



Vale S. A. (VALE)

Updated March 6th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	5.8%	Market Cap:	\$74B
Fair Value Price:	\$17	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	09/10/23 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	09/25/23 ²
Dividend Yield:	6.9%	5 Year Price Target	\$16	Years Of Dividend Growth:	-
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Vale S.A. is a Brazilian precious metals and mining corporation. The company also has non-mining operations that include the operation of railroads, ports, terminals, and other infrastructure assets. Vale has five operating segments: Iron Ore, Pellets, Nickel, Copper, Coal, and Other. American investors can initiate an ownership position in Vale through American Depository Receipts that trade on the New York Stock Exchange. The mining company reports its results in US Dollars, even though it is a Brazilian company.

Vale reported its fourth quarter results on February 21. Vale announced that its revenues totaled \$11.9 billion during the quarter, which was down by 9% year-over-year. Vale's revenue decline was caused by unfavorable metals pricing during the quarter, as iron ore prices pulled back from the very high levels during the previous year's quarter.

Vale generated earnings-per-share of \$0.82 during the quarter, as its net profits remained at an above-average level even though profits pulled back from the record highs in 2021. Vale managed to generate adjusted EBITDA of \$5.0 billion during the quarter, which was down from an even higher \$6.9 billion one year earlier. 2021 was a very strong year for Vale on the back of an excellent commodity price environment. But while 2022 was somewhat weaker as metals pricing was less favorable, 2022 was still a strong year overall. It is expected that profits will be at an above-average level during the current year as well, relative to the profits that Vale has generated prior to the pandemic.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.37	\$0.58	-\$0.04	\$1.01	\$1.21	\$1.33	\$1.67	\$0.95	\$5.44	\$3.50	\$2.90	\$2.62
DPS	\$0.88	\$0.81	\$0.29	\$0.05	\$0.28	\$0.43	\$0.22	\$0.25	\$2.27	\$1.37	\$1.10	\$1.10
Shares³	5150	5240	5240	5150	5200	5130	5130	5130	4850	4700	4600	4200

Vale has not been able to generate meaningful earnings-per-share growth rates over the last decade, as earnings-per-share during 2019 were less than half as high as peak profits that were achieved during fiscal 2011, although earnings-per-share during 2019 were still meaningfully higher than those that Vale generated during 2009.

Vale has been divesting non-core assets in an attempt to streamline its business model and to generate cash for its debt reduction goals in recent years. These transactions give Vale additional balance sheet flexibility, and they will allow the company to focus on its core businesses in the future. Vale plans to expand its copper operations through investments into assets such as its billion-dollar Salobo 2 project. On top of that, Vale plans to ramp up its iron ore production during the next couple of years, and to make efficiency-driving investments as well. Vale's earnings growth should be positively impacted by very low debt levels, as this will reduce Vale's interest expenses. Vale has been paying down debt at a steep pace in recent quarters. On the other hand, analysts do not expect the high average iron ore price we have seen recently to last forever, which is why it is expected that Vale will see its earnings decline to some degree over the coming years.

¹ Estimated date

² Estimated date

³ In Millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	43.9	21.4	N/A	5.1	8.1	9.9	7.8	17.9	2.6	4.9	5.5	6.0
Avg. Yld.	5.4%	6.5%	5.1%	1.0%	2.9%	3.3%	2.7%	1.5%	16.1%	8.1%	6.9%	7.0%

Vale trades at just 5.5 times this year's expected earnings right now. This can be explained by the fact that the company's profitability will still be strong this year due to high commodity prices, even though profits will be lower than in 2021 and 2022. We believe that Vale's shares will trade at a rather low valuation going forward as iron ore prices should normalize eventually.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	238%	140%	---	5.0%	23.1%	32.3%	13.2%	26.3%	41.7%	39.1%	37.9%	42.0%

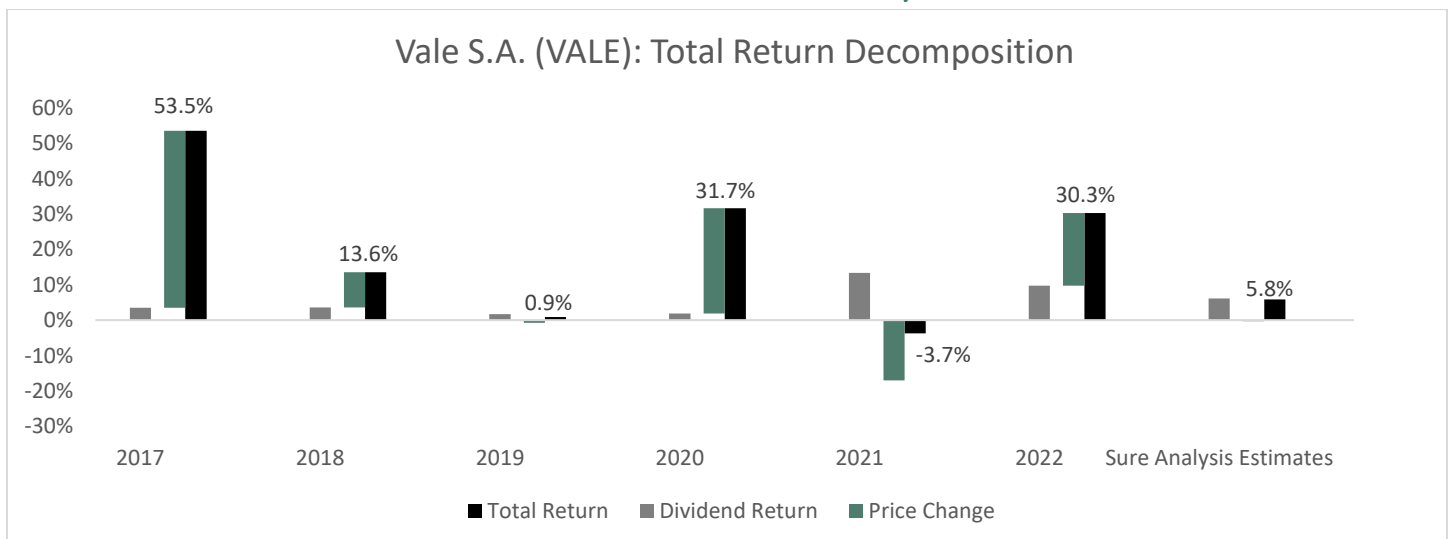
Vale's dividend growth track record isn't strong at all. The company's earnings were quite volatile in the past, as Vale's profitability is heavily dependent on the price of commodities, such as iron ore and copper. This has led to big ups and downs in Vale's dividend payments. The dividend cut following the disastrous dam failure is an example of that. Vale has reduced its debt levels in recent years, which improves its ability to pay dividends. In 2021, Vale paid out huge dividends due to well-above-average profitability, although we do not think that this will be the case in the future.

Vale's results depend on demand trends for the metals that the company produces, which is why results can be cyclical, although price movements in commodities have a bigger impact than economic growth as a whole. Competitive threats are not very large, given that the company operates in a quasi-oligopoly. Overall, the company is not a good pick for risk-averse investors due to less-than-stellar quality metrics and the ups and downs caused by commodity price swings.

Final Thoughts & Recommendation

Mining giant Vale had a strong 2022, thanks to high commodity prices. 2023 will be another strong year for Vale, although not at the level seen last year. It looks like profitability will decline going forward as iron ore prices will moderate eventually, which is why our current earnings-per-share growth rate estimate is negative. Overall, the total return outlook is solid but not great, which is why we rate Vale a hold right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	46767	35124	23384	27488	33967	36575	37570	40018	54502	43839
Gross Profit	22522	12334	4633	9838	12928	14466	16383	20979	32773	19811
Gross Margin	48.2%	35.1%	19.8%	35.8%	38.1%	39.6%	43.6%	52.4%	60.1%	45.2%
SG&A Exp.	1084	789	465	387	440	461	431	505	439	474
Operating Profit	17342	9115	2558	8505	11559	13258	14222	18665	30963	17785
Op. Margin	37.1%	26.0%	10.9%	30.9%	34.0%	36.2%	37.9%	46.6%	56.8%	40.6%
Net Profit	584	657	-12129	3982	5507	6860	(1683)	4881	22445	18788
Net Margin	1.2%	1.9%	-51.9%	14.5%	16.2%	18.8%	-4.5%	12.2%	41.2%	42.9%
Free Cash Flow	1687	1327	(4182)	1450	8619	9117	8406	9892	20646	6039
Income Tax	6833	1603	(5249)	2781	1495	(172)	(595)	438	4697	2971

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	124597	116489	88492	99014	99184	88190	91713	92007	89442	86894
Cash & Equivalents	5321	3974	3591	4262	4328	5784	7350	13487	11721	4736
Acc. Receivable	5703	3275	1476	3663	2600	2648	2529	4993	3914	4319
Inventories	4125	4501	3528	3349	3926	4443	4274	4061	4377	4482
Goodwill & Int.	6871	6820	5324	6871	8493	7962	8499	9296	9011	10238
Total Liabilities	59661	60168	52788	57990	54412	43358	52720	57186	54136	49536
Accounts Payable	3772	4354	3365	3630	4041	3512	4107	3367	3475	4461
Long-Term Debt	29655	29222	29883	30537	25579	18967	16783	16695	12180	15437
Total Equity	40418	32033	10500	15953	43458	43985	40067	35744	34472	35867
LTD/E Ratio	0.47	0.53	0.89	0.78	0.59	0.43	0.42	0.47	0.35	0.43

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.5%	0.5%	-11.8%	4.2%	5.6%	7.3%	-1.9%	5.3%	24.7%	21.3%
Return on Equity	1.3%	1.8%	-57.0%	30.1%	18.5%	15.7%	-4.0%	12.9%	63.9%	53.4%
ROIC	0.6%	0.7%	-16.1%	5.8%	7.8%	10.2%	-2.8%	9.1%	45.3%	35.7%
Shares Out.	5150	5240	5240	5150	5200	5130	5130	5130	4850	4700
Revenue/Share	9.08	6.82	4.50	5.29	6.54	7.06	7.33	7.80	10.87	9.44
FCF/Share	0.33	0.26	(0.80)	0.28	1.66	1.76	1.64	1.93	4.12	1.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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