genial | Equity Research

VALE

3Q24 Operational Preview: Through the desert on a horse with no name

LatAm Metals & Mining

Main takeaways:

(i) Expected i.o. fines **production** to **contract slightly y/y** and **increase q/q** due to seasonality; **(ii)** i.o. fines shipments to slow down and slight change in commercial strategy; **(iii) Realized fines price** to fall to **US$92.5/t Genial Est.** (-5.8% q/q; -12.0% y/y), but to a lesser extent than the 62% Fe curve; **(iv)** Pricing mechanism mitigates the negative impact of the cooler 62% Fe curve, through a better mix + forward provisioning system; **(v)** Pellet division will probably see an improvement in volume, but a contraction in price; **(vi)** Nickel price resumes downward trend; **(vii)** Normalization of production and increase in nickel sales; **(viii)** Copper should show a reduction in realized price and marginal slowdown in shipments; **(ix)** Consolidated **net revenue** projected at **US$9.5bn Genial Est.** (-5.4% q/q; -10.7% y/y), with a reduction driven by a deep deceleration in the iron ore curve during 3Q24 (-11.3% q/q); **(x)** We see the company as likely to capture a significant fixed cost dilutive effect, with a reduction in **C1/t ex. projected** at **US$21.1/t Genial Est.** (-15.3% q/q; -3.9% y/y); **(x)** Regarding **EBITDA**, our model points to **US$2.7bn Genial Est.** (-13.6% q/q; -27.7% y/y). Soon, a compression in **net income** is also expected, reaching **US$1.8bn Genial Est.** (-48.3% q/q; -37.8% y/y); **(xi)** Improvement in the price of iron ore in the face of the **stimulus announcement** should not be interpreted as structural (more on this in the **"Our Take" section** at the end of the report); **(xii)** Trading at an **EV/EBITDA 25E** of **3.1x** (vs. 5.0x historical average), with a **25E FCF Yield** of **14.5%** that would support a **25E Dividend Yield** of **11%**, Vale's shares are penalized vs. their own past performance and also global peers. **(xiii)** We believe that the **elimination of overhangs**, coupled with **the prospect of a partial recovery in iron ore prices**, even if in the short term linked to speculation (fiscal stimulus in China), could unlock value for the shares, which remain severely punished by investors, especially local ones. We therefore reiterate our **BUY rating**, based on a **12M Target Price** for **VALE3-B3** of **R$78.50** and **US$14.00** (vs. US$14.50 previously) for the **NYSE ADRs**, with an **upside** of **+26.35%**.

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Company

VALE US Equity
Buy

Price: US$ 11.08 (11-Oct-2024)
Target Price 12M: US$ 14.00 (NYSE)

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

Vale will release its **Production and Sales** report on **October 15**, after the market closes. In general terms, we expect a **q/q improvement** in the **production of iron ore fines**, but a **cooler figures on shipments**, considering that last quarter the company opted to intensify sales and made the comparative base more difficult to overcome.

Table 1. Operational Summary (3Q24 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.				
Summary	**3Q24E**	**2Q24**	**% q/q**	**3Q23**	**% y/y**
Iron Ore Production	84.514	80.598	**4,9%**	86.239	**-2,0%**
Iron Ore Fines Shipments	67.052	68.512	**-2,1%**	69.714	**-3,8%**
Pellets Production	9.987	8.955	**11,5%**	9.175	**8,8%**
Pellets Shipments	8.876	8.864	**0,1%**	8.613	**3,1%**

Source: Genial Investimentos, Vale

It is clear that 2024 is already proving to be one of the driest in recent years. In addition, the **3Qs are typically the quarters with the least rainfall**, both in the North and Southeast systems. Therefore, analyzing this situation alone, a sequential improvement in the 3Q24 result was to be expected, due to the strong correlation between periods of drought and increased production by Vale.

However, we project that **EBITDA will be hit with a sharp drop**, for now estimated at US$3.6bn Genial Est. (-19.4% q/q; -13.0% y/y), mainly due to the **contraction in the realized price** of iron ore fines to **US$92.5/t Genial Est.** (-5.8% q/q; -12.0% y/y), driven by the deceleration of the average 62% Fe curve during the quarter. We stress that **our estimate will be updated** as soon as we publish the review report on production and sales, following Vale's announcement scheduled for October 15. In turn, the **financial results** for 3Q24 are scheduled for release on **October 24th**.

Valuation and rating. In addition to changes that we believe may have occurred in the commercial strategy for the quarter, shipping less volume and increasing the gap between production and sales vs. the same period last year, the factor that should stand out the most to explain a **slowdown in Net Revenue, EBITDA and Net Income** is the major contraction in the realized price. According to our assessment, the realized price for iron ore fines should stand at **US$92.5/t Genial Est.** (-5.8% q/q; -12.0% y/y). Therefore, the substantial deflationary pressure on the 62% Fe benchmark curve, which closed 3Q24 at an average of US$99/t (-11.3% q/q), will have a significant impact on the company's financial performance. We believe that the considerable drop in the reference price of iron ore is justified by the high association with the fragility of demand, predominantly exposed to China, plus an excess of supply at the ports. These are factors that we monitored and indicated throughout the quarter in our weekly sector reports.

Therefore, we reinforce that, although the normal approach to expect would be an improvement q/q, due to the increase in shipments as a result of the rise in production, which in turn would be due to the lack of rainfall typical of the 3Qs, even so, the gain in production will not be passed on to EBITDA. We believe that Vale will promote a **slightly higher inventory level** than it did in the same period last year (already including the effect of seasonality). This assumption is based on the perception that the ports in China had stockpiles that reached the highest level in the last 5Y during the quarter, so that the good production figures expected for 3Q24 may not be reflected in shipments advancing q/q, reducing sales volume and net revenue.

Even so, the **realized price impact** by the deceleration of the 62% Fe curve, in the face of demand and oversupply challenges, constitutes the crucial adjunct factor for a strong drop in EBITDA both q/q and y/y, **consolidating a result that we expect to be weak**. Behind the expression **“horse with no name”** is the idea that, although the company's operational production levels should be satisfactory in 3Q24, the uncertainty regarding the iron ore supply and demand balance still puts investors off. After spending days in a desert, you no longer remember the name of the horse you're riding, only your own name.

In fact, we recognize that the environment is challenging, but **the level of discount on the shares seems unjustifiable to us**. Compared to its peers, since last quarter the company continues to occupy the position of the **most discounted major vs. the price of iron ore globally** (with a discount almost 20% above historical levels). In addition, trading at an **EV/EBITDA 25E** of **3.1x** (vs. 5.0x in the historical average), with an **FCF Yield 25E** of **14.5%** that would support a **Dividend Yield 25E** of **10%**, Vale's shares are penalized vs. their own past performance. It is also important to note that we are including in these average times of low commodity cycle, for example when iron ore was at a level below US$40/t in 2015. We believe that **(i)** the elimination of overhangs, coupled with **(ii)** the prospect of a partial recovery in iron ore prices, even if in the short term linked to speculation (fiscal stimulus in China), could unlock value for the shares, which remain severely punished by investors, especially local ones. We therefore reiterate our **BUY rating**, based on a **12M Target Price** for **VALE3-B3** of **R$78.50** and **US$14.00** for the **NYSE ADRs**, with an **upside** of **+26.35%**.

Operational Preview 3Q24: Production and sales in detail

Expected i.o. fines production to contract slightly y/y and rise q/q due to seasonality. We project iron ore fines production to reach 84.5Mt Genial Est. (+4.9% q/q; -2.0% y/y), benefiting from the usual seasonal situation (typical of the 3Qs), which leads to the resumption of more volume extracted from the Northern system due to the entry into the driest period of the year, together with the Southeastern system with less rainfall, using the 2Qs as a comparative basis. In addition, we estimate a marginal increase in S11D (19.5Mt or +0.5% y/y), which does not offset the depletion of Serra Norte (27Mt or -5% y/y). Therefore, although we calculate a sequential increase in our model, if it is related to the scrutiny of specific conditions evidenced y/y, we highlight the difficulties in overcoming the high base of 3Q23, since we believe it was a very robust quarter of production for the company.

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

Production Summary (Kt)	3Q24E Genial Est.	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Iron Ore[1]	84.514	80.598	4,9%	86.239	-2,0%
Pellets	9.987	8.955	11,5%	9.175	8,8%
Nickel	47	25	90,7%	42	12,8%
Copper	83	79	5,2%	82	1,4%

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

Source: Genial Investimentos, Vale

Slowing shipments of i.o. fines. As for sales, we expect to reach 67.1Mt Genial Est. (-2.1% q/q; -3.8% y/y), with a slowdown both sequentially and year-on-year, albeit of low intensity. This downward bias is the result of weaker domestic demand in China and a level of stock piling at ports, which destabilized prices for the 62% Fe benchmark during the course of the quarter. We recall that in 2Q24 Vale opted for a strategy of shipping mixes with higher silica (lower % Fe) and increasing the sale of third-party iron ore. The practical effect of this strategy was a substantial drop in the realized price in the previous quarter, but it managed to achieve a robust volume of shipments, which surprised us and the consensus at the time.

Slightly change in commercial strategy. Given the very significant sales volume considering what normally occurs in Q2s, we believe that the approach used by the company last quarter contributed to the effect of the excessive accumulation of iron ore port inventory that we are currently witnessing in China, which has been at the highest level in the last 5Y since the end of May. Considering this effect, our perception is that the company gently eased shipments in 3Q24, in the face of weaker price dynamics, which were channeled by port oversupply. In a way, we expect a reverse strategy from what we saw last quarter, with **(i)** an improved mix in 3Q24, **(ii)** an increase in premiums (but still in negative territory, as we'll explore later), **(iii)** less significant use of third-party iron ore and **(iv)** a reduction in the level of sales. Although the 3Qs usually present the biggest gap between production vs. shipments of the year, we expect a slightly higher level of inventory formation for 3Q24 in the y/y movement, figuring in our model with a gap at 20.9% (vs. 19.2% 3Q23). We remind investors that the gap is not entirely operational inventory, but it is a good indicator.

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

Shipments Summary (Kt)	3Q24E Genial Est.	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Iron ore fines	67.052	68.512	-2,1%	69.714	-3,8%
Pellets	8.876	8.864	0,1%	8.613	3,1%
ROM	2.232	2.416	-7,6%	2.232	0,0%
Nickel	43,0	34,3	25,4%	39,2	9,7%
Copper	74,8	76,1	-1,7%	73,8	1,4%

[1] Including third-party purchases

Source: Genial Investimentos, Vale

Realized price of i.o. fines to retreat, but at a lower intensity than the 62% Fe curve. We expect the realized price of iron ore fines to be marked at US$92.5/t Genial Est. (-5.8% q/q; -12.0% y/y), showing a significant compression. The downward movement during 3Q24 of the 62% Fe reference curve reflected a deflationary environment due to the slowdown in Chinese economic growth, which reverberates in a more subdued domestic demand for steel, added to the excess of port inventories, as we already mentioned. The pressure vectors, both on the side of reduced demand and excess supply, have led the average price of the 62% Fe benchmark to fall back to the US$99/t mark (-11.3% q/q), and to be very much in line with our projected curve since February (hitting ahead the consensus the voracious price drop).

Pricing mechanism mitigates negative impact of 62% Fe curve cooling. As we have explained in past reports, the pricing model for iron ore fines is sensitive to a number of elements, including the sales mix and the percentage of shipments that have been made under the forward provisioning system. We are waiting for a **(i)** better mix, with the addition of more BRBF (blend with a higher % of Fe), as the northern system generates more volume, we believe that the premium for quality should evolve to -R$0.8/t Genial Est. (vs. -R$3.3/t in 2Q24), but still remain in negative territory, with some discounting (less intense than in 2Q24). As for **(ii)** the forward provisioning system, we expect a positive contribution (+U$2.40/t vs. the average of the 62% Fe curve), since the marking was carried out under better price conditions, which were in force in the last week of September and during the first days of October, altering the depreciating dynamics of iron ore futures contracts due to a stimulus package announced by the Chinese government. We estimate that ~38% of the company's sales volume in 3Q24 was made using the forward provisioned system, which, together with a better mix, would have helped the realized price not to decelerate as emphatically as the average of the 62% Fe curve in force during the period.

Table 4. Realized Price Vale (3Q24 Genial Est.)

Realized Price (US$/t)	3Q24E Genial Est.	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Iron ore fines	92,5	98,2	-5,8%	105,1	-12,0%
Pellets	147,4	157,2	-6,2%	161,2	-8,5%
Nickel	17.421	18.638	-6,5%	21.237	-18,0%
Copper	8.726	9.187	-5,0%	7.731	12,9%

Source: Genial Investimentos, Vale

Pellets division will probably undergo an improvement in volume, but at falling price. For pellets, we project production of 9.9Mt Genial Est. (+11.5% q/q; +8.8% y/y), accelerating both sequentially and on an annual basis. This increase is justified by: **(i)** favorable seasonality typical of the 3Qs, characterized by less rainfall, which optimizes conditions for mining and subsequent pelletizing; and **(ii)** a good performance in the production of iron ore fines by Vale in 2Q24 (+2.3% y/y). As we have explained in other reports, we normally expect an increase in pellet production in quarters subsequent to those in which iron ore fines production was more elastic. This is due to the logistical delay until the cargo arrives at the pelletizing plant yard, plus the time needed to transform the i.o fines into pellets. Looking at price dynamics, however, we project a compression, with the realized price reaching US$174/t Genial Est. (-6.2% q/q; -8.5% y/y). Although we project a higher quality premium, rising to US$35/t Genial Est. (+20.3% vs. 2Q24), even so, the contraction in the average we see from the 65% Fe benchmark to US$116/t (-9.1% q/q) should weigh on the company's realized pellet price in 3Q24.

Nickel prices resume downward trend. New Caledonia (an island belonging to the French territory overseas) contributes ~6% of the global nickel supply and is currently going through a separatist conflict. During the early stages of this conflict, some mines and ports were inoperable, which partially reduced supply and helped create a price spike during 2Q24. The French government postponed New Caledonia's elections by a year, now scheduled for the end of 2025. During this period, the French government decided not to go ahead with the controversial constitutional amendments, which would have allowed the right to vote in regional elections only for residents who have lived in New Caledonia for more than 10 years. As a result, the conflict cooled down and nickel operations and shipments resumed, leading once again to an oversupply and a continuation of the downward trend in the price. The average value of the LME reference curve fell to ~US$16,300/t (-12.6% q/q), coupled with the low spirits related to the short-term global demand scenario. We expect a smaller realized price contraction than the LME curve, standing at US$17,421/t Genial Est. (-6.5% q/q; -18.0% y/y).

Normalization of production and increase in nickel sales. We would point out that the low production volume in 2Q24 was the result of maintenance breaks at plants in Canada plus poor seasonality in Brazil, with the company using accumulated feed inventory from 1Q24 to capture some sales volume and maintain contracts with active clients. For 3Q24, characterized by a more favorable seasonality in a quarter with less rainfall, we should see a more normalized production operation. We expect a substantial increase in the sequential view for nickel, reaching a production of 47.5Kt Genial Est. (+90.7% q/q; 12.8% y/y), and shipments reaching the 43Kt Genial Est. range (+25.4% q/q; +9.7% y/y).

Copper should show a contraction in price and a marginal reduction in shipments. Regarding copper, we expect performance to cool down in 3Q24, but to remain in line with volume guidance. At this year's Investor Tour, held in September, Vale highlighted operational improvements at its copper mines, with efficiency gains and organic growth. Management expects this to translate into an increase in production of +500Ktpy by 2028, especially at the Salobo (PA) units, whose results should start to be reflected as of 4Q24. In addition, the company reduced its 24E all-in copper cost guidance to US$3,300-3,800/t (vs. US$4,000-4,500/t previously). However, the reduction should not be fully reversed in profitability in the short term, given the recent drop in LME reference prices for copper by -5.0% q/q, after quarters of strong growth, and the low sequential sales projected for 75Kt Genial Est. (-1.7% q/q; +1.4% y/y). We expect a realized price of 17,421/t Genial Est. (-6.5% q/q; -18.0% y/y), with a slightly more intense reduction than that shown in the LME reference curve.

Table 5. Income Statement Vale (3Q24 Genial Est.)

(US$ millions)	3Q24E Genial Est.	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Net Revenue	**9.485**	**10.031**	**-5,4%**	**10.618**	**-10,7%**
COGS	(5.914)	(6.129)	3,5%	(6.237)	-5,2%
Adjusted EBITDA	**3.651**	**4.529**	**-19,4%**	**4.198**	**-13,0%**
EBITDA Margin (%)	38,5%	45,2%	-6,66p.p	39,5%	-1,05p.p
Adjusted EBIT	**2.894**	**3.736**	**-22,5%**	**3.418**	**-15,3%**
EBIT Margin (%)	30,5%	37,2%	-6,74p.p	32,2%	-1,68p.p
D&A	(757)	(793)	-4,5%	(780)	-2,9%
Financial Result	(743)	(1.252)	-40,6%	(385)	93,1%
Net Income	**1.819**	**3.514**	**-48,3%**	**2.925**	**-37,8%**
Net Margin (%)	19,2%	35,0%	-15,86p.p	27,5%	-8,38p.p

Source: Genial Investimentos, Vale

Our Take on Vale

Revenue contracting due to falling iron ore prices. We project consolidated net revenue of US$9.5bn Genial Est. (-5.4% q/q; -10.7% y/y), with net revenue from iron ore fines of US$6.2bn Genial Est. (-7.8% q/q; -15.3% y/y), implying an adverse impact from the reduction in market curve 62% Fe, added to an expectation of slightly contracting shipments. We believe that the revenue squeeze will be a direct consequence of the high elasticity of iron ore supply in Chinese ports vs. cooler Chinese domestic demand, which catalyzed a deep deceleration in the iron ore curve during 3Q24 (-11.3% q/q). Although Vale's pricing mechanisms, containing an expected mix improvement + the forward provisioning system, may help mitigate the impact of the more depreciated 62% Fe reference curve, we still expect the realized price to more emphatically undermine the 3Q24 result.

The only reason the situation will not be worse is due to an expected efficiency gain. We see it as likely that the company will capture a significant fixed cost dilutive effect, justified by high productivity directly correlated to the dry weather conditions, as well as specific work in mining sections, such as the **(i)** faster shift change in Serra Sul (80% faster than last year) and the **(ii)** bilateral loading strategy for trucks and heavy equipment in Serra Norte. We believe that the impact will be visible in the reduction of C1/t ex. third-party purchases, projected at US$21.1/t Genial Est. (-15.3% q/q; -3.9% y/y). However, according to our analysis, these efforts will be insufficient to neutralize the effect of the contractionary price on the consolidated result.

EBITDA and Net income aimed down. Regarding EBITDA, our model points to US$2.7bn Genial Est. (-13.6% q/q; -27.7% y/y), demonstrating that, even with a considerable reduction in C1/t, the impact of the fall in prices was so significant that the company will certainly see a strong sequential slowdown in EBITDA, even in a seasonally more favorable quarter. Therefore, a compression in net income is also expected, reaching US$1.8bn Genial Est. (-48.3% q/q; -37.8% y/y). We emphasize that our estimate will be updated as we publish the review report on production and sales, after Vale's announcement scheduled for October 15. The financial results for 3Q24 are scheduled for release on October 24th.

Poor macroeconomic outlook and Chinese demand still reluctant despite stimulus. The improvement in the price of iron ore following the stimulus announcement should not be interpreted as structural. Although the price of iron ore jumped from US$92/t to US$108/t (+17% in ~10 days), following the successive announcements of stimulus by the Chinese government aimed at reaching the target of 5% GDP growth by 2024, we still believe that the market overreacted when pricing the commodity's futures contracts, speculating that the government would announce more intense measures in the following days. That didn't happen. The market was particularly frustrated by the announcement of an advance of ¥100bn (~US$14bn) for next year's investment budget and another equivalent amount for construction projects. The consensus expectation was for a much higher figure, which once again pushed the price of iron ore down to US$104/t (-3.7% in three trading sessions). We warn that the volatility of the iron ore price is shrouded in a speculative bias about the stimulus and has no practical correlation with the real economy. We believe that the balance between supply and demand still lacks significant catalysts in the short term for a consistent rise in price.

The utilization rate of blast furnaces in China is lower than in the same period last year. We stress that the weakness of the Chinese economy and its incipient recovery have a devastating effect on the price of the 62% Fe reference curve, since the country accounts for 65-70% of global demand for seaborne iron ore volumes. Considering the bursting of the real estate bubble between 2021-2022, we believe that mills should continue to operate at a reduced level vs. installed capacity of ~1.2Btpy, with the utilization rate of blast furnaces currently at ~84% (-9p.p y/y), contracting noticeably vs. 2023, a year that was already not very robust for domestic steel demand. Today, China finds itself with ~90 million homes already completed and never occupied (referred to as “ghost cities”). The housing crisis remains critical, with ~48 million pre-sold homes not yet built, which is equivalent to Germany's entire housing inventory in 2021. From 2000 to mid-2023, Chinese developers fell short by 8.4 billion sqm, which represents 38% of total sales. The non-completion rate increased dramatically to 47% on average between 2015 and 2023 vs. 17% in the decade leading up to 2015, coinciding with the start of the inversion of the age pyramid in 2022 (called the “demographic crisis” by the market).

Why shouldn't the stimulus revive real demand for iron ore? We believe that the gap we commented on about the huge inventory of ready vs. under-construction housing substantially threatens developers' revenues, as buyers may prefer completed homes over pre-sales. In 1H24, completed homes made up 27% of new sales, a significant increase from just 10% in 2021. Therefore, stimulating home purchases with **(i)** a reduction in mortgage rates and **(ii)** a drop in the down payment, both measures that were announced by the government in the package made official at the end of September, do not seem to solve the issue of properties still under construction. Both secondary market and pre-sale real estate prices have been falling since 2022 and extended the decline in 2024, so it is very likely that families who are still interested in buying a new home will choose to buy a unit that has already been built rather than one that is under construction. This behavior should continue to curb the impetus for developers to launch new projects, which in turn will continue to drive down demand for steel even with the package of measures.

Through the desert on a horse with no name. We believe that the realized price impact by the deceleration of the 62% Fe curve, in the face of demand and oversupply challenges, constitutes the crucial adjunct factor for a sharp drop in EBITDA both q/q and y/y in 3Q24, consolidating a result that we expect to be weak. Reminiscent of the song “A Horse With No Name”, a big hit by the folk rock trio “America”, the dry weather should have helped Vale in 3Q24, but the company is still trying to steer its “horse” through the commercial strategy of iron ore (sometimes stockpiling, sometimes shipping larger quantities), crossing this “desert” at a time when the market is experiencing an excess of supply and great uncertainty about the future of demand, depressing the price and flattening the result. Behind the expression “horse with no name” is the idea that, although the company's operational production levels should be satisfactory in 3Q24, the uncertainty regarding the balance of supply and demand for iron ore is still keeping investors on their toes. As the song's narrative indicates, after spending days in a desert, you no longer remember the name of the horse you're riding, only your own name.

Shares discount level seems unjustifiable to us. We recognize that the environment is challenging, but the level of discount on the shares seems unjustifiable to us. Obviously, the uncertainties surrounding the price of iron ore are causing investors to shy away from Vale's shares. As a result, for much of the year we saw an extremely low level of allocation by local fund managers in the name. This made the shares more discounted than we believe is fair, even considering aggressive assumptions in our proprietary model regarding the reduction in subsequent years of the iron ore price. As we have commented on several occasions, our long-term curve projection for iron ore is **US$75/t 2028E** vs. ~US$85-90/t consensus. Although investors' disdain for Vale is understandable, if we still see value in the company at this price level below the curve used by the consensus, considering the premiums for quality always in the lower band of the guidance, we understand that this disdain is excessive.

Overhangs getting out of the way. We are witnessing, little by little, the elimination of the overhangs that made it difficult for the shares to gain traction, such as the lack of clarity about who would replace Mr. Eduardo Bartolomeo as CEO in 2025. As we all know, Mr. Gustavo Pimenta (former CFO) has already taken over as CEO in advance, eliminating the risk of any political interference in the company's management. Regarding the resolution of the Mariana (MG) settlement impasse, we believe that the definitive conditions for the renegotiation at the TRF-6 should be officially disclosed between the end of this month and November (this could even be on the day of the 3Q24 results, as per our expectation). It is possible that the conditions are more frivolous than previously anticipated, especially with regard to the time frame for the disbursement of the remaining amount of the indemnity, since we used as a base scenario a period of 12 years requested by the AGU/MPF vs. 20 years in Vale (+) BHP's claim.

The scenario isn't easy, but Vale still has interesting metrics. Compared to its peers, since last quarter the company continues to occupy the position of the **most discounted major vs. the price of iron ore globally** (with a discount ~20% above historical levels). In addition, trading at an **EV/EBITDA 25E** of **3.1x** (vs. 5.0x in the historical average), with an **FCF Yield 25E** of **14.5%** that would support a **Dividend Yield 25E** of **10%**, Vale's shares are also penalized vs. their own past performance. It is also important to note that we are including in these average times of low commodity cycle, for example when iron ore was at a level below US$40/t in 2015. We believe that **(i)** the elimination of overhangs, coupled with **(ii)** the prospect of a partial recovery in iron ore prices, even if in the short term linked to speculation (fiscal stimulus in China), could unlock value for the shares, which remain severely punished by investors, especially local ones. We therefore reiterate our **BUY rating**, based on a **12M Target Price** for **VALE3-B3** of **R$78.50** and **US$14.00** for the **NYSE ADRs**, with an **upside** of **+26.35%**.

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**

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