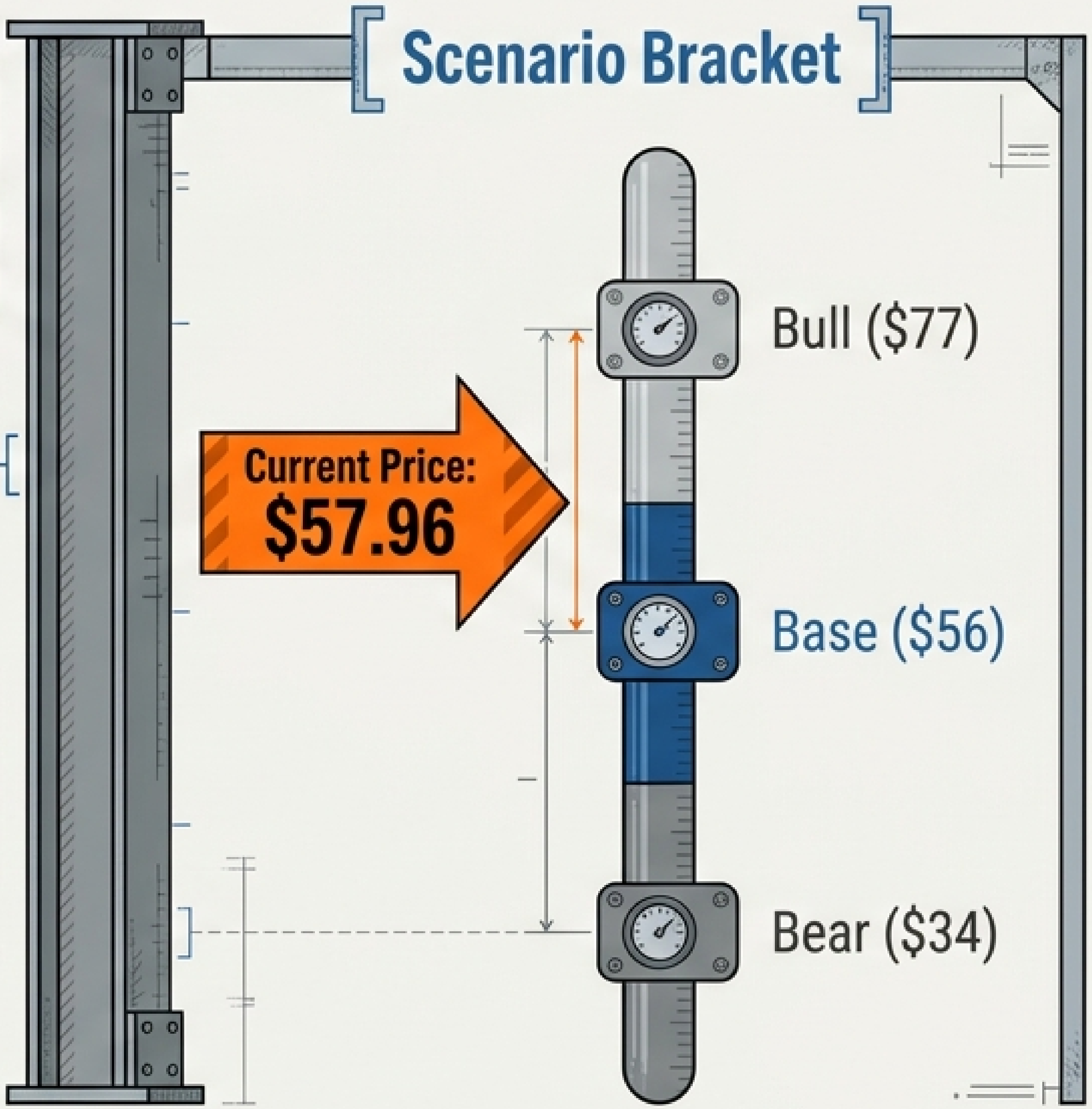
Tenaris: The Best OCTG Franchise, Priced as If the Tariff Wall Is Permanent

Market Cap: ~$29.3B	EV: ~$25.5B	Trailing EV/EBITDA: 8.7x	P/E: 15.2x	Net Cash: $3.8B

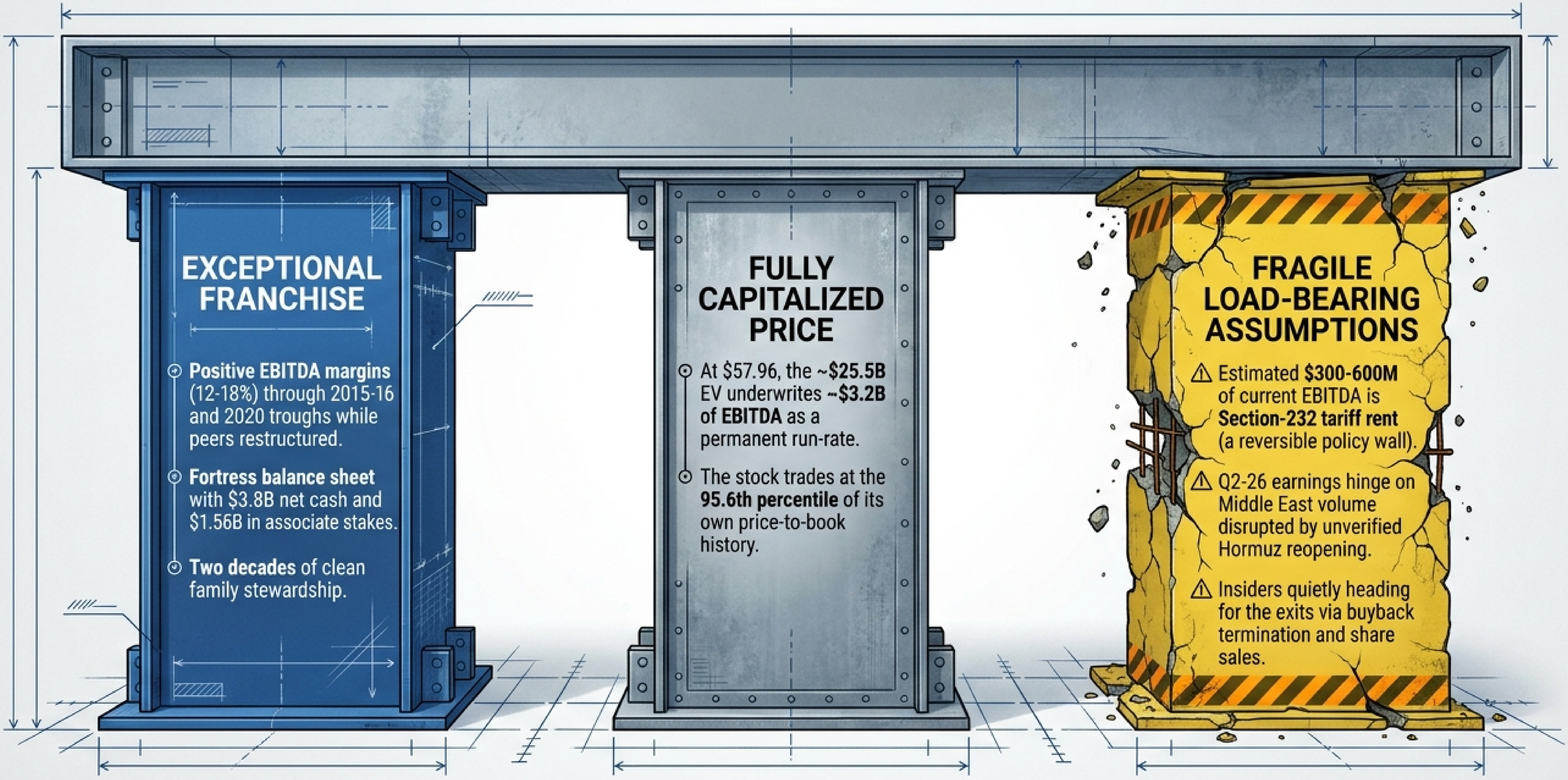
HOLD — Zero Margin of Safety at $57.96 (Do not add; emphatically not a short).

The Thesis

- Tenaris is arguably the best-managed steel-adjacent cyclical in the world.
- The problem is the market has stopped charging a cyclical discount for it.
- The current valuation capitalizes peak FY2024 margins as permanent, heavily relying on a fragile 50% tariff policy wall that could evaporate with a single political signature.



The Three-Way Tension Driving the Current Valuation



Where the Moat Lives Versus Where it Dies

Premium Seamless (The Moat)

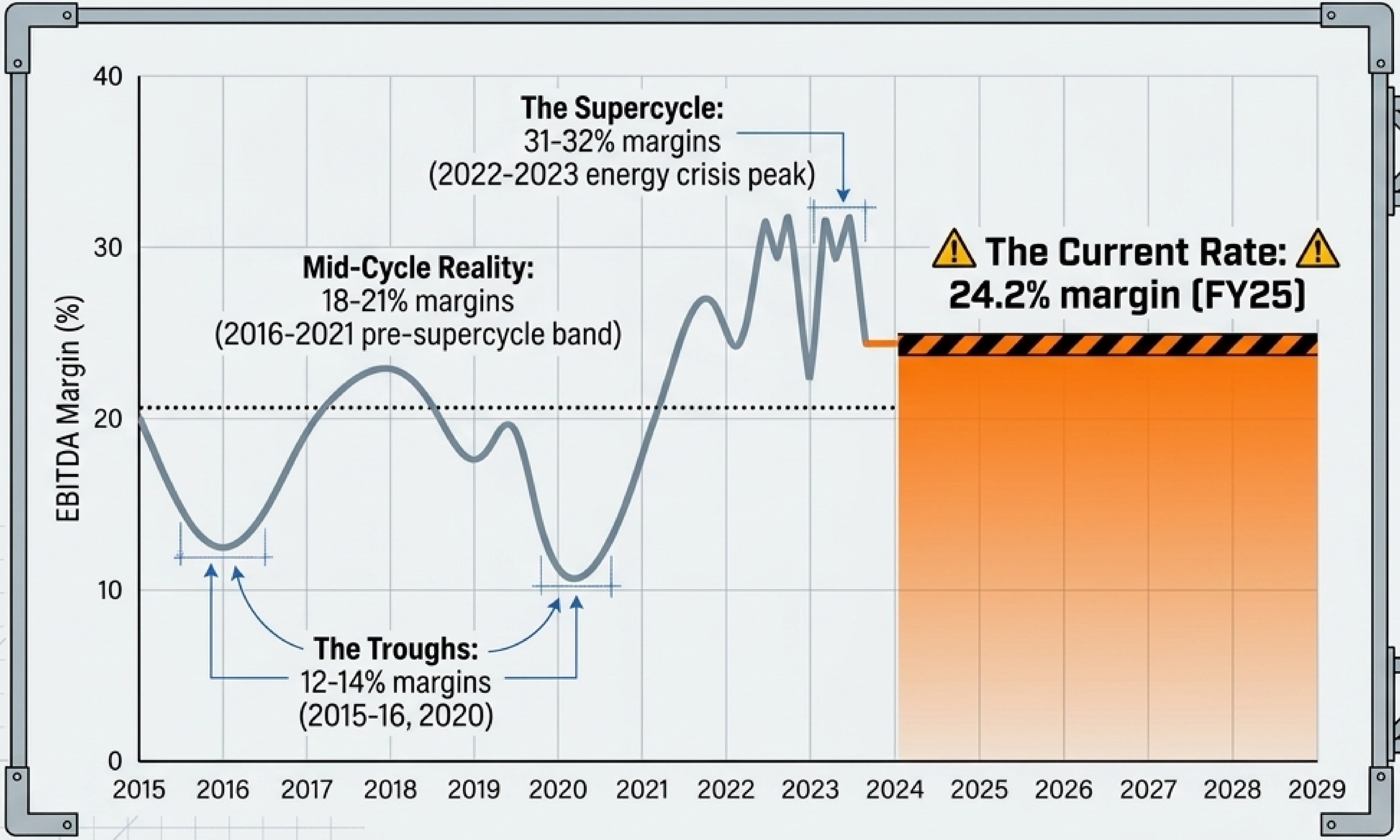
- **Structure:** A 3-4 player oligopoly controlling ~45% of the global market.
- **Barriers:** 5+ year API qualification cycles. Operators will not risk catastrophic deepwater failure to save a few percent on pipe.
- **Advantage:** TenarisHydril premium connections and Rig Direct supply chain captivity (90% US-self-supplied).

Commodity API (The Exposure)

- **Structure:** Fragmented, zero-barrier price taking.
- **Vulnerabilities:** China-contestable (TPCO alone operates ~4Mt of capacity).
- **Vulnerabilities:** Subject to National Oil Company (NOC) localization efforts, which previously evicted Tenaris from leading Saudi Aramco commodity share.

Synthesis: A **defensive moat, not a compounder.** Tenaris survives cyclical bottoms (~12% EBITDA floor) where peers bleed, but its 12-year average ROIC of 8-9% sits will well below the 15-25% threshold of a true franchise.

Capitalizing a Cyclical Peak as a Permanent Plateau



The Disconnect

The current $25.5B enterprise value relies on an ~8x through-cycle multiple applied to $3.2B in EBITDA.

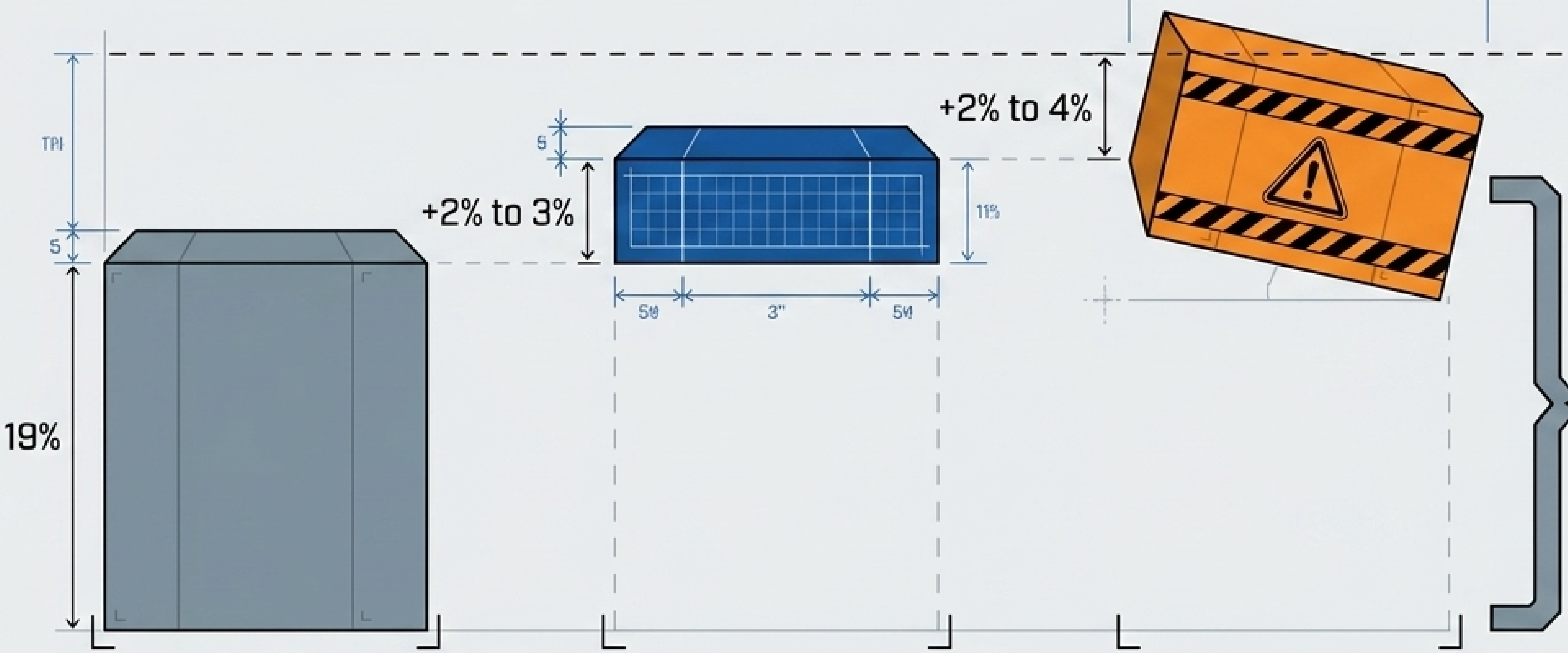
This explicitly requires **24%+ margins** to be a permanent floor.

The Reality Check

In Tenaris's history, a 24% margin has never survived a full industry downturn. **The current price requires a suspension of historical gravity.**

Deconstructing the Margin: Structure Versus Policy Rent

Margin Decomposition Waterfall Chart



Step 1: The Pre-Tariff Baseline.
The demonstrated 2018-2019 mid-cycle margin.

Step 2: Structural Mix.
Genuine business improvements. Evidenced by eight consecutive quarters of 18.6-19.4% Tubes operating margins driven by Rig Direct maturity and the Bay City/Koppel integrated domestic US system.

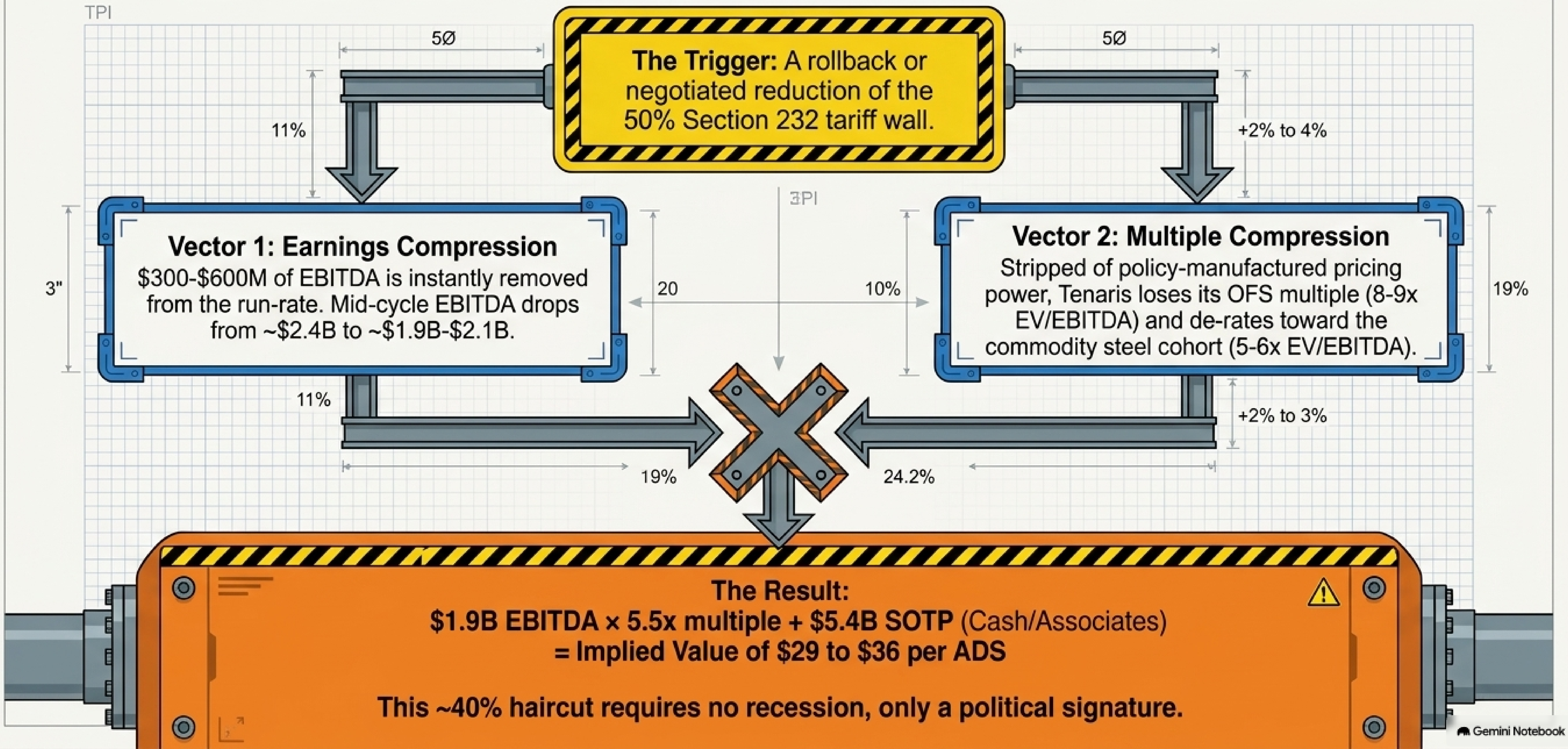
Step 3: Section 232 Tariff Rent.
The fragile political umbrella. The 50% Section 232 wall chokes US import competition.

The Takeaway:

An estimated \$300M to \$600M of total EBITDA is purely policy rent.

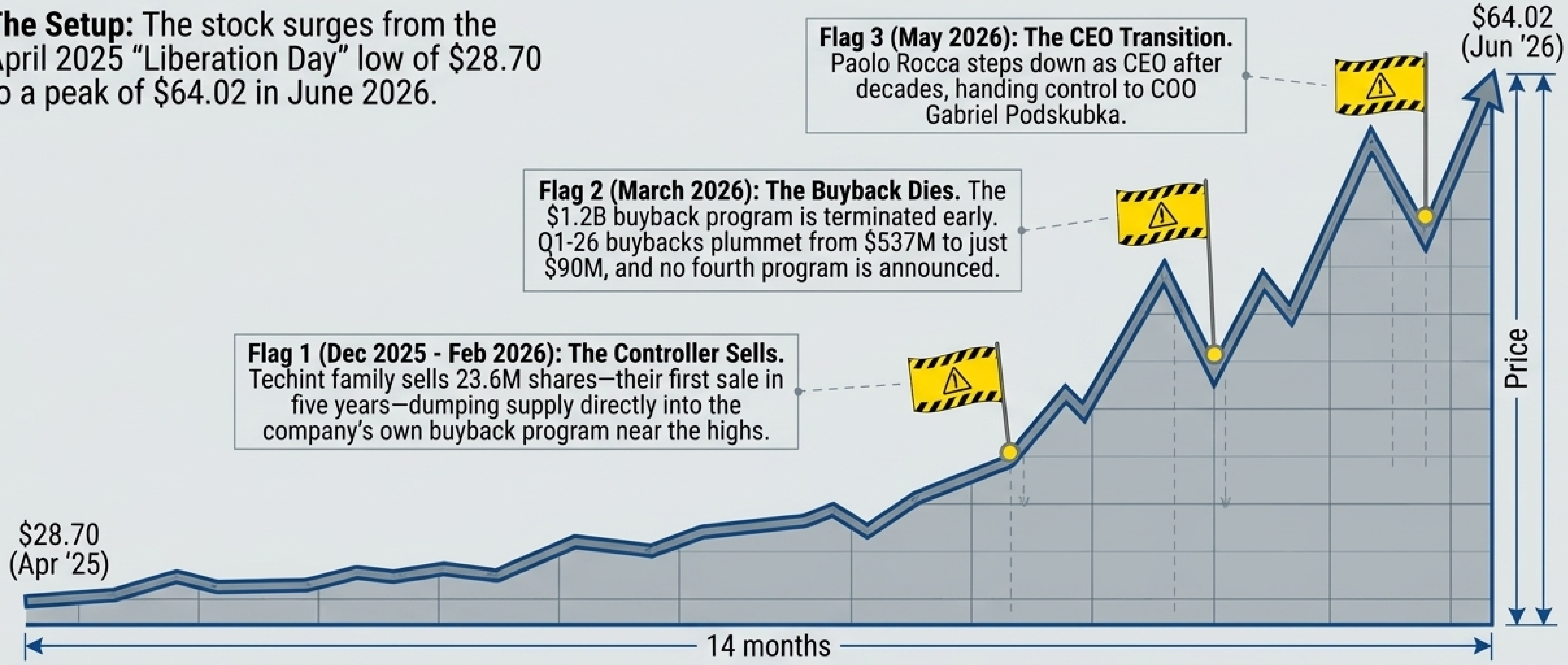
The market is pricing this political artifact as a permanent structural advantage.

The Math of the Tariff Double-Jeopardy



The Disconnect Between Words and Insider Actions

The Setup: The stock surges from the April 2025 "Liberation Day" low of \$28.70 to a peak of \$64.02 in June 2026.



The Synthesis: The people who know the mid-cycle math best are taking chips off the table at \$58, not buying.

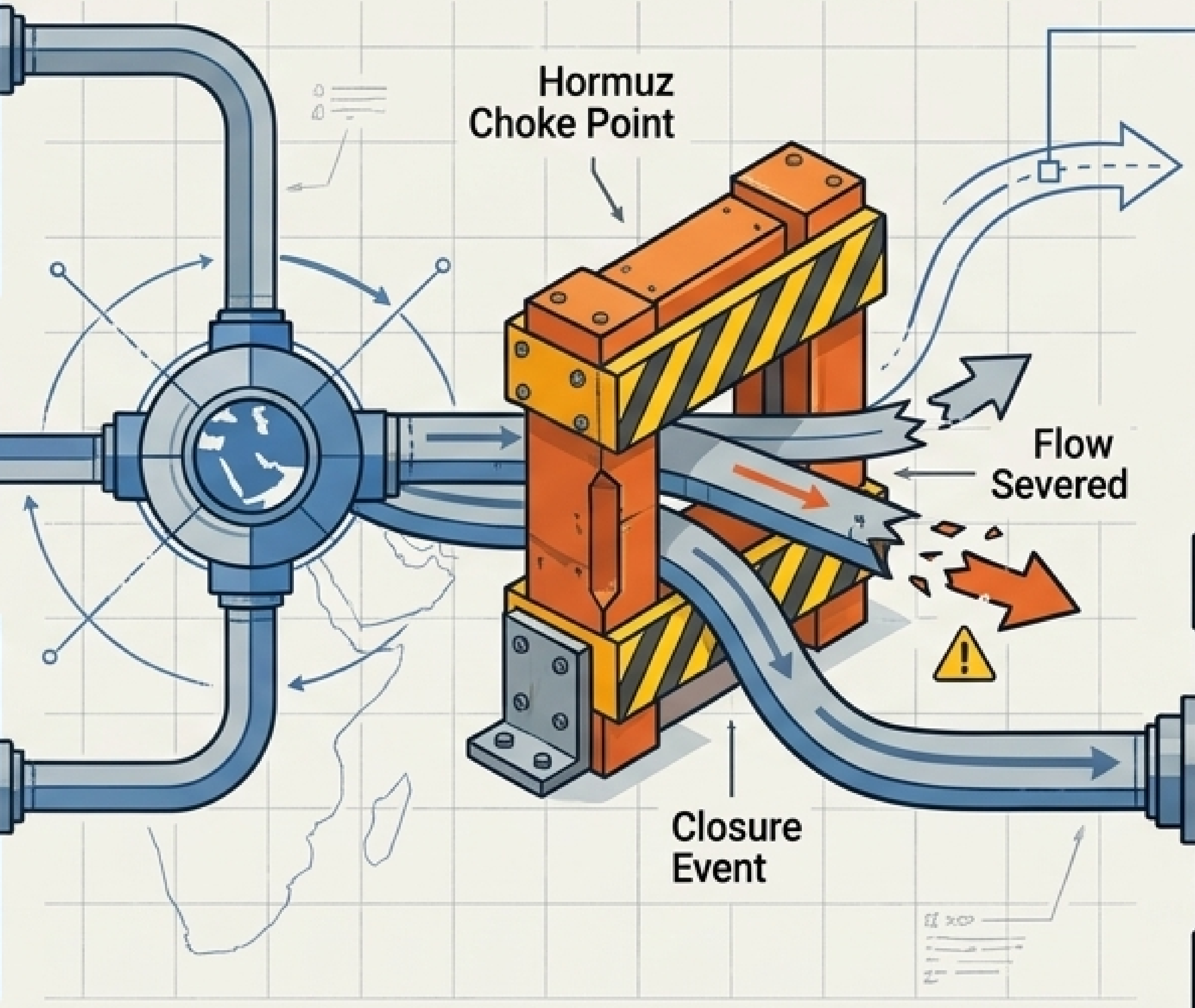
The Near-Term Catalyst: Hormuz and the Binary Q2-26 Print

The Disruption:

The US-Israel/Iran war closed the Strait of Hormuz in March 2026, trapping vital Middle East shipments.

The Q2 Reality:

Guidance dictates Q2-26 sales and margins will be hit hard by trapped shipments, soaring logistics costs, and fixed-cost de-absorption.



The Fragile H2 Assumption:

Management's H2-26 recovery guidance is explicitly contingent on the strait reopening "in the short term." However, July re-closure reports remain unverified, threatening the back half of the year.

The Setup:

Aug 6

Tomorrow's Q2-26 print (August 6) is a binary test of management's volume recovery schedule and whether the 24% margin floor can survive a logistics shock.

Valuation Reality Check: Priced Entirely for the Base Case

Bear Scenario ($34 - $44): The Policy Fade

Requirements:

Section 232 rolls back, removing tariff rent.

Multiple compresses to 7-8x. EBITDA stabilizes at $1.8-$2.2B.

Note: Reaching this downside requires only a policy reversal, not a recession.

Base Scenario ($50 - $62): The Status Quo

Requirements:

Mid-cycle structural mix holds. Tariffs remain intact.

Current Price of $57.96 sits perfectly within this band.

Hormuz reopens durably.

EBITDA runs $2.5-$2.9B at 8-9x multiple.

Bull Scenario ($70 - $84): The Perfect Cycle

Requirements:

Deferred 2027-28 offshore/international FIDs trigger massive demand.

Margins hold at an unprecedented >=24% through the full cycle. A fourth buyback program is announced.

Multiple re-rates to 9-10x.

Consensus Assumptions vs. Variant Perception

What the Market Believes

- Tenaris has fundamentally cured its cyclicality through structural mix (Rig Direct, US integration).
- The stock deserves an Oil Field Services (OFS) premium multiple (9x+).
- The 50% tariff regime is durable, permanent background noise.

The Variant Perception

- The market is bundling mix, cycle, and policy into one margin number and capitalizing all of it as permanent.
- The stock is acting as an oil-price proxy (+0.94 factor loading) exactly as the oil super-cycle cools.
- Insiders are actively halting buybacks and selling shares into the retail/momentum flow.

Tenaris is the best house in a cyclical neighborhood, priced as if the neighborhood were permanently gated. Hold. Zero margin of safety at $57.96.