

Cleveland Cliffs (NYSE: CLF)

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BUY:
CLF

Current Price:
\$17.28

Target Price:
\$20.74

Upside:
20%

Agenda



Company Overview

Industry Overview

Investment Thesis

Valuation

Bear, Base, Bull

Company Overview

Introduction

- 1 Cleveland Cliffs is North America's largest flat-rolled steel producer and supplier of iron ore pellets
- 2 Vertically integrated from mined raw materials, direct reduced primary steelmaking, and downstream finishing
- 3 Revenue composed of Hot-rolled, Cold-rolled, Coated, Stainless/Electrical, Plate, Slab and other steel products, and Non-steel making

Competitive Strengths



Leading supplier of **automotive-grade steel** in the U.S.

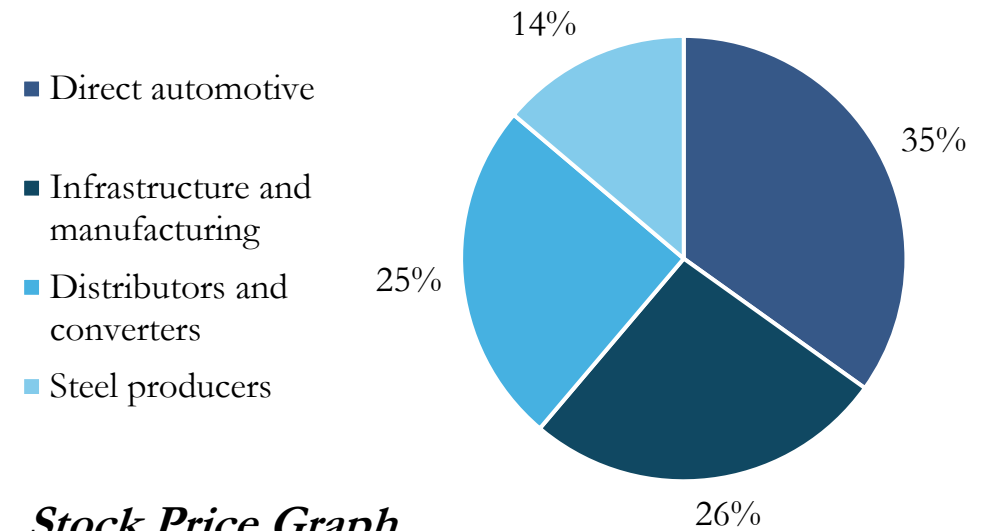


Fixed price contracts mitigate price volatility and support margins



Leading producer of **electrical steels** (GOES and NOES)

Revenue Breakdown by Industry

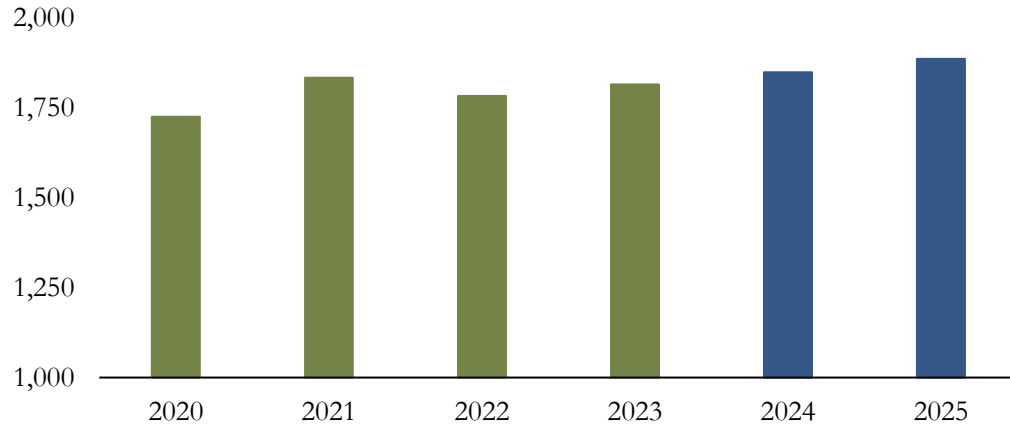


Stock Price Graph



Industry Overview

Global Steel Demand (Mn Tons)



Mature, slow growing industry; **1.8% CAGR**

Nippon – U.S. Steel Merger

NIPPON STEEL



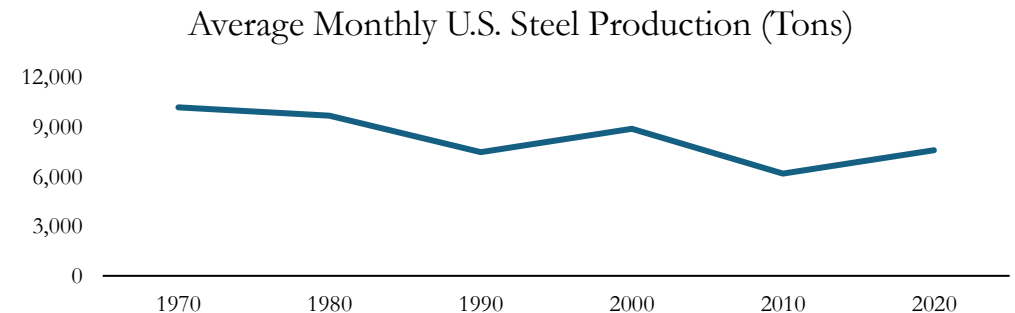
\$15 Bn proposed merger between U.S. Steel and Japanese Nippon Steel, CLF also was apart of the bidding process

Sparked bipartisan outrage and an increased interest in preserving American heavy industry, active investigation by CFIUS

Main Steel Producers



Domestic Steel Potential Revival



U.S. steel production is only at **~77% capacity**, proposed tariff increases can increase domestic competitiveness and reach capacity

Protectionist Trend in Steel

Heightened protectionist sentiment as a result of the Nippon – U.S. Steel merger proposal provides the perfect environment for domestic steel companies to grow while steel imports inevitably shrink

Steel End-Market Growth

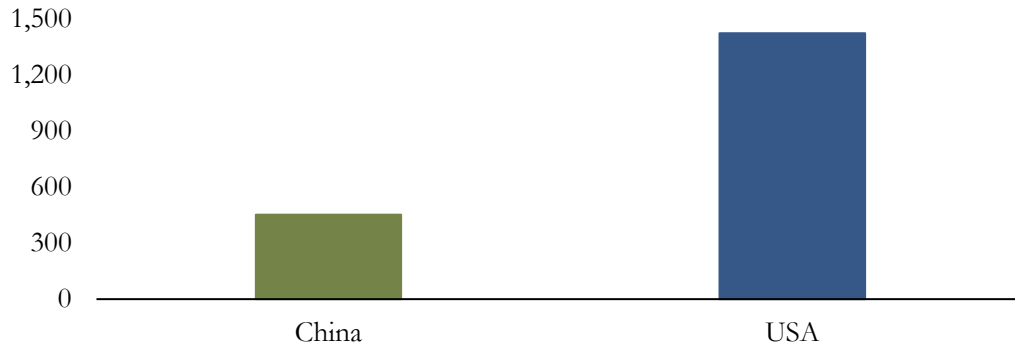
Revival of the automobile market, the massive housing shortage, and hundreds of billions in government infrastructure spending will increase demand for domestic steel in the coming years

Cost Cutting Efforts & Fixed Contracts

Cliffs' unique contract structure isolates it from volatile steel pricing shifts and their cost cutting efforts will enable them to see massive bottom-line growth, even while top-line growth is moderate

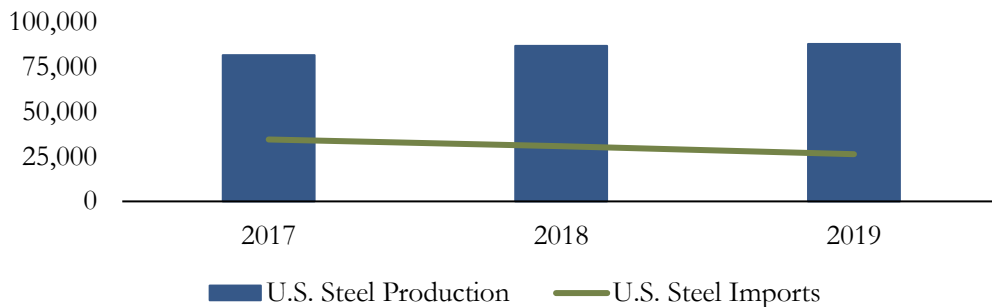
Protectionist Trend in Steel

Chinese vs U.S. Steel Prices Per Ton (USD)



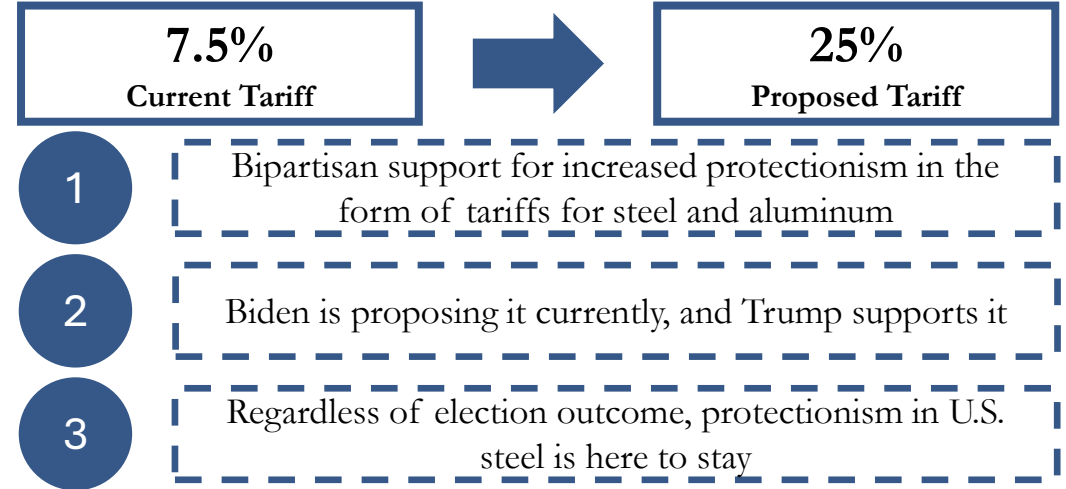
Unfair price undercutting by the Chinese has led to U.S. steel production falling **40% since the 1970s**

Positive Precedent From Last Tariff Increase



Post-Trump steel tariffs in 2018, U.S. **steel imports fell 14.6%** and U.S. **steel production grew 2%**

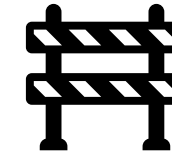
New Steel Tariff Proposal



Focus on U.S. Made Steel



Narrowing price gap incentivizes autos to use more U.S. made, higher quality steel



Housing shortage continues to buoy demand for steel in construction



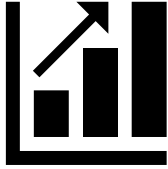
Major infrastructure bills mandate 100% U.S. manufactured steel be used

Steel End-Market Growth



Automotive Strengths

Higher Shipments



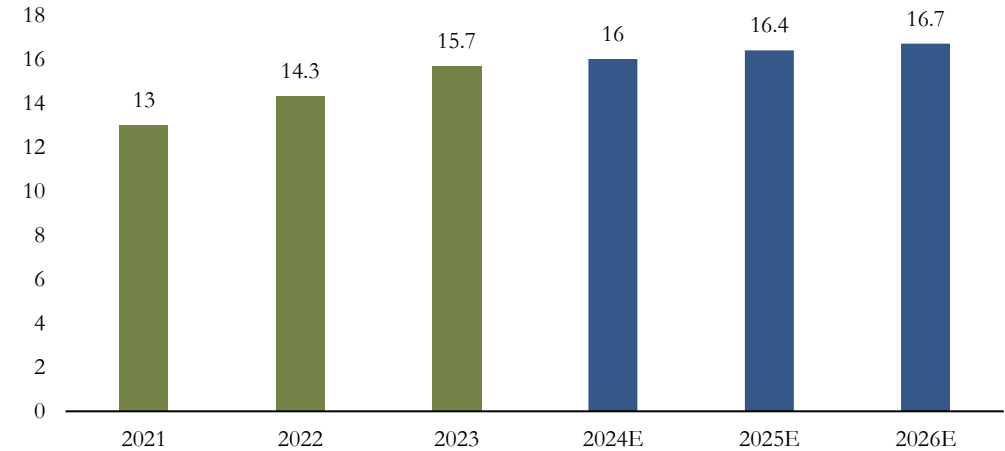
- Q1 2024 shipments > Q4 2023
- Successful diversification of customer base
- Offset weaker service center demand

Strong Demand

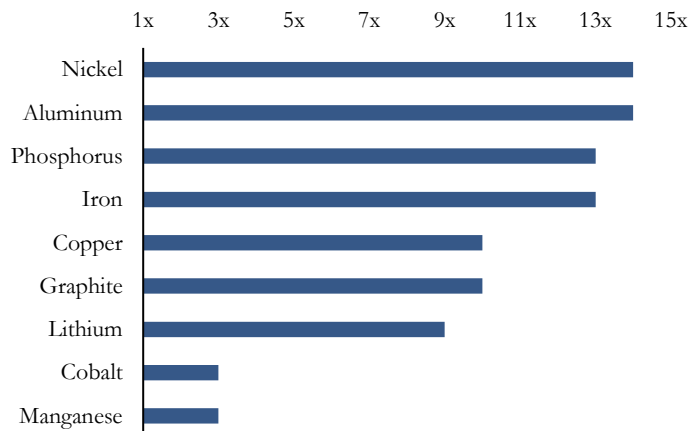


- 2024 light vehicle production projected at highest level since 2019
- US light vehicles sales expected to exceed 16 million units in 2024

North American Light Vehicle Production (Mn)



Electric Cars Increase of Metal Demand



Move towards sustainable energy drives demand for electrical vehicles

This demand has increased demand for electrical steel

Recent Government Acts

Bipartisan Infrastructure Law

Provides \$550 billion over FY 2022 to 2026 for infrastructure

Inflation Reduction Act

Provides nearly \$400 billion in federal funding towards clean energy

CHIPS Act

Provides \$50 billion for American semiconductor manufacturing

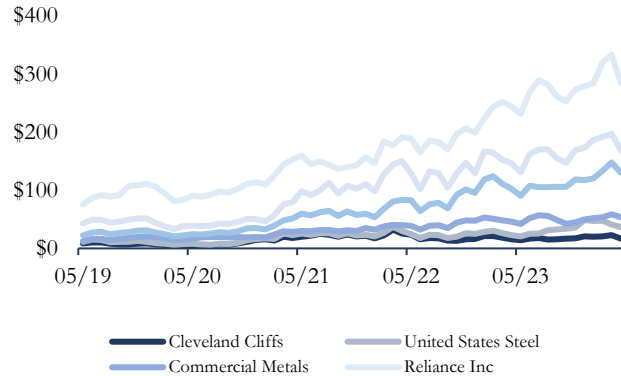
Cost-Cutting Efforts



Fixed-Price Contracts

40-45% of revenue from fixed contracts, reducing volatility

Leads domestic steel industry in fixed contract usage



Increased Hot-Rolled Steel Prices

Of the 16.4m tons produced in 2023, 36% was hot-rolled steel

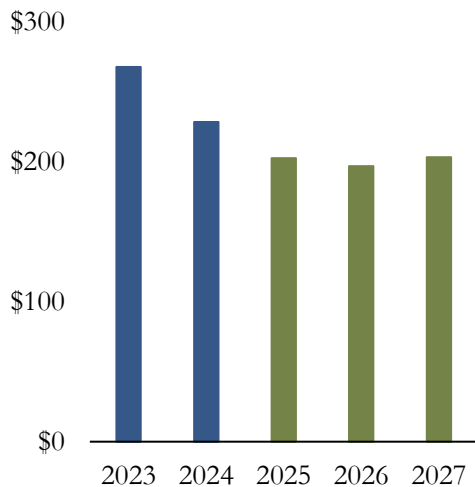
Early 2024 Price: \$840/ton



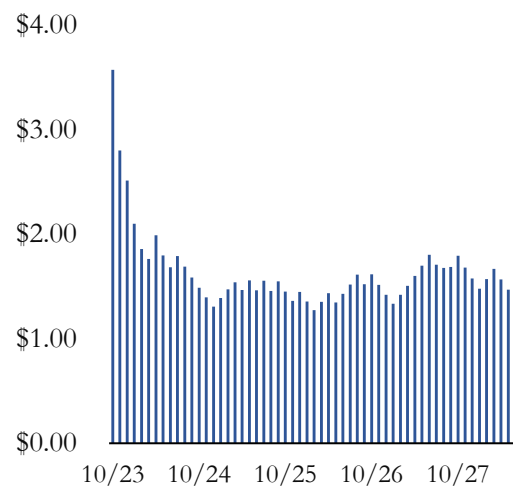
Newly Raised Price: \$900/ton

Falling Coal and Natural Gas Input Prices

Coal Price/Ton (\$)



Natural Gas Unit Price (\$)



Cost-Cutting Efforts

\$575 million in total funding granted from Department of Energy towards sustainability initiatives

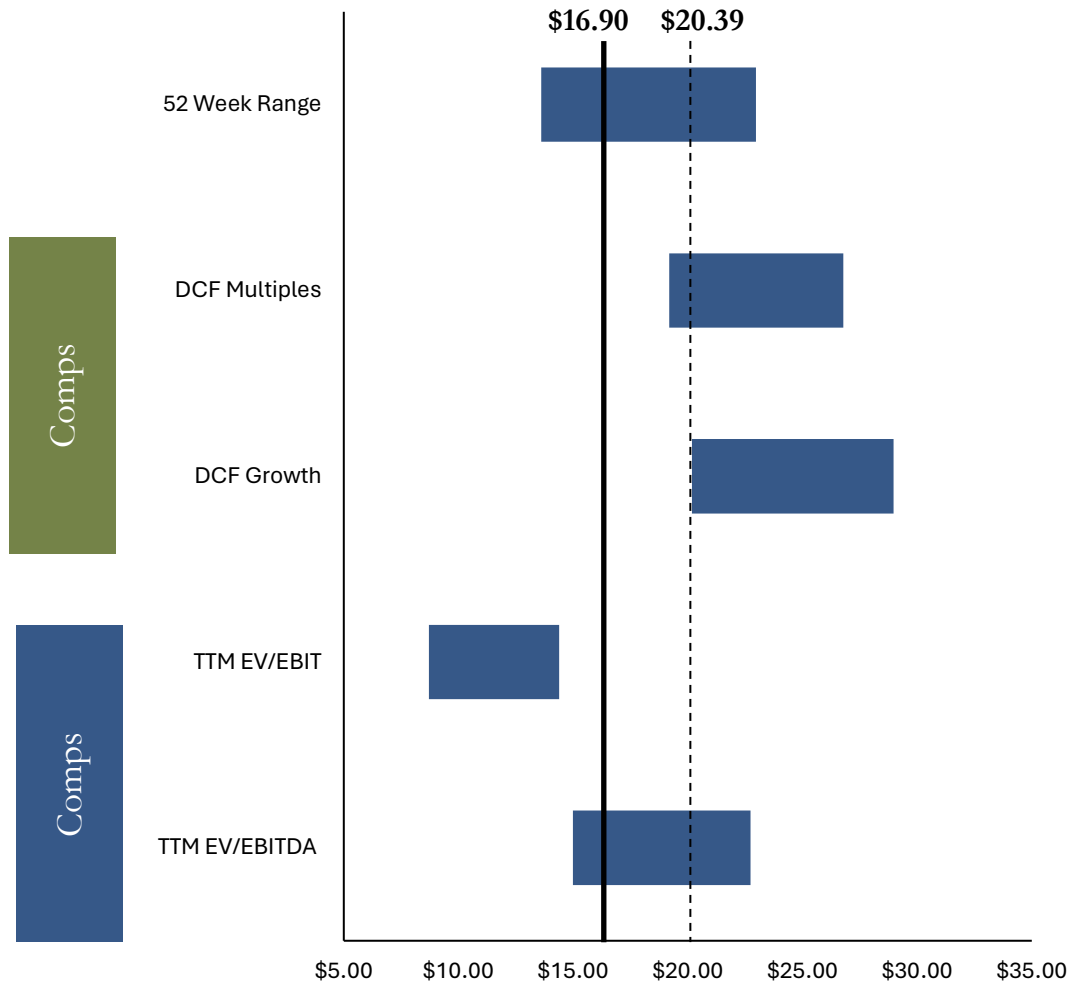
Up to \$500M grant to build new Middletown facility; cost reduction of \$150/ton of liquid steel or \$450M annually

Up to \$75M grant for revamping of Butler Works facility; \$80M annual cost savings expected

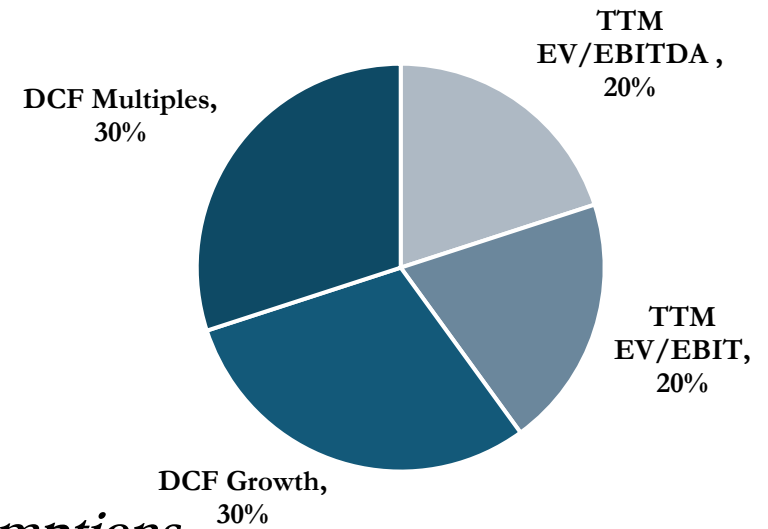
Valuation



Football Field



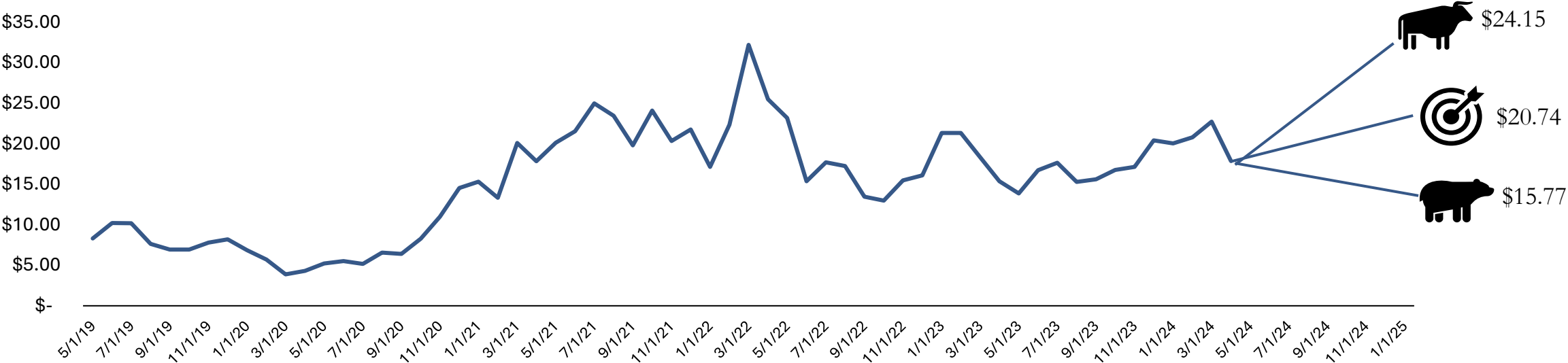
Weightings



Assumptions

WACC	EV/EBIT	Growth Rate	Beta
12.46%	9.71x	2.1%	2.08

Bear – Base – Bull Cases



Upside/Downside Analysis

Bear Case

- Cost cutting efforts aren't as successful as anticipated
- Political support doesn't drive significant growth
- Proposed tariff doesn't have the same stimulative effects as the last tariff

Base Case

- Increased political support through tariffs amongst other policies
- Internal cost cutting proves successful bolstering top line
- Demand for steel grows as Infrastructure and real estate spending recovers

Bull Case

- Political support bolsters long term trend towards US made steel
- Strong macro environment in real estate and infrastructure draws strong top line growth
- Cost cutting efforts exceed expectations

Proposed Allocation



Risk Analysis

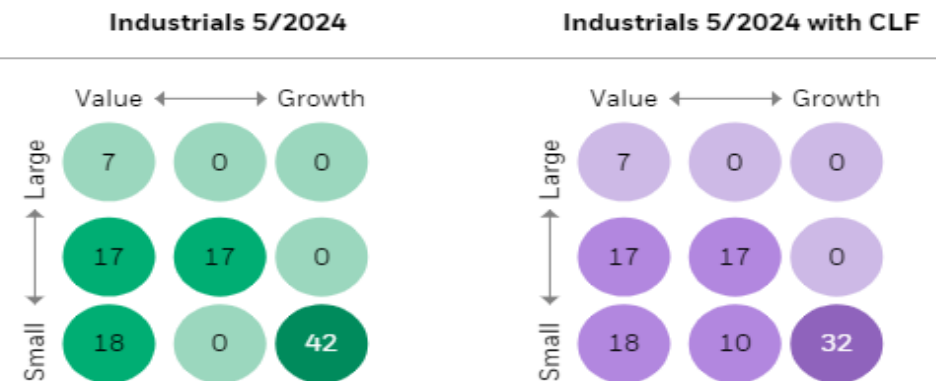


Scenario	Industrials 5/2024 Dollar Amount: \$100,000	Industrials 5/2024 with CLF Dollar Amount: \$100,000
Interest Rates / Inflation 10-Yr US Treasury Rate Rises 1% ⓘ	+5.28% + \$5,279	+5.46% + \$5,463
Inflation Expectations Rise 1% ⓘ	+13.95% + \$13,947	+14.86% + \$14,857

Updated Portfolio Composition

US Equities		100.00%	100.00%
ATKR	ATKORE INC	11.11%	11.11%
CLF	CLEVELAND CLIFFS INC	-	10.00%
CNHI	CNH INDUSTRIAL N.V. NV	16.87%	16.87%
DAC	DANAOS CORP	17.79%	17.79%
GD	GENERAL DYNAMICS CORP	7.00%	7.00%
LDOS	LEIDOS HOLDINGS INC	16.69%	16.69%
WSC	WILLSCOT MOBILE MINI HOLDINGS CORP	30.55%	20.55%

Diversification with Value Stocks



Thank you! Questions?

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Appendix A: Share Buybacks



Cleveland-Cliffs has reduced its number of shares outstanding by 20% since 2022 - "aggressive" buyback program announced by CEO in January 2024

