CSN & CMIN

4Q23 Review: Defibrillator

LatAm Metals & Mining

Main takeaways for CMIN:

(i) Sales still strong and significant growth in realized price q/q; **(ii)** Net revenue above expectations, driven by favorable price dynamics; **(iii)** COGS/t increasing sequentially, without much opportunity for cost dilution; **(iv)** Robust operating result denotes sharp growth in net income; **(v)** Expectations for demand in China: we open up more about what we see for 2024 at the end of the report; **(vi)** Cash flow generation (FCFE) was higher than our estimates, which would contribute to a dividend distribution of **R$0.28/share Genial Est**., equivalent to a **Dividend Yield of 4.7%** (referring only to the quarter); **(vii)** Although the 62% Fe iron ore curve should continue to decline throughout the year, **we are more excited about margins** (more about thar in the report). Trading at an **EV/EBITDA 24E** of **4.2x**, we reiterate our **BUY rating**, with a **12MTarget Price of R$7.00**, giving an **upside of +17.45%**.

Main takeaways for CSN:

(i) Steel business division growing volume q/q; **(ii)** Surprising price increase q/q in steel; **(iii)** Cement operating data retreats a little more than expected; **(iv)** Revenue above expectations and with an interesting advance q/q; **(v)** Disappointing COGS/t dynamics; **(vi)** EBITDA almost doubles in steel division, grows even more in mining and marks the best figure of the year; **(vii)** Net income more than 9x 3Q23; **(viii)** What about the scenario for steel going forward? We go into more detail about the trends for 2024; **(ix)** Leverage is the handbrake being pulled for investors, down to Net Debt/EBITDA of 2.58x, but still above the annual target of 2.0-2.5x; **(x)** With a **24E EV/EBITDA** of **4.5x**, although below the historical average, the **NEUTRAL rating** is reiterated, with a **12M Target Price** of **R$17.30**, allowing for an **upside** of **just +3.90%**.

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Companies

CSNA3 BZ Equity
Neutral

Price: R$ 16.65 (06-Mar-2024)
Target Price 12M: R$ 17.30

CMIN3 BZ Equity
Buy

Price: R$ 5.97 (06-Mar-2024)
Target Price 12M: R$ 7.00

CSN and CMIN released their 4Q23 results on March 6th, after the market closed. Bringing **better consolidated figures**, and in line with our expectations, we see CSN once again **reaping the rewards of the diversification** of multiple businesses seen within the holding. In 4Q23, the **highlights** were the **mining** business unit **(CMIN)** and the resumption of volume in the steel segment. While the Brazilian steel market struggles against Chinese imports, creating **significant pressure on the price side**, CSN managed to get rid of bottlenecks that substantially affected its domestic production in 1H23, and together with slightly **more favorable dynamics** in the mills in the **European market** (mainly in Germany - SWT), the numbers showed a quarter of "recovering the vital signs", exactly as we anticipated in our results preview and which is attached (CSN & CMIN: 4Q23 Preview).

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

(Thousand Tonnes - kt)	Reported	Genial Est.					
Summary	**4Q23A**	**4Q23E**	**% Diff.**	**3Q23A**	**% q/q**	**4Q22A**	**% y/y**
Steel	1.064	1.097	**-3,0%**	1.018	**4,5%**	1.008	**5,5%**
Iron Ore	11.144	10.961	**1,7%**	11.641	**-4,3%**	9.729	**14,5%**
Cement	3.128	3.243	**-3,5%**	3.263	**-4,1%**	2.897	**8,0%**

Source: CSN & CMIN, Genial Investimentos

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

(R$ millions)	Genial Est.	Genial Est.					
Income Statement	**4Q23A**	**4Q23E**	**% Diff.**	**3Q23A**	**% q/q**	**4Q22A**	**% y/y**
Net Revenue	5.513	5.115	**7,8%**	4.840	**13,9%**	3.978	**38,6%**
Adjusted EBITDA	2.759	2.213	**24,6%**	1.987	**38,8%**	1.784	**54,6%**
Net Income	1.359	1.448	**-6,1%**	1.200	**13,2%**	871	**55,9%**

Source: CMIN, Genial Investimentos

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

(R$ millions)	Reported	Genial Est.					
Income Statement	**4Q23A**	**4Q23E**	**% Diff.**	**3Q23A**	**% q/q**	**4Q22A**	**% y/y**
Net Revenue	12.005	11.620	**3,3%**	11.125	**7,9%**	11.129	**7,9%**
Adjusted EBITDA	3.626	3.216	**12,7%**	2.815	**28,8%**	3.130	**15,8%**
Net Income	851	683	**24,6%**	91	**837,4%**	197	**332,5%**

Source: CSN, Genial Investimentos

Valuation and rating. We consider CSN holding 's result to be positive, with steel sales increasing to ~1Mt (+4.5% q/q; +5.5% y/y) and favorable shipments on the mining side (CMIN). Although iron ore sales fell slightly sequentially, since the weaker seasonality of the 4Qs has to be taken into consideration, by -4.3% q/q to 11.1Mt (+1.7% vs. Genial Est.), the result came in slightly above our estimate, growing on an annual basis by +14.5% y/y. Looking at the full year, CMIN's production was 42.6Mt (-0.5% vs. Genial Est.), beyond the upper guidance band of 42-42.5Mt, which had already been revised upwards last quarter, and fully in line with our expectation that the company would exceed this target.

These figures demonstrated CSN's good operational execution capacity. However, it is important to note that the company went through troubled times in 1H23, mainly in relation to the steel business unit. In addition to being **inserted in a market with tighter conditions**, due to the dispute between Brazilian mills and the increased penetration of Chinese steel within apparent consumption, the company also faced capacity restrictions caused by internal failures in the logistical management of its main plant, which removed the possibility of achieving the sales guidance scheduled for 2023, of 4,670Kt. Following this reasoning, annualized sales clocked in at 4,166Kt (-0.8% vs. Genial Est.), basically in line with our projection, with 4Q23 representing an interesting recovery, but one that still doesn't erase the damage done in the first couple of quarters of the year. Shipments closed 2023 decelerating to -10.8% vs. initial Guidance, which makes up a drop of -5.1% y/y.

As if a challenging volume situation wasn't enough, the influx of cheaper steel imports, especially from China, continues to drive prices down. The realized price stood at R$5,314/t (+4.7% vs. Genial Est.), although above our projections, it represents a drop of -11.5% y/y. The highlight is a price increase of +1.3% q/q, which we see as a confirmation of CSN holding's execution. The **diversification of geographies helped**, with the price of the foreign market (FM) making up a favorable slope to achieve this sequential gain result. Although the domestic market price (DM) contracted for all the players under our coverage, if we consider the consolidated (DM+FM), **CSN holding was the best performer in 4Q23 pricing** (-9.7% q/q for Gerdau and +0.8% q/q for Usiminas vs. +1.3% q/q for CSN).

Another point that caught our attention was the distribution segment gaining a lot of share within the sales portfolio in 4Q23, with +24.7% q/q, with the white goods industry falling -19.8% q/q and the automotive segment also falling back by -19.8% q/q. It's interesting to highlight this, since we commented in our preview report that we believe that the first moves by Brazilian steelmakers will be to **transfer prices to the distribution segment in 1H24,** due to stronger commercial ties with the mills and therefore a more restrictive environment regarding the option of imported steel. The point we want to make here is that the stronger the CSN holding is in the distribution segment, the more it will be able to push through price increases in 2024.

Despite an expected decompressed demand for automotive and industrial steel over the course of the year, triggered by a reduction in the SELIC rate (and other factors in the case of the auto sector), these two segments have greater freedom to import and greater bargaining power in negotiating, which can further stimulate discounts. In other words, we are anticipating that the distribution segment will have to pay for more expensive steel, while industry and the automotive segment will continue to press for discounts. The increase in CSN Holding 's exposure in the distribution segment may have been due to a **seasonal factor**, but as the intensity was greater than we expected, we believe that the company may also be preparing **to grab a larger share of this segment** and achieve **greater price pass-through**, which seems to be good news in the current market situation.

Looking at **cements,** we still expect some synergy gains over the course of 2024, but we believe that much of the optimization of results from the acquisition of LaFarge Holcim's assets has already been achieved. In 4Q23, we saw an EBITDA margin above our expectations, reaching 24% (+0.8p.p vs. Genial Est.), with COGS/t of cement falling -6.7% q/q, with **operational synergy capture.** As we mentioned in our preview report, CSN holding is in the running to acquire InterCement's assets, which would leave it with a very similar capacity to Votorantim, the current market leader in Brazil. Despite the positive aspects of this acquisition, we would point out the dangers with regard to leverage.

In terms of **leverage**, although **CSN holding** has indeed followed the cooling trend we mentioned in our preview, it still fell a little short of what we expected and certainly a long **way** short of what was **desirable**. The company closed 4Q23 with **2.58x Net Debt/EBITDA,** above the annual target of 2.0-2.5x reworked in 3Q23, which already included an increase in relation to the initial guidance of 1.7-2.0x.

This seems to be a circular reference for the CSN holding, and we know how much investors monitor this indicator and neglect the case due to the low commitment to reducing leverage.Although the company is adopting a policy of keeping large amounts of cash and cash equivalents, which already totaled R$17bn, together with issuing bonds with longer terms to pay off the shorter ones and lengthen the debt profile, leverage remains the **biggest Achilles heel of the CSN holding**. Faced with this situation, we know that the institutional investors we come into contact with see this situation almost as a non-negotiable point. If leverage doesn't fall to a healthier level, we **don't see many triggers for the shares to rise**.

In addition, a slowdown in mining results is expected, due to the fall in iron ore 62% Fe prices YTD, and mining accounts for ~70% of **CSN holding**'s EBITDA. Although we have a favorable outlook for CMIN, from a micro point of view (not macro), we understand that many investors were pricing the commodity curve into the holding's results, explaining the -14% YTD drop in shares. If the price of iron ore continues to fall, CSN holding shares could lose sustainability. Trading at an **EV/EBITDA 24E** of **4.5x,** we reiterate our **NEUTRAL rating**, with a **12MTarget Price** of **R$17.30**, which equates to an **upside of +3.90%**.

In **CMIN,** we maintain a **positive short-term** bias. We believe that the strong 4Q23 figures will be well received by the market. With volume delivery **backed by the y/y production ramp-up**, CMIN has played its part well in 2023. In 4Q23, the EBITDA margin reached 50% (+9.0p.p q/q; +5.2p.p y/y), an excellent expansion, above our expectation (+6.8p.p vs. Genial Est.), also brought about by the **reduction in the proportion of volume purchased from third parties vs. own production**. As we quoted in our preview, we expect 2024 to have better margins than 2023, precisely because of this dynamic, which was already seen in 4Q23.

As leverage is basically all within the holding, CMIN remains net cash. Even with the **deceleration of the 62% Fe curve** that we expect throughout 2024 (average of US$116/t 24E vs. US$140/t at the beginning of January), from a fundamentalist point of view, the projected reduction of -5Mt in purchases from third parties and the gain of the same volume in own production vs. 2023, should create support for **higher margins y/y in 2024**. Therefore, trading at an **EV/EBITDA 24E** of **4.2x**, we reiterate our **BUY rating**, with a **12M Target Price** of **R$7.00**, giving an **upside of +17.45%**.

4Q23 Review

CMIN: Sales volume still strong and significant growth in realized price q/q. As usual, there is a slowdown in iron ore shipments, which are suffering from higher rainfall volumes with the end of the 3Q dry season. CMIN reported a sequential loss in shipments of -4.3% q/q, reaching 11.1Mt (+1.7% vs. Genial Est.), with the production ramp-up offering a rise of +14.5% y/y. Taking advantage of the opportunity, in terms of production, the company ended the year above guidance, at 42.7Mt (-0.5% vs. Genial Est.). In addition, CMIN managed to take advantage of the 62% Fe iron ore curve in 4Q23 and reported US$99.9/t (+5.5% vs. Genial Est.), an increase of +17.2% q/q and +29.6% y/y. The realized price was higher than we expected, with the company managing to post a sequential increase slightly higher than the benchmark curve.

CSN Holding: Steel growing in volume q/q. The steel business division managed to show signs of recovery and reported growth q/q. Our understanding is that **(i)** the evolution of the European market in 4Q23 and **(ii)** production without bottlenecks, both created a scenario of resumed volumes, just as we anticipated in our earnings preview. Therefore, the steel business division reported an increase of +4.5% q/q in sales, which reached 1,064kt (-3.0% vs. Genial Est.), also leading to an increase of +5.5% y/y. The European market faced weaker seasonality related to the summer vacations last quarter, which led to plant shutdowns and reduced demand in 3Q23. With the return to activity and an improvement in the inflationary situation, with November recording the lowest level of inflation in the euro area in the last two years, demand picked up a little. In other words, an interesting part of this sequential increase is due to the operations of Lusosider (Portugal) and SWT (Germany). Along these lines, the foreign market grew by +11.4% q/q and +12.4% y/y, recording a volume of 302Kt (-6% vs. Genial Est.), a little lower than we expected, given the gain in momentum of the assets in Europe. The domestic market reached 762Kt (-1.6% vs. Genial Est.), up +2.0% q/q and +3.0% y/y.

CSN Holding: Surprising price increase q/q. It's no news that Brazilian steelmakers continue to suffer from the penetration of imports from China into apparent consumption. Data compiled by Aço Brasil (IABr) shows that the penetration of imported steel stood at 17.6% in January and 25.2% in December, very high levels in the y/y comparison for the respective months. Even so, the realized price surprised us positively (+4.7% vs. Genial Est.) and showed a sequential increase to R$5,314/t (+1.3% q/q; -11.5% y/y). We attribute a large part of this result, also a partial recovery in pricing, to the improved environment in the external market (EM), which saw an increase of +17.5% q/q, while the internal market (IM) fell -3.5% q/q, due to the fiercer price dispute with Chinese steel.

CSN Holding: Cement operating data fell slightly more than expected. Due to the unfavorable seasonality, marked by rains, vacations and a low number of construction projects, the volume of shipments and the realized price suffered retractions. The company's sales slowed down to 3,128Kt (-3.5% vs. Genial Est.), marking a drop of -4.1% q/q, despite an increase of +8.0% y/y. On the other hand, the realized price was R$348/t (-0.9% vs. Genial Est.), a short fall of -1.9% q/q and a slightly larger downtrend of -14.5% y/y.

We should remember that 2023 was also a difficult year for the cement market, with the sector in contraction. However, the CSN holding was confident in applying an aggressive commercial strategy to gain market share. This strategy was mainly in place during 1H23, but the effect lasted to a lesser extent into 4Q23. This resulted in the company lowering its prices and taking advantage of the assets acquired from LaFarge Holcim to establish market leadership in some localities, in a dispute with Votorantim.

CSN Holding: Revenue above expectations and with an interesting advance q/q. In the steel business unit, both volume and price showed sequential increases and had a positive impact on net revenue, which clocked in at R$5.6bn (+1.6% vs. Genial Est.), showing an increase of +5.8% q/q, despite the fall of -6.6% y/y, given the bearish cycle for steel. As this is a challenging period for the steel sector, although revenues fell year-on-year, we see the sequential increase as a positive point. For cement, revenue came in at R$1.1bn (-4.4% vs. Genial Est.), down -6.0% q/q and -7.7% y/y, in the face of operating data that was a little more pressured than we had projected, suffering from the seasonality of the period in volumes in the sequential movement and loss of realized price on an annual basis. In the mining business division, revenues clocked in at R$5bn (+9% vs. Genial Est.), up +16.0% q/q and +42.5% y/y, a result we consider strong, above expectations, driven by more favorable price dynamics.

Slightly above our estimate (+3.3% vs. Genial Est.), CSN holding reported consolidated net revenue of R$12bn (+7.9% q/q; +7.9% y/y). The steelmaking and mining segments were the pillars of this change and showed performances worthy of a good quarter, notwithstanding the respective sectoral constraints. We would point out that the quarter was marked by a recovery in operations in the holding's main business lines, with the exception of cement.

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

CSN	4Q23	4Q23E		3Q23		4Q22	
(R$ Millions)	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
Net Revenue	**12.005**	**11.620**	**3,3%**	**11.125**	**7,9%**	**11.129**	**7,9%**
Steel	5.654	5.566	1,6%	5.344	5,8%	6.055	-6,6%
Mining	5.028	4.611	9,0%	4.335	16,0%	3.529	42,5%
Porto	67	87	-23,1%	75	-10,1%	86	-22,3%
Railway	728	758	-3,9%	730	-0,3%	608	19,8%
Energy	125	125	0,1%	122	2,6%	154	-18,7%
Cement	1.090	1.141	-4,4%	1.159	-6,0%	1.181	-7,7%
Eliminations	(687)	(668)	2,9%	(640)	7,4%	(483)	42,1%

Source: CSN, Genial Investimentos

CMIN: Net revenue above expectations, driven by favorable price dynamics. Based on **(i)** the shipments and **(ii)** the realized price above expectations, CMIN reported revenues of R$5.5bn (+7.8% vs. Genial Est.), up +13.9% q/q and +38.6% y/y. We believe this is a robust top line, given a quarter that proved to be strong for mining and is in line with our optimism for the stock.

CSN Holding: Disappointing COGS/t dynamics. We expected steelmaking costs to cool down as a result of a drop in coke, due to the delay in the spot price of metallurgical coal, but this didn't happen. Although the increase in sales should also bring a greater capacity to dilute fixed costs, COGS/t for steel clocked in at R$5,036/t (+7.2% vs. Genial Est.), up +5.5% q/q and +3.9% y/y. As for cement, COGS/t reached R$261/t (+13% vs. Genial Est.), also higher than expected, although there was a reduction of -6.7% q/q and -1.4% y/y.

CMIN: COGS/t increasing sequentially, with no opportunity for cost dilution. We saw an increase in CMIN costs, in line with the sequentially lower shipments due to the natural effect of seasonality. The company didn't have the opportunity to dilute fixed costs as much as it did last quarter. As a result, the COGS/t reported was R$221/t (+12.2% vs. Genial Est.), an increase of +13.9% q/q and +34.8% y/y. The double-digit increase year-on-year is explained by a C1 of US$22.5/t in 4Q23, showing that mining costs are indeed higher (Vale suffered from the same problem). The annual consolidated figure stood at US$21.8/t (below guidance), with an increase y/y due to: **(i)** geological inflation, **(ii)** pressure from the FX exchange rate and **(iii)** greater difficulty in operating mines.

Table 5. EBITDA CSN (4Q23 vs. Genial Est.)

CSN	4Q23	4Q23E		3Q23		4Q22	
(R$ Millions)	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
Adjusted EBITDA	**3.626**	**3.216**	**12,7%**	**2.815**	**28,8%**	**3.130**	**15,8%**
Steel	331	339	-2,3%	183	81,2%	826	-59,9%
Mining	2.739	2.184	25,4%	1.966	39,3%	1.779	53,9%
Porto	14	28	-50,3%	19	-25,4%	30	-53,4%
Railway	336	430	-21,9%	406	-17,3%	270	24,2%
Energy	22	26	-14,9%	25	-11,2%	27	-19,5%
Cement	263	266	-1,1%	266	-1,3%	265	-0,6%
Eliminations	(80)	(74)	8,3%	(50)	59,5%	(75)	6,3%

Source: CSN, Genial Investimentos

CSN Holding: EBITDA almost doubles in steelmaking, grows even more in mining and marks best figure of the year. CSN Holding 's consolidated EBITDA was R$3.6bn (+12.7% vs. Genial Est.), reflecting strong growth of +28.8% q/q and +15.8% y/y. This is due to the recovery of other segments, with the mining division still responsible for most of the growth in results, with EBITDA reaching R$2.7bn (+25.4% vs. Genial Est.), up +39.3% q/q and +53.9% y/y, with a performance above our expectations. The steel business unit posted EBITDA of R$331mn (-2.3% vs. Genial Est.), in line with the projection and growing +81.2% q/q and contracting -59.9% y/y.

Despite the difference in the steel division's COGS/t vs. our estimates, the business line's EBTIDA was markedly close to our projection as a result of slightly higher net revenue with higher SG&A. The cement unit reported EBITDA of R$263mn, in line with our estimate and practically flat q/q.

CMIN: Robust operating result denotes strong growth in net income. For CMIN, adjusted EBITDA was R$2.8bn (+24.6% vs. Genial Est.) and advanced +38.8% q/q and +54.6% y/y, reflecting the regularity in operations with **(i)** ramp-up of production y/y, **(ii)** increase in the curve of 62% Fe q/q and **(iii)** pricing still above the pull seen in the benchmark. These factors, in turn, helped CMIN achieve growth in net income, which stood at R$1.35bn (-6.1% vs. Est. Genial), an increase of +13.2% q/q and +55.9% y/y. Although EBITDA was higher than our projections, net income was slightly lower due to a slightly worse financial result, as a result of the stronger than expected exchange rate variation.

Margin expanded to 50% (+6.8p.p vs. Genial Est.) and increased by p.p. in the high single digits sequentially and in the mid-single digits' year-on-year, supported both by more favorable market conditions and by the company's internal management, which took the decision to reduce the penetration of third-party iron ore purchases in relation to the amount of own production.

Table 6. Income Statement CMIN (4Q23 vs. Genial Est.)

CMIN	4Q23	4Q23E		3Q23		4Q22	
(R$ Millions)	**Reported**	**Genial Est.**	**% R/E**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**5.513**	**5.115**	**7,8%**	**4.840**	**13,9%**	**3.978**	**38,6%**
Domestic Market	574	376	52,7%	541	6,0%	319	79,8%
External Market	4.939	4.739	4,2%	4.298	14,9%	3.659	35,0%
COGS	(2.466)	(2.487)	-0,8%	(2.524)	-2,3%	(1.867)	32,1%
Adjusted EBITDA	**2.759**	**2.213**	**24,6%**	**1.987**	**38,8%**	**1.784**	**54,6%**
EBITDA Margin (%)	50,0%	43,3%	6,78p.p	41,1%	8,98p.p	44,9%	5,19p.p
EBIT	**2.032**	**2.000**	**1,6%**	**1.771**	**14,7%**	**1.335**	**52,2%**
EBIT Margin (%)	36,9%	39,1%	-2,25p.p	36,6%	0,26p.p	33,6%	3,29p.p
D&A	(273)	(259)	5,4%	(262)	4,0%	(269)	1,2%
Financial Result	(345)	135	-355,9%	3	-	(439)	-
Net Income	**1.359**	**1.448**	**-6,1%**	**1.200**	**13,2%**	**871**	**55,9%**
Net Margin (%)	24,6%	28,3%	-3,65p.p	24,8%	-0,14p.p	21,9%	2,74p.p

Source: CMIN, Genial Investimentos

CSN Holding: Net income up 9x on 3Q23. After reporting a negative financial result of -R$552mn in 4Q23, due to the appreciation of Usiminas shares (CSN holds a ~12% stake in Usiminas) and a lower cost of debt, the company recorded a good bottom line increase, 9.4x the net income realized in 3Q23, and marked R$851mn, above our estimate (+24.6% vs. Genial Est.).

Table 7. Income Statement CSN (4Q23 vs. Genial Est.)

CSN (R$ Millions)	4Q23 Reported	4Q23E Genial Est.	% R/E	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Net Revenue	**12.005**	**11.620**	**3,3%**	**11.125**	**7,9%**	**11.129**	**7,9%**
COGS	(8.336)	(7.434)	12,1%	(7.477)	11,5%	(7.022)	18,7%
Adjusted EBITDA	**3.626**	**3.216**	**12,7%**	**2.815**	**28,8%**	**3.130**	**15,8%**
EBITDA Margin (%)	30,2%	27,7%	2,53p.p	25,3%	4,9p.p	28,1%	2,08p.p
EBIT	**1.818**	**1.746**	**4,1%**	**1.648**	**10,3%**	**1.196**	**52,0%**
EBIT Margin (%)	15,1%	15,0%	0,11p.p	14,8%	0,33p.p	10,7%	4,4p.p
D&A	(852)	(756)	12,7%	(842)	1,1%	(825)	3,2%
Financial Result	(552)	(711)	-22,3%	(1.223)	-54,9%	(1.181)	-53,2%
Net Income	**851**	**683**	**24,6%**	**91**	**837,4%**	**197**	**332,5%**
Net Margin (%)	7,1%	5,9%	1,21p.p	0,8%	6,27p.p	1,8%	5,32p.p

Source: CSN, Genial Investimentos

Our take on CSN and CMIN

CMIN

It could be said that CMIN carried the CSN holding in 2023. The company managed to take good advantage of the 62% Fe iron ore curve and achieved reasonable numbers during the year. In 4Q23, the ore curve climbed, and the market leaned towards the consumption of low-grade iron ore, which helped CMIN somewhat. On the other hand, the guidance released for 2024 was disappointing for us (we are now at 43Mt 24E vs. 45Mt in the previous estimate).This, in turn, ended up somewhat weakening the growth thesis that was so often ratified during the IPO, although it seems to us that the company is trying to improve the mix of its own production and purchases from third parties, which could promote a rise in margins in 2024 that we still don't think is priced into the shares.

Expectations for demand in China. In 2024, our outlook for steel demand in China should grow marginally, even if there is a forecast reduction in total production to less than 1Bt. We believe that domestic demand is set to increase, driven by promising sectors such as automotive, infrastructure and especially social housing. For social housing, the People's Bank of China (PboC) has announced a total investment package of ¥1trillion (~US$240bn) spread over 4 to 5 years for the development of housing in outlying areas of major cities. In addition, there is recent speculation that this amount could rise to as much as US$280bn per year, which would represent a significant increase on the initial idea.

With these investments, the demand for steel is expected to gradually increase, and it is estimated that housing inventory will decrease by around -10%, according to preliminary calculations. It is worth noting that these calculations do not consider the possibility of an extension of the investment program, which could further boost the growth of the social housing sector and, consequently, the demand for steel.

Cash flow generation above estimates. Free cash flow generation (FCFE) was R$1.1bn (+16% vs. Genial Est.), indicating an increase of +46.9% q/q, impacted by a less pressured capital and working dynamics than last quarter, due to the liberalization of inventory in transit, partially offset by a more negative financial result, due to the exchange rate variation. Even so, strong EBITDA growth, above our estimates, was the main driver of FCFE generation in 4Q23. We believe that the result could pave the way for strong dividend distributions, both by CSN Holding and CMIN. We have in our model a distribution of R$0.28/share for CMIN, equivalent to a Dividend Yield of 4.7%, or ~18% annualized.

We continue to look forward with bullish eyes for CMIN's next few quarters. Although the 62% Fe iron ore curve should continue to decline throughout the year, we are more excited about margins, as we have already commented throughout the report. Trading at an **EV/EBITDA 24E** of **4.2x**, we reiterate our **BUY rating**, with a **12MTarget Price** of **R$7.00**, giving an **upside** of **+17.45%**.

CSN Holding

What about the outlook for steel? As we mentioned in (Preview 4Q23: Reacquiring vital signs), we believe in a potential increase in demand in the flat steel market. For example, in the automotive sector, ANFAVEA's projections for 2024 point to a significant boost, especially in the light vehicle segment. The outlook for heavy vehicles is also optimistic, driven by the return of interest in renewing the fleet. After a period of scarcity in 2023, caused by the anticipation of purchases of Euro 5 technology in 2022 due to the entry of Euro 6 into production, there is now a strong impetus for renewal. In addition, the 5-year Green Mobility and Innovation (Mover) program should continue to drive demand for buses and trucks going forward.

However, although the Brazilian steel players are trying to introduce a tariff on imported products, this market is still likely to suffer from uncertainty about Chinese activity. CSN holding 's sales portfolio in 4Q23 saw the distribution segment grow +24.7% q/q, while the home appliance and automotive segments fell -19.8% q/q each. We expect Brazilian steelmakers to transfer prices to the distribution segment in 1H24 due to stronger commercial ties. As CSN's share strengthens in the distribution segment, our understanding is that this could facilitate more price transfers in 2024. Despite an increase in demand for industrial and automotive steel, as these segments have greater bargaining power, and more freedom to buy imported steel from China if they feel it makes more sense, they end up negotiating more discounts with domestic mills. The increase in CSN holding's exposure in the distribution segment may be due to a seasonal factor present in 4Q23 (where industrial activity slows down at the end of the year) or to the company's intention to secure a larger share and obtain higher price pass-throughs with an eye on 2024.

Leverage is a handbrake for investors. CSN holding ended 4Q23 with a lower Net Debt/EBITDA than last quarter, reaching 2.58x, but still above the annual target of 2.0-2.5x. Despite having a significant cash reserve (~R$17bn) and issuing longer bonds to balance the debt by using the resources to pay off the shorter maturities, bringing forward the value and cooling down the average term, the high leverage remains a critical concern for investors, as it is considered non-negotiable by a large portion of them.

Defibrillator. The CSN holding has the capacity to generate a combinatorial result (at least up to the EBITDA line) in relation to the investment thesis based on the diversification of the portfolio of complementary and supplementary business units. However, after the EBITDA line, the inability to reduce leverage to a healthier level could hinder net income growth, as it always carries higher financial expenses compared to its peers (Usiminas and Gerdau).

Our view is that the 4Q23 result showed an **important volume recovery** in the steel business unit, with **prices above our estimates**, due to its exposure to Europe, which performed better than expected. Even so, the **domestic market seems to us to be very weak** and still carries a number of uncertainties. Therefore, the sequential growth figures are more like a defibrillator, reviving a patient who was in a coma. What we mean is that although we see the result as positive, there is still a lot to be done. With a **24E EV/EBITDA** of **4.5x**, albeit below the historical average, we maintain our **NEUTRAL rating**, with a **12M Target Price** of **R$17.30**, allowing for an **upside of just +3.90%.**

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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