VALE

3Q24 Review: Why buy now?

LatAm Metals & Mining

Consolidated **Net revenue** was **US$9.6bn** (-1.8% vs. Genial Est.), a drop of -3.7% q/q and -10.0% y/y, mainly impacted by **(i)** the lower realized price of iron ore fines, consolidated at US$90.6/t (-7.7% q/q; -13.8% y/y), caused by the deceleration of the 62% Fe curve by -11.3% q/q. This undermined the expressiveness of the high operating performance, governed by **(ii)** sales of i.o. fines at 69Mt (+1.2% q/q; -0.5% y/y) and **(iii)** expansion in pellet shipments, reaching 10Mt (+14.4% q/q; +17.8% y/y). Unlike the previous quarter, cost performance showed a more significant reduction, with **C1/t ex. third-party** reaching **US$20.6/t** (-2.4% vs. Genial Est.), compressing -17.1% q/q and -6.0% y/y, an excellent performance explained by the higher production volume and dilution of fixed costs, in addition to the favorable effect of the BRL/USD exchange rate depreciation. With the cooling of cost lines, **Adjusted EBITDA** stood at **US$3.6bn** (-3.0% vs. Genial Est.), a decrease of -9.5% q/q and -18.4% y/y, with a margin of 37.8% (-0.49p.p. vs. Genial Est.). **Net income** was reported above our estimates and consensus, amounting to **US$2.4bn** (+27.2% vs. Genial Est.), partly due to the **(i)** write-off of non-current assets related to the sale of 50% of the VODC stake, even though the **(ii)** effect of additional provision linked to Colligates & JV's derived by the definitive agreement for the Samarco dam collapse (US$956mn). Both were non-recurring events. In the "Our Take" section we comment on the reasons why we believe the shares are excessively discounted and explain our view of why, rationally, investors should position themselves in Vale. Trading at an **EV/EBITDA 25E** of **3.1x** (vs. 5.0x historical average), with an **FCF Yield 25E** of **14.5%** that would support a **Dividend Yield 25E** of **~10%**, in addition to the buyback program, Vale's shares are penalized vs. their own past performance. We believe that the **elimination of overhangs**, coupled with the prospect of a **partial recovery in iron ore prices**, could unlock value. We therefore reiterate our **BUY rating**, based on a **12M Target-Price** for **VALE3-B3** of **R$78.50** and **US$14.00** for **ADRs-NYSE**, with an **upside** of **+28.33%**.

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Company

VALE US Equity
Buy

Price: US$ 10.63 (24-Oct-2024)
Target Price 12M: US$ 14.00 (NYSE)

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

Vale released its **3Q24 results on October 25**, after the market closed. With the consolidation of operating figures in the previous week, through the production and sales report, **we don't see any major surprises in the figures released yesterday**, with the exception of **non-recurring dynamics** that **positively affected net income**. We believe that the quarter was **weak in terms of financial performance**, even considering the fact that the company presented **record iron ore production** since 2019, reaching 90.9Mt (+12.9% q/q; +5.5% y/y).

Table 1. Income Statement Summary Vale (3Q24 vs. Genial Est.)

(US$ millions)	Reported	Genial Est.		Reported				
Income Statement	**3Q24A**	**3Q24E**	**% Diff.**	**3Q24A**	**2Q24A**	**% q/q**	**3Q23A**	**% y/y**
Net Revenue	9.553	9.727	**-1,8%**	9.553	9.920	**-3,7%**	10.618	**-10,0%**
Adjusted EBITDA	3.615	3.728	**-3,0%**	3.615	3.993	**-9,5%**	4.431	**-18,4%**
Net Income	2.391	1.879	**27,2%**	2.391	2.769	**-13,7%**	2.857	**-16,3%**

Source: Genial Investimentos, Vale

Rear-view mirror: Production and Sales

Production of fines above expectations and change in commercial strategy. We estimated a slight drop of -2% y/y in iron ore fines production, even considering the favorable seasonality of 3Q24. However, Vale exceeded our projection, registering 90.9Mt (+7.6% vs. Genial Est. at the time), with growth of +12.9% q/q and +5.5% y/y. Production was robust, defying our more conservative forecasts, even against a strong base in 3Q23.

However, the company increased the gap between production and sales of fine products, which reached 23.8% (+4.6 p.p. y/y). We believe this strategy reflects the decision to retain part of production amid falling iron ore prices, which fell to an average of US$99/t in 3Q24. Shipments reached 69.3Mt (+3.4% vs. Genial Est. at the time), growing marginally by +1.2% q/q with a contraction of -0.5% y/y, suggesting weak sales in the face of production.

Lower than expected realized price for fines. The realized price of iron ore fines was US$90.6/t (-2.1% vs. Genial Est. at the time), down -7.7% t/t and -13.8% y/y, showing a slight deterioration below the 62% Fe reference curve, which was pressured by the Chinese economic slowdown. The benchmark average fell to US$99/t (-11.3% t/t). Even with a more favorable mix, the premium fell to -US$1.9/t (vs. -US$0.8/t Genial Est). at the time). We believe that the distrust of paying premiums for low-silica products affects fund managers' allocation to Vale shares compared to other majors.

Significant growth in pellet production and sales. Pellet production reached 10.4Mt (+3.8% vs. Genial Est. at the time), up +15.7% q/q and +12.9% y/y, driven by the favorable seasonality of 3Q24 and the productive performance of 1H24. Part of the strong production of iron ore fines was directed to pelletizing, which reinforced the result. Shipments totaled 10.2Mt (+3.6% vs. Genial Est. at the time), up +14.4% q/q and +0.6% y/y, exceeding expectations due to the accumulation of iron ore fines in the previous quarter and the logistical delay in getting the cargo to the pelletizing plant. Pellet prices fell by -5.7% q/q and -8.1% y/y to US$148.2/t (+0.5% vs. Genial Est. at the time). The downturn was softened by a higher premium, which reached +US$35/t (+US$6/t vs. 2Q24). The all-in premium closed at +US$1.7/t (vs. -US$0.1/t in 2Q24), reversing the negativity of the previous quarter.

Nickel: Production up, prices under pressure. Nickel production reached 47.1Kt (-0.8% vs. Genial Est. at the time), with strong growth of +68.8% q/q and +11.9% y/y, driven by good performance at Sudbury (ON), Voisey's Bay (NL) and Pará mines (PA). Sales totaled 40.7Kt (-+18.7% q/q; +3.8% y/y), absorbing the increase in production. On the other hand, the realized price fell to US$17,012/t (-8.7% q/q; -19.9% y/y), due to the resumption of the downward trend.

Copper: Production grows, sales suggest stockpiling. Copper production was 85.9Kt (+4.2% vs. Genial Est. at the time), up +9.3% t/t and +5.3% y/y, driven by performance at Sossego (PA) and Canada, offsetting the drop at Salobo (PA) due to the fire at Salobo 3. Sales totaled 75.2Kt (-1.2% y/y; +1.9% y/y), suggesting stockpiling to capture future opportunities, given the realized price of US$9,016/t (-2.0% q/q; +16.6% y/y).

Review 3Q24: In detail!

Net revenue slowing down, with a drop in realized prices and shipments below potential in fines. Vale's consolidated net revenue in 3Q24 was US$9.6bn (-1.8% vs. Genial Est.) showing declines of -3.7% q/q and -10.0% y/y. In iron ore fines, revenues amounted to US$6.3bn (0% vs. Genial Est.), down -6.6% q/q and -14.3% y/y. The result reflects the sharp drop in the realized price and only a marginal volume increase in sequential sales, driven by the seasonality typical of the 3Qs. Pellet revenues amounted to US$1.5bn (-0.1% vs. Genial Est.), up +7.8% q/q and +8.2% y/y. Unlike fines, the increase in pellet shipments partially offset the drop in the realized price (-5.7% t/t), justified by the reduction in the 65% Fe reference curve.

In base metals, net nickel revenues reached US$904mn (-13.2% vs. Genial Est.), down -8.6% q/q and -11.6% y/y. The realized price was pressured by the resumption of the downward trend on the LME (-12% q/q; -20% y/y), even with a slight increase in realized premiums. Copper revenues surprised positively, totaling US$759mn (+11.9% vs. Genial Est.), despite a slight decline of -2.6% q/q, but with growth of +15.0% y/y. The result benefited from the commodity's good momentum, with higher volumes coming from Sossego and Canada.

Table 2. Net Revenue Vale (3Q24 vs. Genial Est.)

(US$ millions)	3Q24A Reported	3Q24E Genial Est.	% R/E	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Net Revenue	**9.553**	**9.727**	**-1,8%**	**9.920**	**-3,7%**	**10.618**	**-10,0%**
Iron Ore Fines	6.281	6.283	0,0%	6.728	-6,6%	7.327	-14,3%
Pellets	1.502	1.503	-0,1%	1.393	7,8%	1.388	8,2%
Nickel operations	904	1.042	-13,2%	879	2,8%	1.023	-11,6%
Copper operations	759	678	11,9%	779	-2,6%	660	15,0%
Others	107	186	-42,5%	175	-38,9%	185	-42,2%

Source: Genial Investimentos, Vale

C1/t cost lower than expected. C1/1 ex. purchases from third parties was US$20.6/t (-2.4% vs. Genial Est.), compressing -17.1% q/q and -6.0% y/y, helping the company to present an efficiency that exceeded our expectations, which had already predicted a slightly more intense reduction than consensus. This drop was mainly driven by **(i)** higher production and consequent dilution of fixed costs, especially in the Northern System, **(ii)** lower maintenance costs, as a result of the concentration of activities in 1H24, **(iii)** depreciation of the BRL/USD exchange rate due to costs retained in R$ and **(iv)** continuity of Vale's operational efficiency program.

However, part of the gains were offset by the impact of inventory turnover. At the end of September, for example, C1 production cost reached US$18.2/t, suggesting the prospect of continued improvement in 4Q24, in line with seasonality and greater dilution of fixed costs as shipments progressed.

Increased exposure to spot freight, but cost still competitive. Vale's average ocean freight cost was US$20.6/t (-3.3% vs. Genial Est.), down -US$6.1/t vs. C3 Brazil-China route average, despite an increase of +8.4% q/q. This increase can be attributed to greater exposure to spot freight rates (impact of +5.8% q/q), driven by the typical seasonality of the company's shipments, as well as higher bunker fuel costs (impact of +2.1% q/q).

COGS/t in Nickel and Copper. In nickel, COGS/t ex. purchases of feed from third parties rose (+22% q/q), driven mainly by the deconsolidation of PTVI. In Copper, under higher costs at Salobo due to repairs to the conveyor belt after the fire in June, it grew (+8% q/q). If we consider by-product revenues, both Salobo and Sossego contributed to the reduction (-12% q/q).

EBITDA drops significantly, consolidating a weak quarter. Vale's Proforma EBITDA reached US$3.7bn (-5.5% vs. Genial Est.), registering declines of -6.3% q/q and -21% y/y. Among the segments, iron ore fines was the positive highlight, with an EBITDA of US$2.8bn (+6.1% vs. Genial Est.), beating our estimate due to a lower C1/t and a freight cost that was also lower than we expected. Even with a good performance on the cost side, this didn't prevent EBITDA in the main division from falling by -8.8% q/q and -23.6% y/y, mainly due to lower realized prices.

The pellets segment, on the other hand, recorded an EBITDA of US$790mn (+15.7% vs. Genial Est.), up +8.4% q/q and +10.9% y/y, benefiting mainly from the strong increase in shipments, which was partially offset by the lower average realized price. The nickel segment, on the other hand, posted a negative result of -US$66mn (-118.3% vs. Genial Est.), as realized prices contracted, in addition to the deconsolidation of PTVI. For Copper, we saw an EBITDA of US$360mn (+1.7% vs. Genial Est.), with advances of +2.6% q/q and +33.8% y/y.

Table 3. EBITDA Vale (3Q24 vs. Genial Est.)

(US$ millions)	3Q24A Reported	3Q24E Genial Est.	% R/E	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Proforma EBITDA	**3.741**	**3.957**	**-5,5%**	**3.992**	**-6,3%**	**4.736**	**-21,0%**
Iron Ore Fines	2.844	2.682	6,1%	3.117	-8,8%	3.725	-23,6%
Pellets	790	683	15,7%	729	8,4%	712	10,9%
Nickel operations	(66)	360	-118,3%	108	-161,1%	100	-166,0%
Copper operations	360	354	1,7%	351	2,6%	269	33,8%
Others	(131)	(121)	8,5%	(312)	-58,1%	(70)	86,2%

Source: Genial Investimentos, Vale

Non-recurring adjustments increase net income vs. estimates. Net income was reported at US$2.4bn (+27.2% vs. Genial Est.), which resulted in a net margin of 25.0% (+5.7 p.p. vs. Genial Est.). Despite the drop of -13.7% q/q and -16.3% y/y, the result was impacted by non-recurring adjustments, including: **(i)** impairment and write-offs of non-current assets (+US$1.2bn) - the sale of 50% of VODC's share capital to Apollo, of which +US$600mn received from the sale, +US$600mn related to the fair value of 50% of the retained stake and +US$22mn in other effects related to the deconsolidation.

On the other hand, the associates and JVs line, where the company reports Samarco's results, showed a reduction of -US$656mn. The negative result is linked to the incremental provision of -US$956mn (-R$5.3bn), referring to the agreement being made in the TRF-6 that makes tangible the compensation for the collapse of the Torto dam, located in Mariana (MG). Vale had officially announced last Friday, after we had already published our preview, that it would report this increased amount as a provision in 3Q24, so investors were already aware of this impact.

Table 4. Income Statement Vale (3Q24 vs. Genial Est.)

(US$ millions)	3Q24A Reported	3Q24E Genial Est.	% R/E	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Net Revenue	**9.553**	**9.727**	**-1,8%**	**9.920**	**-3,7%**	**10.618**	**-10,0%**
COGS	(6.281)	(6.069)	3,5%	(6.129)	2,5%	(6.237)	0,7%
Adjusted EBITDA	**3.615**	**3.728**	**-3,0%**	**3.993**	**-9,5%**	**4.431**	**-18,4%**
EBITDA Margin (%)	37,8%	38,3%	-0,49p.p	40,3%	-1,92p.p	41,7%	-3,4p.p
Adjusted EBIT	**2.867**	**2.971**	**-3,5%**	**3.200**	**-10,4%**	**3.418**	**-16,1%**
EBIT Margin (%)	30,0%	30,5%	-0,54p.p	32,3%	-1,71p.p	32,2%	-1,65p.p
D&A	(748)	(757)	-1,2%	(793)	-5,7%	(780)	-4,1%
Financial Result	(374)	(746)	-49,9%	(1.252)	-70,1%	(385)	-2,9%
Net Income	**2.391**	**1.879**	**27,2%**	**2.769**	**-13,7%**	**2.857**	**-16,3%**
Net Margin (%)	25,0%	19,3%	5,71p.p	27,9%	-8,59p.p	26,9%	-7,58p.p

Source: Genial Investimentos, Vale

Our Take on Vale

Rise in iron ore prices appears to be "emotional". The recent increase in the price of iron ore – up to US$112/t (+22% in 15 days) - driven above all by the sum of fiscal and monetary stimulus measures in China, only showed a bias towards high speculation with no fundamentalist justifications, since the market seemed to overestimate these effects. The rapid correction to US$104/t (-7% in 5 days) reinforces this presumed view due to the emotional spectrum. Therefore, we still believe that there is an imbalance between supply and demand in the short term.

Costs remain under control, with no risk to guidance. A reduction in costs was observed, with C1/t falling (US$20.6/t vs. US$21.1/t Genial Est.) reinforcing Vale's *guidance* of US$21.5-23/t for 2024 added to the update of the annual all-in copper cost estimate (-13.2% vs. Genial Est.). The drop reflects the **(i)** greater dilution of fixed costs, supported by the **(ii)** increase in production characteristic of 2H24 given the period of drought in the Southeast and North systems. However, the worsening of freight/t (+9% t/t; -3% vs. Genial Est) detracted from the reduction in breakeven China US$70.5/t (+3.5% t/t). All in all, we remain confident in the company's ability to deliver more efficiently in 2H24, reaching the middle part of the recently upwardly revised annual production guidance *of* 323-330Mt.

Current Chinese stimuli are a blind spot. The oversupply of real estate in China is a structural problem, not a cyclical one. This is evidenced, for example, by the discrepancy between the number of finished properties and those under construction, linked to the preferential situation of buyers in not running the risk of developers not delivering projects that are still underway. For example, in 1H24, 27% of new sales were completed homes (+10% vs. 1H21).

Recent government stimuli, such as **(i)** the reduction in mortgage rates; **(ii)** the down payment; **(iii)** the compulsory rate (RRR) do not solve the housing glut as they do not lead to changes in preference scales.

Mariana Agreement: Softer terms favor expectations Although the final signing is expected to take place today, we believe that the conditions of the Mariana Agreement renegotiation will be more lenient than we initially expected, especially with regard to the disbursement schedule, now set at 20 years, as defended by Vale and BHP, instead of the 12 years initially proposed by the MPF and AGU. This dilution of the payment, totaling R$170bn, includes **(i)** R$100bn in indemnities, classified as “new money” and **(ii)** R$32bn in socio-environmental obligations still “to do”, in addition to the R$38bn already disbursed. As for the incremental provision, R$5.3bn was reported in 3Q24, as we have already mentioned.

In short, if on the one hand this extension of the payment deadline reduces relevant uncertainties for the market, which could attract investors and boost Vale's shares, given the relief from the *overhang* associated with the agreement, on the other hand, the pressure bias on the **NPV of the payment flow** as it fulfills these obligations is maintained, which we calculate at **-US$3.7bn** (-10% vs. Genial Est. base scenario) even though there has been a dilutive effect on payments (-0.5% Market Cap. vs. Genial Est.) due to the increase in the term (20 years vs. 12 years in our base scenario).

Why buy now? Compared to its peers (BHP, Rio Tinto and Fortescue), Vale remains the most discounted mining company in the global market, trading at an **EV/EBITDA 25E** multiple of **3.1x** (vs. 5.0x in the historical average). The **25E FCF Yield** of **14.5%**, which supports a **25E Dividend Yield** of **~10%**, together with the share buyback program, provide attractiveness in the quantitative approach. **The *overhangs*** that were also holding the shares back, such as CEO succession and the Mariana (MG) agreement, **are being eliminated**. On the other hand, the biggest difficulty we see is **investors' fear of structural demand for iron ore**. Incredibly, **we see this fear more as a qualitative approach** with less numerology, and we'll tell you why.

In our proprietary model, we **purposely** use **pessimistic assumptions** to test the **degree of irrational bias** and **how excessive the stock discount is**, in the midst of a macro scenario that **we know is not favorable**. Therefore, we project **(i)** an iron ore curve 62% Fe below consensus, with a terminal value of ~US$75/t in 2028 and flat until 2030 in perpetuity (vs. US$85-90/t consensus); **(ii)** quality premiums always targeted at the lower bands of guidance; **(iii)** C1/t costs exceeding the upper limit of *guidance* (and Vale has already proven that it can reach them).

In addition, we believe it is **difficult to imagine iron ore falling into a downcycle** strong enough **to reach the ~US$40/t barrier,** as happened in 2015. Basically a decade forward in time, the mining companies' C1/t is structurally higher and the high-cost producer would exit the supply system long before the price decelerated to such a level today.

We estimate that **marginal cost today is in the range of US$80-90/t**. Therefore, when iron ore is close to US$90/t, futures contracts begin to operate at a premium to spot, with traders pricing that high-cost producers, who represent **~20% of supply**, would exit the supply system if the price stays below this level for long.

Looking at this scenario, we don't see how our already pessimistic assumptions could be underestimated. On the contrary, they **reinforce the idea that we "went heavy" with Vale in our model and even so it generates upside vs. the current level of stock valuation**. We are convinced that **the market is over-penalizing the company**. We continue with our **BUY** recommendation, based on rational aspects, with a **12M Target-Price of R$78.50** for **VALE3** and **US$14.00** for **ADRs-NYSE**, implying an **upside of +28.33%.**

Appendix: Vale

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

Income Statement	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	**38.701**	**39.152**	**39.956**	**39.136**	**40.138**	**41.163**
(-) COGS	(23.761)	(23.119)	(24.141)	(23.723)	(24.096)	(24.553)
Gross Profit	**14.939**	**16.033**	**15.815**	**15.413**	**16.042**	**16.609**
(-) Expenses	(1.947)	(2.686)	(2.532)	(2.021)	(1.679)	(1.735)
Adjusted EBITDA	**16.066**	**16.777**	**16.674**	**16.966**	**18.130**	**18.823**
(-) D&A	(3.083)	(3.226)	(3.419)	(3.614)	(3.816)	(4.007)
EBIT	**12.984**	**13.551**	**13.255**	**13.352**	**14.314**	**14.817**
(+/-) Financial Result	(2.777)	(2.167)	(1.876)	(2.077)	(2.290)	(2.418)
(-) Taxes	(817)	(1.877)	(1.925)	(1.920)	(2.067)	(2.148)
Net income	**9.389**	**9.507**	**9.454**	**9.355**	**9.957**	**10.251**
Profitability						
Net margin (%)	24,26%	24,28%	23,66%	23,90%	24,81%	24,90%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	**38.701**	**39.152**	**39.956**	**39.136**	**40.138**	**41.163**
(-) COGS	(23.761)	(23.119)	(24.141)	(23.723)	(24.096)	(24.553)
Adjusted EBITDA	**16.066**	**16.777**	**16.674**	**16.966**	**18.130**	**18.823**
Adjusted EBIT	**12.984**	**13.551**	**13.255**	**13.352**	**14.314**	**14.817**
(-) Taxes	(797)	(1.635)	(1.657)	(1.684)	(1.882)	(1.975)
(+) D&A	3.083	3.226	3.419	3.614	3.816	4.007
(+/-) Brumadinho and Samarco	(97)	(1.940)	(1.629)	(1.176)	(1.025)	(747)
(+/-) Δ WK	266	986	957	(238)	349	(26)
(-) Capex	(6.470)	(7.018)	(7.018)	(7.559)	(7.559)	(7.559)
FCFF	**8.969**	**7.170**	**7.328**	**6.309**	**8.013**	**8.517**

Disclosure Section

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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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