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# CSN & CMIN

## 2Q24 Review: Same problems as always

LatAm Metals & Mining

**Main takeaways for CMIN:**

**(i) Realized price below** expectations: US$58.6/t (-9.7% vs. Genial Est), down -5.4% q/q and -9.9% y/y; **(ii) Shipments up** with seasonality: 10.8Kt (+0.9% vs. Genial Est). **(iii)** Low COGS/t vs. Genial Est: C1/t of US$21.2/t (-3.6% vs. Genial Est.), down -9.8% q/q and -2.3% y/y; **(v) EBITDA boosted** by cost reductions, to R$1.6bn (+3.8% vs. Genial Est.), up strongly by +44% q/q and +47% y/y; **(iv)** Trading at an **EV/EBITDA 25E** of **4.0x** (vs. 5.5x historical), we believe that the **penetration reduction of third-party iron ore within the mix**, leading to an **increase in margin**, is **not in the share price at the current market valuation**. Mining stocks seem focused on macroeconomic issues in China, with many investors ignoring microeconomic factors. Therefore, we continue with our **call against consensus**, placed through our **BUY rating**, with a **12M Target-Price** of **R$6.00** and an **upside** of **+22.20%.**

**Main takeaways for CSN:**

**(i) Volumes recovering** in the **steel division**: 1,124Kt (+1.7% vs. Genial Est.), up +3.5% q/q and +7.0% y/y; **(ii)** No effect from quotas, for now: **realized price** clocking in at R$4,974/t (-0.2% vs. Genial Est.), up +0.4% q/q with a drop of -12.1% y/y; **(iii) Cement division** was a **big positive surprise**: 3,608Kt (+12.6% vs. Genial Est. ), up +19.6% q/q and +8.3% y/y; **(iv)** Consolidated **net revenue** was reported at **R$10.9bn** (+3.4% vs. Genial Est.), up +14.3% q/q, with a slight contraction of -1.0% y/y; **(v) Steel COGS/t worse than expected**: R$4. 724/t (+5.3% vs. Genial Est.), accelerating +6.3% q/q with a contraction of -2.7% y/y; **(vi) EBITDA advancing by double digits q/q** in all main units. Consolidated EBITDA was R$2.6bn (+31% vs. Genial Est.), up +33.8% q/q and +16.9% y/y; **(vii)** Net income for CMIN and loss for CSN, in line with Genial Est. tendency pointed previously; **(viii) Leverage rises** to **3.36x Net Debt/EBITDA** (vs. 3.13x in 1Q24); **(x)** In fact, there are these **two devices for lowering leverage** (we commented on them in the "Our take" section), **but no update has been given** to the market on their implementation. We believe that lowering leverage is imperative for CSN holding's investment thesis. In this sense, trading at an **EV/EBITDA 25E** of **4.3x**, we reiterate our **NEUTRAL rating**, with a **12M Target-Price** of **R$13.35**, setting up an **upside** of **+14.20%**.

CSN and CMIN released their **2Q24 results yesterday, August 12**, after the market closed. **CMIN** faced challenges with the **realized price** of iron ore, which was **below expectations**, registering US$58.6/t (-9.7% vs. Genial Est.), declining -5.4% q/q and -9.9% y/y. On the other hand, we saw **COGS/t showing greater efficiency than expected**, with a **significant drop in C1/t**, reaching **US$21.2/t** (-3.6% vs. Genial Est.), slowing -9.8% q/q and -2.3% y/y. This was enough to **boost EBITDA** to the **R$1.6bn mark** (+8.8% vs. Genial Est.), **rising strongly** by +44% q/q and +47% y/y.

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### Companies

**CSNA3 BZ Equity**
Neutral

**Price:** R$ 11.68 (12-Aug-2024)
**Target Price 12M:** R$ 13.35

**CMIN3 BZ Equity**
Buy

**Price:** R$ 4.93 (12-Aug-2024)
**Target Price 12M:** R$ 6.00

### Table 1. Shipments Summary (2Q24 vs. Genial Est.)

| (Thousand Tonnes - kt) | Reported | Genial Est. | | | | | |
|---|---|---|---|---|---|---|---|
| **Summary** | **2Q24A** | **2Q24E** | **% Diff.** | **1Q24A** | **% q/q** | **2Q23A** | **% y/y** |
| **Steel** | 1.124 | 1.105 | **1,7%** | 1.086 | **3,5%** | 1.051 | **7,0%** |
| **Iron Ore** | 10.792 | 10.700 | **0,9%** | 9.145 | **18,0%** | 11.258 | **-4,1%** |
| **Cement** | 3.608 | 3.204 | **12,6%** | 3.017 | **19,6%** | 3.333 | **8,3%** |

*Source: CSN & CMIN, Genial Investimentos*

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

| (R$ millions) | Reported | Genial Est. | | | | | |
|---|---|---|---|---|---|---|---|
| **Income Statement** | **2Q24A** | **1Q24A** | **% Diff.** | **1Q24A** | **% q/q** | **2Q23A** | **% y/y** |
| **Net Revenue** | 4.189 | 4.340 | **-3,5%** | 3.511 | **19,3%** | 4.014 | **4,4%** |
| **Adjusted EBITDA** | 1.618 | 1.488 | **8,8%** | 1.123 | **44,0%** | 1.098 | **47,3%** |
| **Net Income** | 1.507 | 536 | **181,1%** | 558 | **170,2%** | 494 | **205,0%** |

*Source: CMIN, Genial Investimentos*

### Table 3. Income Statement Summary CSN (2Q24 vs. Genial Est.)

| (R$ millions) | Reported | Genial Est. | | | | | |
|---|---|---|---|---|---|---|---|
| **Income Statement** | **2Q24A** | **2Q24E** | **% Diff.** | **1Q24A** | **% q/q** | **2Q23A** | **% y/y** |
| **Net Revenue** | 10.882 | 10.521 | **3,4%** | 9.523 | **14,3%** | 10.989 | **-1,0%** |
| **Adjusted EBITDA** | 2.645 | 2.019 | **31,0%** | 1.977 | **33,8%** | 2.263 | **16,9%** |
| **Net Income** | (223) | (622) | **-64,2%** | (480) | **-53,6%** | 283 | **-** |

*Source: CSN, Genial Investimentos*

**CSN Holding** showed a **recovery in volumes**, especially in the domestic market, where **sales in the steel division** reached 1,124Kt (+1.7% vs. Genial Est.), **up +3.5% q/q and +7.0% y/y**. Despite a **marginal recovery in the realized price**, the troubled dynamic for mills exposed to flat steel still persists in the face of strong competition from imported products, especially from China, which continues to put pressure on margins. Even so, with **mining EBITDA** performing **better than we expected** the **holding company's consolidated EBTIDA also saw a good rise**, reaching R$2.6bn (+33.8% q/q; +16.9% y/y). However, **leverage rose to 3.36x Net Debt/EBITDA** (vs. 3.13x in 1Q24), which should cause **negative sentiment** for investors.

**Valuation and rating.** China's export bias continues to affect domestic steelmakers, creating an environment of fierce competition for CSN. The introduction of new steel import quotas in Brazil, in force since June, has yet to have a significant impact on prices, and the negative scenario is expected to persist in 2H24. Robust flat steel production in China, driven by demand for exports of durable goods, **keeps pressure on the Brazilian domestic market**, making it difficult for local steel mills to recover prices. However, **CSN holding** continues to **face challenges** with its **production costs**, especially in the **steel division**, where COGS/t reported was R$4,724/t (+5.3% vs. Genial Est.), showing an increase of +6.3% q/q, despite the contraction of -2.7% y/y.

Costs dynamics were impacted by investments in the Presidente Vargas Plant (RJ), which interrupted the flow of production and led to one-off expenses as well as **high slab costs due to the appreciation of the USD/BRL exchange rate**. The company's high leverage, with the **Net Debt/EBITDA** indicator **closing at 3.36x** (vs. 3.13x in 1Q24), **once again on the rise**, is a **constant concern for investors**. On the other hand, CSN is seeking to recover margins with price increases in 3Q24, but the effectiveness of these measures **depends on external factors**, such as the competitiveness of Chinese steel and the entry of other steelmakers into the market.

Despite this, the cement division was a positive surprise, with a robust performance driven by an increase in shipments and a gain in market share, which resulted in net revenues of R$1.2bn (+9.2% vs. Genial Est.), accelerating +14.7% q/q and +8.4% y/y. Even so, the steel division continues to be a detractor in the consolidated result, with 2Q24 being yet another quarter in which **CSN Holding lost profitability in the dispute against imported Chinese steel**. Even with the increase in new quotas, we don't believe there will be an effect to the point of changing our recommendation and valuation. Therefore, trading at an **EV/EBITDA 25E** of **4.3x**, we reiterate our **NEUTRAL rating**, with a **12M Target-Price** of **R$13.35**, setting up an **upside** of **+14.20%**.

As for **CMIN,** in terms of profitability, the **company managed to exceed expectations**, reporting a **net income of R$1.5bn** (+181% vs. Genial Est.), **growing a strong** +170.2% q/q and +205.0% y/y, while CSN posted a loss of -R$223mn. This proves once again that the holding company's results come more from mining than from other businesses. Negotiating an **EV/EBITDA 25E** of **4.0x** (vs. 5.5x historical), we think it is likely that the company will continue to achieve **(i)** excellent production levels, **(ii)** increasing its own share in production vs. third parties purchases, improving its mix and **(iii)** diluting fixed costs, in addition to positioning the company comfortably to reach the upper band of the annual guidance of 42-43.5Mt.

We believe that the **reduction in the penetration of third-party iron ore within the mix**, leading to an **increase in margin**, is not in the share price at the current market valuation. As we have mentioned in past reports, mining stocks seem focused on macroeconomic issues in China, with many **investors ignoring microeconomic efforts.** Therefore, we continue with our **call against consensus**, placed through our **BUY rating**, with a **12M Target-Price** of **R$6.00** and an **upside** of **+22.20%.**

## 2Q24 Review in detail!

**CMIN: Realized price below expectations.** CMIN recorded a realized price (FOB basis) of US$58.6/t (-9.7% vs. Genial Est.), down -5.4% q/q and -9.9% y/y, contrary to our estimates. The **(i)** spot price of 62% Fe iron ore fell -9% q/q in 2Q24, reaching ~US$112/t, a continued incidence of **(ii)** freight pressure, still linked to conflicts in the Gulf of Aden and the Middle East and **(iii)** poorer quality of the mix, with opportunistic sales in China, indicated a drop in the company's realized price.

**CMIN: Shipments up with seasonality.** As for sales volume, we had already expected a sequential advance due to the seasonal improvement that 2Qs usually show vs. 1Qs, resulting from the onset of a period of less rain in the southeast region. As we had projected, CMIN reported shipment volumes of 10.8Kt (+0.9% vs. Genial Est.), an increase of +18.0% q/q, with a slowdown of -4.1% y/y. The declining annual variation is due to the disposal of sales held up by logistical issues linked to MRS during 1Q23 and unloaded in 2Q23, which made that quarter unremarkable.

**CSN Holding: Volumes recovering in the steel business division.** CSN reported sales volumes in the steel division at 1,124Kt (+1.7% vs. Genial Est.), up +3.5% q/q and +7.0% y/y. When we break it down into the domestic market (DM) and the external market (EM), we see the DM at 798Kt (+2.8% vs. Genial Est.), up +9.0% q/q and +8.0% y/y, but partially neutralized by an apathetic EM, reaching 326Kt (-0.7% vs. Genial Est.), down -7.9% q/q and up +4.6% y/y. Foreign market volumes maintained the good level of production seen last quarter, but failed to show a sequential increase in sales. On the other hand, the domestic market, responsible for the strongest acceleration q/q, increased in line with seasonality and taking advantage of the upturn in some segments, such as the automotive sector, where sales surprised positively.

**CSN Holding: Cement division was a big positive surprise.** Surpassing our expectations, cement was a positive surprise. Performance benefited from a drier period, which stimulated activity on construction sites, as well as a calendar with fewer holidays, such as Carnival, vs. Q1 and greater utilization of LaFarge Holcim's plants. As a result, shipments reached 3,608Kt (+12.6% vs. Genial Est.), registering an increase of +19.6% q/q, and +8.3% y/y. However, the quest to increase market share had an impact on prices, which were reduced to R$343/t (-3.1% vs. Genial Est), representing a drop of -4.0% q/q, but stability of +0.1% y/y.

**CSN Holding: Consolidated revenue up +14% q/q, driven by Mining.** As expected, and once again, the mining unit recorded the most representative advance, coming from CMIN, with a sequential rise of +18.5% q/q, despite a reduction of -7.8% y/y, reaching R$3.3bn (-8.0% vs. Genial Est.), below our estimate, due to the realized price, which followed the trend of the 62% Fe iron ore curve, in addition to a mix with more low grade than expected. As for the steel unit, the top line recorded was R$5.6bn (+1.6% vs. Genial Est.), accelerating +3.8% q/q with a contraction of -5.9% y/y. The sequential improvement was mainly due to the increase in shipments in the domestic market. As for the cement unit, we were positively surprised with revenues of R$1.2bn (+9.2% vs. Genial Est.), with strong growth of +14.7% q/q and +8.4% y/y, reflecting a significant gain in market share. CSN's consolidated revenue was reported at R$10.9bn (+3.4% vs. Genial Est.), up +14.3% q/q and marginally down -1.0% y/y.

**Table 4. Net Revenue CSN (2Q24 vs. Genial Est.)**

| CSN<br>(R$ Millions) | 2Q24<br>Reported | 2Q24E<br>Genial Est. | % R/E | 1Q24<br>Reported | % q/q | 2Q23<br>Reported | % y/y |
|---|---|---|---|---|---|---|---|
| **Net Revenue** | **10.882** | **10.521** | **3,4%** | **9.523** | **14,3%** | **10.989** | **-1,0%** |
| Steel | 5.591 | 5.505 | 1,6% | 5.384 | 3,8% | 5.943 | -5,9% |
| Mining | 3.347 | 3.640 | -8,0% | 2.823 | 18,5% | 3.631 | -7,8% |
| Porto | 79 | 67 | 17,5% | 67 | 17,6% | 54 | 45,9% |
| Railway | 760 | 763 | -0,4% | 703 | 8,0% | 668 | 13,7% |
| Energy | 103 | 133 | -22,9% | 128 | -19,7% | 159 | -35,4% |
| Cement | 1.238 | 1.135 | 9,2% | 1.079 | 14,7% | 1.142 | 8,4% |
| Eliminations | (236) | (722) | -67,4% | (662) | -64,4% | (609) | -61,3% |

*Source: CSN, Genial Investimentos*

**CSN Holding: Steel COGS/t worse than expected.** Slightly worse than our expectations, CSN reported steel COGS/t clocking in at R$4,724/t (+5.3% vs. Genial Est.), up +6.3% q/q and down -2.7% y/y. We believe that the sequential loss in efficiency was due to a series of investments at the Presidente Vargas mill (RJ), which ended up having an undesired effect in 2Q24, temporarily reducing production capacity in the quarter and raising some one-off costs. Occasionally, because of these processes, the company loses part of its capacity in the dilution of fixed costs. In addition, the cost of slab in 2Q24 reached R$3,549/t (+3.8% q/q), also due to lower fixed cost dilution with scheduled stoppages and a more appreciated USD/BRL exchange rate.

**CMIN: Mining COGS/t below Genial Est.** The COGS/t reported also came in lower than we expected. This is because the C1/t cost fell by -9.8% y/y and -2.3% y/y, reaching US$21.2/t (-3.6% vs. Genial Est.), reflecting **(i)** greater capacity to dilute fixed costs, **(ii)** a better mix between own production and purchases from third parties (a point that is central to our thesis for increasing margins) and **(iii)** lower railroad costs.

**Table 5. EBITDA CSN (2Q24 vs. Genial Est.)**

| CSN<br>(R$ Millions) | 2Q24<br>Reported | 2Q24E<br>Genial Est. | % R/E | 1Q24<br>Reported | % q/q | 2Q23<br>Reported | % y/y |
|---|---|---|---|---|---|---|---|
| **Adjusted EBITDA** | **2.645** | **2.019** | **31,0%** | **1.977** | **33,8%** | **2.263** | **16,9%** |
| Steel | 325 | 200 | 62,3% | 234 | 38,8% | 553 | -41,3% |
| Mining | 1.590 | 1.204 | 32,1% | 1.114 | 42,8% | 1.112 | 43,0% |
| Porto | 26 | 14 | 85,3% | 14 | 85,5% | 3 | 850,5% |
| Railway | 388 | 352 | 10,0% | 325 | 19,3% | 362 | 7,0% |
| Energy | 14 | 27 | -48,9% | 25 | -44,1% | 69 | -79,9% |
| Cement | 346 | 279 | 24,0% | 278 | 24,5% | 224 | 54,8% |
| Eliminations | (44) | (73) | -39,4% | (161) | -72,7% | (60) | -26,8% |

*Source: CSN, Genial Investimentos*

**CSN Holding: EBITDA up double digits t/t in all main units.** EBITDA was R$2.6bn (+31.0% vs. Genial Est.), an increase of +33.8% q/q and +16.9% y/y, surprising us by consolidating a delivery above our projection. The steel unit's EBITDA deviated from our estimate due to SG&A and was reported at R$325mn (+62.3% vs. Genial Est.), up +38.8% q/q and down -41.3% y/y. In the mining division, we also saw a better-than-expected progress. The company recorded mining EBITDA of R$1.6bn (+32.1% vs. Genial Est.), up +42.8% q/q and +43.0% y/y, made up of higher volumes, which, despite the lower added value, intensely diluted the COGS/t in accordance with the reduction in purchases from third parties and own use of production. Finally, the cement division posted EBITDA of R$346mn (+24% vs. Genial Est), up +24.5% q/q and +54.8% y/y.

**Table 6. Income Statement CMIN (2Q24 vs. Genial Est.)**

| CMIN | 2Q24 | 2Q24E | | 1Q24 | | 1Q24 | |
|---|---|---|---|---|---|---|---|
| (R$ Millions) | Reported | Genial Est. | % R/E | Reported | % q/q | Reported | % y/y |
| **Net Revenue** | **4.189** | **4.340** | **-3,5%** | **3.511** | **19,3%** | **4.014** | **4,4%** |
| COGS | (1.946) | (2.527) | -23,0% | (1.890) | 3,0% | (2.623) | -25,8% |
| **Adjusted EBITDA** | **1.618** | **1.488** | **8,8%** | **1.123** | **44,0%** | **1.098** | **47,3%** |
| EBITDA Margin (%) | 38,6% | 34,3% | 4,34p.p | 32,0% | 6,63p.p | 27,4% | 11,27p.p |
| **EBIT** | **1.722** | **1.221** | **41,0%** | **835** | **106,3%** | **1.085** | **58,7%** |
| EBIT Margin (%) | 41,1% | 28,1% | 12,97p.p | 23,8% | 17,33p.p | 27,0% | 14,07p.p |
| D&A | (293) | (260) | 12,7% | (282) | 4,0% | (247) | 18,4% |
| Financial Result | 436 | (516) | -184,7% | (44) | -1089,8% | (506) | -186,2% |
| **Net Income** | **1.507** | **536** | **181,1%** | **558** | **170,2%** | **494** | **205,0%** |
| Net Margin (%) | 36,0% | 12,4% | 23,63p.p | 15,9% | 20,09p.p | 12,3% | 23,67p.p |

*Source: CMIN, Genial Investimentos*

**Positive net income for CMIN and loss for CSN.** In line with our commentary in our preview report, attached (CSN & CMIN 2Q24 Preview), we witnessed net income for CMIN and loss for CSN. CMIN reported net income of R$1.5bn, well above estimates (+181% vs. Genial Est.), achieving a remarkable advance of +170.2% q/q and +205.0% y/y. This is because the company posted a positive financial result of +R$436m, as a result of the increase in financial revenues, in addition to the positive effect related to exchange rate variations (+R$575m). As for CSN, however, the result was also better than our expectation, but there was no escape from the loss, which stood at -R$223mn (-64% vs. Genial Est.), softening the negativity by -53.6% q/q. The company recorded a financial result of -R$1.5bn (-17% vs. Genial Est.), up +33.0% q/q and +26.1% y/y, as a result of the increase in the cost of debt in USD and the negative effect of the devaluation of Usiminas shares.

**Table 7. Income Statement CSN (2Q24 vs. Genial Est.)**

| CSN (R$ Millions) | 2Q24 Reported | 2Q24E Genial Est. | % R/E | 1Q24 Reported | % q/q | 2Q23 Reported | % y/y |
|---|---|---|---|---|---|---|---|
| **Net Revenue** | **10.882** | **10.521** | **3,4%** | **9.523** | **14,3%** | **10.989** | **-1,0%** |
| COGS | (7.893) | (7.781) | 1,4% | (6.653) | 18,6% | (7.958) | -0,8% |
| **Adjusted EBITDA** | **2.645** | **2.019** | **31,0%** | **1.977** | **33,8%** | **2.263** | **16,9%** |
| EBITDA Margin (%) | 24,3% | 19,2% | 5,11p.p | 20,8% | 3,55p.p | 20,6% | 3,71p.p |
| **EBIT** | **1.614** | **1.180** | **36,8%** | **600** | **169,0%** | **1.141** | **41,4%** |
| EBIT Margin (%) | 14,8% | 11,2% | 3,62p.p | 6,3% | 8,53p.p | 10,4% | 4,45p.p |
| D&A | (914) | (432) | 111,7% | (869) | 5,2% | (788) | 16,0% |
| Financial Result | (1.495) | (1.802) | -17,0% | (1.125) | 33,0% | (1.186) | 26,1% |
| **Net Income** | **(223)** | **-622** | **-64,2%** | **-480** | **-53,6%** | **283** | **-** |
| Net Margin (%) | -2,0% | -5,9% | 3,87p.p | -5,0% | 2,99p.p | 2,6% | -4,62p.p |

*Source: CSN, Genial Investimentos*

## Our take on CSN and CMIN

**CMIN**

In line with our previous comment, CMIN represented **60.1% of the holding company's EBITDA** (vs. 56.7% in 1Q24). We should continue to see good operational figures, with production volumes increasing. However, CMIN continues to invest in a sector that is facing significant doubts about the level of demand for the coming years, with steel consumption for the domestic market weakening in China. The company presented **CAPEX** of **R$407mn**, growing +60.9% q/q.

One **weak point** we recognize about the argument that supply control would support a still reasonable iron ore price is the fact that China continues, week after week, to present **higher inventory figures** at the ports and the margins of Chinese steelmakers don't seem to make room for demand for quality, the sphere in which CMIN allocates much of its CAPEX. **This strategy raises questions from investors we spoke to**. Conversely, we still see China's exports of durable goods **providing support for a blast furnace utilization rate at levels only slightly below 90%,** which would sustain production with a marginal drop vs. 2023, so in the short term, we believe that the **vast majority of investors over-penalize the mining-related theses under our coverage** (Vale and CMIN).

Trading at an **EV/EBITDA 25E** of **4.0x** (vs. 5.5x historical), we think it is likely that **(i)** optimal production levels will continue, **(ii)** increasing own share vs. third party purchases, improving mix and diluting fixed costs, as well as **(iii)** positioning the company in a comfortable position to reach the upper band of the annual guidance of 42-43.5Mt. We believe that the **reduction in the penetration of third-party iron ore within the mix**, leading to an **increase in margin**, is not in the share price at the current market valuation. As we have mentioned in past reports, mining stocks seem focused on macroeconomic issues in China, with many **investors ignoring microeconomic efforts.** Therefore, we continue with our **call against consensus**, placed through our **BUY rating**, with a **12M Target-Price** of **R$6.00** and an **upside** of **+22.20%.**

## CSN

**Better for mining, worse for steel.** For some time now, we have been vocal in saying that China's export bias is positive for the mining sector. This is because there is a tendency for China to compensate, albeit partially, for the overcapacity of its industrial park by weak domestic demand through exports of durable goods, which ends up ensuring a resilient level of blast furnace utilization rate, and therefore demand for iron ore in the short term. However, on the other hand, this situation is extremely damaging for Brazilian steel mills. For this reason, CMIN continues to bring significant results within the holding company, but the steel division is unable to perform satisfactorily.

**The export trend has created challenges for the operations of Brazilian mills.** With the introduction of new quotas for steel imports into Brazil, in force since June by decision of the Ministry of Trade (MDIC), there is an expectation of moderate improvement for companies in the sector. However, we do not expect a rapid reversal of the negative scenario in 2H24. In addition to Brazil, countries such as Mexico, Chile and the USA have also increased their import tariffs on steel. Despite this, we don't believe that Chinese steelmakers will change their strategy, as exports remain an outlet for weakened domestic demand, whether through embedded steel products or raw steel shipments. Brazil, for its part, remains a market with a complex and potentially ineffective tariff protection system, due to the additional quota system.

**Talk of deleveraging proves to be flawed once again.** Consolidated net debt reached R$37.2bn (+12% q/q) and the **Net Debt/EBITDA** ratio **rose once again**, reaching **3.36x** (vs. 3.13x in 1Q24). The impact was due to the exchange rate variation observed during the period, with the USD/BRL EoP reaching R$5.56 vs. R$4.93 in 1Q24, showing a strong acceleration of +11.3% q/q, which led to the consolidation in the greater conversion of the amount of debt taken on in USD to BRL. However, as we know that the biggest decision-making **impasse in attracting investors to buy shares** in the case of CSN's thesis lies precisely in leverage, we believe that the indicator should **discourage the market**.

**Price increases should appear in 3Q24.** At the beginning of July, CSN managed to implement a price increase. ArcelorMittal and Gerdau have begun to follow this trend, although Usiminas has yet to adopt the same stance. As a result, prices are expected to continue recovering in 3Q24, as will volumes, although achieving full market acceptance will be challenging, especially while Usiminas is not following this movement. **Improvement for 2H24 is possible**, but the **sector has many uncertainties**. We believe that the current **USD/BRL exchange rate** already justifies an increase passed on so far by the steel mills, and that the outlook is for a lower inflow of imported material, as the unfavorable exchange rate makes importing more difficult. In other words, these factors indicate a scenario of possible recovery for the sector in the future.

**Same problems as always.** Although above expectations for most business lines, 2Q24 was yet another quarter in which **(i)** CSN Holding lost profitability in the battle against imported Chinese steel. In addition, **(ii)** leverage rose again, just when management had stressed during the 1Q24 results conference call that it was committed to lowering leverage. Of course, the impact of the acceleration of the USD/BRL exchange rate was a factor that the company could not control, but even so, investors seem tired of hearing talk of deleveraging, but never seeing it happen in practice. This situation removes credibility from management. We know that there are some alternatives being discussed within the company to reduce leverage, such as **(i)** the sale of a portion of CSN's stake in CMIN and **(ii)** the sale of a portion of the stake in CEEE.

So, in fact, there are **these two devices for lowering leverage**, but no update has been given to the market on their implementation. We believe that lowering leverage is imperative for CSN holding's investment thesis. In this sense, negotiating an **EV/EBITDA 25E** of **4.3x**, we reiterate our **NEUTRAL rating**, with a **12M Target-Price** of **R$13.35**, configuring an upside of **+14.20%**.

## Appendix: CMIN

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

| Income Statement | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **13.366** | **16.842** | **19.948** | **20.607** | **16.959** |
| (-) Cash COGS | (7.635) | (8.548) | (10.263) | (11.133) | (10.455) |
| **Gross Profit** | **4.149** | **6.427** | **7.516** | **6.999** | **3.724** |
| (-) SG&A and others | (1.702) | (2.114) | (2.452) | (2.456) | (1.928) |
| **Adjusted EBITDA** | **4.253** | **6.540** | **7.715** | **7.527** | **4.942** |
| (-) D&A | (1.582) | (1.867) | (2.169) | (2.475) | (2.780) |
| **EBIT** | **2.297** | **4.163** | **4.914** | **4.394** | **1.647** |
| (+/-) Financial Result | (1.087) | (993) | (911) | (934) | (1.002) |
| (-) Taxes | (377) | (989) | (1.248) | (1.079) | (201) |
| **Net income** | **832** | **2.181** | **2.755** | **2.381** | **444** |
| **Profitability** | | | | | |
| Net margin (%) | 6,23% | 12,95% | 13,81% | 11,55% | 2,62% |

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

| Cash Flow (FCFF) | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **13.366** | **16.842** | **19.948** | **20.607** | **16.959** |
| (-) COGS | (7.635) | (8.548) | (10.263) | (11.133) | (10.455) |
| **Adjusted EBITDA** | **4.253** | **6.540** | **7.715** | **7.527** | **4.942** |
| | | | | | |
| **EBIT** | **2.297** | **4.163** | **4.914** | **4.394** | **1.647** |
| (-) Taxes | (377) | (989) | (1.248) | (1.079) | (201) |
| (+) D&A | 1.582 | 1.867 | 2.169 | 2.475 | 2.780 |
| (+/-) Δ WK | 254 | (110) | 23 | 146 | 290 |
| (-) Capex | (1.589) | (2.681) | (3.867) | (5.411) | (5.480) |
| **FCFF** | **2.166** | **2.249** | **1.991** | **525** | **(964)** |

# Appendix: CSN

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

| Income Statement | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **45.901** | **53.974** | **59.329** | **59.891** | **60.646** |
| (-) COGS | (29.066) | (30.548) | (31.526) | (33.403) | (33.448) |
| **Gross Profit** | **16.835** | **23.426** | **27.803** | **26.488** | **27.198** |
| (-) SG&A and others | (5.478) | (5.584) | (5.350) | (4.796) | (4.089) |
| **EBITDA** | **11.358** | **17.842** | **22.453** | **21.692** | **23.109** |
| (+/-) Financial Result | (3.127) | (3.761) | (4.309) | (4.288) | (4.245) |
| **EBT** | **4.059** | **9.247** | **12.846** | **11.730** | **12.786** |
| (-) Taxes | (1.618) | (3.144) | (4.368) | (3.988) | (4.347) |
| **Net Income** | **2.441** | **6.103** | **8.479** | **7.742** | **8.439** |
| **Profitability** | | | | | |
| Net Margin (%) | 5,32% | 11,31% | 14,29% | 12,93% | 13,92% |

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

| Cash Flow | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|
| **Net Revenue** | **45.901** | **53.974** | **59.329** | **59.891** | **60.646** |
| (-) COGS | (29.066) | (30.548) | (31.526) | (33.403) | (33.448) |
| **Adjusted EBITDA** | **11.358** | **17.842** | **22.453** | **21.692** | **23.109** |
| | | | | | |
| **EBIT** | **7.186** | **13.008** | **17.155** | **16.018** | **17.031** |
| (-) Taxes | (1.618) | (3.144) | (4.368) | (3.988) | (4.347) |
| (+) D&A | 4.172 | 4.834 | 5.298 | 5.674 | 6.078 |
| (+/-) Δ WK | 19 | (689) | (236) | (298) | (78) |
| (-) Capex | (5.452) | (6.142) | (6.113) | (5.586) | (5.629) |
| **FCFF** | **4.306** | **7.867** | **11.737** | **11.819** | **13.055** |

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|---|---|---|
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