80.00 |
| Up/downside: | | 6.6% |
| Performance 3M: | | 8.1% |
| P/E Ratio: | | 19.1x |
| ROC/WACC: | | 1.5x |

Semapa (Ticker: SEM)

- During the last month, Semapa's shares have been posting positive returns day after day. This comes in line with the entire Portuguese markets, as it is becoming to be seen as a more stable country, as proved by its return to the capital markets. Semapa's results will be announced in the beginning of February.



| | | |
|---------------------|---|-------|
| Price (EUR): | ↓ | 7.25 |
| Target Price (EUR): | | 6.87 |
| Up/downside: | | -5.2% |
| Performance 3M: | | 34.3% |
| P/E Ratio: | | 7.4x |
| ROC/WACC: | | -0.3x |

Volkswagen (Ticker: VOW3)

- In an attempt to increase the number of Volkswagen cars, namely the Golf model, in the US, Volkswagen Ag has announced that it will start to produce its best selling vehicle in Mexico. VW plans to invest over USD 5 Bn in North-America over the next three years.



| | | |
|---------------------|---|--------|
| Price (EUR): | ↑ | 183.60 |
| Target Price (EUR): | | 201.50 |
| Up/downside: | | 9.7% |
| Performance 3M: | | 14.7% |
| P/E Ratio: | | 3.8x |
| ROC/WACC: | | 0.7x |

3. Stock Analysis: ArcelorMittal

Corporate News

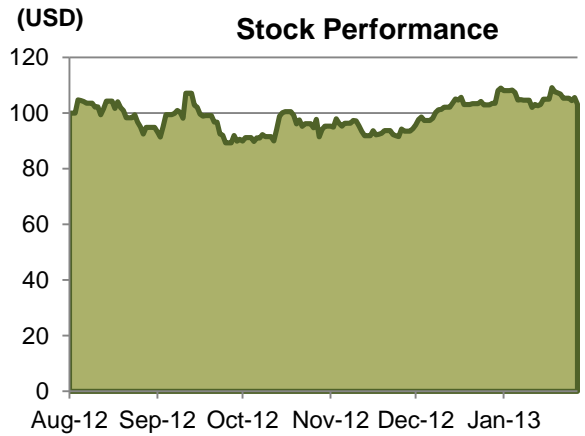
- Currently, analysts estimate a 12-months target price of EUR 14.18 for ArcelorMittal implying a premium of 8.6% over the current stock price.
- Now that ArcelorMittal seems to finally have solved its problems with the French government, it has announced the closing of a factory in Liège, Belgium.

Market Performance

- In Europe, demand for steel as decreased around 8% and 9% in 2012. Since 2007 this demand has fallen 29%. The closing of the Belgian factory is a consequence of this, and is putting around 1,300 jobs at risk.
- In the US, ArcelorMittal is running for the acquisition of a ThyssenKrupp plant, together with Nippon Steel, in a deal that could reach \$1,5Bn.

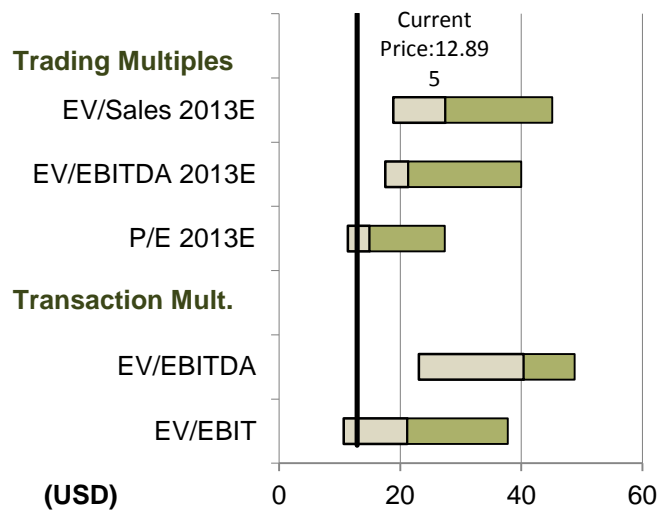
Valuation Summary

- ArcelorMittal seems to be trading under its peers' values. However, given the company is the biggest in its sector, we believe it is finding troubles when fighting the shrinking economies, its size gives it less flexibility.
- ArcelorMittal is planning to raise \$3.5Bn in Equity and convertible debt. This operation aims at reducing the debt pile the giant has accumulated over the years. Lakshmi Mittal, the company's Chairmain and CEO claims that it is a priority for the company to reduce debt.



| ArcelorMittal (EUR) | |
|----------------------------|--------|
| Current Price (30/01/2013) | 12.895 |
| 52-week high % change | -25.6% |
| Median Target Price | 14.18 |
| Market Capitalisation (mn) | 20,393 |
| Return on Common Equity | -6.9% |
| Dividend Yield | 4.8% |
| Beta (vs. S &P 500) | 1.7x |
| Total Debt/Equity | 47.7% |

Valuation Summary (Price per Share)



Comparable Analysis

| Company Name | Currency | MCap (mn) | e Value (mn) | EV/Sales | | | EV/EBITDA | | | P/E | | |
|----------------------------|----------|--------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | | | | LTM | 2013E | 2014E | LTM | 2013E | 2014E | LTM | 2013E | 2014E |
| ArcelorMittal | EUR | 20,393 | 52,493 | 0.6x | 0.6x | 0.6x | 7.2x | 6.6x | 5.5x | 104.2x | 20.4x | 11.0x |
| United States Steel Corp | USD | 3,242 | 6,612 | 0.4x | 0.4x | 0.3x | 6.3x | 5.8x | 4.7x | 17.7x | 21.9x | 11.0x |
| POSCO | KRW | 31,169,294 | 39,576,349 | 1.0x | 1.2x | 1.1x | 6.5x | 7.8x | 7.2x | N/A | N/A | 10.5x |
| Nippon Steel & Sumitomo Me | JPY | 2,575,371 | 4,378,427 | 0.7x | 0.9x | 0.8x | 15.6x | 12.2x | 7.3x | N/A | N/A | 16.5x |
| Tata Steel Ltd | INR | 376,297 | 832,596 | 0.7x | 0.6x | 0.6x | 6.7x | 6.3x | 5.1x | 7.2x | 15.4x | 8.5x |
| China Steel Corp | TWD | 421,520 | 526,769 | 2.3x | 2.5x | 2.5x | 31.4x | 25.2x | 18.8x | N/A | N/A | 35.2x |
| 75th Percentile | | | | 0.9x | 1.1x | 1.1x | 13.5x | 11.1x | 7.3x | 61.0x | 21.9x | 15.1x |
| Median | | | | 0.7x | 0.8x | 0.7x | 7.0x | 7.2x | 6.4x | 17.7x | 20.4x | 11.0x |
| 25th Percentile | | | | 0.6x | 0.6x | 0.6x | 6.5x | 6.4x | 5.2x | 12.5x | 15.4x | 10.9x |

- As we can see here, compared to its peers, ArcelorMittal is definitely undervalued. This might be, however, due to its sheer size, which implies less growth opportunities. This relative undervaluation puts ArcelorMittal in a bad position for M&A. Despite this, we believe that with its deleveraging, as planned, and given its size, ArcelorMittal might still take part in some M&A this year.

Precedent Transactions

| Announced Date | Target | | Buyer | | EV (EUR mn) | EV/EBITDA | EV/EBIT |
|-------------------|------------------------------------|---------|------------------------------------|---------|----------------|--------------|--------------|
| | Company | Country | Company | Country | | | |
| 22-Sep-11 | Sumitomo Metal Industries Ltd | JP | Nippon Steel & Sumitomo Metal Corp | JP | 16,681 | 9.8x | 31.9x |
| 17-Aug-10 | Potash Corp of Saskatchewan Inc | Can | BHP Billiton Ltd | Aus | 33,376 | 20.6x | 25.3x |
| 16-Jun-11 | Rohm & Haas Co | US | Dow Chemical Co/The | US | 11,956 | 12.5x | 18.3x |
| 15-Jul-11 | Petrohawk Energy Corp | US | BHP Billiton Ltd | Aus | 10,522 | 13.9x | 42.0x |
| 05-Dec-12 | Plains Exploration & Production Co | US | Freeport-McMoRan Copper & Gold Inc | US | 7,774 | 6.9x | 18.0x |
| 06-Aug-08 | Lonmin Plc | UK | Xs trata Plc | SZ | 7,159 | 12.6x | 13.9x |
| 05-Aug-08 | MMC Norilsk Nickel OJSC | RU | Interros Holding Co | RU | 6,840 | 7.6x | 8.6x |
| 14-Mar-11 | Lubrizol Corp | US | Berkshire Hathaway Inc | US | 6,589 | 7.3x | 8.5x |
| 75th Percentile | | | | | | 12.9x | 27.0x |
| Median | | | | | | 11.1x | 18.2x |
| 25th Percentile | | | | | | 7.5x | 12.6x |

- There has not been much M&A activity in the sector in the past few years, which is to be expected, given the size of the deals, and the lack of funding.
- However we can expect this situation to change, as funding starts to be available, and companies are starting to look for different ways to fight the shrinking economies. One possibility is merging with other companies, becoming more global and less exposed to specific markets.