genial Equity Research

USIMINAS

1Q24 Review: The EBITDA fallacy

LatAm Metals & Mining

Main takeaways:

(i) Flat q/q shipment in Steel business unit reaffirms difficult times; **(ii)** Domestic market still under pressure from Chinese steel; **(iii)** Foreign market down -16% q/q in price and growing slightly in volume; **(iv)** Complicated quarter for MUSA, which suffered from a much lower realized price; **(v)** Revenue down -5.4% q/q, driven by poor mining dynamics; **(vi)** Improved efficiency led to a reduction in Steel COGS/t, but the level of reduction shouldn't last, since management confirmed that we can expect an increase for 2Q23; **(vii)** EBITDA grew +28.4% q/q when excluding one-off effects from 4Q23**; (viii)** Tight net margin and sharp drop in net income; **(ix)** Cash flow burn, with **FCF of -R$31mn**, as the **working capital reversal cycle came to an end** following the consolidation of the BF3 reform; **(x)** The sharp drop in share prices just after the results **were** released **proves that our view was assertive**, since we had not agreed with such bullish bias about Usiminas' name since the beginning of the year, and we adopted a stance again against consensus after several analysts upgraded the shares to Buy. We reiterate our **NEUTRAL rating**, leaving our **12M Target-Price unchanged** at **R$8.70**, which leads to a slight **downside of -4.4%**.

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Company

USIM5 BZ Equity
Neutral

Price: R$ 9.10 (23-Apr-2024)
Target Price 12M: R$ 8.70

Usiminas released its 1Q24 results on April 23. The figures were mostly in line with our expectations, with a **marginal improvement vs. Genial Est**. The result was mainly driven by the cost dynamics of the steel business unit, with a **-11.1% q/q drop in COGS/t** to R$5,243/t (-4.6% vs. Genial Est.), achieving a better efficiency than we had initially expected after the consolidation of Blast Furnace 3 (BF3) refurbishment. However, in our view and according to the insights gleaned from the company's earnings conference call with analysts, the **dynamic of a significant reduction in COGS/t is unlikely to last**, triggering a further increase in 2Q24.

Table 1. Shipments Summary (1Q24 vs. Genial Est.)

(Thousand Tonnes - kt)	Reported	Genial Est.					
Summary (Shipments)	**1Q24**	**1Q24E**	**% R/E**	**4Q23**	**% q/q**	**1Q23**	**% y/y**
Steel	1.042	1.040	**0,2%**	1.040	**0,2%**	1.028	**1,4%**
Iron Ore	1.962	1.864	**5,3%**	2.384	**-17,7%**	1.883	**4,2%**

Source: Usiminas, Genial Investimentos

Table 2. Income Statement Summary (1Q24 vs. Genial Est.)

(R$ millions)	Reported	Genial Est.					
Income Statement	**1Q24**	**1Q24E**	**% R/E**	**4Q23**	**% q/q**	**1Q23**	**% y/y**
Net Revenue	6.223	6.344	**-1,9%**	6.781	**-8,2%**	7.255	**-14,2%**
Adjusted EBITDA	416	389	**7,1%**	625	**-33,4%**	783	**-46,9%**
Net Income	36	187	**-81,0%**	975	**-96,3%**	544	**-93,4%**

Source: Usiminas, Genial Investimentos

We do not share the same market's bullish perspectives, mainly due to macro adversities and the **difficulty of generating cash flow** (FCF burn of -R$31m). During the trading session, the **shares suffered** a **very sharp drop of -13.91%**, indicating that we were right about the **consensus having exaggerated its bullish bias** about Usiminas' name during the first few months of this year and that **the shares would return part of the gains**.

Valuation and rating. Facing a challenging reality, Brazilian steel companies remain in a tense scenario marked by persistent competition from Chinese mills. China produces ~65% of all global steel, and local mills are maintaining blast furnace capacity utilization rates at almost artificial levels (currently ~85%), which results in this excess supply being exported and puts pressure on steel prices in other global markets.

In this context, Usiminas stands out as particularly vulnerable due to its greater exposure to flat steel, a product mix that faces fiercer competition from China. Competition with Chinese steel makes the Brazilian market more competitive and squeezes the market share of local steelmakers. Usiminas, like its peers, is facing significant challenges. An example of this was the company's complete cessation of production at Blast Furnace 1 (BF1) in Ipatinga-MG (~600Ktpy of pig iron) in December last year, due to a lack of demand in a more competitive environment.
Despite the market's expectations of improvement for 2024, we thought it prudent to remain cautious and wary of optimism regarding Usiminas' shares. **We commented in previous reports that there was no reason to be overly bullish on the stock**, as sector conditions remain challenging. On the other hand, before the release of today's result, Usiminas shares had accumulated an impressive gain of +16% YTD (~4M) and +57% since late November last year (~5M).

We had suggested that **the market could be decoupling Usiminas shares from fundamentals** from some time now, and evidence of that can be seen in our reports since the beginning of the year, such as the 4Q23 Preview, published 3M ago and attached (4Q23 Preview: Blast furnace reopening overcooked the shares). Even after we warned the market that the shares were getting overpriced, the appreciation continued, with the stock rising +16% from the timeframe of our publication in February to yesterday's close. Our **12M Target Price of R$8.70** is even the lowest among the more than 10 sell side firms that cover the company, clearly compounding our warning about **the high level of overpricing of the shares** during the first few months of 2024.

What happened for the shares to fall so sharply after the result? We have always been in favor of the idea that the market was biased and projecting an operational improvement that was very difficult to achieve, and that some investors and analysts were focused only on EBITDA growth and not on cash flow generation itself. Here it is important to point out that **EBITDA may not work as good proxy for cash flow generation**. As the company was freeing up a lot of working capital (WC) by destocking the accumulated slabs to supply the sales volume while Blast Furnace 3 (BF3) was suspended, the generation of FCF was being very much driven by this release. To illustrate, the total release of WC was ~R$1bn in 4Q23, ~R$1.5bn in 3Q23 and ~R$400mn in 2Q23.

Investors finally absorbed this fact (which we had been warning about for some time) and reacted negatively to this issue. In view of the information given by management during the conference call with analysts after the release of the results, investors began to correct their expectations around a **more rational bias**, by assuming that there would henceforth be a **narrower space for potential further cost reductions**, in addition to the reduction already observed in 1Q24. This represents an operational improvement, but not enough to fully compensate for the reduction in the release of WC within the cash flow dynamics.

We see Usiminas trading at an **EV/EBITDA 24E of 4.5x** (just a little below the historical average). We'd like to point out that **we noticed the market's over-optimism beforehand**, and we've now seen the stock give back a significant part of its rise in just a single trading session, falling -13.91%.

Therefore, **after proving our assertive view**, against consensus after several analysts upgraded the stock to a buy rating, which seems to have proved ineffective, we reiterate our **NEUTRAL rating**, with our **12MTarget-Price** at **R$8.70**, which leads to a **downside of -4.4%**. We stress once again that we believe the **share price has exceeded fair value**, and that even with the sharp drop in today's trading session, the stock should still converge towards our Target-Price, just as we've been saying since February (ahead of consensus).

1Q24 Review: In detail!

Steel: Shipment volume flat q/q, reaffirming difficult times. In line with the company's guidance in the previous earnings release, sales in 1Q24 were very similar to that seen in 4Q23. Usiminas reported shipments of 1,042Kt (+0.2% vs. Genial Est.), indicating an increase of +0.2% q/q and +1.4% y/y. It's worth remembering that seasonality remained weak in Q1s and steelmakers are still suffering from the penetration of Chinese steel in Brazil.

Steel: Domestic market still under pressure from imports. Although the domestic market is showing gradual improvements in demand in the automotive segment, the comparative base is weak, and the segment represents ~1/3 of the company's sales. The shipments made on the domestic market stood at 919Kt (-0.6% vs. Genial Est.) showing a sequential balance of -0.1% q/q, and a marginal decline of -1.6% y/y. As for the price realized on the domestic market, the company reported R$5,611/t (+0% vs. Genial Est..), totally in line with our estimates and registering a slight increase of +0.1% q/q, but a drop of -9.2% y/y. This marginal q/q variation is due to the offsetting effect of price increases in the “Grande Rede” (distribution), but a discount in the automotive segment.

Steel: External market falling in price and growing slightly in volume. Given the competition with Chinese steel, especially in the industrial sector, one of Usiminas' options is to redirect shipments to Latin America, to countries like Argentina. For the foreign market, there was a marginal growth of +1.7% q/q in shipments, which reached 123Kt (+5.9% vs. Genial Est.), making up an acceleration of +21.8% y/y, thus maintaining this trend of redirecting production to neighboring locations, which contrasts with the annual base, when this alternative was not yet so widely used.

Table 3. Net Revenue Usiminas (1Q24 vs. Genial Est.)

(R$ millions)	1Q24 Reported	1Q24E Genial Est.	% R/E	4Q23 Reported	% q/q	1Q23 Reported	% y/y
Net Revenue	**6.223**	**6.344**	**-1,9%**	**6.781**	**-8,2%**	**7.255**	**-14,2%**
Steel	5.784	5.822	-0,7%	5.890	-1,8%	6.662	-13,2%
Mining	649	670	-3,0%	1.049	-38,1%	784	-17,1%
Eliminations	(211)	(148)	42,7%	(158)	33,5%	(190)	10,9%

Source: Usiminas, Genial Investimentos

As for the price, we saw a decline of -16% q/q and -16.6% y/y, reaching R$5,096/t (-6.6% vs. Genial Est.). The drop in price realization on the foreign market is mainly due to the end of phase III of the Néstor Kirchner project in Argentina, which demanded a specific product mix for the oil & gas industry, benefiting the price. With the end of the project in 1Q24, there was no longer this premium, which led to a shift towards a semi-finished or lower value-added mix.

Mining: Price realization in iron ore prominently reduces. Usiminas mining operations (MUSA) suffered in 1Q24, due to the pricing model with part of the realization value being marked on the forward provisioned price of the iron ore curve. This caused the company to post a price well below that seen in 4Q23, even though the average of the 62% Fe benchmark fell very slightly, to US$124/t (just -3.4% q/q). As a result, the company recorded a price of R$331/t (-7.9% vs. Genial Est.), resulting in a fall of -24.8% q/q and -20.5% y/y.

Mining: Shipments restricted by temporary stoppage of East treatment plant. In addition to a weaker price realization, the hard times of the mining business extended to shipments. In addition to Q1 being normally affected by the rainy season, which in itself would cause a sequential drop in sales, the company also faced micro difficulties with a unit shut down. The mining front that fed this division (with a capacity of 1Mtpy) was depleted and, although there is another front ready to start feeding the plant, MUSA suffered from a problem in moving the iron ore load. The volume was therefore affected by -17.7% q/q and amounted to 1,962Kt (+5.3% vs. Genial Est.). Even though the volume was affected, we had expected this dynamic, so the figure ended up being slightly higher than we had anticipated, with a rise of +4.2% y/y.

Consolidated revenue pulled down by mining. Usiminas reported consolidated net revenue clocking in at R$6.2bn (-1.9% vs. Genial Est.). As such, total revenue fell sequentially by -8.2% q/q, with a more significant drop on an annual basis, to -17.1% y/y. We believe that the business unit most responsible for this decline was mining (MUSA), due to restricted shipments, added to the unfavorable seasonal effect and a realization of prices compromised by the marking of forward curve by the end of the quarter. MUSA's net revenue amounted to R$649mn (-3.0% vs. Genial Est.), slightly lower than we expected, down -38.1% q/q and -17.1% y/y. In the case of steel business unit, as we saw more stable prices and shipments vs. last quarter, revenues fell more gently on a sequential basis, to R$5.8bn (-0.7% vs. Genial Est.), decelerating by -1.8% q/q and -13.2% y/y.

Steel COGS/t: BF3 reform brought considerable efficiency gains. With the completion of the refurbishment of Blast Furnace 3 (BF3), greater cost efficiency was indeed realized, including **(i)** higher thermal effectiveness, which implied less coke being used to produce the same amount of steel, as well as **(ii)** an improvement in the process of diluting fixed costs, and finally, **(iii)** a reduction in the consumption of slabs passing through the P&L. Therefore, we witnessed a reduction in COGS/t to R$5,243/t (-4.6% vs. Genial Est.), down -11.1% q/q and -6.5% y/y.

There is almost no room for improvement going forward. With efficiency gains, the total nominal cost for the steel segment was R$5.5bn (-10.9% q/q; -9.1% y/y). However, despite this drop, during the earnings conference call with analysts, management mentioned that there will be an increase in COGS/t back in 2Q24, caused by **(i)** the influence of the USD/BRL exchange rate, which has risen considerably and **(ii)** an improvement in the product mix, reflecting a higher production cost due to higher value-added products, trying to compose a neutral vector in the realized price, therefore avoiding the expansion of the discount policy.

Table 4. COGS Usiminas (1Q24 vs. Genial Est.)

(R$ millions)	1Q24 Reported	1Q24E Genial Est.	% R/E	4Q23 Reported	% q/q	1Q23 Reported	% y/y
COGS	**(5.824)**	**(6.081)**	**-4,2%**	**(6.636)**	**-12,2%**	**(6.370)**	**-8,6%**
Steel	(5.464)	(5.700)	-4,1%	(6.136)	-10,9%	(6.009)	-9,1%
Mining	(535)	(523)	2,4%	(655)	-18,3%	(493)	8,6%
Eliminations	175	142	23,8%	155	13,2%	131	33,4%

Source: Usiminas, Genial Investimentos

Mining COGS/t: Reduction in freight offset the worsening capacity to dilute fixed costs. For the mining unit (MUSA), we expected a sequential rise in costs due to the lower capacity to dilute fixed costs. However, we were faced with a reduction in COGS/t, which stood at R$272.9/t (-2.7% vs. Genial Est.), falling smoothly sequentially by -0.7% q/q, with an increase of +4.2% y/y. The reason for this was the price of freight, which was lower than we had expected, and which offset the impact of shipments restrictions within fixed cost dilution. With this reduction, MUSA's nominal COGS stood at R$535mn (+2.4% vs. Genial Est.), down -18.3% q/q, but up +8.6% y/y.

EBITDA better or worse q/q? 1Q24 was marked by an Adjusted EBITDA of R$416mn (+7.1% vs. Genial Est.), above our expectations. Despite the fact that, at first glance, EBITDA fell by -33.4% q/q, the figure ended up being operationally better in the sequential movement, driven by the reduction in COGS/t from steel business division. This confusion may be due to non-recurring effects observed last quarter, mostly linked to reversals of accumulated accounting provisions. For a better understanding of this situation, we recommend reading the previous report, where we discuss the dynamics of reversing accounting provisions in more detail (Usiminas 4Q23 Review).

Table 5. EBITDA Usiminas (1Q24 vs. Genial Est.)

(R$ millions)	1Q24 Reported	1Q24E Genial Est.	% R/E	4Q23 Reported	% q/q	1Q23 Reported	% y/y
Adjusted EBITDA	**416**	**389**	**7,1%**	**625**	**-33,4%**	**783**	**-46,9%**
Steel	334	252	32,3%	267	25,2%	557	-40,0%
Mining	83	151	-45,4%	327	-74,8%	254	-67,5%
Eliminations	0	-15	-97,1%	31	-101,4%	-28	-98,4%

Source: Usiminas, Genial Investimentos

In 4Q23, reported EBITDA was R$625mn, but when we remove these one-off effects, we are faced with an operational adjusted EBITDA of R$324mn. If we use this figure as a basis for comparison, total consolidated EBITDA for 1Q24 would have jumped by +28.4% q/q, although MUSA's contribution fell sharply, recording a mining EBITDA of R$83mn (-45.4% vs. Genial Est.), down -74.8% q/q and -67.5% y/y.

Margins remain weak, net income down sharply. After a reported EBITDA margin of 7.1% (+0.56p.p vs. Genial Est.), down -2.53p.p q/q and -4.1p.p y/y, as well as a financial result of -R$156mn, more pressured than we expected, we saw net income clicking in at R$36mn (-81% vs. Genial Est.), with a sharp drop of -96.3% q/q and -93.4% y/y, setting up a tight net margin of 0.6%.

Table 6. Income Statement Usiminas (1Q24 vs. Genial Est.)

(R$ millions)	1Q24 Reported	1Q24E Genial Est.	% R/E	4Q23 Reported	% q/q	1Q23 Reported	% y/y
Net Revenue	**6.223**	**6.344**	**-1,9%**	**6.781**	**-8,2%**	**7.255**	**-14,2%**
COGS	(5.824)	(6.081)	-4,2%	(6.636)	-12,2%	(6.370)	-8,6%
Adjusted EBITDA	**416**	**389**	**7,1%**	**625**	**-33,4%**	**783**	**-46,9%**
EBITDA Margin (%)	6,7%	6,1%	0,56p.p	9,2%	-2,53p.p	10,8%	-4,1p.p
EBIT	**131**	**131**	**0,0%**	**373**	**-64,9%**	**495**	**-73,5%**
EBIT Margin (%)	2,1%	2,1%	0,04p.p	5,5%	-3,4p.p	6,8%	-4,72p.p
D&A	(303)	(258)	17,6%	(289)	4,6%	(249)	21,8%
Financial Result	(156)	43	-462,1%	131	-219,2%	387	-140,2%
Net Income	**36**	**187**	**-81,0%**	**975**	**-96,3%**	**544**	**-93,4%**
Net Margin (%)	0,6%	3,0%	-2,38p.p	14,4%	-13,8p.p	7,5%	-6,93p.p

Source: Usiminas, Genial Investimentos

Our Take on Usiminas

Discussions to increase tariff barriers in the US. Blast furnace capacity utilization rates rose again in China, and are now at ~85% (+2p.p vs. 2 weeks ago), indicating that mills have stepped up crude steel production again after the Lunar New Year holiday. Although the manufacturing PMI in China rose into the expansion zone in March, above 50pts for the first time after several weak results in 2023, the expansion was still timid, not showing intense activity, with the level of industrial confidence still apathetic. On the other hand, the services PMI continues to be warmer than the manufacturing PMI in China, indicating that the overcapacity in the mills could be resolved by continuing to export crude steel to other global economies.

Clearly, Brazil is not the only destination for this steel and the US is already in the process of taking action on the issue. Last week, President Joe Biden gave a speech in Pennsylvania, following the ritual of the presidential campaign. Pennsylvania has a large Blue Collar Worker vote, and in an attempt to appeal to voters who work in steel mills, Biden commented that he could triple the tariff on imported steel and aluminum, which currently stands at 7.5%, in an attempt to safeguard jobs. This act, if carried out, is likely to create further friction into the commercial and diplomatic relationship between the US and China. In addition to the current president's administration, the Republican Party's candidate in the run-off elections, former president Donald Trump, also intends to make the same decision and fight with Biden to win the votes of steel mill workers.

But how does this relate to Brazil? Unlike the US, Brazil's trade relationship with China is more complex and involves a high degree of mutualism. While Brazil is a major supplier of commodities to China, such as iron ore, oil, cotton, soybeans, and meat, on the other hand, China exports manufactured goods, electronics and consumer goods to Brazil. Therefore, even with the Brazilian steelmakers' appeal to the government to raise the tariff on imported steel, creating diplomatic friction with China to prevent the entry of this crude steel by raising tariff barriers, this situation may not be the best diplomatic decision, considering the balance and economic interdependence between the two nations.

Even so, a high volume of steel from the Chinese market, where steelmakers operate with tight margins and receive subsidies, continues to be sold to the rest of the world. This leads to dumping on the Brazilian steel market, since crude steel from China arrives in Brazil at a much lower price than steel produced domestically. During 1Q24, the penetration rate of imported steel in relation to apparent consumption reached 18.6% (+2.4p.p y/y). If we look at the most recent data from Instituto Aço Brasil (IABr), this level has already been exceeded, reaching 19.6% penetration for last month.

To put this into context, the tariff on imported steel was raised in February and reached ~14% level once again. It's important to remember that this specific increase was actually a recompositing, since in 2022 the Brazilian authorities had unilaterally reduced tariffs to a level below the average rate in the Mercosur trade agreement. However, local steelmakers felt that this was not enough to fight with Chinese mills and formalized a request for a higher level of protectionist barriers.

Finally, a real increase in tariffs, but one that falls short of the size of the problem. Today, April 23rd, the Brazilian authorities came out with an official position, through the Executive Management Committee (GECEX), mediated by the Chamber of Foreign Trade (CAMEX). CAMEX approved an increase in the steel import tariff to ~25% (vs. ~14% previously). However, this increase will be valid for a specific group of items, with 11 types of products belonging to the steel mix chain (NCMs) and will appear as a complementary rate levied only on the difference between the total import volume and the average quota recorded between 2020 and 2022. When there is no excess volume, the rate will remain at the previous ~14%. Our assessment is that the measure does not represent a solution that supports the full needs of the Brazilian steel industry and the number of NCMs covered is below the 30 products that IABr had requested in its petition.

Using an analogy to illustrate, we believe that the measure would work like taking a flat umbrella into a storm. It's better than nothing, but it doesn't solve the problem. And given the diplomatic relationship between Brazil and China, further changes to the resolution, which would have more extensive repercussions than the announced measure, seem unlikely until at least next year, as we have discussed the trade interdependence between the two countries. We have previously commented that we were working with an assumption of an increase in the rate to ~18% Genial Est. Although the increase to 25% brings an uspide vs. our estimate, the **(i)** low number of NCMs, coupled with the **(ii)** volume mechanism locked into an average quota, which seems outdated (2020/2022), should not create an environment that would return greater bargaining power to domestic steelmakers in their price negotiations with the downstream industry.

The fallacy of EBITDA. The company has undergone significant changes in its financial dynamics in recent quarters due to strategic working capital (WC) management and operational adjustments. Initially, there was a **substantial release of WC** in the amount of ~R$3bn, added up over 3 consecutive quarters (2Q23, 3Q23 and 4Q23), mainly due to the destocking of slabs during the refurbishment of Blast Furnace 3 (BF3). This release significantly supported cash flow generation during this period, **helping to create a positive FCF balance** despite the rising costs of slabs being processed in the P&L, consequently reducing EBITDA, in addition to higher CAPEX acting as an opposite vector on cash flow. However, the long-awaited post-reform moment, marked by the 1Q24 figures, have put up a significant change in these dynamics. Cash flow dynamics began to be driven more on normalization of commercial operations than on the release of WC, with the reduction of the forfating account by -R$704mn.

Despite an increase of +28.4% q/q in EBITDA post BF3 reform, already excluding the non-recurring effects of last quarter, the company faced a challenge, **going from a scenario of powerful cash flow generation to a cash burn of -R$31mn in 1Q24**, indicating a significant shift towards regularizing commercial returns rather than reaping the benefits of WC release, which were caused by an atypical situation linked to the BF3 reform. The big problem here is that it seems to us that the consensus made calculations of EBITDA improvement and forgot that **comparing EBITDA with cash flow generation is a real fallacy**.

We've never been as bullish as the consensus was about Usiminas. And the proof of this can be seen in the tone of our reports on the company since the beginning of the year, as an example of which is attached below (4Q23 Preview: Blast furnace reopening overcooked the shares). Although we recognize the improvement in costs this quarter and the prospect of an increase in EBITDA for 2024, we have believed for some time that the market could have overreacted to the rise. Once again, we were right, given the **massive devaluation of the shares after the earnings release** (-13.91% in a single trading session).

As we quoted more than 2M ago, since the share price had passed the value that we consider to be fair, part of the rise could be returned if the market started to behave more rationally. The point is that this ended up happening all at once, with investors facing the reality shock that we tried to warn them about earlier. Trading at a **24E EV/EBITDA** of **4.5x** (just a little below the historical average), we decided to leave our **12MTarget-Price unchanged** at **R$8.70**. We reiterate our **NEUTRAL rating,** with a **downside of -4.4%**, as **we perceive an excess of market bullish bias ahead of consensus**, and we anticipated since February that the strong rise in the shares was not sustainable from a fundamentalist point of view.

Appendix: Usiminas

Figure 1. Usiminas – Income Statement in R$ Millions (Genial Est. 2024-2028)

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**26.690**	**26.956**	**27.619**	**27.985**	**27.707**
(-) COGS	(24.033)	(23.371)	(23.699)	(24.035)	(23.603)
Gross Profit	**2.657**	**3.585**	**3.921**	**3.949**	**4.104**
(-) Expenses	(1.105)	(1.301)	(1.445)	(1.365)	(1.324)
Adjusted EBITDA	**2.590**	**3.377**	**3.626**	**3.834**	**3.769**
(-) D&A	(1.038)	(1.093)	(1.150)	(1.250)	(990)
EBIT	**1.552**	**2.284**	**2.476**	**2.585**	**2.779**
(+/-) Financial Result	545	391	469	746	837
(-) Taxes	(319)	(402)	(441)	(497)	(538)
Net income	**1.885**	**2.380**	**2.611**	**2.941**	**3.185**
Profitability					
Net margin (%)	7,06%	8,83%	9,45%	10,51%	11,50%

Figure 2. Usiminas– Cash Flow in R$ Millions (Genial Est. 2024-2028)

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**26.690**	**26.956**	**27.619**	**27.985**	**27.707**
(-) COGS	(24.033)	(23.371)	(23.699)	(24.035)	(23.603)
Adjusted EBITDA	**2.590**	**3.377**	**3.626**	**3.834**	**3.769**
EBIT	**1.552**	**2.284**	**2.476**	**2.585**	**2.779**
(-) Taxes	(319)	(402)	(441)	(497)	(538)
(+) D&A	1.038	1.093	1.150	1.250	990
(+/-) Δ WK	978	20	(188)	(18)	158
(-) Capex	(1.813)	(1.559)	(2.573)	(2.058)	(1.955)
FCFF	**1.436**	**1.435**	**425**	**1.261**	**1.434**

Disclosure Section

1. GENERAL DISCLAIMER

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Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**49%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

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