

March 5, 2022 | 13:51 PM EST

Vale S.A. | Natural Resources

Buying Vale ahead of 2022 catalysts could prove to be a 'steel'

Stock Rating
Overweight

Industry View
In-Line

Price Target
\$22.00

Vale S.A., a Brazilian multinational corporation, is the world's largest producer of iron ore and nickel. Vale also has exposure to copper, manganese & ferroalloys, and the operation of a logistics network consisting of railroads, ships and ports.

- Investment thesis.** We assign Vale a buy rating based on a bright future outlook paired with a discount to peers despite superior FCF yield. We believe in a sustained global recovery in 2022 contributing to iron ore prices remaining higher-for-longer and providing support for Vale's sales. We also see a near-term catalyst at the end of the Beijing Olympic Games and China's restrictions on steel output allowing iron ore demand to rebound strongly after Q1 2022.
- Valuation.** Our \$22.00 price target is based on a 7.0x P/E forward multiple. We use Vale's historical P/E range and the relative valuation from a peer group to justify this multiple. We base our \$3.20 2022 EPS metric on current consensus estimates provided by Bloomberg. This valuation is also supported by an intrinsic valuation approach assuming a 9% discount rate, a 4.0x EV/EBITDA multiple, and sales stabilizing in the mid \$30 billions.
- Risks & Catalysts.** Catalysts: (1) End of Beijing Olympics. With the end of the Beijing Winter Olympics and the Paralympic games in March 2022, we expect China to repeal its restrictions on steel output. This would allow iron ore demand to rebound in 2022 and provide support for Vale's sales in a more favourable commodity price environment; (2) Sustained macroeconomic recovery. Emerging markets growth and large infrastructure plans in developed economies like the U.S. 'build back better' plans will continue to stimulate global demand for iron ore. Risks: (1) China's 'Lehman Brothers' moment. The Chinese consumer market represents an important part of global iron ore demand. As the events surrounding Evergrande's bankruptcy in 2021 have shown, commodity markets are tied in part to the stability of China's economy; (2) Poor ESG track record. Vale's track record for overall environmental and social impact is poor. Investors should take note of events like the dam disasters in Brazil and past employee strikes. However, it should be noted that Vale does have some positive ESG factors since the metals it produces are essential for constructing sustainable energy projects.

David MacNeill
CHIEF INVESTMENT OFFICER
dmacn088@uottawa.ca

Adam Levesque
PORTFOLIO MANAGER
aleve083@uottawa.ca

Arman Bazarjani
EQUITY ANALYST
abaza094@uottawa.ca

Vale S.A. (NYSE:VALE)

Stock Rating	Overweight
Industry View	In-Line
Price Target	\$ 22.00
Last close price	\$ 20.15
Curr. Mkt Cap (mm)	\$ 100,730
52-Week Range	\$11.16-23.18

The information in this document is for educational and non-commercial use only and is not intended to constitute specific legal, accounting, financial or tax advice for any individual. In no event will TFSIG, Telfer School of Management, University of Ottawa, its members, executives, or directors be liable to you or anyone else for any loss or damages whatsoever (including direct, indirect, special, incidental, consequential, exemplary or punitive damages) resulting from the use of this document, or reliance on the information or content found within this document. The information may not be reproduced or republished in any part without the prior written consent of TFSIG. TFSIG is not in the business of advising or holding themselves out as being in the business of advising. Many factors may affect the applicability of any statement or comment that appear in our documents to an individual's particular circumstances.