genial Equity Research

CSN & CMIN

3Q23 Preview: It's not just made of steel

LatAm Metals & Mining

Main takeaways for CMIN:

(i) Iron ore volume is expected to be strong, with another quarterly record for production; **(ii)** Realized price is expected to rise +US$10/t sequentially, marking up a +11.4% q/q rise due to the dynamics in the quarterly average and provisioning system for the end of the quarter; **(iii)** We project costs to fall marginally, with the improvement in fixed cost dilution capacity being partially eliminated by the rise in freight costs; **(iv)** EBITDA projected to rise by +67.6% and strengthened net income by +163.8%, both on a quarter-on-quarter basis; **(v)** In view of an expectation for a quarter indicating solid growth, and **our preference**, previously highlighted in other recent reports, for the dynamics **on mining segment** vs. investor's capital allocation in steel, **we are raising both CMIN's rating and 12M Target Price**. We **BUY rated** the company, with a new **12M Target Price** of **R$7.20** (vs. R$5.00 previously), consolidating an **upside** of **+19.40%**.

Main takeaways for CSN:

(i) The Brazilian steel industry is showing difficulty in maintaining market share, promoting significant price discounts; **(ii)** Mining is benefiting from positive price momentum, in addition to CMIN increasing production volume, heading for another all-time record; **(iii)** The cement business division should show more synergies from the acquisition of LaFarge Holcim in 3Q23, favoring the consolidated result and marking an EBITDA that should even slightly exceed steel's segment, which will now mark only 8% of the consolidated figure, according to our estimates; **(iv)** With the projected drop in steel EBITDA being more than offset by the improvement in mining and cement, **we expect CSN holding to be the only company classified as a steel company to show an improvement in sequential EBITDA**, which we project to clock in at R$2.7bn Genial Est. (+19.3% q/q; -0.6% y/y); **(v)** Our expectation is for a net income of R$278mn, flat q/q; **(vi)** We reiterated our **NEUTRAL rating**, with a **cut in the 12M Target Price** to **R$14.25** (vs. R$15.00 previously), leaving an **upside** of **+12.47%**.

CSN and CMIN will release their 3Q23 results on November 13th, after the market closes. We expect **better consolidated figures**, with CSN reaping some of the rewards of the holding company's diversification. We believe that the main dynamic will be the **steel unit shrinking revenue**, but being more than offset by an **improvement in mining (CMIN)** and a **good performance** in the **cement** business unit, which is starting to gain traction with the synergies from the acquisition of LaFarge Holcim's operations in Brazil.

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Companies

CSNA3 BZ Equity
Neutral

Price: R$ 12.67 (10-Nov-2023)
Target Price 12M: R$ 14.25

CMIN3 BZ Equity
Buy

Price: R$ 6.03 (10-Nov-2023)
Target Price 12M: R$ 7.20

Table 1. Shipments Summary (3Q23 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.				
Summary (Shipments)	**3Q23E**	**2Q23**	**% q/q**	**3Q22**	**% y/y**
Steel (Kt)	1.021	1.051	**-2,8%**	1.160	**-12,0%**
Iron Ore (Mt)	11,6	11,3	**3,3%**	9,1	**27,9%**
Cement (Kt)	3.450	3.333	**3,5%**	1.890	**82,5%**

Source: CSN & CMIN, Genial Investimentos

Table 2. Income Statement CMIN (3Q23 Genial Est.)

(R$ millions)	Genial Est.				
CMIN Income Statement	**3Q23E**	**2Q23**	**% q/q**	**3Q22**	**% y/y**
Net Revenue	4.564	4.014	**13,7%**	2.724	**67,6%**
Adjusted EBITDA	1.857	1.098	**69,2%**	842	**120,5%**
Net Income	1.297	494	**162,4%**	514	**152,3%**

Source: CMIN, Genial Investimentos

Table 3. Income Statement CSN (3Q23 Genial Est.)

(R$ millions)	Genial Est.				
CSN Income Statement	**3Q23E**	**2Q23**	**% q/q**	**3Q22**	**% y/y**
Net Revenue	10.978	10.989	**-0,1%**	10.899	**0,7%**
Adjusted EBITDA	2.701	2.263	**19,3%**	2.716	**-0,6%**
Net Income	278	283	**-1,8%**	238	**17,0%**

Source: CSN, Genial Investimentos

Valuation and rating. We believe that CSN Holding will feel the negative effects of the global macro situation, mainly through the steel segment, which has been facing serious difficulties in generating revenue. This is not a situation exclusive to CSN, since the increase in steel exports in China easily affects the Brazilian market as a whole, due to the low tariff barrier, and end up creating a lot of pressure for price discounts. However, we see the players largely exposed to flat steel as the most affected (Usiminas in first place, CSN close behind), leading to a very difficult choice between cut prices or seeing volume going down quicker.

In order to maintain some level shipments and not lose too much market share to imported steel, Brazilian steelmakers end up discounting the price of flat steel to try to lower the parity premium with the imported product. Today this premium stand at +17.5% (vs. ~12% historical average). Although the premium has been above +20% at times throughout the year, and the current mark shows a partially cooler picture, it is still well above the historical average. We therefore believe that we are far from seeing a significant improvement in the price dynamics of flat steel and expect more discounts ahead.

In the mining business, our bias is more positive. We expect CMIN's iron ore production to continue at high levels, with **(i)** good chances of reaching close to the upper guidance band of 39-41Mt. In addition, we are bullish about the **(ii)** combinatorial effect of the iron ore price going forward at the robust level we are now seeing. We believe that CSN Holding's mining business division should continue to help the consolidated result, something that didn't happen exceptionally in 2Q23, but had been happening in every quarter since 2H22.

This situation may end up partially compensating for an anemic steel business unit. It's important to say that CMIN has been focusing its sales volumes on low grade iron ore (which implied a realized price below the 62% Fe curve) and until then, it had been buying and then reselling a lot of iron ore from third parties. We believe that 3Q23 should see better margin dynamics, since we expect a lower penetration of third-party i.o in total sales.

Looking at the debt's level, the great Achilles heel of CSN Holding's investment thesis, leverage closed last quarter at **2.8x Net Debt/EBITDA**. Our expectation is that it will cool down now in 3Q23, but with very slow progress in relation to the 1.7-2.0x target that had been disclosed to analysts at Investor Day in December 2022.

We project a **Net Debt/EBITDA 23E** of **2.5x**, which, if it comes to fruition, shows the **negative side** of the thesis by highlighting **management's low commitment to leverage**, falling well short of the target for 2023. Conversely, 3Q23 will also highlight the **positive side** of the holding **company's growth in multiple business divisions**, cushioning the impact of the steel industry within the overall consolidated result, where all other peers are suffering. Although Gerdau is our preferred name in the steel sector, it doesn't have much protection when the market for steel slows down in both Brazil and the US, which is precisely what happened in 3Q23. As a result, we believe that CSN holding will be the only one of the steel players to show an increase in EBTIDA this quarter. This sequential upward movement will be driven by mining and an important improvement in the cement business division, bringing with it the importance of business diversification (which implies greater leverage).

Although **CSN Holding** is trading with a **24E EV/EBITDA** of **6.1x**, a little lower as per historical, normalizing between high and low moments of the steel cycle, **we cut our 12M Target Price** to **R$14.25** (vs. R$15.00 previously), given **new realized price assumptions for 2024**. The changed assumptions are in line with the flat steel discount dynamics, where we are quite bearish in the short term. Even with business diversification, the steel industry still represents ~50% of CSN Holding's total revenue. We therefore reiterate our **NEUTRAL rating**, leaving the shares with an **upside** of **+12.47%**.

As for **CMIN**, the situation is quite the opposite. In view of the company's greater reliability for investors in the year 2023, after the successive cuts in guidance that were made last year, we decided to **increase our 12M Target Price** to **R$7.20** (vs. R$5.00 previously), due to **stronger production** and **better commodity price conditions** than we initially expected. With the resilience of the 62% Fe curve, and given our expectation of a reduction in the penetration of third-party iron ore in the total composition of shipments from 3Q23 onwards, we expect margins to rise, and **we begin to see room for the stock to continue to appreciate**. We **raise our rating to BUY**, with an **upside** of **+19.40%**.

3Q23 Preview: Straight to the point...

Mining benefiting from seasonality and iron ore prices. We put mining as the main positive highlight in the figures that CSN Holding should report in 3Q23, through CMIN. Since the beginning of the year, we have been more optimistic about CMIN's production for 2023, and we believe that this is an important milestone to restore credibility to the investment thesis, considering that last year the company left a lot to be desired in this regard.

For 3Q23, we expect production to show another record, leaving the guidance of 39-41Mt in 2023 to be achieved with ease. It's worth remembering that the 3Qs are the best quarters of the year for production. In addition, we see the sector's situation regarding iron ore prices as a bullish factor, considering that the 62% Fe curve averaged US$114/t (+US$3/t q/q) in the period.

Along with an improvement in sales due to the entry of the seasonal period, we also see a pricing system with greater provisioning dynamics than last quarter, and this will probably help bring the realized price to a significant high. Despite this, we will be very attentive to the volume effect of low-grade iron ore within the realized price, which we expect to reach US$80/t Genial Est. (+11.4% q/q; +42.3% y/y).

Very weak steel segment, due to the flood of Chinese steel. On the other hand, with exports from China remaining at high levels, we believe that the figures for the steel segment within CSN Holding will be very weak in 3Q23. We forecast a total volume of 1,021kt Genial Est. (-1.5% q/q; +1.7% y/y).

In our view, the penetration of imported steel within apparent consumption in Brazil, which reached 23.2% in September (latest data available), meaning an increase of +11.8p.p y/y, should continue at high levels for longer ahead. This is because we consider the fragility of the Brazilian market in the face of a lower tariff barrier than its Latin American peers.

This situation creates the need for price discounts in order to maintain domestic market share. For 3Q23, we project a realized price in the domestic market of R$5,400/t Genial Est. (-7.6% q/q; -17.0% y/y). While exposure in the US through LLC continues to look better, we also expect numbers in a sequential downturn, as well as in Europe, with SWT decelerating more strongly year-on-year. In the foreign market, we expect a realized price clocking in at R$4,500/t Genial Est. (-10.6% q/q; -33.5% y/y).

Better expectations for Cement, with synergies helping the consolidated result. After the acquisition of LaFarge Holcim Brazil, the holding company's cement division obtained a large additional production capacity, and has been seeking to gain efficiencies from synergies ever since. 3Q23 should represent an important step in absorbing these synergies, gaining market share and reducing costs, resulting in better figures. We expect a sales volume of 3.4Mt Genial Est. (+3.5% q/q; +82.5% y/y). In the same vein, prices should see a slight sequential increase, up to R$350/t Genial Est. (+2.0% q/q; -15.1% y/y).

We believe in a sequential improvement in CSN Holding's EBITDA, driven by CMIN and cement. For 3Q23, we see mining gaining more relevance within the holding's consolidated EBITDA, more than offsetting the drop in steel results, and to some extent, also helped by the cement division. In fact, cement EBITDA should clock in higher than steel, finally showing the power of business diversification, consolidating CSN Holding's EBITDA at R$2.7bn Genial Est. (+19.3% q/q; -0.6% y/y), being the only one on our coverage classified as a "steel company" (in our view, erroneously) which we expect to report an acceleration of sequential results in 3Q23. For CMIN, we also have a promising outlook, with an EBITDA projection of R$1.8bn Genial Est. (+69.2% q/q; +120.5% y/y).

In the case of CSN Holding, even though EBTIDA is on a double-digit upward trend, net income should remain flat, due to the large amount of financial expenses. For CMIN, despite taking on new debt (~US$1bn) to finance the P-15 project with Japan Bank International Corporation (JBIC), we see leverage still at an extremely controlled level, so financial expenses should be soft. Our expectation is a net profit of R$1.2bn Genial Est. (+162.4% q/q; +152.3% y/y).

3Q23 Preview: In detail!

CMIN: Iron ore production should remain strong due to seasonality, as well as benefiting from the rising price curve. At this point in the year, we are seeing a strong volume of production, even with weather setbacks creating some logistical difficulties for MRS's rail lines, which affected shipments during 1H23. We believe in the continuation of this positive momentum, given the entry into the most favorable quarter for production, which is typical of the 3Qs.

We expect a new record, along with an improvement in the product mix, due to a lower penetration of third-party purchases, as we mentioned at the beginning of the report. We project sales for 3Q23 at 11.6Mt Genial Est. (+3.3% q/q; +27.9% y/y), driven by production, which has a good chance of reaching the upper band of the 39-41Mt guidance, by next quarter.

Looking at price dynamics, we believe that CMIN's realized price should benefit from a slight improvement in the average of the 62% Fe curve, but we are confident of greater price realization, mainly through the forward provisioning mechanism, since the price of iron ore continued to rise between the end of 3Q23 and the beginning of 4Q23. We expect CMIN to reach a realization of US$80/t Genial Est. (+11.4% q/q; +42.3% y/y).

Table 4. Production and Shipments CMIN (3Q23 Genial Est.)

CMIN	3Q23E	2Q23		3Q22	
(Million tonnes)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Production + Purchases	**11,73**	**11,15**	**5,3%**	**9,61**	**22,1%**
Total Shipments	**11,63**	**11,26**	**3,3%**	**9,10**	**27,9%**
Internal Market	1,12	1,00	11,9%	1,12	0,0%
External Market	10,51	10,26	2,5%	7,97	31,8%

Source: CMIN, Genial Investimentos

CSN Holding: Challenging scenario exerts strong gravitational force on steel volume and price. Although the flat steel premium is running at ~17% vs. ~20% a short time ago, we see the reduction as a reflection of a downturn in the Brazilian steel curve, following successive discounts that have drastically affected local steelmakers' revenues. We estimate that CSN will bring in a consolidated steel volume (FM + DM) of 1,021kt Genial Est. (-1.5% q/q; +1.7% y/y), driven by a stronger drop in the Foreign Market (FM), which should decelerate -10.1% q/q to reach 280kt Genial Est., while we project the Domestic Market (DM) to reach 741kt Genial Est. (-0.2% q/q), basically stable compared to last quarter.

This stability in the DM will precisely occur due to our expectation of price discount policies, which should diminish the realization price down to R$5,400/t Genial Est. (-7.6% q/q; -17.0% y/y). With a double-digit drop y/y, and a sequential drop that is also relevant, our estimate for the price is in synergy with the flood of Chinese steel entering the Brazilian market during 2023, causing domestic players to be very aggressive in commercial policies to try to adjust a stable volume.

As for the price in the FM, we also believe in a slight drop, given the seasonal vacations in Europe affecting demand and, consequently, pass-throughs from SWT and Lusosider. We believe that CSN should take advantage of the period of weaker demand to carry out scheduled maintenance shutdowns at these units. We expect MT prices to clock in at R$4,500/t Genial Est. (-10.6% q/q; -33.5% y/y).

We expect progress for the cement division. Although we have been critical of the very slow progress made by CSN Holding's cement business division following the acquisition of LaFarge Holcim's operations in Brazil, we believe that efficiency indicators will improve more significantly in 3Q23. Our expectation is for a reduction in idle capacity, something that CSN has been working on within the assets acquired from LaFarge. The former French operator ran with much more spare capacity than CSN believes is necessary.

Considering a better efficiency of fixed cost dilution by a resilient volume, driven by the reduction of idle capacity, we also believe that prices will improve. Our previous criticism was very much along these lines. We weren't seeing as significant an improvement as we had initially hoped, given an aggressive commercial strategy to gain market share over Votorantim. Through our latest conversations with the company, we can expect a slight relaxation of the tight pricing strategy that was being applied until now, so that CSN can reap the rewards of slightly higher profitability.

Our projection is for volumes to reach the 3.4Mt Genial Est. mark (+3.5% q/q; +82.5% y/y), with prices gently improving after the relaxation we mentioned, to R$350/t Genial Est. (+2.0% q/q; -15.1% y/y).

CSN Holding: We project stable revenue and considering the economic situation, this is a good sign. Steelmaking, which currently accounts for ~50% of total revenue, will probably suffer a downturn, of which we estimate at -10.8% q/q. However, the projected growth in the mining business division of +15.4% q/q, driven by CMIN's performance, and in cement of +5.6% q/q, should be enough to offset the consolidation at CSN Holding, bringing total revenues of R$10.9bn Genial Est. (-0.1% q/q; +0.7% y/y), basically flat in 3Q23, both on a sequential and annual basis.

Table 5. Net Revenue CSN (3Q23 Genial Est.)

CSN (R$ Millions)	3Q23E **Genial Est.**	2Q23 **Reported**	**% q/q**	3Q22 **Reported**	**% y/y**
Net Revenue	**10.978**	**10.989**	**-0,1%**	**10.899**	**0,7%**
Steel	5.303	5.943	-10,8%	7.699	-31,1%
Mining	4.190	3.631	15,4%	2.527	65,8%
Porto	55	54	0,8%	69	-20,7%
Railway	682	668	2,0%	653	4,4%
Energy	164	159	3,2%	48	242,0%
Cement	1.206	1.142	5,6%	778	55,0%
Eliminations	(623)	(609)	2,2%	(875)	-28,9%

Source: CSN, Genial Investimentos

CSN Holding: Costs being a point of relief, at least momentarily. Despite the very different sector dynamics, our model points to a cost retraction in all the main business lines: **(i)** steel, **(ii)** cement and **(iii)** mining.

The **(i)** steel segment should feel a positive reflection in the downtrend of slab's acquisition costs, and for the time being, get rid of the increase seen in the iron ore and metallurgical coal curves, considering the delay for coke prices to reach the P&L. We project a COGS/t clocking in at R$5,000/t Genial Est. (-2.7% q/q; -9.4% y/y). As for the **(ii)** cements business unit, our expectation is for the permeability of some synergy gains, as we commented on throughout the report. Our projection points to a COGS/t of R$229/t Genial Est. (-4.0% q/q; +3.4% y/y).

CMIN: COGS/t down, taking advantage of greater capacity to dilute fixed costs. Entering the seasonally strongest part of year for production, **(iii)** mining should bring greater cost dilution due to the expected increase in sales. However, this cooling down process in costs will be partially offset by freight rates rising sharply at the end of the quarter, due to the higher SSY (Tubarão-Qingdao), making life more difficult for operators who are more exposed to hiring a third-party fleet, as is the case at CMIN. We believe that spot freight prices have been affected by the higher cost of bunker (marine fuel oil).

Our opinion is that the increase will continue to affect companies during 4Q23, given the acceleration in the price of a barrel of Brent crude oil due to the war in the Middle East. Turning to 3Q23, we expect CMIN to have a COGS/t of R$180/t Genial Est. (-14.1% q/q; +7.7% y/y), with the increase in dilution capacity more than offsetting the freight hike (at least for now).

CSN Holding: The only steel company we cover from which we expect EBITDA to improve. Despite having this "status", ironically it is not the steel division that will bring this effect, but the mining (to a greater extent) and cement (to a lesser extent) divisions. We point this out because many investors are still addicted to seeing CSN as a steel company only. In fact, the steel segment represents ~50% of the holding's total revenue, but in EBITDA this figure could fall sharply, to just 8% of the consolidated figure in 3Q23, according to our estimates. So, we are critical of a part of the market that doesn't seem to value the diversification of the company's businesses.

With our expectation of reaching the R$2.7bn Genial Est. mark (+19.3% q/q; -0.6% y/y), the holding's EBITDA could show exactly what we've been commenting on in the latest Metals & Mining reports: we prefer mining companies to steel companies at the moment. The steel segment is projected to see a sharp drop in EBITDA to R$206mn (-62.7% q/q; -83.5% y/y). It is worth mentioning that, despite the significant retraction, CSN's main peers did not report improvements in this line either.

As for the mining business division within the holding, our projections point to an EBITDA of R$1.8bn Genial Est. (+65.0% q/q; +100.2% y/y), with strong growth. For the cement business unit, our expectation is that, with higher revenue and lower costs, EBITDA will reach R$295mn Genial Est. (+31.8% q/q; +13.8% y/y). We would like to point out that the estimated EBITDA for cements is higher than that for steelmaking, yet another factor that helps show that CSN is not just a steel company.

Table 6. EBITDA CSN (3Q23 Genial Est.)

CSN	3Q23E	2Q23		3Q22	
(R$ Millions)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Adjusted EBITDA	**2.701**	**2.263**	**19,3%**	**2.716**	**-0,6%**
Steel	206	553	-62,7%	1.252	-83,5%
Mining	1.835	1.112	65,0%	917	100,2%
Porto	3	3	0,8%	17	-83,8%
Railway	370	362	2,0%	327	13,0%
Energy	78	69	12,5%	(11)	-
Cement	295	224	31,8%	259	13,8%
Eliminations	(96)	(60)	59,5%	(43)	123,0%

Source: CSN, Genial Investimentos

CMIN: We expect net income to rise sharply. From a slightly negative financial result of -R$253mn, due to CMIN's very well-controlled leverage, we expect a net income to be posted at R$1.3bn Genial Est. (+162.4% q/q; +152.3% y/y), with a significant improvement on both an annual and quarterly basis, driven by higher y/y production and resilient q/q i.o. prices.

Table 7. Income Statement CMIN (3Q23 Genial Est.)

CMIN (R$ Millions)	3Q23E **Genial Est.**	2Q23 **Reported**	**% q/q**	3Q22 **Reported**	**% y/y**
Net Revenue	**4.573**	**4.014**	**13,9%**	**2.724**	**67,9%**
Domestic Market	441	351	25,6%	419	5,3%
External Market	4.132	3.663	12,8%	2.304	79,3%
COGS	(2.433)	(2.623)	-7,2%	(1.778)	36,9%
Adjusted EBITDA	**1.865**	**1.098**	**69,9%**	**842**	**121,4%**
EBITDA Margin (%)	40,8%	27,4%	13,43p.p	30,9%	9,86p.p
EBIT	**1.819**	**1.085**	**67,6%**	**684**	**165,9%**
EBIT Margin (%)	39,8%	27,0%	12,74p.p	25,1%	14,66p.p
D&A	(307)	(247)	24,1%	(247)	24,3%
Financial Result	(253)	(506)	-50,1%	63	-
Net Income	**1.304**	**494**	**163,8%**	**514**	**153,6%**
Net Margin (%)	28,5%	12,3%	16,2p.p	18,9%	9,64p.p

Source: CMIN, Genial Investimentos

CSN Holding: Net income flat q/q. With an estimated negative financial result of -R$836mn, due to the holding's stronger leverage, we project a net income of R$278bn Genial Est. (-1.8% q/q; +17% y/y), consuming a considerable part of the gain we expect from EBITDA just before the bottom line of the result, due to higher financial expenses, driven by CSN's debt structure.

Table 8. Income Statement CSN (3Q23 Genial Est.)

CSN (R$ Millions)	3Q23E **Genial Est.**	2Q23 **Reported**	**% q/q**	3Q22 **Reported**	**% y/y**
Net Revenue	**10.978**	**10.989**	**-0,1%**	**10.899**	**0,7%**
COGS	(7.444)	(7.958)	-6,5%	(7.668)	**-2,9%**
Adjusted EBITDA	**2.701**	**2.263**	**19,3%**	**2.716**	**-0,6%**
EBITDA Margin (%)	24,6%	20,6%	4p.p	24,9%	-0,32p.p
EBIT	**1.257**	**1.141**	**10,2%**	**1.127**	**11,6%**
EBIT Margin (%)	11,5%	10,4%	1,07p.p	10,3%	1,12p.p
D&A	(875)	(788)	11,0%	(691)	**26,6%**
Financial Result	(836)	(1.186)	-29,5%	(318)	**162,5%**
Net Income	**278**	**283**	**-1,8%**	**238**	**17,0%**
Net Margin (%)	2,5%	2,6%	-0,04p.p	2,2%	0,35p.p

Source: CSN, Genial Investimentos

Our take on CSN and CMIN

CMIN: With our expectation that the company will continue its production ramp-up, reaching yet another historic record in 3Q23, we see that a very important point for the investment thesis is getting better development, in order to easily reach the guidance provided for the year for the first time, considering the stumbles the company made last year, when it revised the guidance 2x throughout 2022. Even so, in the ramp-up to 1H23, we were observing this increase in production with what we consider to be a high penetration of third-party purchases, coupled with a mix with a greater quantity of low-grade iron ore, which does not provide the same profitability of own fines/pellets production.

Rating upgrade for CMIN. We expect the penetration of third-party purchases to reduce in 3Q23, which should raise CMIN's EBITDA margin to 40.7% Genial Est. (+13.3p.p q/q; +9.7p.p y/y), with the prospect of fairly robust progress in both 3Q23 and 4Q23. In the short term, although domestic demand in China is faltering, with the industrial PMI returning to the contraction zone below 50pts, according to the most recent reading of the indicator, we see utilization rates in the Blast-furnaces at very high levels, of ~92% for several subsequent months.

So, we conclude that Chinese steelmakers don't seem to be cutting volume. As a result, the steel that China has not been consuming domestically is being duly exported, hampering the steel business in Brazil, but keeping demand for iron ore at satisfactory levels. This dynamic ended up bringing the 62% Fe curve to a level above +US$120/t, when our outlook at the start of the year was, for the 4Q23 average to be US$95/t. So, the scenario for mining today is more favorable than we imagined about 10 months ago.

Trading at an **EV/EBITDA 24E** of **6.6x**, and given the good momentum for the mining sector, we are **raising our 12M Target Price** to **R$7.20** (vs. R$5.00 previously), also **upgrading our rating** to **BUY**, given the **upside** of **+19.40%**.

CSN Holding: Partially, we are seeing CSN reap some of the rewards of being a holding, since the steel segment, which started out as its core business, is facing serious difficulties due to the sector's situation, and should end up losing a lot of relevance in EBITDA. Steel should only account for 8% of consolidated EBITDA, according to our model, with mining and cement showing important improvements in the quarter.

The situation for the steel industry is very delicate, and we see players still reducing the price of flat steel in order to maintain volume and market share in relation to imported steel, with the premium currently at +17.5%, above the historical average of ~12%. Despite a slight closing of this gap recently, considering that the premium level has exceeded 20%, **our take is that investors can still expect more discounts ahead**.

The situation doesn't seem to be coming to an end, as we can see that steel mill margins in China have once again become very low, but Blast-furnaces continue to have high utilization rates. The steel that China is not consuming domestically will probably be exported continuously and given Brazil's weakness due to the low tariff barrier, domestic steel mills exposed to flat steel will continue to suffer.

If the government changes the import tariff for steel, raising it to close to 25% (vs. ~12% currently), we see a significant upside for the sector, especially for Usiminas and CSN. However, negotiations are still ongoing, and we don't expect the Brazilian authorities to raise the rate at this voracity.

It's not just made of steel. Another point that keeps us worried about the investment thesis is the leverage. CSN Holding's leverage ended the **last quarter** at **2.8x Net Debt/EBITDA**. Although it should decrease in 3Q23, we consider it very unlikely that it will be within the target of 1.7-2.0x at the end of the year. Our projection is **2.5x Net Debt/EBITDA** for **23E**, which for us indicates **management's low commitment** to the **current level of debt**. conversely, we believe that the company's growth in **various business** areas **will mitigate the impact** of **poor dynamics** for **steel segment** on consolidated results, with the EBITDA of the cement business division exceeding that of steel, for example. We recognize that the **market** tends to look at CSN's leverage as a point of criticism, but **places almost no value on** what the company has been contributing in terms of **diversification**.

Our expectation is that CSN Holding will be the only company classified as a steelmaker under our coverage with an increase in EBITDA this quarter, but curiously, thanks to mining and improvements in the cement sector. Although the company is trading at a **24E EV/EBITDA** of **6.1x**, slightly below the normalized historical high/low steel cycle, the **12M Target Price** has been **cut** to **R$14.25** (vs. R$15.00 previously), based on **new realized price assumptions** for 2024, reflecting pessimism on flat steel discount trends in the near term. Therefore, our **NEUTRAL rating** remains, leaving the stock with an **upside** of **+12.47%**.

Appendix: CMIN

Figure 1. CMIN – Income Statement in R$ Millions (Genial Est. 2023-2028)

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**17.026**	**14.533**	**13.472**	**15.651**	**17.263**	**17.530**
(-) Cash COGS	(8.212)	(8.130)	(8.078)	(9.461)	(10.943)	(10.631)
Gross Profit	**7.751**	**5.036**	**3.781**	**4.316**	**4.181**	**4.497**
(-) Expenses	(1.949)	(836)	(762)	(915)	(1.028)	(1.047)
Adjusted EBITDA	**6.667**	**4.516**	**3.632**	**4.172**	**4.114**	**4.662**
(-) D&A	(1.063)	(1.367)	(1.613)	(1.874)	(2.138)	(2.402)
EBIT	**5.709**	**4.016**	**2.835**	**3.217**	**2.970**	**3.267**
(+/-) Financial Result	(1.351)	(705)	(587)	(541)	(537)	(551)
(-) Taxes	(1.051)	(1.032)	(701)	(835)	(758)	(847)
Net income	**3.308**	**2.278**	**1.547**	**1.842**	**1.674**	**1.869**
Profitability						
Net margin (%)	19,43%	15,68%	11,49%	11,77%	9,69%	10,66%

Figure 2. CMIN – Cash Flow in R$ Millions (Genial Est. 2023-2028)

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**17.026**	**14.533**	**13.472**	**15.651**	**17.263**	**17.530**
(-) COGS	(8.212)	(8.130)	(8.078)	(9.461)	(10.943)	(10.631)
Adjusted EBITDA	**6.667**	**4.516**	**3.632**	**4.172**	**4.114**	**4.662**
EBIT	**5.709**	**4.016**	**2.835**	**3.217**	**2.970**	**3.267**
(-) Taxes	(1.051)	(1.032)	(701)	(835)	(758)	(847)
(+) D&A	1.063	1.367	1.613	1.874	2.138	2.402
(+/-) Δ WK	45	148	60	(92)	54	(84)
(-) Capex	(1.443)	(1.373)	(2.316)	(3.299)	(4.675)	(4.734)
FCFF	**4.324**	**3.125**	**1.491**	**865**	**(271)**	**4**

Appendix: CSN

Figure 1. CSN – Income Statement in R$ Millions (Genial Est. 2023-2028)

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**42.820**	**39.901**	**43.741**	**49.209**	**52.394**	**54.268**
(-) COGS	(29.229)	(28.384)	(30.861)	(33.386)	(35.779)	(36.147)
Gross Profit	**13.591**	**11.518**	**12.880**	**15.823**	**16.614**	**18.121**
EBIT	**3.651**	**2.350**	**3.016**	**5.095**	**5.297**	**6.369**
(+/-) Financial Result	(4.014)	(3.005)	(3.137)	(3.465)	(3.640)	(3.690)
EBT	**(363)**	**-655**	**-121**	**1.630**	**1.657**	**2.678**
(-) Taxes	(28)	(100)	(218)	(554)	(563)	(911)
Net Income	**(392)**	**(755)**	**(339)**	**1.076**	**1.094**	**1.768**
Profitability						
Net Margin (%)	-0,91%	-1,89%	-0,77%	2,19%	2,09%	3,26%

Figure 2. CSN – Cash Flow in R$ Millions (Genial Est. 2023-2028)

Cash Flow	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**42.820**	**39.901**	**43.741**	**49.209**	**52.394**	**54.268**
(-) COGS	(29.229)	(28.384)	(30.861)	(33.386)	(35.779)	(36.147)
Adjusted EBITDA	**6.879**	**6.032**	**7.190**	**9.654**	**10.164**	**11.564**
EBIT	**3.651**	**2.350**	**3.016**	**5.095**	**5.297**	**6.369**
(-) Taxes	(28)	(100)	(218)	(554)	(563)	(911)
(+) D&A	3.228	3.682	4.174	4.559	4.866	5.195
(+/-) Δ WK	(1.389)	(303)	(567)	(597)	(302)	(251)
(-) Capex	(4.901)	(5.452)	(6.142)	(6.113)	(5.586)	(5.629)
FCFF	**561**	**176**	**263**	**2.390**	**3.712**	**4.774**

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under Review	Under review	**5%**

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