genial Equity Research

CSN & CMIN

4Q23 Preview: Reacquiring vital signs

LatAm Metals & Mining

Main takeaways for CMIN:

(i) Shipments will probably fall q/q due to seasonal effects, but realized price will rise due to the 62% Fe curve; **(ii)** Net revenue expected to increase by +5.7% q/q and +29.6% y/y, at R$5.1bn Genial Est. **(iii)** COGS/t comes under pressure in C1/t, with the prospect of a slight increase q/q and a stronger one y/y; **(iv)** Expectation of significant growth in net income; **(v) Lower level of shipments** now projected **for 2024** (43Mt vs. 45Mt previously), as the guidance released at Investor Day (42-43.5Mt) was disappointing for us; **(vi)** We are expecting a **better mix** between **third-party purchases vs. own production** in 2024. Third-party purchases should fall by -2.5Mt and own production rise by +2.5Mt vs. 2023; **(vii)** Trading at an **EV/EBITDA 24E** of **4.2x**, we are **reducing** our **12M Target Price** to **R$7.00** (vs. R$7.60 previously), remaining with a **BUY rating**, due to the **upside of +16.67%**.

Main takeaways for CSN:

(i) The steel business unit should show a partial recovery, but the situation remains challenging; **(ii)** Cements with basically stable dynamics y/y; **(iii)** Important projected growth in the net revenue, of +4.5% q/q and +4.4% y/y, reaching R$11.6bn Genial Est, with almost all of the company's business units performing better sequentially; (**iv**) Steel COGS/t down -9.1% q/q and -10% y/y; **(v)** EBITDA increasing q/q in almost all units and stable in cements; **(vi)** We expect net income to expand itself, moving away from last quarter's apathetic bottom line; **(vii)** We believe that the distribution segment will be an escape valve for price pass-throughs in 2024 in the steel business unit, but consolidated realized prices tend to remain stable, due to the industrial segment having more freedom to buy imported steel; **(viii)** Another M&A in cements? We commented a little on what we think of CSN's potential purchase of InterCement; **(ix) 12M Target Price was raised to R$17.30** (vs. R$14.25 previously) due to the delay in updating assumptions. However, we remain with a **NEUTRAL rating**, given the **very narrow upside** of **+4.34%**.

CSN and CMIN will release their 4Q23 results on March 6th, after the market closes. We expect to see a continuation of the improvement in results already seen last quarter, with CSN once again reaping the benefits of the **diversification** of multiple businesses within the holding company, especially with **mining getting even better results**.

We anticipate the following main guidelines: **(i) steel** unit with a partial recovery in the sequential movement, mainly driven by increased volumes, but still showing weaknesses in the y/y comparison, intrinsically linked to the weakened price situation. In addition, we have **(ii) mining (CMIN)** with good performance, driven by the 62% Fe curve price increase, and **(iii)** the **cement** business unit, with mild q/q deceleration in sales, resulting from the seasonal effect common to the 4Qs.

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Companies

CSNA3 BZ Equity
Neutral

Price: R$ 16.58 (05-Mar-2024)
Target Price 12M: R$ 17.30

CMIN3 BZ Equity
Buy

Price: R$ 6.00 (05-Mar-2024)
Target Price 12M: R$ 7.00

Table 1. Shipments Summary (4Q23 Genial Est.)

(Mil Ton - kt)	Genial Est.				
Summary (Shipments)	**4Q23A**	**3Q23A**	**% q/q**	**4Q22A**	**% y/y**
Steel	1.097	1.018	**7,7%**	1.008	**8,8%**
Iron Ore	10.961	11.641	**-5,8%**	9.729	**12,7%**
Cement	3.243	3.263	**-0,6%**	2.897	**11,9%**

Source: CSN & CMIN, Genial Investimentos

Table 2. Income Statement Summary CMIN (4Q23 Genial Est.)

(R$ millions)	Genial Est.				
Income Statement	**4Q23E**	**3Q23A**	**% q/q**	**4Q22A**	**% y/y**
Net Revenue	5.115	4.840	**5,7%**	3.978	**28,6%**
Adjusted EBITDA	2.213	1.987	**11,4%**	1.784	**24,0%**
Net Income	1.448	1.200	**20,6%**	871	**66,1%**

Source: CMIN, Genial Investimentos

Table 3. Income Statement Summary CSN (4Q23 Genial Est.)

(R$ millions)	Genial Est.				
Income Statement	**4Q23A**	**3Q23A**	**% q/q**	**4Q22A**	**% y/y**
Net Revenue	11.620	11.125	**4,5%**	11.129	**4,4%**
Adjusted EBITDA	3.216	2.815	**14,2%**	3.130	**2,7%**
Net Income	683	91	**652,4%**	197	**247,1%**

Source: CSN, Genial Investimentos

Valuation and rating. We expect CSN holding to raise steel sales sequentially by +7.7% q/q, also marking an improvement on an annual basis of +8.8% y/y, reaching ~1.1Mt Genial Est. Although production has overcome the bottlenecks seen at the beginning of 2023 at the Presidente Vargas mill (RJ), added to a seasonally better momentum for the units in Europe (Lusosider and SWT), both factors will not compensate for CSN holding's weak start to the year. Last quarter, the company officially cancelled its guidance of 4,670Kt, as we had already said it was a possibility in reports prior to the announcement.

We therefore forecast annualized sales of 4,200Kt Genial Est. (-10.1% vs. previous guidance), which could consolidate a drop of -4% y/y. For this reason, even though **4Q23** could show a **recovery in steel volumes**, we don't consider the steel segment's performance to be positive. In addition to the problems linked to shipments in 1H23, **the price situation is still very weak**. CSN has a very significant exposure to flat steel, the group with the worst performance in terms of price due to the extended movement of the parity premium. The gap with imported steel in the hot-rolled coil (HRC) benchmark closed February at 22% (+4p.p m/m), consolidating a situation that is only getting worse, in our view.

Chinese HRC is at ~US$545/t (-2% vs. the end of January), indicating that regardless of exchange rate fluctuations and additional taxes, China continued to cut prices on flat steel last month. This demonstrates the fragile situation that Brazilian steel mills currently find themselves in. **Prices continue to fall in China and imports continue to rise in Brazil**. According to Aço Brasil (IABr), the penetration of imports within apparent consumption reached 25.2% in December.

Our interpretation is that the steelmakers will force adjustments on the distribution segment since it is the most susceptible to price changes. We know that CSN and Usiminas have already passed on prices to distribution, but we believe that **discounts** could continue for the **automotive and industrial segments**. From this perspective, our view is that the **distribution segment will be an escape valve**, allocating the next readjustments perhaps at a higher intensity than usual throughout 2024 and receiving all the burden of a **still weak market**. In other words, as the industry has more freedom to buy imported steel and the pre-established commercial relationship between distributors and steelmakers presupposes a greater degree of dependence, we believe that distribution will partially absorb the adjustments that should go to the industry. Even so, in the best-case scenario according to our current view, the total realized price will be stable, with no progress in 1H24, unless there is an upside with the reduction in imports volume + increase in the tariff.

Meanwhile, in the **mining business**, our bias remains positive. We expect iron ore production to experience a natural slowdown in 4Q23, typical of the seasonality pertinent to 4Qs, with **CMIN** registering **(i)** a -5.8% q/q drop in shipments, but +8.8% y/y growth, to close 2023 with production + third-party purchases of 42.8Mt Genial Est., slightly exceeding the upper band of the 2023 guidance (42-42.5Mt). In addition, we are still optimistic about the **(ii)** combinatorial effect of the iron ore price within the 4Q23 results, reaching US$94.7/t Genial Est (+11.1% q/q; +22.9% y/y). Both variables, **price and volume**, should **boost results**.

Although mining will be the major positive highlight within the holding company's consolidated results, we believe that in 4Q23 the sales recovery will be sufficient to lead to a slight growth in q/q revenue for the steel business unit, despite the still downward trend on a year-on-year basis. Therefore, of the main business lines (Steel, Mining and Cement) **the only business division that we don't expect to make sequential progress is Cement**, due to the weaker seasonality of volumes not being offset by price dynamics. Even so, the result in Cement should not be detrimental, with our estimates pointing to stability.

Looking at the holding company's leverage, it closed **last quarter** at **2.63x Net Debt/EBITDA**. We expect it to **fall to 2.5x 4Q23E**, in line with the upper band of the **new target of 2.0-2.5x** that was revised last quarter. Although this is a cooling down movement, we have once again put the spotlight on management's less than desirable commitment to leverage, falling well short of the initial target for 2023 (1.7-2.0x). We don't expect the company to lower its leverage much in 2024 either.

We note that **CSN Holding** 's shares rose sharply, ~50% in 45 days (between mid-November and the end of December), a similar rise in the same period compared to Usiminas. Although the end of the refurbishment of Blast-furnace 3 has removed some uncertainties for Usiminas**'** thesis, **we tend to prefer CSN's more diversified case**. However, we confess that our a priori impression was that the shares would not have this level of progression after the 3Q23 results. **This strong rise** (Nov-Dec) **surprised us**, but even so, we argued at the time that last quarter was a typical example of the strength built up by CSN's diversification thesis, which came to be the only player commonly seen by the market as being a steel manufacture, reporting a higher EBITDA, as per quoted in the attached report (CSN & CMIN: 3Q23 Review).

Although the **shares have fallen** by -14% **YTD** (Jan-Feb), the fall is similar to the 62% Fe iron ore curve. In other words, we believe that investors have been pricing CMIN's results into the holding company's results in recent months.

This seems to make sense to us, since a **large part of CSN holding 's EBITDA has been coming from mining** (~70%) in recent quarters, and not from the steel segment. Therefore, as the shares, even with the YTD drop (Jan-Feb), have accumulated a rise of +30% from November up to now, the **24E EV/EBITDA** multiple has been compressed to **4.5x** (vs. a historical average of 6.5x), also pricing in an **improvement in 2024 EBITDA** (~R$12bn vs. R$9bn 24E in the previous estimate).

Given this situation, the **12M Target Price** was **raised** to **R$17.30** (vs. R$14.25 previously), **based on new assumptions**, integrating our CMIN estimates into the CSN holding model, especially in relation to our **projection of the 62% Fe iron ore curve** (starting at US$120/t as 1Q24 average and going down to US$112/t in 4Q24). The rationale for this curve can be seen in the sector report we published in December, attached here (Metals & Mining: A deep dive into the Chinese government's upcoming stimulus). For now, we are comfortable with this iron ore projection. However, even with the EBITDA gaining some momentum in 24E, carried by the mining segment, we still have a run-of-the-mill stance for the stock, **mainly due to leverage**. So, we are reiterating our **NEUTRAL rating**, due to the low **upside of** only **+4.34%**.

As for **CMIN**, since we had updated the model at the beginning of December with our iron ore curve projection, the path is the reverse of the CSN holding. We didn't need to update assumptions related to price, but to volume. At the Investor Day held at the end of December, CMIN released **production guidance for 2024** of 42-43.5Mt. We admit that this figure **was surprising on the negative side**. We had ~45Mt in our model and lowered it to 43Mt Genial Est, to align with the new guidance, which led to a **cut** in the **12MTarget Price** to **R$7.00** (vs. R$7.60 previously).

On the other hand, even with **(i)** our downward curve of 62% Fe iron ore, to an average of US$116/t 24E vs. the peak of ~US$140/t at the beginning of January, and with **(ii)** a lower level of shipments, caused by the reduction in guidance vs. our previous estimates, we **still maintain a favorable bias** for **CMIN** shares, but now with a **smaller margin of safety** (much of the rise in iron ore has already been priced in, and we expect the commodity to continue falling at a slower pace throughout the year).

Even so, we are expecting a **better mix** between **third-party purchases and own production** in 2024. Third-party purchases are expected to fall by -2.5Mt and own production to rise by +2.5Mt vs. 2023. **We consider this dynamic to be positive**, helping to unlock some of the distrust that investors still have when it comes to the stock. We believe in better margins for CMIN in 2024 precisely as a result of this increase in the penetration of own production within the total volume. As a result, **EV/EBITDA 24E** stands at **4.2x**, and we reiterate our **BUY rating**, with an **upside of +16.67%**.

Straight to the point...

Mining continues to be more prominent. In our estimate, mining (CMIN) continues to gain momentum, and should account for 70% of CSN holding 's EBITDA in 4Q23. When considering the nominal variation q/q of the segments, this is the one with the highest growth in revenue, reaching R$4.6bn Genial Est. (+6.4% q/q; +30.7% y/y). CMIN should take advantage of the 62% Fe iron ore price curve and achieve good sales, despite the expected decrease in the quarterly base, due to the natural seasonality of 4Qs. In addition to solid shipments, up +12.7% y/y, reaching 10.9Mt Genial Est., the company should also mark an increasing realized price q/q, due to the upward tendency in the iron ore curve. The expected price realization is US$94.7/t Genial Est. (+11.1% q/q; +22.9% y/y), although this is slightly below the gain observed in the 62% Fe benchmark appreciation.

Steel business unit should show improvements, but still far from ideal. All year round, the penetration of imports from China sleep deprived the steel mills in Brazil. Given this situation, the sector's 3Q23 saw very compressed figures in terms of price. To make things worse to CSN, in addition to the difficulties related to the arm wrestling with Chinese steel that affected the entire sector, the company also experienced difficult times in terms of sales. Shipments took a hit as a result of a logistical bottleneck at the Presidente Vargas (RJ) plant, which affected 1H23. However, 4Q23 should show progress, with the company reaching 1,097Kt Genial Est (+7.7% q/q; +8.8% y/y).

Even with this kind of progress, we still have a very negative bias towards pricing. The data for January 2024 showed imports levels at 367kt, according to the IABr, which would represent a drop of -0.1p.p. We believe that the decline is still very marginal, with the penetration level within apparent consumption standing at 17.6% in January. December was even worse, closing the year at 25.2%. Given this situation, our price projections for both 4Q23 and 2024 are not encouraging. Our model indicates R$5,074/t Genial Est. (-3.3% q/q; -15.5% y/y). With volume rising further despite the falling price, the sequential effect will be slightly positive. Therefore, we are projecting net revenue for the steel business unit to recover, although the sector scenario is quite apathetic. Our estimates are ~R$5.6bn Genial Est. (+4.2% q/q; -8.1% y/y).

Cement sales probably will fall due to seasonality. In the cement segment, we anticipate a slight drop of -0.6% q/q in sales due to unfavorable seasonality, characterized by the start of higher rainfall period, vacations and a lower number of construction projects underway. The reduction demand in construction sites should lead to a decrease in volume, with shipments reaching 3.2Mt Genial Est. (-0.6% q/q; +11.9% y/y). Net revenue from the cement business division is projected to reach R$1.1bn Genial Est. (-1.6% q/q; -3.4% y/y).

CSN Holding 4Q23 results should show the best EBITDA of the whole year. Due to an increase in net revenue and a drop in COGS/t of the steel division to R$4,647/t Genial Est. (-9.1% q/q; -10% y/y), our model indicates an acceleration in the segment's EBITDA to clock in at R$339mn Genial Est. (+85.5% y/y; -59.0% y/y). Nominally speaking, mining continues to be the unit generating greater results for the holding, so we calculate an adjusted EBITDA for CMIN reaching R$2.2bn Genial Est. (+11.4% q/q; +24.0% y/y).

4Q23 Preview in detail!

CMIN: Shipments will probably fall q/q due to seasonal effects but realized prices will rise. CMIN should once again be the highlight of the quarter. The company expects its sales volume to fall t/t due to the higher rainfall volume routine for 4Qs. We therefore project total sales of 10.9Mt Genial Est (-5.8% q/q; +12.7% y/y), with production + third-party purchases reaching 11.3Mt Genial Est (-2.4% q/q; +21.0% y/y), slightly exceeding annual guidance. We expect an interesting price realization, clocking in at US$94.7/t Genial Est. (+11.1% q/q; +22.9% y/y). Despite the double-digit rise, we would point out that the percentage of purchases from third parties, mostly low grade, should mean that CMIN partially follows the 62% Fe rise in iron ore, falling a little short of the +12.3% q/q acceleration shown in the benchmark curve. Even so, we believe that there is progress in reducing the proportion of third-party iron ore vs. own production in 4Q23, and this process will continue throughout 2024.

Table 4. Production CMIN (4Q23 Genial Est.)

CMIN (Million tonnes)	4Q23E Genial Est.	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Production + Purchases	**11,30**	**11,58**	**-2,4%**	**9,34**	**21,0%**
Total Shipments	**10,96**	**11,64**	**-5,8%**	**9,73**	**12,7%**
Internal Market	1,04	1,77	-41,2%	1,04	0,0%
External Market	9,92	9,88	0,5%	8,69	14,2%

Source: CMIN, Genial Investimentos

CSN Holding: Steel should show partial recovery, but situation remains challenging. Although 4Q23 is usually a weaker quarter for the steel industry, we believe that the unit should go against this trend and show a recovery q/q, largely due to production without bottlenecks. We project an increase to 1,097Kt Genial Est (+7.7% q/q; +8.8% y/y), aided by the foreign market (FM), such as Europe, which went through the summer vacation period in Q3 and should end up having more demand in Q4. We conjecture that, in the face of a challenging time for the domestic steel industry, with fierce competition with Chinese steel, the expectation of a slight recovery can be seen as a positive point in the quarter. The pattern seen in this quarter should serve as a benchmark for 2024.

As for the realized price, we project a cut to R$5,391/t Genial Est. (-2.5% q/q; -11.4% y/y) in the domestic market (DM), caused by the pressured situation in the competition with Chinese steel. Looking at the FM, we also expect a mid-single digit drop, reaching R$4,313/t Genial Est. (-3.6% q/q; -25.4% y/y). Germany (SWT) should appear as the worst performer. Looking ahead, as the price dynamics on the DM were much tighter than on the FM, pass-throughs should happen a little faster, especially in the distribution segment, as we have already commented.

CSN Holding: Cement with basically stable dynamics q/q. We believe in a cement scenario very similar to 3Q23, but with a marginal drop due to the unfavorable seasonality for the segment, marked by rains, vacations and few construction projects. In line with this, cement shipments will probably fall slightly on a quarterly basis, reaching 3,243Kt Genial Est. (-0.6% q/q; +11.9% y/y). The expected realized price is R$352/t Genial Est. (-0.5% q/q; -13.7% y/y).

CSN Holding: Significant growth in net revenue. 4Q23 should see q/q growth in the top line for almost all of the company's business units, with the exception of cement. The steel business unit, which represents ~50% of CSN Holding 's revenues, is projected to clock in at R$5.5bn Genial Est. (+4.2% q/q; -8.1% y/y), considering the sequential volume recovery and the year-on-year price compression. For the mining segment, we estimate slightly higher growth (+6.4% q/q; +30.7% y/y), reaching R$4.6bn Genial Est., due to better pricing of the 62% Fe reference curve and the ramp-up in production y/y. For the cement business unit, we anticipate that revenues will fall marginally, down to R$1.1bn Genial Est. (-1.6% q/q; -3.4% y/y). Our model points to consolidated net revenue of R$11.6bn Genial Est. (+4.5% q/q; +4.4% y/y).

Table 5. Net Revenue CSN (4Q23 Genial Est.)

CSN (R$ Millions)	4Q23E Genial Est.	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Net Revenue	**11.620**	**11.125**	**4,5%**	**11.129**	**4,4%**
Steel	5.566	5.344	4,2%	6.055	-8,1%
Mining	4.611	4.335	6,4%	3.529	30,7%
Porto	87	75	16,8%	86	1,0%
Railway	758	730	3,8%	608	24,7%
Energy	125	122	2,5%	154	-18,8%
Cement	1.141	1.159	-1,6%	1.181	-3,4%
Eliminations	(668)	(640)	4,4%	(483)	38,1%

Source: CSN, Genial Investimentos

CSN Holding: COGS/t down sequentially. For the steel business division, we believe there will be a drop due to: **(i)** more dilution capacity of fixed costs and **(ii)** reduction in coke costs, due to the delay in the spot curve for metallurgical coal. Considering these two points, we project a COGS/t of R$4,647/t Genial Est. (-9.1% q/q; -10% y/y). For cements, our projection is a stabilization of COGS/t at R$230/t, with no major progress with the synergies in relation to LaFarge, with profitability slightly closer to the EBITDA margin of 23%.

CMIN: COGS/t get some pressure in C1/t. We forecast a slightly higher COGS/t in the sequential movement, reaching US$40/t Genial Est. (+0.8% q/q; +28.7% y/y) and we attribute this increase to the weak seasonality of 4Q23 which does not help with fixed cost dilution, and with the increase in C1/t guidance to US$22/t (vs. US$19-21 previously), due to geological inflation pressuring mining.

CSN Holding: EBITDA up q/q in almost all units and stable in cements. We expect EBITDA to increase in all the holding company's business lines. Mining should continue to be the company's best-performing segment, accounting for ~70% of the consolidated result, reaching R$2.2bn Genial Est. (+11.0% q/q; +22.7% y/y). For steel, we project an EBITDA of R$339mn Genial Est. (+85.5% q/q; -59.0% y/y). Even with the high double-digit growth q/q, the nominal value, and the low penetration of the steel segment within EBITDA (~10%) still demonstrates the very weak situation, especially for mills more exposed to flat steel, such as CSN. Without much news in the cement unit, which should witness stability at R$266mn Genial Est. (-0.1% q/q; +0.5% y/y), the main business divisions should help consolidate an EBITDA of R$3.2bn Genial Est. (+14.2% q/q; +2.7% y/y).

Table 6. EBITDA CSN (4Q23 Genial Est.)

CSN (R$ Millions)	4Q23E **Genial Est.**	3Q23 **Reported**	**% q/q**	4Q22 **Reported**	**% y/y**
Adjusted EBITDA	**3.216**	**2.815**	**14,2%**	**3.130**	**2,7%**
Steel	339	183	85,5%	826	-59,0%
Mining	2.184	1.966	11,0%	1.779	22,7%
Porto	28	19	50,2%	30	-6,1%
Railway	430	406	5,8%	270	59,0%
Energy	26	25	4,3%	27	-5,4%
Cement	266	266	-0,1%	265	0,5%
Eliminations	(74)	(50)	47,3%	(75)	-1,8%

Source: CSN, Genial Investimentos

CMIN: Expectation of significant growth in net income. In the face of a financial result projected at -R$259mn, we estimate net income clocking in at R$1.4bn Genial Est. (+20.6% q/q; +66.1% y/y), reinforcing the mining unit as the highlight of the CSN holding, and amplifying the recent trend we've noticed in our last conversations with investors. Many are looking only at mining triggers within the CSN *holding,* which ended up tracking iron ore sharp fall YTD, but rose more at the end of last year due to the greater perceived discount of the holding vs. CMIN at the time.

CSN Holding: We expect net income to expand. After a negative financial result estimated at -R$711mn for 4Q23, our calculated net income is R$683mn Genial Est, growing 6.5x y/y and 2.5x y/y, improving both on an annual and quarterly basis, driven by an advance in almost all business units, demonstrating a period of partial recovery for the company, although the view of the steel manufactures is still very weak.

Table 7. Income Statement CMIN (4Q23 Genial Est.)

CMIN	4Q23E	3Q23		4Q22	
(R$ Millions)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**5.115**	**4.840**	**5,7%**	**3.978**	**28,6%**
Domestic Market	376	541	-30,6%	319	17,7%
External Market	4.739	4.298	10,3%	3.659	29,5%
COGS	(2.487)	(2.524)	-1,5%	(1.867)	33,2%
Adjusted EBITDA	**2.213**	**1.987**	**11,4%**	**1.784**	**24,0%**
EBITDA Margin (%)	43,3%	41,1%	2,2p.p	44,9%	-1,59p.p
EBIT	**2.000**	**1.771**	**12,9%**	**1.335**	**49,8%**
EBIT Margin (%)	39,1%	36,6%	2,51p.p	33,6%	5,54p.p
D&A	(259)	(262)	-1,4%	(269)	-4,0%
Financial Result	135	3	4791,8%	(439)	-
Net Income	**1.448**	**1.200**	**20,6%**	**871**	**66,1%**
Net Margin (%)	28,3%	24,8%	3,5p.p	21,9%	6,39p.p

Source: CMIN, Genial Investimentos

Table 8. Income Statement CSN (4Q23 Genial Est.)

CSN	4Q23E	3Q23		4Q22	
(R$ Millions)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**11.620**	**11.125**	**4,5%**	**11.129**	**4,4%**
COGS	(7.434)	(7.477)	-0,6%	(7.022)	**5,9%**
Adjusted EBITDA	**3.216**	**2.815**	**14,2%**	**3.130**	**2,7%**
EBITDA Margin (%)	27,7%	25,3%	2,37p.p	28,1%	-0,45p.p
EBIT	**1.746**	**1.648**	**6,0%**	**1.196**	**46,0%**
EBIT Margin (%)	15,0%	14,8%	0,22p.p	10,7%	4,28p.p
D&A	(756)	(842)	-10,3%	(825)	-8,4%
Financial Result	(711)	(1.223)	-41,9%	(1.181)	-39,8%
Net Income	**683**	**91**	**652,4%**	**197**	**247,1%**
Net Margin (%)	5,9%	0,8%	5,06p.p	1,8%	4,11p.p

Source: CSN, Genial Investimentos

Our take on CSN and CMIN

CMIN. We believe that the company was the standout performer in 2023, carrying out the CSN holding. Although we are confident that the mining business unit should still show good figures in 4Q23, CMIN released production guidance for 2024 of 42-43.5Mt, a surprisingly negative reduction from our previous projection of ~45Mt.

Changes in assumptions. Despite the **(i)** lower sales volume now projected for 2024, due to the guidance released at Investor Day having disappointed us; and the **(ii)** downward curve of iron ore 62% Fe to an average of US$116/t 24E (vs. ~US$140/t at the beginning of January) already projected by us since December, we still expect a better balance between third-party purchases and own production in 2024, with the former falling by -2.5 Mt and the latter increasing by +2.5 Mt vs. 2023.We have indicated for some time that, although CMIN's case is related to production growth, many investors are wary of potentially inflated figures from third-party purchases, with own production remaining on the margins of the imagination.

We categorize the **production guidance of 42-43.5Mt as damaging to valuation**. On the other hand, the good news is that the company has begun to disclose valuable information about third-party purchases and its own production, stimulating real interest in capital allocation among investors who are more wary of the case. The indicated improvement in the mix between the two components should still lead to a **rise in margins in 2024,** although the lower level of shipments vs. previous estimates will hurt valuation a little. Consequently, trading at an **EV/EBITDA 24E** of **4.2x**, we are **reducing** our **12M Target Price** to **R$7.00** (vs. R$7.60 previously), remaining with a **BUY rating**, due to the **upside of +16.67%**.

CSN Holding: We see some reasons for a boost in the flat steel market, such as the automotive segment, for light vehicles, according to ANFAVEA's outlook for 2024. The trends for heavy vehicles are also more promising, impacted by the return of the impetus to renew the fleet, after 2023 saw a period of scarcity, through the anticipation in 2022 of purchases of Euro 5 technology due to the entry of Euro 6. In addition, there is also the 5-year Green Mobility and Innovation program (Mover), which should continue to sustain a higher level of demand for buses and trucks.

The distribution segment will be an escape valve for price increases. Everything indicates that domestic steelmakers have more urgency to readjust flat prices to long ones, given that flat steel margins became much tighter during 2023. However, the gap in the parity premium for long steel is smaller than for flat steel, which means that the possibility of passing on prices seems more distant for CSN and a little closer to reality for Gerdau.

The benchmark for flat steel closed at US$545/t in February, a drop of -2% compared to the end of January, highlighting the continued price reductions in flat steel domestically within China. Our forecast is that steelmakers will choose to pass on prices in the distribution segment in 2024, which is more dependent on the commercial relationship built with the mills and therefore has less bargaining power. However, we believe that the total realized price will remain stable in the first quarters of 2024.

Although demand for both automotive and potentially industrial steel will grow in 2024, also driven by the reduction in the SELIC rate, both segments are still less dependent on the mills and tend to consume more imported steel, which could lead to further discounts.

Another cement M&A? The company added ~10.3Mt by acquiring LaFarge Holcim's operations in April 2022, making it the second largest player in the cement market in Brazil, behind Votorantim. We believe that CSN has basically completed the implementation of its operational standard in this acquisition. In other words, although there are still small synergy gains ahead, we feel that EBITDA margins of ~23% are more consistent with the post-acquisition terminal pattern. Following this inorganic growth approach, the company is involved in disputes with other major players in the cement market over the acquisition of InterCement.

In Brazil, InterCement has 15 plants, as well as concrete plants and a stake in 3 hydroelectric power facilities. Meanwhile, in Argentina, the company has 9 factories, concreting activities and a railroad. If the deal came to a closure, CSN could double its annual cement production capacity to 34Mt (vs. 17Mt today). This would put CSN on a par with Votorantim, which has 34.9Mt of capacity. Despite its positive aspects, the possible acquisition of InterCement also deserves investor attention, but on the downside. This is because the **company's leverage is** often **criticized** by many investors with whom we have contact, and it is not clarify how the funding for the new acquisition would be carried out (if it is indeed confirmed).

Reacquiring vital signs. We believe that 4Q23 will show a little more resilience with EBITDA growth, repeating the trend of the previous quarter. Although mining appears to be the main highlight, we should already see a normalization of operations in the steel business division in relation to the level of sales, indicating that the worst is behind us. Looking specifically at steel shipments, we are awaiting the best quarter of the year, which we believe will serve as a benchmark for 2024 given the end of the logistics bottleneck at the Presidente Vargas mill (RJ), which affected the company for much of 2023. However, as we have commented on several occasions throughout the report, even if there is a recovery in volume, the price dynamic is still quite pressured. For 1H24, we expect stability (in the best-case scenario), while the steel sector in Brazil urgently needs price increases. Making an analogy, it's as if the patient has regained vital signs, but is still hospitalized in a state of observation.

Even though CSN is trading with a **24E EV/EBITDA** of **4.5x** (lower than historical), since we have projections for an **increase in EBITDA** in **2024** to R$12.7bn (+34% vs. 2023E), this increase in EBITDA will be driven mainly by the mining division (CMIN) and not the steel business unit. Until November, we had a price curve projection for the 62% Fe benchmark that was less elastic. In December, we updated this price curve in the CMIN model, but we hadn't had the opportunity to update it in the CSN model. So, by doing that and also considering the +30% rise November to now, we don't believe that CSN has many more triggers to rise ahead, with the market having already priced in this improvement in EBITDA coming especially from mining. Therefore, the **12M Target Price has been raised to R$17.30** (vs. R$14.25 previously) due to the delay in updating assumptions. However, we remain with a **NEUTRAL rating**, given the **very narrow upside** of **+4.34%**.

Appendix: CMIN

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

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**18.483**	**18.610**	**18.564**	**20.993**	**19.561**	**17.607**
(-) Cash COGS	(8.842)	(9.049)	(9.361)	(10.795)	(10.746)	(10.549)
Gross Profit	**8.623**	**8.081**	**7.456**	**8.169**	**6.500**	**4.458**
(-) Expenses	(2.564)	(2.023)	(1.941)	(2.141)	(1.901)	(1.619)
Adjusted EBITDA	**7.317**	**7.135**	**6.858**	**7.658**	**6.513**	**5.034**
(-) D&A	(1.018)	(1.480)	(1.746)	(2.029)	(2.315)	(2.600)
EBIT	**6.005**	**5.840**	**5.297**	**5.810**	**4.381**	**2.621**
(+/-) Financial Result	(750)	759	1.016	1.217	1.317	1.380
(-) Taxes	(1.598)	(2.125)	(2.033)	(2.263)	(1.835)	(1.289)
Net income	**3.657**	**4.474**	**4.280**	**4.764**	**3.863**	**2.713**
Profitability						
Net margin (%)	19,79%	24,04%	23,06%	22,70%	19,75%	15,41%

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

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**18.483**	**18.610**	**18.564**	**20.993**	**19.561**	**17.607**
(-) COGS	(8.842)	(9.049)	(9.361)	(10.795)	(10.746)	(10.549)
Adjusted EBITDA	**7.317**	**7.135**	**6.858**	**7.658**	**6.513**	**5.034**
EBIT	**6.005**	**5.840**	**5.297**	**5.810**	**4.381**	**2.621**
(-) Taxes	(1.598)	(2.125)	(2.033)	(2.263)	(1.835)	(1.289)
(+) D&A	1.018	1.480	1.746	2.029	2.315	2.600
(+/-) Δ WK	110	303	(36)	(33)	68	149
(-) Capex	(1.380)	(1.486)	(2.508)	(3.585)	(5.060)	(5.124)
FCFF	**4.155**	**4.012**	**2.466**	**1.958**	**(131)**	**(1.043)**

Appendix: CSN

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

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**45.053**	**44.196**	**49.899**	**54.927**	**55.176**	**55.544**
(-) COGS	(30.161)	(28.891)	(30.295)	(31.159)	(32.772)	(33.008)
Gross Profit	**14.892**	**15.305**	**19.604**	**23.768**	**22.404**	**22.536**
EBIT	**5.115**	**6.106**	**8.835**	**11.395**	**8.623**	**7.245**
(+/-) Financial Result	(4.310)	(2.831)	(2.976)	(3.277)	(3.155)	(2.958)
EBT	**805**	**3.274**	**5.860**	**8.118**	**5.467**	**4.287**
(-) Taxes	(570)	(1.113)	(1.992)	(2.760)	(1.859)	(1.458)
Net Income	**235**	**2.161**	**3.867**	**5.358**	**3.608**	**2.829**
Profitability						
Net Margin (%)	0,52%	4,89%	7,75%	9,75%	6,54%	5,09%

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

Cash Flow	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**45.053**	**44.196**	**49.899**	**54.927**	**55.176**	**55.544**
(-) COGS	(30.161)	(28.891)	(30.295)	(31.159)	(32.772)	(33.008)
Adjusted EBITDA	**8.283**	**9.494**	**12.738**	**15.699**	**13.257**	**12.223**
EBIT	**5.115**	**6.106**	**8.835**	**11.395**	**8.623**	**7.245**
(-) Taxes	(570)	(1.113)	(1.992)	(2.760)	(1.859)	(1.458)
(+) D&A	3.168	3.389	3.903	4.305	4.634	4.978
(+/-) Δ WK	(862)	95	(543)	(213)	(268)	(34)
(-) Capex	(4.989)	(5.452)	(6.142)	(6.113)	(5.586)	(5.629)
FCFF	**1.862**	**3.024**	**4.060**	**6.613**	**5.544**	**5.103**

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under Review	Under review	**5%**

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