Equity Research

CSN & CMIN

3Q23 Review: Every pro has its cons

LatAm Metals & Mining

Main takeaways for CMIN:

(i) Volume hitting an all-time high, with a significant improvement in the product mix and annual guidance being revised upwards to 42-42.5Mt; **(ii)** Prices advancing in relation to the average i.o. curve of 62% Fe in 3Q23 (US$114/t), given the future price provisioning mechanism; **(iii)** Revenue recovered strongly, within our expectations; **(iv)** COGS/t cooled down marginally, with higher freight costs making it difficult to allow dilution of fixed costs works its magic; **(v)** Considering the favorable performance in volume, guidance was raised to 42-42.5Mt (vs. 39-41Mt previously), positive news, although we anticipated that ahead of consensus; **(vii)** As negative news, the guidance for C1 was also raised, to US$22/t (vs. US$19-21/t previously). Our opinion, at this point, is that this will not be enough to overturn our more bullish projections for CMIN's EBITDA margin; **(viii)** EBITDA clocked in at R$2.0bn (+7.1% vs. Genial Est.), and net income was posted at R$1.2bn (-7.5% vs. Genial Est.), both very strong sequential moves; **(vi)** We reinforced our **BUY rating**, with a **12M Target Price** of **R$7.20,** and an **upside** of **+16.50%**.

Main takeaways for CSN:

(i) Volume continues to struggle in steel segment, with a further drop even with stronger price discounts, culminating in the removal of guidance of 4.670kt for 2023; **(ii)** Mining benefits from the seasonal effect and external scenario, bringing higher volumes and prices, and with good prospects for the future; **(iii)** Cement unit goes against the market, and grows sales along with better cost synergies; **(iv)** EBITDA reported at R$2.8bn (+4,2% vs. Genial Est.), up +24.4% q/q; **(v)** Weak net income of R$91mn, down both on quarterly basis and year-on-year; **(vi)** Leverage shows timid improvement, cooling down to 2.6x Net Debt/EBITDA (vs. 2.8x in 2Q23). Still, far from being within the initially proposed target of 1.7-2.0x for 2023. Therefore, the target was also revised upwards to 2.0x-2.5x, which seems more feasible; **(vii)** We reiterate our **NEUTRAL rating**, with a **12M Target Price** of **R$14.25** leaving an **upside** of **+12.73%** for the shares.

Analysts

Igor Guedes
+55 (11) 3206-8286
igor.guedes@genial.com.vc

Lucas Bonventi
+55 (11) 3206-1455
lucas.bonventi@genial.com.vc

Renan Rossi
+55 (11) 3206-1457
renan.rossi@genial.com.vc

Companies

CSNA3 BZ Equity
Neutral

Price: R$ 12.64 (13-Nov-2023)
Target Price 12M: R$ 14.25

CMIN3 BZ Equity
Buy

Price: R$ 6.18 (13-Nov-2023)
Target Price 12M: R$ 7.20

CSN and CMIN released their 3Q23 results on November 13th, after the market closed. With better consolidated figures, and **in line with our expectations**, we see CSN **reaping the rewards of the diversification** of multiple businesses within the holding. Among the **positive highlights**, we would like to point out **mining (CMIN)** and the **cement** segments, which grew sales despite the market downturn. As we said in our preview report, which is attached (CSN & CMIN: 3Q23 Preview), we were confident that these two segments (mining and cement) would perform better in 3Q23, and help the holding's consolidated results to be less affected by **anemic figures in the steel unit**, which in fact shrank due to a more challenging sector environment.

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

(Thousand Tonnes - kt)	Reported	Genial Est.					
Summary (Shipments)	**3Q23E**	**3Q23E**	**% R/E**	**2Q23**	**% q/q**	**3Q22**	**% y/y**
Steel	1.018	1.021	**-0,3%**	1.051	**-3,1%**	1.160	**-12,3%**
Iron Ore	1.164	1.163	**0,1%**	1.126	**3,4%**	910	**28,0%**
Cement	3.263	3.450	**-5,4%**	3.333	**-2,1%**	1.890	**72,6%**

Source: CSN & CMIN, Genial Investimentos

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

(R$ millions)	Reported	Genial Est.					
CMIN Income Statement	**3Q23A**	**3Q23E**	**% R/E**	**2Q23**	**% q/q**	**3Q22**	**% y/y**
Net Revenue	4.839	4.564	**6,0%**	4.014	**20,6%**	2.724	**77,7%**
Adjusted EBITDA	1.988	1.857	**7,1%**	1.098	**81,1%**	842	**136,0%**
Net Income	1.199	1.297	**-7,5%**	494	**142,6%**	514	**133,2%**

Source: CMIN, Genial Investimentos

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

(R$ millions)	Reported	Genial Est.					
CSN Income Statement	**3Q23E**	**3Q23E**	**% R/E**	**2Q23**	**% q/q**	**3Q22**	**% y/y**
Net Revenue	11.125	10.978	**1,3%**	10.989	**1,2%**	10.899	**2,1%**
Adjusted EBITDA	2.815	2.701	**4,2%**	2.263	**24,4%**	2.716	**3,7%**
Net Income	91	278	**-67,4%**	283	**-68,0%**	238	**-61,8%**

Source: CSN, Genial Investimentos

Valuation and rating. CSN Holding continued to feel the impact of the global macro situation, with the negative part being reflected mainly through the steel segment, due to the significant increase in Chinese steel exports, making it difficult to maintain market share without price discounts. This situation has caused discomfort for Brazilian steelmakers, resulting in lower prices and volumes in 3Q23 not only for CSN but also for other players such as Usiminas and Gerdau.

Considering that Brazil has a low tariff barrier compared to its Latin American peers, Chinese steel is easily gaining relevance in the domestic market. In addition, the flat steel segment, in which CSN is more exposed, has presented greater difficulties compared to the dynamics for long steel. We therefore see Usiminas and CSN being the most affected in our coverage. Currently, the premium for domestic flat steel vs. imported stands at +17.5% (vs. ~12% historical average). The peak of the premium was close to +20%, before the discounts given on the domestic market. Although the gap has narrowed, we consider it to be well above historical levels, so **we expect further discounts ahead**, unless the Brazilian authorities raise the tariff on imported steel.

On the flip side, CMIN has been benefiting positively from what is happening in the mining environment: growing production (+20.4% y/y) and shipments (+28.0% y/y) with the entry into the 2H seasonality, showing a vigor that leaves us bullish. As we have been saying since last quarter's results, in all our publications on our mining coverage, when we commented on CMIN, we said that we believed in the company's potential to come close to the upper band of the guidance and even to be able to exceed the indicator. We received confirmation that we were correct in our analysis, with CMIN raising its production guidance to 42-42.5Mt (vs. 39-41Mt previously).

In addition, we have become more hopeful for even stronger results in 4Q23 and throughout 2023 given the opportune moment for price realization, considering the current level of the 62% Fe iron ore curve above +US$120/t. As we said in our preview report, the penetration of third-party i.o. actually decreased a little in 3Q23, which helped bring about a more favorable realized price due to the lower composition of low-grade iron ore, and this translated into an expansion of margins.

Although **CSN Holding** has a high level of leverage in order to consolidate new business verticals (**2.6x Net Debt/EBITDA** in 3Q23), it stood out by reporting growing figures in 3Q23, with EBITDA accelerating +24.4% q/q vs. its shrinking peers. Even so, the difficulty seen in the steel industry, as it accounts for ~50% of the holding's revenue, remains a point of aversion in relation to a possible rating upgrade. In our preview report, we even revised our assumptions, considering new discounts for flat steel in 2024, which inevitably reduced the holding's 12M Target Price. Seeing the company negotiating a **24E EV/EBITDA** of **6.1x**, we reiterate our **NEUTRAL rating**, with a **12M Target Price** of **R$14.25**, leaving an **upside** of **+12.73%** for the shares.

In a completely different path, CMIN reported solid figures, showing a sequential increase on an annual basis, taking advantage of market conditions in the 62% Fe i.o. price, which are also strengthened up in volume by the entry into the positive seasonality that favors production. Even though the company has **updated its annual guidance to 42-42.5Mt**, representing an **increase of ~7.5% vs. the previous indicator**, as we quoted, we were already optimistic about this figure and the increase in guidance does not surprise us. Obviously, we see the news as positive, but **we were already considering a 42Mt Genial Est. assumption in our model for 2023 production**, precisely one of the components that caused our 12M Target Price increase in our previous report. For more details, access the previous report via the link.

Therefore, we continue with our assumptions intact, given the super recent revisions we have made. We are confident about the decision we made in the last report to raise both the Rating and the Target Price. We believe that **CMIN has been showing robust growth**, and with the **reduction in the penetration of third-party purchases** and the **improvement in its mix**, it will be able to take advantage of the more favorable momentum experienced by the mining sector, which is riding a positive wave, unlike the "tide of bad luck" that hangs over the steel sector. We reaffirm our **BUY rating**, with a **12M Target Price** of **R$7.20** and an **upside** of **+16.50%**.

3Q23 Review:

CMIN: Strong production + higher prices. Guidance raised to 42-42.5Mt, reflecting good momentum. As a major positive highlight in 3Q23, CMIN reported strong numbers, as we expected, due to three variables: **(i)** higher volumes, **(ii)** accelerating prices and **(iii)** lower costs due to increased dilution capacity.

On the volume side **(i)**, the positive seasonality for production, favored by the absence of rain, characteristic of the weather season in 3Qs, led to a record volume of 11.64Mt (+0.1% vs. Genial Est.), absolute in line with our projections and growing +3.4% q/q and +28.0% y/y. The previous guidance of 39-41Mt was raised to 42-42.5Mt. Great news, but not surprising. As we had indicated in our last reports, our opinion was that the previous guidance would be easily achieved.

In terms of **(ii)** price, the average of the 62% Fe reference curve was slightly higher in 3Q23, (US$114/t vs. US$111/t 2Q23). That alone would have helped, but not much. So, what really pushed for a broader improvement was the continued elasticity of the 62% Fe curve, rising to +US$120/t over the course of 4Q23. CMIN, in line with a common practice adopted in the sector, makes a provision for prices ahead, based on the expectation of what the price of iron ore will be when the cargo arrives at the port of destination, for example. This has the effect of anticipating the curve appreciation that we have seen (US$114/t 3Q23 vs. US$120/t today).

Even though we got the dynamics right, the realized price was slightly below our expectations at US$75/t (-6.2% vs. Genial Est.), but ended up showing a recovery of +14.5% t/t. In a strategy that has already affected the current quarter with +R$31mn, CMIN has set up a hedge position on the price of iron ore, as we said it would. We think that it might have a positive effect in the coming quarters in the event of a downtrend in the reference curve, acting as a safeguard against a potential speculative increase on the 62% Fe curve considering further stimulus from the Chinese government or improvements in the real estate sector, events that may not be confirmed.

On the variable of **(iii)** cost, along with the increase in production, we had a greater dilution of fixed costs, and a lower volume of purchases from third parties, with both factors helping to cool expenses and raise margins. However, these factors were partially erased by higher freight costs. Just as we predicted, there was a marginal drop of -2.2% q/q in COGS/t.

CMIN: C1 guidance also increased, but we are confident of an improvement in EBITDA. While the positive news was the change in production guidance, increasing it by ~7.5% vs. the previous indicated volume, an increase in C1 cost guidance for 2023 was also announced, consolidating the other news, this one with a negative bias. From now on, the C1 guidance is US$22/t (vs. US$19-21/t previously). We found out that this has been happening in the sector as a whole. Vale has even revised the same indicator and is finding it even more difficult than CMIN to stop costs from rising wildly. In our opinion, the higher costs are linked to **(i)** higher geological inflation, **(ii)** a more pressured USD/BRL exchange rate and **(iii)** new forms of mining to remove bodies and masses with no economic value in mines that are at a higher stage of depletion.

However, even with a higher C1/t, we are confident that CMIN will continue to improve its EBITDA. For us, although the process of increasing costs is a potential margin deformer, the effect that the reduction in the penetration of third-party purchases and resales should bring, together with higher volumes and a resilient iron ore price, will more than compensate for the +5% increase in C1/t in 4Q23, and as far as current visibility allows us to estimate, also throughout 2024.

Returning to comment on 3Q23, we have already seen some positive effects of this dynamic on EBITDA, which reached R$2.0bn (+7.1% vs. Genial Est.), above our already optimistic expectations and showing a progression of +81.1% q/q and +136.0% y/y. Margin expanded to 41.1% (+0.4p.p vs. Genial Est.), with a double-digit p.p. expansion both sequentially and year-on-year. Growth that we consider to be very solid, facilitating the achievement of a net income of R$1.2bn (-7.5% vs. Genial Est.), with an acceleration of +162.4% q/q and +133.2% y/y.

Table 4. Income statement CMIN (3Q23 vs. Genial Est.)

CMIN	3Q23	3Q23E		2Q23		3Q22	
(R$ Millions)	**Reported**	**Genial Est.**	**% R/E**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**4.839**	**4.564**	**6,0%**	**4.014**	**20,6%**	**2.724**	**77,7%**
Domestic Market	541	440	22,9%	351	54,0%	419	29,1%
External Market	4.298	4.124	4,2%	3.663	17,3%	2.304	86,5%
COGS	(2.523)	(2.433)	3,7%	(2.623)	-3,8%	(1.778)	41,9%
Adjusted EBITDA	**1.988**	**1.857**	**7,1%**	**1.098**	**81,1%**	**842**	**136,0%**
EBITDA Margin (%)	41,1%	40,7%	0,39p.p	27,4%	13,73p.p	30,9%	10,16p.p
EBIT	**1.771**	**1.810**	**-2,2%**	**1.085**	**63,2%**	**684**	**158,9%**
EBIT Margin (%)	36,6%	39,7%	-3,07p.p	27,0%	9,57p.p	25,1%	11,49p.p
D&A	(262)	(307)	-14,6%	(247)	6,0%	(247)	6,1%
Financial Result	3	(253)	-	(506)	-	63	-95,7%
Net Income	**1.199**	**1.297**	**-7,5%**	**494**	**142,6%**	**514**	**133,2%**
Net Margin (%)	24,8%	28,4%	-3,64p.p	12,3%	12,47p.p	18,9%	5,9p.p

Source: CMIN, Genial Investimentos

CSN Holding: Even providing discounts, steel segment fails to grow volume. Consolidating the negative part of the result, we see the steel segment with major difficulties in revenue formation, losing power due to the continued export of Chinese steel, fighting for share in a slowing market. The reported volume suffered more strongly in the Foreign Market-FM (-13.0% q/q; -9.6% y/y), with the vacation season in Europe causing stoppages in factories, as expected. Even so, due to strong price discounts, the Domestic Market-DM showed a marginal increase, bringing a weak consolidated figure (FM+DM) of 1,018kt (-0.3% vs. Genial Est.), perfectly in line with the dynamics we had projected.

CSN Holding: Guidance for steel is canceled, due to impoverished dynamics. After suffering at the beginning of the year from internal logistics problems at the Presidente Vargas (RJ) plant, combined with the effect of declining demand, considering the high competition for market share with imported steel, the result was very low volumes' levels during 1H23.

Also, as we had already mentioned, bringing this possibility to investors in advance, the previously disclosed guidance of 4,670kt for 2023 has now been annulled, confirming our expectation that it would be necessary to have a much higher volume than historical in 4Q23 in order to reach the target reading for 2023.

We also rate this news negative, but we believe that it will have zero effect, considering that, according to our conversations with institutional investors, many no longer considered that CSN would achieve the guidance, given the extremely challenging scenario. In our model, the volume for 2023E was already at 4,080Kt (-12.6% vs. guidance), so once again this news has no impact on our assumptions. We emphasize that our perception is that the failure to meet guidance had already been absorbed by the market and discounted in the share price. Now only been made official by the company.

CSN Holding: Even with falling volume, prices didn't react. Despite losing volume, CSN still saw a further fall in prices, both in the Domestic Market - DM (-6.7% q/q) and in the Foreign Market-FM (-11.5% q/q), as previously expected. Consolidating DM + FM, the realized price fell by -7.1% q/q, to ~R$5,250/t (+1.9% vs. Genial Est.), in line with our expectations. Looking ahead, we believe that the high premium practiced on the domestic market vs. the imported product may still indicate the need for further discounts, which keeps us bearish in the short term, especially for the flat steel segment.

CSN Holding: Lower costs, but COGS/t decompression movement is unlikely to continue. On the cost side, COGS/t showed signs of cooling down, to R$5,100/t (+2% vs. Genial Est.), decelerating by -0.6% q/q and -6.7% y/y. As we quoted in our preview report, the reduction was due to the cost of slabs, which showed a large decompression of -13.4% y/y, which we see as important for somewhat mitigating the unit's weak profitability.

For the next few quarters, given the dynamics of the delays in relation to the spot curve, we believe that CSN may suffer from the rise in the curves for coking coal and iron ore, which are also important production inputs. Therefore, the cost improvement we saw in 3Q23 should not continue into 4Q23.

CSN Holding: Cement advances along the path of cost synergy, gaining market share. Looking at the cement business division, the holding 's growth strategy after the acquisition of Elizabeth and LaFarge Holcim Brazil is also clear. In this way, CSN has been increasing cement production, reducing the idle capacity of the assets acquired and with a more aggressive pricing strategy, which has resulted in a major gain in market share since the beginning of the year, growing its volume even with negative data for cement in Brazil until then.

Moving up from 9th place to 2nd in market share, the battle for leadership is now with an extremely strong player, Votorantim. Adopting a commercial strategy of lowering prices to gain more space from competitors, CSN had been operating with a cement margin below what we would like to see. However, our expectation was for an improvement in 3Q23, as we commented in our preview report. This improvement did in fact occur, considering the option to loosen the more aggressive commercial policy and reap gains in margins.

Despite this trend, In the short-term, sales have reached 3.2Mt in 3Q23 (-5.4% vs. Genial Est.), reversing our expectation of a slight rise, to a marginal fall of -2.1% q/q, while prices accelerated, offsetting the volume loss in revenue formation. Improving its efficiency by starting the process of collecting the synergies promised after the M&A round, costs also fell marginally by -1.8% q/q, in line with our expectations.

CSN Holding: Revenue practically flat, in line with estimates. Consolidated net revenue came to a total of R$11.1bn, within our expectations, in a dynamic in which steel slowed to R$5.3bn (+0.8% vs. Genial Est.), shrinking by -10.1% q/q and -30.6% y/y. However, as we predicted, the improvements in mining, which reached R$4.3bn (+3.5% vs. Genial Est.), rising by +19.4% q/q and +71.5% y/y, created a neutral effect on the total. Cement, due to a lower volume than we expected, was slightly below our projections, posting revenues of R$1.1bn (-3.9% vs. Genial Est.), nevertheless showing growth of +1.5% q/q and +49.0% y/y.

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

CSN	3Q23	3Q23E		2Q23		3Q22	
(R$ Millions)	**Reported**	**Genial Est.**	**% R/E**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**11.125**	**10.978**	**1,3%**	**10.989**	**-0,1%**	**10.899**	**0,7%**
Steel	5.344	5.303	0,8%	5.943	-10,8%	7.699	-31,1%
Mining	4.335	4.190	3,5%	3.631	15,4%	2.527	65,8%
Porto	75	55	37,1%	54	0,8%	69	-20,7%
Railway	730	682	7,1%	668	2,0%	653	4,4%
Energy	122	164	-25,7%	159	3,2%	48	242,0%
Cement	1.159	1.206	-3,9%	1.142	5,6%	778	55,0%
Eliminations	(640)	(623)	2,8%	(609)	2,2%	(875)	-28,9%

Source: CSN, Genial Investimentos

CSN Holding: Despite the challenges seen in the steel segment, mining and cement were more than enough for a growing EBITDA. Reporting a consolidated EBITDA of R$2.8bn (+4.2 vs. Genial Est.), CSN Holding showed a sequential improvement of +24.4% q/q, well above peers classified as steel players, such as Usiminas and Gerdau. We believe that a number of investors argue that CSN's leverage is higher than that of its peers, but do not consider the power that diversification has to cause a satisfactory effect at times when the dynamics for steel are totally apathetic.

The holding's operating performance was slightly higher than our estimates, showing a recovery, driven by mining (EBITDA of R$1.9bn; +76.7% q/q) and cement (EBITDA of R$266mn; +18.9% q/q). The increased relevance of both units ends up showing the true purpose of a holding company, since the steel segment brought in a weak EBITDA of R$183mn (-66.9% q/q; -85.4% y/y), suffering from the macro situation.

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

CSN (R$ Millions)	3Q23 **Reported**	3Q23E **Genial Est.**	**% R/E**	2Q23 **Reported**	**% q/q**	3Q22 **Reported**	**% y/y**
Adjusted EBITDA	**2.815**	**2.701**	**4,2%**	**2.263**	**24,4%**	**2.716**	**3,7%**
Steel	183	206	-11,2%	553	-66,9%	1.252	-85,4%
Mining	1.966	1.835	7,1%	1.112	76,7%	917	114,4%
Porto	19	3	589,1%	3	594,6%	17	11,8%
Railway	406	370	9,9%	362	12,1%	327	24,2%
Energy	25	78	-67,8%	69	-63,8%	(11)	-327,3%
Cement	266	295	-9,8%	224	18,9%	259	2,7%
Eliminations	(50)	(96)	-47,8%	(60)	-16,8%	(43)	16,3%

Source: CSN, Genial Investimentos

CSN Holding: Net income down, with leverage weighing on financial results. Without the reversal of income tax and social contribution that occurred in 2Q23, net income clocked in at R$91mn (-67.4% vs. Genial Est.), below our estimates, and down -68.0% q/q and -61.8% y/y.

Considering what we said above about operational performance up to the EBITDA line, CSN reaped the rewards of business diversification. And that's exactly the point: as nothing comes for free, the cost of running a holding company with multiple businesses is higher leverage, and the negative consequence of this is also a higher financial expense. So, operationally, the company put up very well performance considering the scenario, but the bottom line was insufficient, washing away all the positive contribution of diversification.

Table 7. Income Statement CSN (3Q23 vs. Genial Est.)

CSN (R$ Millions)	3Q23 **Reported**	3Q23E **Genial Est.**	**% R/E**	2Q23 **Reported**	**% q/q**	3Q22 **Reported**	**% y/y**
Net Revenue	**11.125**	**10.978**	**1,3%**	**10.989**	**1,2%**	**10.899**	**2,1%**
COGS	(7.492)	(7.444)	0,6%	(7.958)	-5,8%	(7.668)	-2,3%
Adjusted EBITDA	**2.815**	**2.701**	**4,2%**	**2.263**	**24,4%**	**2.716**	**3,7%**
EBITDA Margin (%)	25,3%	24,6%	0,7p.p	20,6%	4,71p.p	24,9%	0,39p.p
EBIT	**1.647**	**1.257**	**31,0%**	**1.141**	**44,4%**	**1.127**	**46,2%**
EBIT Margin (%)	14,8%	11,5%	3,35p.p	10,4%	4,42p.p	10,3%	4,46p.p
D&A	(827)	(875)	-5,4%	(788)	4,9%	(691)	19,7%
Financial Result	(1.223)	(836)	46,3%	(1.186)	3,1%	(318)	284,0%
Net Income	**91**	**278**	**-67,4%**	**283**	**-68,0%**	**238**	**-61,8%**
Net Margin (%)	0,8%	2,5%	-1,72p.p	2,6%	-1,76p.p	2,2%	-1,36p.p

Source: CSN, Genial Investimentos

Our take on CSN and CMIN

CMIN. Reporting a strong figure, close to the growth thesis "sold" to investors during its IPO, we see CMIN taking some important steps towards growing its iron ore production capacity. Although the guidance initially given for 2023 (of 39-41Mt) was already the initial guidance for 2022 with the absence of the cuts that were made last year, the production ramp-up has made significant progress, reinforced by an improvement in the mix between own production and purchases from third parties. Also, by the revision, this time positive, to 42-42.5Mt still for 2023, we see a major improvement in the operating margin and expectations going forward.

We expect a favorable market reaction. We are therefore beginning to be more optimistic about the likelihood of CMIN delivering what it promises, eliminating some of the insecurities that we know some institutional investors had about the company. At the same time as the internal thesis is developing, the external scenario creates a more favorable environment for its figures going forward, given the 62% Fe i.o. curve almost reaching US$130/t (vs. US$114/t in 3Q23), consolidating a positive environment for top-line growth in 4Q23, reinforced by the **(i)** increase in the volume of inventory in transit, which also helps in the **(ii)** capacity for dilution of fixed costs, another point that we understand to be key.

Even with the increase in C1 guidance to US$22/t (vs. US$19-21/t previously), our opinion, at this point, is that this will not be enough to overturn the more optimistic projections we have in the EBITDA margin improvement for CMIN, which reached 41.1% in 3Q23 (+0.4p.p vs. Genial Est.), with a double-digit p.p. dilation both sequentially and year-on-year.

Lower cash generation q/q, but satisfactory. Free cash flow generation (FCFE) was R$779mn (+3.4% vs. Genial Est.), indicating a retraction of -32.9% q/q, impacted by a more pressured working capital dynamic than last quarter (typical for 3Qs due to inventory in transit). We believe in a more favorable working capital release movement in 4Q23, when inventory in transit is being cleared in the destination port region.

Although it hasn't been announced, and even with the sequential downturn, we believe there is room for dividend distribution, since we expect cash generation for 4Q23 to compensate for this effect on working capital. We project a **23E FCF Yield** of **10.5%**, with a **23E Dividend Yield** of **7.5%**. For 2024, the figures projected in our model are slightly lower than these, but we will await greater visibility on the company's cash flow utilization strategy on the dividend policy vs. **(i)** CAPEX for expansion projects, plus the **(ii)** hard work of cooling down the holding's leverage. We continue to look forward to CMIN's next quarters, supporting our rating upgrade made in the last report, which can be accessed via the link. Trading at an **EV/EBITDA 24E** of **6.6x**, we reinforce our **BUY rating**, with a **12M Target Price** of **R$7.20**, leaving the shares with an **upside** of **+16.50%**.

CSN Holding. Showing completely different dynamics between the businesses below its umbrella, after the mining and cement parts improved, the steel segment, which used to be its main unit, has been deteriorating along with the macro scenario, dropping from a 48% share of the company's total revenue to a measly 8% share of consolidated EBITDA in 3Q23.

As long as China keeps the utilization rate of its blast furnaces high and continues with a policy of strong steel exports to the rest of the world, our take is that the steel industry in Brazil should continue to suffer. With a low import barrier, especially compared to Latin American peers, Chinese steel easily enters the domestic market and fights for market share, forcing some price discounts to normalize the premium on imported steel, which remains high even after domestic adjustments. As we've already said, we remain bearish about flat steel in 2024, if the Brazilian authorities don't raise the import tariff (currently at ~12% vs. 25% at Aço Brazil’s plea).

Every pro has its cons. For us, there is no other message that CSN's 3Q23 results sends than this... Easily identifiable as the "Pro", the company posted double digit sequentially higher EBITDA, something that no player classified as a steelmaker has managed to do. As for the "Against", we also believe it's obvious... the much-talked-about "Achilles heel" of CSN's investment thesis: leverage. In order to grow its multiple businesses, the company has taken on debt at a higher level than we see for other players that are focused solely on steel. This has always been the main point that a significant number of investors consider, in order to exercise the act of banging the judge's gavel in a trial, as if they say, "I will not invest, that's it!".

However, until then, there hadn't been many quarters where the "Pro" side was more evident than this one. Our opinion is that CSN collected more quarters where only the "Con" side of leverage appeared, with CMIN revising guidance’s downwards and losing credibility las year, and cements growing, but without the effect of synergies. So, apart from logistics and energy, the latter with a much lower percentage of EBITDA, only the steel segment was left. In the investor's mind, why would they allocate capital to a more leveraged company in order to reap benefits similar to those of its peers? Well... this quarter told a slightly different story.

Utilizing the positive results of the other business verticals, even with the steel segment showing an anemic performance, CSN managed to cool down its high leverage a bit, to **2.6x Net Debt/EBITDA** (vs. 2.8x in 2Q23), just as we quoted in our preview report. Even so, we were also categorical in saying that the chances of CSN Holding diluting its debt to the point of staying within the initially proposed target of 1.7-2.0x for 2023 were basically nil. We were right about that too, with the announcement of the **revision of this target to 2.0x-2.5x**, something that seems more feasible. Our projection is precisely **2.5x 23E**.

With free cash flow of R$1.0bn (vs. R$745mn in 2Q23), after a new release of R$963m in working capital, we see some initial progress being made. But **we have pessimistic assumptions for flat steel in 2024**, and as we know that investors are still getting used to the idea of looking at CSN not as an exclusive steel company but as a multi-business holding company, **we believe that the shares have almost none short-term triggers**, and will react according to the News Flow for steel, with the dynamics that all investors are now following about import tariffs. Therefore, trading at an **EV/EBITDA 24E** of **6.1x**, we reiterate our **NEUTRAL rating**, with a **12M Target Price** of **R$14.25**, which provides an **upside** of **+12.73%**.

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**	**40.432**	**44.500**	**48.722**	**51.882**	**53.733**
(-) COGS	(29.229)	(28.352)	(30.557)	(33.069)	(35.156)	(35.485)
Gross Profit	**13.591**	**12.081**	**13.943**	**15.653**	**16.726**	**18.249**
(-) Expenses	(6.712)	(5.509)	(5.718)	(6.136)	(6.417)	(6.522)
Adjusted EBITDA	**10.414**	**9.086**	**10.747**	**12.019**	**12.793**	**14.192**
(-) D&A	(3.228)	(3.673)	(4.002)	(4.122)	(4.229)	(4.357)
EBIT	**3.651**	**2.899**	**4.223**	**5.394**	**6.080**	**7.369**
(+/-) Financial Result	(4.014)	(3.041)	(3.243)	(3.474)	(3.626)	(3.717)
(-) Taxes	(28)	(186)	(374)	(653)	(834)	(1.242)
Net Income	**(392)**	**(327)**	**606**	**1.267**	**1.620**	**2.410**
Profitability						
Net Margin (%)	-0,91%	-0,81%	1,36%	2,60%	3,12%	4,49%

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

Cash Flow	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**42.820**	**40.432**	**44.500**	**48.722**	**51.882**	**53.733**
(-) COGS	(29.229)	(28.352)	(30.557)	(33.069)	(35.156)	(35.485)
Adjusted EBITDA	**10.414**	**9.086**	**10.747**	**12.019**	**12.793**	**14.192**
EBIT	**3.651**	**2.899**	**4.223**	**5.394**	**6.080**	**7.369**
(-) Taxes	(28)	(186)	(374)	(653)	(834)	(1.242)
(+) D&A	3.228	3.673	4.002	4.122	4.229	4.357
(+/-) Δ WK	(1.389)	(340)	(535)	(482)	(302)	(247)
(-) Capex	(4.901)	(5.452)	(6.142)	(6.113)	(5.586)	(5.629)
FCFF	**561**	**594**	**1.175**	**2.269**	**3.587**	**4.610**

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