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Research Update:

Steel Group ArcelorMittal Outlook Revised To Negative On Weak Credit Metrics; 'BBB-/A-3' Ratings Affirmed

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Overview

- Luxembourg-registered steel group ArcelorMittal's credit metrics remain below our expectations.
- We believe that, in 2012, ArcelorMittal may not be able to decrease its leverage to levels consistent with the current rating, given the uncertainty surrounding economic growth in Europe and the U.S.
- As a result, we are revising our outlook on ArcelorMittal to negative from stable, and affirming our 'BBB-/A-3' corporate credit ratings on the company.
- The negative outlook reflects the risk that the near-term industry environment will weaken, which may hamper improvement in ArcelorMittal's credit metrics.

Rating Action

On Nov. 8, 2011, Standard & Poor's Ratings Services revised its outlook on Luxembourg-registered steel group ArcelorMittal and its guaranteed subsidiaries to negative from stable. At the same time, the 'BBB-/A-3' long- and short-term corporate credit ratings on ArcelorMittal were affirmed.

Rationale

The outlook revision reflects our view that ArcelorMittal's leverage is currently above the levels we consider commensurate with the 'BBB-' rating, and that the probability of deleveraging in the near term has decreased given the uncertain macroeconomic environment. In particular, we believe that financial metrics may remain at, or deteriorate below, current low levels in the event of an economic recession in Europe and the U.S. We currently estimate the probability of a new recession in Western Europe in 2012 at about 40% (see "The Specter Of A Double Dip In Europe Looms Larger," published Oct. 4, 2011, on RatingsDirect on the Global Credit Portal). As a result, we revised our assessment of ArcelorMittal's financial risk profile to "significant" from "intermediate," according to our criteria.

The ratings on ArcelorMittal reflect our base-case expectation that--in the context of slow economic growth in Europe assumed in our base-case macroeconomic scenario--steel industry conditions in 2012-2013 will not deteriorate substantially below the levels seen in the first nine months of

2011, and that fourth-quarter destocking activities will be short-lived. In such a context, we expect ArcelorMittal's EBITDA to reach about \$10.5 billion in 2012-2013, compared with \$7.9 billion for the first nine months of 2011. Our estimate takes into account a potentially lower contribution from the mining segment, where lower prices for iron ore and coal should offset anticipated volume growth, as well as the gradual improvement in EBITDA per ton in the steel segment. This improvement results from management's continued asset optimization programs. Under these assumptions, and factoring in capital expenditures (capex) of \$5.2 billion, dividends of \$1.1 billion annually, and some working capital inflow, we expect the company to generate positive discretionary cash flow and improve its ratio of funds from operations (FFO) to debt to 21%-23% in 2012-2013. In our view, this will likely lead to further necessary management actions, such as additional capex cuts or divestments, in order to achieve FFO to debt of 25%, which we would see as commensurate with the current rating.

In a double-dip recession scenario, we expect ArcelorMittal's Standard & Poor's-adjusted EBITDA to decline to about \$7 billion-7.5 billion in 2012. This is above the \$5.6 billion generated in the previous downturn in 2009 because we factor in lower levels of steel inventories globally compared with 2008-2009. In addition, our relatively positive adjusted EBITDA assessment reflects the company's cost-cutting and asset optimization efforts as well as higher production in its mining segment. In this scenario, we anticipate that the company will not be able to improve its ratio of FFO to debt substantially above 15%, despite likely working capital inflow and potential capex reduction without further important management actions.

The ratings reflect our view of the group's "satisfactory" business risk and "significant" financial risk profiles, according to our criteria. Supportive factors include the group's leading global market positions, partial supply of own raw materials, and medium-term maturity profile. The ratings on ArcelorMittal are further supported by what we view as the company's moderate financial policy, to which management is committed as evidenced by its recent decision not to pursue the acquisition of MacArthur Coal (not rated). The rating is constrained by the cyclicity of the steel industry, ArcelorMittal's substantial adjusted debt, and the uncertain macroeconomic environment, particularly for 2012.

Liquidity

We assess ArcelorMittal's liquidity as "adequate," under our criteria. We estimate that the ratio of sources of liquidity to uses is comfortably above 1.2x for the next 12 months. We also regard ArcelorMittal as having a track record of regular new bond issuances to lengthen its debt maturities, sound relationships with banks, and good standing in credit markets. The company also has adequate headroom under the incurrence financial covenant in its bank lines, which limits net debt to EBITDA to 3.5x.

Liquidity sources over the next year include:

- Retained cash of \$1.8 billion on Sept. 30, 2011, excluding \$1.0 billion, which we view as tied to operations.

- A substantial \$8.5 billion availability under medium-term committed bank facilities.
- FFO that we expect should cover capex and dividends.
- Potential moderate working capital inflows in case prices for steel and raw materials decline.

This compares with the following liquidity uses over the next year:

- Short-term debt of \$3.7 billion on Sept. 30, 2011 (\$4.4 billion for the twelve months from Sept. 30, 2012).
- Annual capex of about \$5.2 billion and stable annual dividend payments of about \$1.2 billion, both of which we assume in our base-case scenario.
- \$4 billion utilization under the true sales of receivables program that we treat as short-term debt. Nevertheless, we believe that refinancing risk under this program is lower than for typical short-term debt, given its secured structure and track record.

Recovery analysis

ArcelorMittal's reported gross debt of \$27.7 billion on Sept. 30, 2011, comprised \$17.6 billion of bonds, \$2.2 billion of convertible bonds, \$1.2 billion of commercial paper, and \$6.7 billion of bank and other loans. The main undrawn bank facilities are a €6.0 billion revolving credit facility (RCF), which expires in March 2016, and a \$4 billion RCF that expires in May 2015.

All rated debt issued by ArcelorMittal and its subsidiaries is rated 'BBB-', in line with the long-term corporate credit rating on the company. By far, the main borrower is the parent company ArcelorMittal, which significantly mitigates the risks of structural subordination. Priority liabilities, including subsidiary debt, trade payables, and other liabilities, are moderate in our view, and are mitigated by the group's size and diversification.

Outlook

The negative outlook reflects the possibility of a downgrade in the next six to 12 months, if the company is not able to demonstrate a near-term ability to improve its ratio of FFO to debt to about 25%--the level we see as commensurate with the current rating. We believe that downside rating pressure will likely occur in a double-dip recession scenario in the U.S. and Europe in 2012. Even in our base-case scenario of slow economic growth, a meaningful improvement in ratios would likely require further progress in asset optimization including plant closures or divestments; a conservative approach to capex, dividends, and acquisitions; and working capital management.

We could revise the outlook to stable if we see clear evidence of improving credit metrics to the above-stated levels, which will partly depend on a sufficiently supportive industry environment and the company's ability to reduce its debt.

Related Criteria And Research

- Key Credit Factors: Methodology And Assumptions On Risks In The Metals Industry, June 22, 2009
Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
ArcelorMittal		
Corporate Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Senior Unsecured Debt	BBB-	BBB-
Senior Secured Debt	BBB-	BBB-
Commercial Paper	A-3	A-3
ArcelorMittal Finance		
Corporate Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Senior Unsecured Debt	BBB-	BBB-
ArcelorMittal USA Inc.		
Senior Secured Debt(1)	BBB-	BBB-
Ispat Inland ULC		
Senior Secured Debt(1)	BBB-	BBB-

(1) Guaranteed by ArcelorMittal.

NB: This list does not cover all ratings affected.

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