genial | Equity Research

VALE

2Q24 Operational Preview: Why so serious?

LatAm Metals & Mining

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Company

VALE US Equity
Buy

Price: US$ 11.56 (09-Jul-2024)
Target Price 12M: US$ 14.50 (NYSE)

VALE3 BZ Equity
Target Price 12M: R$ 78.50 (B3)

Main takeaways:

(i) We expect iron ore fines production with a slight downward trend y/y and sequential improvement due to seasonality; **(ii)** We project pellet production increasing q/q and flat y/y; **(iii)** Base Metals with a negative effect on production due to maintenance stoppages; **(iv)** Suspension of licenses at Onça Puma and Sossego should not cause major impacts; **(v)** Shipments of iron ore fines will be driven by the **destocking process**; **(vi)** Ramp-up due to the Torto dam nearing its end, pellet sales will probably stabilize q/q; **(vii)** Sales of base metals following the clearance of inventories formed last quarter; **(viii)** For iron ore fines, we expect a **slight increase in price realization** up to **US$103/t Genial Est.** (+2.3% q/q; +4.6% y/y); **(ix)** Conversely, pellets should reduce price realization q/q, although will still be at a satisfactory level; **(x)** Conflict in New Caledonia reverses downward trend in Nickel price; **(xi)** Nickel price redirects towards recovery and copper maintains good momentum; **(xii)** We expect better results across all P&L major lines, both q/q and y/y; **(xvii)** On **Mariana agreement**, the overhang should be resolved in the next few days, given the rush to reach an understanding due to the change in the TRF-6 mediator, Judge Ricardo Rabelo, which should happen in August; **(xviii) Overhangs or China, which is bothering investors the most?** We have the feeling that, as much as the overhangs being unblocked may help, **the big fear holding back investor interest is still related to the Chinese economy**; **(xix)** Although macro factors may concern investors even more than the overhangs, **our outlook for crude steel production in China is not for an intense drop**, since the increase in exports is partially offsetting weak domestic demand, and keeping blast furnace utilization rates robust at ~90% (more about that in the **"Our take" section**); **(xx)** Potentially close to settle the Mariana agreement, and with a pace of solid results (both in production and sales), as well as an expected recovery from the impact suffered in the realized price of iron ore fines in 1Q24, the **company seems to be excessively penalized by the market**. Trading at an **EV/EBITDA 25E** of **3.24x** (vs. ~5.0x historical average), we believe that the discount level is unjustifiable in the face of an **attractive risk/return ratio promoted by the current market valuation**. We reiterate our **BUY rating**, with a **12M Target Price** for **VALE3** of **R$78.50** and **US$14.50** for the **NYSE ADRs**, with an **upside** of **+24.56%**.

Vale will release its **2Q24 production and sales report on July 16**, after the market closes. In general term, **we expect iron ore fines production to decrease slightly.**

Table 1. Operational Summary (2Q24 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.				
Summary	**2Q24E**	**1Q24A**	**% q/q**	**2Q23A**	**% y/y**
Iron Ore Production	77.954	70.838	**10,0%**	78.741	**-1,0%**
Iron Ore Fines Shipments	63.532	52.546	**20,9%**	63.329	**0,3%**
Pellets Production	9.145	8.465	**8,0%**	9.111	**0,4%**
Pellets Shipments	9.190	9.225	**-0,4%**	8.809	**4,3%**

Source: Genial Investimentos, Vale

Throughout the report, in the **"Our Take" section**, we comment on why we believe that investors, even with the potential unblocking of overhangs, may not be too keen to buy the shares (mainly China economic data driven).

Possible slowdown in y/y production represents a concern? No... Faced with a typically still rainy period in the northern system, production is only partially improving from a sequential point of view. It's also important to mention that the production guidance for 2024 of 310-320Mt is stable vs. 2023, and last quarter (1Q24) Vale had already increased production significantly (+6.1% y/y). Therefore, even with a slight drop expected in production in 2Q24, reaching 77.9Mt Genial Est. (+10% q/q; -1% y/y), at this point we don't see any obstacles to achieving guidance. In fact, as we commented in the 1Q24 review report, which is attached below (Vale 1Q24 Review), we are betting that the company should be in the upper band.

Destocking will probably improve shipments. It's important to remember that in 1Q24 there was a slightly more prominent gap between production and sales, indicating an accumulation of operating inventory. The price of the 62% Fe benchmark hit its lowest point of the year at the beginning of April, at ~US$97/t, and quickly rose again, reaching US$120/t in May (+24% in ~45 days). Therefore, for 2Q24 we believe that Vale took advantage of the improved price conditions to destock. So, we expect iron ore fines sales of 63.5Mt Genial Est. (+20.9%; +0.3% y/y).

Iron ore fines realized price expected to increase q/q. The realized price in 2Q24 should have a negative impact on forward provisioning in a less intense way than in the previous quarter, although the average price of the curve in the 62% Fe reference was measured as decelerating vs. 1Q24. That said, we estimate the company's realized price for iron ore fines at US$103/t Genial Est. (+2.3% q/q; +4.6% y/y), with premiums still in negative territory (-US$1.5/t Genial Est., flat vs. 1Q24).

Better figures all across the major P&L lines, both q/q and y/y. Our estimate for net revenue is US$10.2bn Genial Est. (+19.1% q/q; +5.7% y/y), with Adjusted EBITDA reaching US$4.1bn Genial Est. (+15.6% q/q; +9.7% y/y). As for net income, our model points to US$2.1bn Genial Est. (+8.2% q/q; +56.4% y/y). We emphasize that our estimate will be updated as we publish the review report on production and sales, following Vale's announcement scheduled for July 16.

Valuation and rating. We believe that the market is attentive to possible expansions of financial support from PBoC for the real estate sector, especially after the improvement in sales indicators in Tier I cities following the relaxation of mortgage measures in May. Meanwhile, **iron ore inventories at Chinese ports** rose for the second week running, reaching ~130Mt on July 5, and have been **at their highest level for 5Y since the end of April**. This scenario had a negative impact on trader sentiment on futures contracts, with iron ore partially giving back the gains of a week earlier.

On the topic of **overhangs**, the **Mariana (MG) agreement** involving Vale + BHP continues to influence investors' disinterest in the shares, but a priori less than some might imagine. The reduction in information asymmetry, with more accurate figures being released in the last 2M, is seen as positive for the stock. However, the strong link between the Chinese economy and the iron ore curve seems to carry more weight.

The expectation is that the conclusion of this agreement will reduce market distrust and **only partially improve the scalability of Vale's shares**. On the other hand, **ongoing concerns about the Chinese economy** are still the main point that is **holding back fund managers** from increasing their long positions in the name, according to our perception, ascertained in rounds of conversations with investors.

So, looking more closely at the China data, the **manufacturing PMI remained in the contraction zone in June**, at 49.5pts, while the services PMI, despite a monthly drop, remained in the expansion zone at 51.2pts. This behavior indicates a relatively recent tendency of the Chinese population to consume more services than durable goods, which at first appears to be negative for crude steel output. However, the **PMI measured by Caixin**, which puts more emphasis on exporting companies in its survey than the official one measured by the NBS, **showed more positive readings, within the expansion zone** at 51.8pts.

This helps confirm our thesis that **China has been increasing its exports in an attempt to compensate for weak domestic demand** in the industrial sector. Therefore, we see exports as a way for steel mills to maintain **blast furnace utilization rates at ~90%**, even with the unfavorable seasonal rains that occur in the middle of the year in China. This suggests **still robust crude steel production**, leading to only a **marginal projected drop in 2024 vs. 2023**, regardless of the real estate recovery only being focused on Tier I cities. **This scenario**, which we see as highly likely, **seems to be ignored by the vast majority of investors**, who remain very wary of Vale due to uncertainties about iron ore demand, leading the company to a **very reasonable discount level**, even weighing up the risk.

Therefore, **(i)** potentially close to settle the Mariana agreement, which will remove yet another overhang, in addition to **(ii)** the prospect of maintaining solid operating results, both in production and sales, and in the face of a **(iii)** partial recovery of the negative impact suffered in 1Q24, by the forward provisioning system of the realized price on iron ore fines, **we do not consider such aversion to Vale's investment thesis to be rational**. Trading at an **EV/EBITDA 25E** of **3.3x** (vs. 5.0x historical average), **we see the company excessively penalized by the market.** We reiterate our **BUY rating**, with a **12M Target Price** of **VALE3** at **R$78.50** and **US$14.50** for the **ADRs-NYSE**, with an **upside** of **+24.56%**.

Operational Preview 2Q24: Production and sales in detail

We expect fines production to rise slightly y/y and have sequential retraction due to the seasonal effect. After two strong quarters (3Q23 and 4Q23), our estimate is that iron ore production will fall -24.5% q/q in 1Q24. It should be borne in mind that the 3Qs are the best quarters for production, but the arrival of warmer temperatures in the middle of the 4Qs usually brings the start of the torrential rainy season, which lasts until March of the following year. This means that 1Qs (Jan.-Mar.) marks the worst period of the year for production. It's a natural effect, typical of the business.

We believe there will be no problems in achieving the guidance. It is important to mention that production was very strong in the same period last year, already considering the seasonal effect. Therefore, we believe it is a difficult base of comparison for the company to overcome. Even so, we are confident that, as 1Q24 showed growth y/y, in the face of a slight deceleration in the annual base expected for 2Q24, Vale is poised to reach its guidance of 310-320Mt throughout 2024, which is apartment vs. 2023.

We project pellet production to increase q/q and flat y/y. For pellets, we project production of 9.1Mt Genial Est. (+8.0% q/q; +0.4% y/y), with a very subtle gain y/y, basically flat, and sequential growth due to seasonality. As we mentioned in previous reports, the Brucutu mine (MG) had been ramping up due to the commissioning of the Torto dam. There is a logistical delay between the extraction of iron ore fines in the Brucutu (MG) mining section and the arrival of the cargo at the pelletizing plant, attached to the Tubarão (ES) terminal. Although production should still grow, from now on we expect a smaller-scale contribution, since commissioning started in July last year.

Base Metals with a negative effect on production due to maintenance stoppages. Due to maintenance stoppages, mainly at the Sudbury complex in Canada, we should see a drop in production volumes for base metals. We therefore estimate nickel production clocking in at 34kt Genial Est. (-13.9% q/q; -7.9% y/y). This negative effect should not be seen in shipments since inventory were built up in the previous quarter. In copper, the dynamics will be similar to those of nickel and we therefore project 72kt Genial Est. (-11.7% q/q; -8.2% y/y).

Suspension of licenses at Onça Puma and Sossego should not cause major impacts. We would point out that, according to our perception, there were no significant changes in production in 2Q24 as a result of the stoppages at Onça Puma and Sossego, both located in Pará (PA). The mines had their operating licenses suspended by SEMAS (the state's environmental department). Vale had accumulated a stockpile of feed at Onça Puma last quarter, as the furnace was under maintenance. As a result, the company managed to get through the license suspension period (which ran during 2Q24) while still producing. At the end of June, Vale signed an agreement with SEMAS, ratified by the STF (Supreme Federal Court), to re-establish activities at the mines, which had been interrupted since the injunction was lifted in April.

Table 2. Production Summary Vale (2Q24 Genial Est.)

Production Summary (Kt)	2Q24E Genial Est.	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Iron Ore[1]	77.954	70.838	10,0%	78.741	-1,0%
Pellets	9.145	8.465	8,0%	9.111	0,4%
Nickel	34	40	-13,9%	37	-7,9%
Copper	83	82	1,6%	79	5,7%

[1] Including third-party purchases, run-of-mine and feed of other pelletization plants.

Source: Genial Investimentos, Vale

Shipments of i.o. fines will be driven by the destocking process. During 1Q24, we saw the company achieve its best production of iron ore fines in a 1Q since 2019. However, given the sharp drop in price that prevailed in the first 3M of the year, the company opted to stockpile a significant percentage, widening the gap between production vs. sales last quarter. As a result, this quarter (2Q24), even if Vale maintains production levels without advances on an annual basis, it will still be able to increase sales.

After the benchmark 62% Fe curve hit the bottom of the year at ~US$97/t, the price quickly upshifted above US$110/t, confirming our thesis of minimum support at ~US$100/t in 2024. With the better price dynamics, we believe that Vale has decided to destock what it had accumulated in 1Q24 of oversupply. Therefore, we estimate shipments of iron ore fines at 63.5Mt Genial Est. (+20.9% q/q; +0.3% y/y), gently closing the gap between production vs. sales, and accelerating the sequential base.

Ramp-up by the Torto dam nearing its end, pellet sales likely to stabilize q/q. As we have commented throughout the report, the commissioning of the Torto dam at the Brucutu mine (MG) was completed a year ago. It seems to us that a large part of the increase in pellet production resulting from this ramp-up has already taken place over the past few quarters. Still in 2Q24, the tendency is to see a contribution in shipments, but on a smaller scale, since we have already seen production lose intensity in 1Q24. We are therefore estimating pellet sales at 9.2Mt Genial Est. (-0.4% q/q; +4.3% y/y).

Sales of base metals following the clearance of inventories formed in 1Q24. Anticipating the effects of maintenance stoppages in 2Q24, Vale stockpiled base metals throughout 1Q24. Therefore, we estimate sales at the same levels as the previous quarter, recorded at 33.3kt Genial Est. (+0.6% q/q; -17.3% y/y). In copper, the story is the same, only complemented by the more favorable seasonality in Brazil. We project sales volume at 83.2kt Genial Est. (+8.4% q/q; +12.8% y/y). Onça Puma and Sossego suspensions should have a minimal effect on the quarter.

Table 3. Shipments Summary Vale (2Q24 Genial Est.)

Shipments Summary (Kt)	2Q24E Genial Est.	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Iron ore fines	63.532	52.546	20,9%	63.329	0,3%
Pellets	9.190	9.225	-0,4%	8.809	4,3%
ROM	2.236	2.056	8,8%	2.236	0,0%
Nickel	33,3	33,1	0,6%	40,3	-17,3%
Copper	83,2	76,8	8,4%	73,8	12,8%

[1] Including third-party purchases

Source: Genial Investimentos, Vale

For iron ore fines, we expect a slight increase in price realization. The average curve for 62% Fe iron ore during 2Q24 was US$112/t vs. US$124/t in 1Q24, a drop of -9.7% q/q. However, our model indicates that Vale's realized price in 2Q24 will be higher sequentially even though the iron ore curve has regressed on average. We highlight that last quarter the company suffered a strong negative impact from the forward provisioning system, which should not be repeated in 2Q24. That said, we estimate the company's realized price for iron ore fines at US$103/t Genial Est. (+2.3% q/q; +4.6% y/y), with premiums still in negative territory (-US$1.5/t Genial Est., flat vs. 1Q24).

If the average of the 62% Fe curve was lower in 2Q24, how can the realized price be higher q/q? As the price of 62% Fe iron ore had a strong downward trajectory over the 3M that made up 1Q24, this drastically affected last quarter's price realization. Remember that the curve started the year at ~US$140/t in January and dropped sharply to ~US$97/t at the beginning of April. Forward price marking had ~25% weight in the ratio. This led Vale to record a realization of US$100.7/t in 1Q24 (a discount of -18% vs. the benchmark average of 62% Fe). In 2Q24 the story should be different, and the forward provisioning effect shouldn't impact the company as much. In the last few days of June, iron ore futures contracts were at a similar level to the average price for the quarter.

Table 4. Realized Price Vale (2Q24 Genial Est.)

Realized Price (US$/t)	2Q24E Genial Est.	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Iron ore fines	103	101	2,3%	99	4,6%
Pellets	164	172	-4,8%	160	2,0%
Nickel	19.193	16.848	13,9%	23.070	-16,8%
Copper	9.270	7.632	21,5%	7.025	32,0%

Source: Genial Investimentos, Vale

Pellets should reduce price realization q/q but will still be at a satisfactory level. For pellets, we also see a slowdown in the average value of the 65% reference curve, to ~US$130/t vs. ~US$138/t in 1Q24, down -5.8% q/q. We project a premium of US$32.5/t Genial Est. (-3% q/q), so price realization will probably be stands ~US$164/t Genial Est. (-4.8% q/q; +2.0% y/y). Although last quarter we were positively surprised by the performance of pellets, we believe in a sequential reduction in price realization in 2Q24.

Conflict in New Caledonia reverses downward trend in nickel prices. Breaking the sequence of 3 quarters in a row of downward movement for the first time, we saw the LME reference curve change direction and record higher nickel prices in 2Q24, reaching an average of US$18,660/t (+10.8% q/q). In May, separatist movements began in New Caledonia (an island off the coast of Australia, annexed to France). The conflicts led to interruptions in the territory's mines, where ~6% of the world's production is located. This situation ended up reducing the fear of oversupply that had been causing the downward trend in the price.

Nickel price redirects towards recovery and copper maintains momentum. Considering the reduction in the fear of oversupply and the curve pointing to a recovery trend, we estimate the realized nickel price at US$19,193/t Genial Est. (+13.9% q/q; -16.8% y/y). As for copper, the trend was upwards and we saw the reference curve reach an average of US$9,873/t in 2Q24 (+15.6% q/q). Following this dynamic, we project a realized price of US$9,270/t Genial Est. (+21.5% q/q; +32% y/y).

Table 5. Income Statement Vale (2Q24 Genial Est.)

(US$ millions)	2Q24E Genial Est.	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Net Revenue	**10.230**	**8.591**	**19,1%**	**9.676**	**5,7%**
COGS	(5.946)	(5.318)	11,8%	(5.940)	0,1%
Adjusted EBITDA	**4.146**	**3.587**	**15,6%**	**3.778**	**9,7%**
EBITDA Margin (%)	40,5%	41,8%	-1,23p.p	39,0%	1,48p.p
Adjusted EBIT	**3.378**	**2.873**	**17,6%**	**2.999**	**12,6%**
EBIT Margin (%)	33,0%	33,4%	-0,42p.p	31,0%	2,03p.p
D&A	(768)	(714)	7,6%	(779)	-1,4%
Financial Result	(708)	(437)	61,9%	(157)	350,7%
Net Income	**2.065**	**1.909**	**8,2%**	**1.321**	**56,4%**
Net Margin (%)	20,2%	22,2%	-2,04p.p	13,7%	6,54p.p

Source: Genial Investimentos, Vale

Our Take on Vale

Projection of better figures all across the major P&L lines, both q/q and y/y. With a mild increase in the realized price of ore fines, being less impacted by the forward provisional effect, and slight support from base metals, which should incorporate price gains on the LME curve in nickel and copper, we believe in an expansion of the consolidated EBITDA. Our estimate for net revenue is US$10.2bn Genial Est. (+19.1% q/q; +5.7% y/y), with Adjusted EBITDA reaching US$4.1bn Genial Est. (+15.6% q/q; +9.7% y/y). As for net income, our model points to US$2.1bn Genial Est. (+8.2% q/q; +56.4% y/y). We emphasize that our estimate will be updated as we publish the review report on production and sales, after Vale's release on production and sales report scheduled for July 16. The financial results for 2Q24 are scheduled to be released on July 22.

We expect the Mariana agreement to be settle in the next few days. The disclosure of values over the last 2M regarding the Mariana (MG) agreement, from Vale + BHP's R$127bn proposal in April, going through the AGU's counter-proposal of R$164bn over 12 years, up to the last proposal of Vale + BHP officially disclosed on June 12, amounting R$140bn over 20 years, has provided more accurate data for investors, establishing a "cap" and a "bottom" for both the terminal value and the payment term, reducing the market's information asymmetry. We expect the Mariana overhang to be resolved in the next few days, given the rush to reach an agreement due to the change in the TRF-6 mediator, Judge Ricardo Rabelo, which should take place in August. We believe it is possible for the parties involved to reach a consensus before Mr. Rabelo leaves office.

Overhangs or China, which is bothering investors the most? We don't deny that the existing overhangs generate investor distrust. Therefore, the tendency is that once the Mariana agreement is officially sewn up, the shares will narrow the gap with the iron ore curve (which has opened up again in the last ~60 days), freeing up some residual in the market valuation. However, we emphasize that we had no expectations that the shares would rise strongly without the weight of this overhang on Vale's "shoulders".

In rounds of conversations with investors, our perception is that most of them say they think Vale is too discounted and although they hope that the agreements, such as Mariana and the railroad (EFVM and EFC), come out soon, they are much more concerned about economic data from China and signs of effective stimulus in the real estate sector. As we've pointed out in several reports, **the uncertainties surrounding China seem to be adding more to the market's disinterest**, especially among local fund managers, who have a much lower than average allocation to the name. This ends up influencing the discount level of Vale's shares (which is excessively high vs. historical average).

Improving data in the real estate market in Tier I cities is not necessarily a sign of joy. As we mentioned in our weekly report, (Straight out of the Blast Furnace: Week 1, July 2024), traders are keeping a close eye on possible expansions of financial support from the PBoC for the real estate market, following the improvement in property sales indicators in Tier I cities. This has led to increased expectations for Politiburo meetings, which typically take place at the beginning of the 2H, on further easing of mortgage policies and direct stimulus of buying homes inventory. Last week, the reaction was bullish in commodity futures trading, indicated an acceleration in the iron ore price. However, smaller cities (Tier II and III) remain deprioritized in terms of buyer sentiment. We would point out that 2/3 of the unpurchased housing inventory comes from small and medium-sized cities (and not Tier I cities).

The high level of i.o. inventory seems to be opposed to last week's bullish price bias. For the second week in a row, we saw iron ore inventories in China's 40 main ports rise, and as we published last week, the price tended to cool down. Our monitoring indicates that, on July 5, inventory reached 130Mt (+0.6% w/w), representing a figure +14.2% higher vs. the same period in 2023. According to our data, 94 vessels were waiting for their turn to unload at the ports on July 4, (6 more than last week and 9 more than two weeks ago), indicating that the ports already have almost none physical space for unloading and storage, in addition to impacting mining companies' demurrage costs during 3Q24. As a result, the market has already returned to a negative bias and, on July 8, the September futures contract for iron ore traded on the DCE (Dalian) ended putting a bearish stance, down -3.3% on the same trading section, at US$113.5/t. Today the 62% Fe benchmark spot is at ~US$108/t (+1.2% w/w).

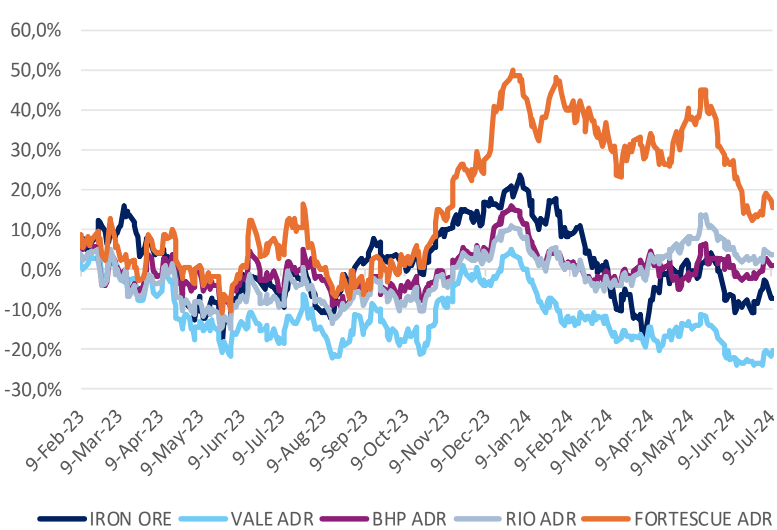
Industrial PMI in the contraction zone. China's June industrial PMI, calculated by the NBS, was released on July 1 and remained flat vs. May, at 49.5pts, within the contraction zone. In addition, the services PMI, although it fell m/m, remained in the expansion zone at 51.2pts. This reinforces our thesis that the Chinese population is gradually turning more towards the consumption of services than durable goods.

It's important to note that the manufacturing PMI readings measured by Caixin have often been higher than the official ones, measured by the NBS. In June, Caixin showed readings within the expansion zone, at +51.8pts. This is because Caixin gives a higher weighting to exporting companies in its survey compared to the NBS.

What do we think investors seem to be overlooking? We believe that China has increased exports to compensate for weak domestic industrial demand, maintaining blast furnace utilization rates at ~90%, despite mid-year rains that should bring domestic demand down. This supports still robust crude steel production, with only a marginal drop projected for 2024 vs. 2023, even though the recovery in the real estate sector is limited to Tier I cities. In other words, **on the negative side**, we are still skeptical about **(i)** the recovery of the real estate sector, especially in small and medium-sized cities (Tier II and Tier III) and **(ii)** domestic consumption. However, **on the positive side**, we are witnessing the **(iii)** redirection of steel embedded in durable goods to exports. We believe that this has been an escape valve for the oversupply of Chinese industry. The export index will be released on July 11 (for June). Last month (May), growth was +7.6% y/y. We expect growth of +5% y/y for June.

Why so serious? In this way, in a moment of relaxation, we raise a question for investors.... we asked, "why are you so serious?", alluding to the famous phrase of the comic book character Joker. **We don't deny that investing in vale's shares comes with a number of risks**. But several investors we have come into contact with are already admitting that the stock is discounted. In fact, **the data on crude steel outputs suggests that the negative hype about the Chinese economy is overblown.** We therefore recommend **relaxing this inflexible attitude on the name**, in order to take advantage of the good opportunity momentum to make a long position on the shares, given a market valuation that seems quite attractive to us, offering an **interesting risk/return ratio**. In fact, Vale occupies today the position of the **most discounted major vs. the price of iron ore in the world.**

Graph 1. Mining majors vs. iron ore (Since Jan. 2023)



Source: Genial Investimentos, Vale

Therefore, **(i)** potentially close to settle the Mariana agreement, which will remove yet another overhang, in addition to **(ii)** the prospect of maintaining solid operating results, both in production and sales, and in the face of a **(iii)** partial recovery of the negative impact suffered in 1Q24, by the forward provisioning system of the realized price on iron ore fines, **we do not consider such aversion to Vale's investment thesis to be rational**. Trading at an **EV/EBITDA 25E** of **3.3x** (vs. 5.0x historical average), **we see the company excessively penalized by the market.** We reiterate our **BUY rating**, with a **12M Target Price** of **VALE3** at **R$78.50** and **US$14.50** for the **ADRs-NYSE**, with an **upside** of **+24.56%**.

Appendix: Vale

Figure 1. Vale – Income Statement in US$ Millions (Genial Est. 2024-2029)

Income Statement	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	**39.856**	**44.580**	**43.639**	**45.540**	**46.582**	**50.303**
(-) COGS	(25.001)	(27.973)	(28.162)	(29.333)	(30.901)	(33.368)
Gross Profit	**14.855**	**16.607**	**15.477**	**16.207**	**15.681**	**16.935**
(-) Expenses	(3.109)	(3.578)	(3.354)	(3.000)	(2.698)	(2.915)
Adjusted EBITDA	**14.914**	**16.284**	**15.617**	**16.866**	**16.819**	**18.022**
(-) D&A	(3.139)	(3.314)	(3.488)	(3.664)	(3.847)	(4.022)
EBIT	**11.774**	**12.970**	**12.129**	**13.202**	**12.971**	**14.000**
(+/-) Financial Result	(2.359)	(2.063)	(2.007)	(2.022)	(1.983)	(2.040)
(-) Taxes	(1.482)	(1.653)	(1.521)	(1.702)	(1.679)	(1.846)
Net income	**7.934**	**9.254**	**8.601**	**9.478**	**9.310**	**10.114**
Profitability						
Net margin (%)	19,91%	20,76%	19,71%	20,81%	19,99%	20,11%

Figure 2. Vale– Cash Flow in US$ Millions (Genial Est. 2024-2029)

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	**39.856**	**44.580**	**43.639**	**45.540**	**46.582**	**50.303**
(-) COGS	(25.001)	(27.973)	(28.162)	(29.333)	(30.901)	(33.368)
Adjusted EBITDA	**14.914**	**16.284**	**15.617**	**16.866**	**16.819**	**18.022**
Adjusted EBIT	**11.774**	**12.970**	**12.129**	**13.202**	**12.971**	**14.000**
(-) Taxes	(1.482)	(1.653)	(1.521)	(1.702)	(1.679)	(1.846)
(+) D&A	3.139	3.314	3.488	3.664	3.847	4.022
(+/-) Brumadinho and Samarco	(716)	(2.070)	(1.750)	(1.279)	(1.117)	(826)
(+/-) Δ WK	1.517	569	847	(393)	(244)	(463)
(-) Capex	(6.758)	(6.778)	(6.778)	(7.319)	(7.319)	(7.319)
FCFF	**7.475**	**6.352**	**6.416**	**6.173**	**6.459**	**7.568**

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under Review	Under review	5%

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