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CSN & CMIN

3Q24 Preview: A tough quarter, but the equity story is improving

LatAm Metals & Mining

Main takeaways for CMIN:

(i) Robust production, with **shipments** at **12Mt Genial Est.** (+12.2% q/q; +3.1% y/y); **(ii) Strong pressure on realized prices** of **R$49/t Genial Est.** (-16.4% q/q), with the sharp drop in the 62% Fe curve; **(iii)** Fixed cost dilution drives **down COGS/t**, coming in at **R$176/t Genial Est.** (-3.7% q/q), with **C1/t decompressing** to US$19.17/t Genial Est. (-9.6% q/q); **(iv)** We project an adjusted **EBITDA** of **R$1.0bn Genial Est.** (-36.3% q/q; -48.2% y/y); **(v)** Trading at **4.8x EV/EBITDA 25E** (vs. 5.5x historical), with an increase in the share of own production vs. third parties and a continuous reduction in C1/t, the **micro fundamentals are quite decent**. However, we believe that the macroeconomic scenario in China imposes limitations on a significant improvement in the realized price; **(Vi)** We agree that **CMIN's market valuation has stretched too far** in recent weeks, pushed mainly by a kind of **short squeeze**, promoted by the **share buyback program** initiated by the company, combined with the **typical lack of liquidity.** We therefore are **downgrading** to **NEUTRAL rating** (vs. Buy previously), with the same **12M Target Price** of **R$6.00**, indicating a **marginal upside** of **+2.56%.**

Main takeaways for CSN:

(i) Steel sales of **1,1Mt Genial Est.** (-0.4% q/q; +9.8% y/y), with a projected realized price of **R$5,043/t** (+1.4% q/q; -3.9% y/y); **(ii)** Complementary quota system with limited impact, competitiveness with imported steel remains intense; **(iii) Cement** division expanding market share**. Sales** projected at **3,680Kt** (+2.0% q/q; +12.8% y/y), with a small drop in the **realized price** to **R$340/t** (-0.9% q/q); **(iv) Net revenue impacted by mining,** clocking in at R$10.9bn Genial Est. (-0.6% q/q; -2.1% y/y); **(v)** Expected **COGS/t in steel downtrend** to R$4,654/t (-1.5% q/q), reflecting operational improvements; **(vi)** Consolidated **EBITDA with** projection of **R$2.4bn Genial Est.** (-6.4% q/q; -13.0% y/y), with partial support from the steel and cement divisions and poor price dynamics for mining; **(vii)** For now, with the company trading at **4x EV/EBITDA 25E**, we reiterate our **NEUTRAL rating**. The **12M Target Price** remains at **R$13.35**, indicating an **upside of +13.62%**.

CSN and **CMIN** will release their **3Q24 results** on **November 12**, after the market closes. We expect a combination of **resilience and challenges**. With the fall in iron ore prices, the holding company's **EBITDA** in 3Q24 is expected to fall by **-6.4% q/q**. Despite this, there is still a **cautiously optimistic outlook** for the **narrative surrounding CSN**. Attention will be focused on the **court decision between Ternium and CSN**, as the appeal of the fine (~R$5bn) is received and helps to **lower leverage**, as well as the sale of stakes in CMIN (already agreed) and CEE (still pending). We also expect the anti-dumping measures that CSN has been securing for specific NCMs to produce gradual realized price improvements over time in the steel division. Last but not least, there are updates on the negotiation for the **acquisition of InterCement**. We comment on all these points in the **"Our Take**" section by the end of the report.

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Companies

CSNA3 BZ Equity
Neutral

Price: R$ 11.75 (08-Nov-2024)
Target Price 12M: R$ 13.35

CMIN3 BZ Equity
Neutral

Price: R$ 5.85 (08-Nov-2024)
Target Price 12M: R$ 6.00

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

(Thousand Tonnes - kt)	Genial Est.				
Summary	**3Q24E**	**2Q24A**	**% q/q**	**3Q23A**	**% y/y**
Steel	1.118	1.123	**-0,4%**	1.018	**9,8%**
Iron Ore	12.002	10.792	**11,2%**	11.641	**3,1%**
Cement	3.680	3.608	**2,0%**	3.263	**12,8%**

Source: CSN & CMIN, Genial Investimentos

Table 2. Income Statement Summary CMIN (3Q24 Genial Est.)

(R$ millions)	Genial Est.				
Income Statement	**3Q24A**	**2Q24A**	**% q/q**	**3Q23A**	**% y/y**
Net Revenue	3.392	4.189	**-19,0%**	4.840	**-29,9%**
Adjusted EBITDA	1.030	1.618	**-36,4%**	1.988	**-48,2%**
Net Income	503	516	**-2,5%**	1.200	**-58,1%**

Source: CMIN, Genial Investimentos

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

(R$ millions)	Genial Est.				
Income Statement	**3Q24E**	**2Q24A**	**% q/q**	**3Q23A**	**% y/y**
Net Revenue	10.889	10.959	**-0,6%**	11.125	**-2,1%**
Adjusted EBITDA	2.450	2.618	**-6,4%**	2.815	**-13,0%**
Net Income	430	(223)	**-**	91	**372,9%**

Source: CSN, Genial Investimentos

CMIN is expected to maintain solid production, with **shipments** projected at **12Mt Genial Est.** (+11.2% q/q; +3.1% y/y). However, CMIN's **Net revenue** will probably be **hit hard**, reaching **R$3.4bn Genial Est** (-19.0% q/q; -29.9% y/y), with the impact of a **significantly falling realized price**, due to the deceleration in the 62% Fe curve (-11% q/q). **C1/t** should show **significant efficiency gains**, projected at US$19.17/t Genial Est. (-9.6% q/q; -10.2% y/y), exerting a better balance between own production and third-party purchases. The **effect of the price drop will be brutal**, bringing **EBTIDA** to **R$1bn Genial Est**. (-36.4% q/q; -48.2% y/y).

At **CSN Holding**, we expect a **gradual improvement** in **demand for steel** in the domestic market, with consolidated **sales** reaching **1.1Mt Genial Est.** (-0.4% q/q; +9.8% y/y). The sequential movement of slight contraction would occur due to the weaker foreign market, undermining the greater weight of shipments in the domestic market. For the **cement segment**, our expectation is robust volumes, reaching 3.6Mt Genial Est. (+2.0% q/q; +12.8% y/y), driven by the **strategy of gaining market share**, but facing **price pressure** due to competition with Votorantim. Consolidated **Net revenue** is projected at **R$10.9bn Genial Est.** (-0.6% q/q; -2.1% y/y), with the mining division being responsible for the contraction. **Steel COGS/t** will also show **more cost efficiency**, projected at R$4,654/t Genial Est. (-1.5% q/q; -8.7% y/y), mainly due to the resumption of production flow after optimization investments at the Presidente Vargas mill (RJ). Similarly, the cost reductions will not be able to compensate for the fall in the realized price in the mining division, with **consolidated EBITDA** projected at **R$2.4bn Genial Est**. (-6.4% q/q; -13.0% y/y).

3Q24 Preview in detail!

CMIN: Solid production expected with recovery in shipments. We expect CMIN to record robust production, with a forecast of 11.75Mt Genial Est. (+12.8% q/q; +1.5% y/y). This increase reflects the seasonal resumption of the dry season in southeastern Brazil. We believe that the company has been demonstrating an operational level and improved logistics for shipments to China, which continues to demand low grade volumes. Therefore, for sales, we project 12Mt Genial Est. (+11.2% q/q; +3.1% y/y). The penetration of own production vs. third-party purchases should somewhat mitigate the effect of a low-quality mix on margins.

CMIN: Strong pressure on realized prices due to external factors. We project a significant drop in the realized price, to R$49/t Genial Est. (-16.4% q/q; -34.7% y/y). We believe that the strong compression reflects oversupply, especially in Chinese ports. Specifically, we will see the influence of **(i)** the sharp deceleration in the 62% Fe curve during the quarter; **(ii)** the pressure on international freight, negatively impacting the FOB price; **(iii)** the worsening quality mix, with increased exports of low-grade iron ore and **(iv)** the lower contribution of forward contracts (CMIN's pricing system is different from Vale's). These conditions reinforce the challenging scenario for the company's realized price, with significant pressure from external factors and adjustments in the global iron ore market.

Table 4. Production and Shipments CMIN (3Q24 Genial Est.)

CMIN (Million tonnes)	3Q24E **Genial Est.**	2Q24A **Reported**	**% q/q**	3Q23A **Reported**	**% y/y**
Production + Purchases	**11,75**	**10,41**	**12,8%**	**11,58**	**1,5%**
Total Shipments	**12,00**	**10,79**	**11,2%**	**11,64**	**3,1%**
Internal Market	1,16	0,86	34,7%	1,77	-34,6%
External Market	10,84	9,93	9,1%	9,88	9,7%

Source: CMIN, Genial Investimentos

CSN Holding: Solid sales expected in the steel division. Consolidated steel shipments (DM+FM) to reach 1,118kt Genial Est. (-0.4% q/q; +9.8% y/y). In the domestic market (MD), we expect sales to stand at 800kt Genial Est. (+0.2% q/q; +7.0% y/y), driven by the recovery in demand in sectors such as automotive, heavy machinery, and infrastructure. However, the abundant supply, aggravated by the high inflow of Chinese steel, keeps prices under pressure, limiting the effect of recent protectionist measures.

In the foreign market (FM), we project shipments to reach 319kt Genial Est. (-1.9% q/q; +17.6% y/y), reflecting the impact of the appreciation of the USD/BRL exchange rate on the competitiveness of Brazilian steel abroad. We therefore expect the dynamics of 3Q24 to be marked by a gradual improvement in demand in the domestic market, albeit against a backdrop of prices still under pressure. We expect CSN to adjust its operating efficiency ratio to sustain results in a challenging macroeconomic environment.

CSN Holding: Steel realized price with limited recovery margin. For the steel segment, we project a consolidated realized price (DM + FM) of R$5,043/t Genial Est. (+1.4% q/q; -3.9% y/y). This sequential recovery of marginal intensity is sustained mainly by **(i)** improved demand sentiment in the domestic market and **(ii)** the effects of a +5% adjustment in some categories of the portfolio. However, the recovery is limited by pressure from predatory imports, which resulted in a poorer quality sales mix, since competition with imported steel also affected steel by-products with higher added value, expunging part of the effect of the readjustment on the realized price.

Therefore, in the domestic market (DM), we project a realized price of R$5,170/t Genial Est. (+0.4% q/q; -12.5% y/y), due to strong competition with imported steel, which maintains pressure on the value. In the foreign market (FM), the realized price should reach R$4,524/t Genial Est. (-0.5% q/q; -9.5% y/y), influenced by less favorable seasonal conditions, which limits the positive impact on the consolidated average price.

CSN Holding: Expansion in the cement division, but with pressure on realized prices. For the cement division, we project shipments to reach 3,680kt Genial Est. (+2.0% q/q; +12.8% y/y). This increase should be driven by **(i)** favorable weather conditions, with a dry period benefiting the formation of construction sites, and by **(ii)** continued high-capacity utilization rates from the assets acquired from LaFarge Holcim. Although the synergies have already been fully extracted since last quarter, for us this reflects the company's strategy of expanding its market share.

Aggressive market expansion, dominating important locations such as the southeastern region of Brazil, has contributed to a good performance, highlighting the strategy of capturing volume to the detriment of Votorantim's (main competitor) reluctance to mark discounts. The realized price should soon fall back to R$340/t Genial Est. (-0.9% q/q; -6.2% y/y). We stress that the combination of high shipments and lower prices highlights the trade-off between gaining market share and pressure on margins. The evolution of margins is satisfactory but could be even better if prices were more rational.

CSN Holding: Net revenue will be negatively impacted by mining, with mitigating support from other divisions. We expect consolidated net revenue of R$10.9bn Genial Est. (-0.6% q/q; -2.1% y/y). The mining division will be responsible for the bulk of the contraction, with CMIN projecting net revenue of R$3.3bn Genial Est. (-19.0% q/q; -29.9% y/y). This decline mainly reflects the **(i)** significant drop in realized prices, which neutralizes the **(ii)** positive impact of the seasonally driven increase in shipments. On the other hand, the steel division should show resilience, with estimated revenues of R$5.6bn Genial Est. (+0.9% q/q; +5.6% y/y), sustained by **(iii)** growth in sales in the domestic market and a **(iv)** slight recovery in realized prices. Finally, the cement unit also posted a positive result, with projected revenues of R$1.3bn Genial Est. (+1.0% q/q; +7.9% y/y), driven by **(v)** market share expansion.

Table 5. Net Revenue CSN (3Q24 Genial Est.)

CSN (R$ Millions)	3Q24E Genial Est.	2Q24 Reported	% q/q	3Q23 Reported	% y/y
Net Revenue	**10.889**	**10.959**	**-0,6%**	**11.125**	**-2,1%**
Steel	5.640	5.591	0,9%	5.344	5,6%
Mining	3.218	3.347	-3,8%	4.335	-25,8%
Porto	79	79	0,1%	75	6,3%
Railway	706	839	-15,8%	730	-3,3%
Energy	111	103	8,3%	122	-8,6%
Cement	1.250	1.238	1,0%	1.159	7,9%
Eliminations	(103)	(236)	-56,3%	(640)	-83,9%

Source: CSN, Genial Investimentos

CSN Holding: We project a slowdown in COGS/t steel. We expect a COGS/t of steel of R$4,654/t Genial Est. (-1.5% q/q; -8.7% y/y), signaling a better level of efficiency. This reduction largely reflects the **(i)** resumption of production flow at the Presidente Vargas mill (RJ), which underwent investments and adjustments in 2Q24, resulting in a more competitive COGS/t. However, this improvement in efficiency would tend to be even more pronounced, if it weren't for the increase we project in third-party slab costs, driven by the increase in the cost of the input due to the appreciation of the USD/BRL exchange rate.

CMIN: Dilution of fixed costs and more own production will lead to a reduction in COGS/t. For CMIN, we project a COGS/t of R$176/t Genial Est. (-3.7% q/q; -9.2% y/y). This retraction should be driven mainly by **(i)** greater dilution of fixed costs, derived from the sequential increase in production. Additionally, C1/t should register US$19.17/t Genial Est. (-9.6% q/q; -10.2% y/y), reflecting improvements in **(ii)** operational optimization, with higher penetration of own production vs. third-party purchases, as well as a BRL spending base converted by a higher USD/BRL exchange rate, leading to a decompression of C1/t. We emphasize that this move reinforces the company's strategy of reducing costs, doing what it can in the face of the bearish scenario for realized iron ore prices.

CMIN: Significant drop in EBITDA pressured by the retraction in the realized price. Our model points to an adjusted EBITDA of R$1.0bn Genial Est. (-36.3% q/q; -48.2% y/y), reflecting a more compressed net revenue, not offset by cost reduction initiatives. The fall in the realized price of iron ore should be a determining factor in this contraction. The margin is estimated at 30.4% (-6.3 p.p. q/q; -9.07 p.p. y/y). We believe that the expected performance would highlight the importance of cost control actions and the expansion of own production, since there is an expectation of a double-digit drop in the realized price. In other words, without the initiative to reduce C1/t, the margin squeeze would suffer an even more severe impact.

Table 6. Income Statement CMIN (3Q24 Genial Est.)

CMIN (R$ Millions)	3Q24E **Genial Est.**	2Q24A **Reported**	**% q/q**	3Q23A **Reported**	**% y/y**
Net Revenue	**3.392**	**4.189**	**-19,0%**	**4.840**	**-29,9%**
COGS	(1.900)	(2.241)	-15,2%	(2.524)	-24,7%
Adjusted EBITDA	**1.030**	**1.618**	**-36,4%**	**1.988**	**-48,2%**
EBITDA Margin (%)	30,4%	38,6%	-8,27p.p	41,1%	-10,71p.p
EBIT	**920**	**1.149**	**-19,9%**	**1.771**	**-48,1%**
EBIT Margin (%)	27,1%	27,4%	-0,3p.p	36,6%	-9,47p.p
D&A	(275)	(250)	9,9%	(263)	4,8%
Financial Result	(276)	(381)	-27,6%	3	-10105,2%
Net Income	**503**	**516**	**-2,5%**	**1.200**	**-58,1%**
Net Margin (%)	14,8%	12,3%	2,52p.p	24,8%	-9,97p.p

Source: CMIN, Genial Investimentos

CSN Holding: Adjusted EBITDA will indicate mixed performance across business divisions. We estimate a consolidated adjusted EBITDA of R$2.4bn Genial Est. (-6.4% q/q; -13.0% y/y). The steel division should show signs of recovery against a very depreciated numerical base, with EBITDA estimated at R$498mn (+53.3% q/q; +172.6% y/y), driven by **(i)** a higher level of demand in the domestic market and **(ii)** a recovery, albeit timid, in realized prices. On the other hand, mining tends to put pressure on the consolidated result, with EBITDA estimated at R$1.1bn (-26.4% q/q; -40.5% y/y), mainly affected by **(iii)** the drop in realized prices with partial compensation reflected in the expected reduction in C1/t. Finally, the cement segment should record slight growth, with EBITDA projected at R$354mn (+2.3% q/q; +32.9% y/y), sustained by **(iv)** taking advantage of high asset utilization rates.

Table 7. EBITDA CSN (3Q24 Genial Est.)

CSN (R$ Millions)	3Q24E **Genial Est.**	2Q24 **Reported**	**% q/q**	3Q23 **Reported**	**% y/y**
Adjusted EBITDA	**2.450**	**2.618**	**-6,4%**	**2.815**	**-13,0%**
Steel	498	325	53,3%	183	172,6%
Mining	1.171	1.590	-26,4%	1.966	-40,5%
Porto	26	26	0,0%	19	38,7%
Railway	393	388	1,4%	406	-3,3%
Energy	21	14	49,1%	25	-16,1%
Cement	354	346	2,3%	266	32,9%
Eliminations	43	(44)	-198,8%	(50)	-186,7%

Source: CSN, Genial Investimentos

Net income is expected to go down for CMIN and up for CSN. For CMIN, net income of R$503mn is expected (-2.5% q/q, +1.2% y/y). The result reflects the **(i)** strict control of costs, but which will not be able to fully limit the **(ii)** strong impact of the contraction in iron ore prices. For CSN, we project a net profit of R$430mn Genial Est., reversing the previous quarter's loss, although the company's financial result remains in negative territory, with an estimated -R$848mn., impacted by the high level of interest expenses, deliberated by the sequentially less impactful exchange rate variation in debt.

Table 8. Income Statement CSN (3Q24 Genial Est.)

CSN	3Q24E	2Q24		3Q23	
(R$ Millions)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**10.889**	**10.959**	**-0,6%**	**11.125**	**-2,1%**
COGS	(6.992)	(7.005)	-0,2%	(7.477)	-6,5%
Adjusted EBITDA	**2.450**	**2.618**	**-6,4%**	**2.815**	**-13,0%**
EBITDA Margin (%)	22,5%	23,9%	-1,39p.p	25,3%	-2,81p.p
EBIT	**1.084**	**1.614**	**-32,8%**	**1.648**	**-34,2%**
EBIT Margin (%)	10,0%	14,7%	-4,77p.p	14,8%	-4,85p.p
D&A	(855)	(888)	-3,7%	(842)	1,5%
Financial Result	(848)	(1.495)	-43,3%	(1.223)	-30,7%
Net Income	**430**	**(223)**	**-**	**91**	**374,0%**
Net Margin (%)	4,0%	-2,0%	5,98p.p	0,8%	3,14p.p

Source: CSN, Genial Investimentos

Our take on CSN and CMIN

CMIN

We believe that **CMIN** should continue to represent a **significant portion of the holding company's consolidated EBITDA** (42% in 3Q24E). However, the operating performance of the mining division should be affected by the sharp drop in realized prices, resulting in a decelerating EBITDA of -36.3% q/q, even in a more favorable quarter for increased production. **High inventories at China's ports and pressured margins at local mills create obstacles**. The recent expansion of fiscal stimulus in China, including an increase in the limit on bond issuance by the provinces, signals an attempt at economic stabilization that could benefit CMIN and, by extension, CSN. However, we believe that the measures announced in recent weeks have frustrated market expectations.

In our view, the central problem lies more in investors' high expectations of measures that will completely solve the drop in sales in the real estate sector, along with the recovery of average income and incentives to spend. However, from a feasible point of view, we don't see this scenario as likely, since, as we have argued many times, the lack of interest among homebuyers in China appears to be structural.

We therefore **recommend that investors stop speculating** on companies linked to the iron ore market. Instead, attention should be focused on the **individual measures that each company is taking to cut costs**, in the face of a **structurally higher C1/t** for all global players. This, in turn, guarantees margins for the most efficient players and supports iron ore prices at ~US$90/t, since the **marginal cost** is currently between **US$80-90/t.**

It is not that bad… We are using a price curve that we consider pessimistic, with **US$95/t** in **4Q24E**, but the price of iron ore has followed a very speculative tenor around the various stimuli that the Chinese government has been promoting in this final stretch of the year. Considering that **we don't see these stimuli changing the general balance of excess supply** against the still slow domestic demand for steel in China, we continue with an average of **US$99/t 25E** for the 62% Fe benchmark. CMIN is trading at **4.8x EV/EBITDA 25E** (vs. 5.5x historical), which still represents a discount, especially considering **(i)** production growth y/y, **(ii)** the increase in the share of own production vs. third parties and **(iii)** the considerable reduction in C1/t.

But the shares have already moved upwards. Downgrading to Neutral. In view of everything we will discuss in this report, the macro scenario does not make us comfortable with making the price assumptions more elastic. Although we believe that from a **micro point of view**, the company is performing well, and has **good prospects of continuing to lower C1/t** through the process of reducing the penetration of third-party purchases within the mix, we agree that **CMIN's market valuation has stretched too far** in recent weeks, pushed mainly by a kind of **short squeeze**, promoted by the **share buyback program** initiated by the company, combined with the **typical lack of liquidity**, which in turn derives from the low percentage of free float. As this was a **phenomenon that fell outside fundamentalist guidelines**, we are keeping our assumptions intact for the time being. We therefore are **downgrading** to **Neutral rating** (vs. Buy previously), with the same **12M Target Price** of **R$6.00**, indicating a **marginal upside** of **+2.56%.**

CSN Holding

We see continued pressure on steel operations, but with signs of relief for 2H24. Pressure on CSN's steel operations may continue in 3Q24, although there are signs of relief expected for 2H24. We see the possibility of a reduction in rebar production in China, especially in Jiangsu province, with steel mills possibly adjusting their product mix to prioritize flat steel, where margins have shown greater resilience. Chinese mills focused on **HRC** seem to be maintaining satisfactory production levels, driven by **demand for exports of durable goods**, especially while the US has yet to impose more aggressive tariff barriers, which are expected by the Trump administration in 2025. The **utilization rate of Chinese blast furnaces** is at **~87%**, with flat steel mills operating at higher levels y/y, which may continue to support **iron ore demand in the short term** and partially reduce the influx of flat steel arriving in Brazil.

CSN extends exclusivity for the acquisition of InterCement. The **extension of the agreement until November 16** indicates CSN's strong commitment to expanding its operations in the cement market, which could bring **operational synergies** and strengthen its position in the sector. This possible acquisition operation represents potential benefits**,** making CSN the market leader and **surpassing Votorantim's installed capacity.** However, there are still doubts about the impact of the acquisition on financial leverage. On the other hand, in conversations with the company, it seems become clear to us that CSN would only make the acquisition (including the Loma Negra assets in Argentina) if the **deal is equivalent to the debt**, which is currently valued at **~R$7bn**. This means that the impact on the holding company's leverage would be limited. If no agreement is reached, InterCement is likely to go into receivership.

CAMEX approves anti-dumping tariff on Chinese sheet metal, favoring CSN. The recent approval of provisional anti-dumping tariffs on imports of sheet metal from China by the Brazilian Chamber of Foreign Trade (CAMEX), ranging from **US$257.97/t- 341.28/t**, is valid for up to 6M and meets the demand of CSN, the **only domestic producer**, corresponding to ~6% of the steel division's net revenue. The measure seeks to contain unfair competition from Chinese products and is positive for CSN, as it **reduces pressure from imports** and strengthens its **competitiveness in the domestic market**. Unlike Usiminas and Gerdau, which continue to be supported by the dialog between the Brazil Steel Institute (IABr) and the Brazilian authorities, CSN has sought to make individual moves to challenge dumping. The difference is that it is a longer and more bureaucratic process, but it is aimed at proving unfair competition in the NCMs that make the most difference to CSN.

CSN sells 11% stake of CMIN to Itochu at a 26% premium. CSN holding announced the sale of **an 11% stake in CMIN to Itochu Corp.** for **R$4.5bn**, equivalent to **R$7.50/share**, representing a **premium of ~26%**. We believe that this transaction strengthens the **strategic partnership between the two companies**, making Itochu the **largest minority shareholder**, while CSN remains in majority control. With the sale, we believe that CSN holding's leverage should reduce to **3x Net Debt/EBITDA 24E** (vs. 3.4x in 2Q24). It is important to note that, to our opinion, the share buyback and dividend payments announced contributed to raising CMIN's market value weeks before the agreement was announced, increasing the EV paid by Itochu, in a strategy that we believe to be quite intelligent on the part of CSN.

STF asks CVM to comment on a lawsuit that could affect legal disputes between CSN vs. Ternium. The CVM's statement is a crucial element that could define the course of the lawsuit involving **CSN** and **Ternium** over a **possible change of control** in **Usiminas in 2011**, which should have triggered the tag-along right, so that CSN (which still owns Usiminas shares) could sell its minority stake for conditions similar to those offered for control.

We know that the CVM's technical opinion is that there was no change of control at the time, only the integration of Terminem into the controlling group, in place of Votorantim and Camargo Corrêa, which accounted for 27% of Usiminas' capital at the time. Even so, as the case is not constitutional, we understand that the legal backing for the STF's action at Termium's request is questionable, with CSN having already reversed a lower court decision in the STJ in June this year, after more than a decade of accumulating defeats in all courts. The reversal was due to a change in the composition of the panel that judged the case, with one minister declaring himself unable to attend and the death of another. The amount, if Ternium is unable to change the decision of the new STJ panel via STF, is **~R$5bn**, including fines and monetary correction. This amount to be received by CSN would help the company reach its leverage target of **2.5x Net Debt/EBITDA**, but only by 2025.

A tough quarter, but the equity story is improving. It will certainly be a challenging quarter for the holding company, which is still very dependent on CMIN's results. In view of the shrinking price of iron ore, CSN's EBITDA in 3Q24 will slow down relatively sharply. Even so, we are looking at issues with a certain optimism, albeit cautious, in CSN's equity story. We will wait for more details on the unfolding of the court decision between Ternium and CSN to ascertain a possible repricing of the discount rates applied in our proprietary model. In addition, even if it is a slow process, the guarantees that CSN has been obtaining with the anti-dumping measures for specific NCMs should have more effect over time than those worked on by IABr.

For now, with the company trading at **4x EV/EBITDA 25E**, we reiterate our **NEUTRAL rating**. The **12M Target Price** remains at **R$13.35**, indicating an **upside of +13.62%**. The **(i)** confirmation of a favorable price pass-through scenario in the steel division and **(ii)** a reduction in leverage towards the target, even if it is in 2025 (this year the target will not be reached), will be imperative factors for us to change assumptions that unlock value in our model.

Appendix: CMIN

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**15.088**	**15.022**	**16.009**	**21.694**	**23.006**
(-) COGS	(8.307)	(8.321)	(8.623)	(11.531)	(13.118)
Gross Profit	**6.781**	**6.702**	**7.386**	**10.164**	**9.888**
(-) SG&A and others	(2.240)	(1.951)	(2.071)	(2.807)	(2.979)
EBITDA	**4.977**	**6.099**	**7.068**	**9.499**	**9.436**
(+/-) Financial Result	(648)	(124)	(275)	(394)	(548)
EBT	**4.329**	**5.975**	**6.793**	**9.105**	**8.888**
(-) Taxes	(974)	(1.326)	(1.474)	(2.105)	(1.907)
Net Income	**2.257**	**3.299**	**3.563**	**4.856**	**4.451**
Profitability					
Net Margin (%)	14,96%	21,96%	22,26%	22,38%	19,35%

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

Cash Flow	2024E	2025E	2026E	2027E	2028E
Net Revenue	**15.088**	**15.022**	**16.009**	**21.694**	**23.006**
(-) COGS	(8.307)	(8.321)	(8.623)	(11.531)	(13.118)
Adjusted EBITDA	**4.977**	**6.099**	**7.068**	**9.499**	**9.436**
EBIT	**3.879**	**4.749**	**5.312**	**7.355**	**6.906**
(-) Taxes	(974)	(1.326)	(1.474)	(2.105)	(1.907)
(+) D&A	1.098	1.350	1.756	2.144	2.530
(+/-) Δ WK	131	51	15	280	207
(-) Capex	(2.082)	(4.825)	(5.031)	(5.367)	(5.767)
FCFF	**2.052**	**(1)**	**578**	**2.307**	**1.968**

Appendix: CSN

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**42.907**	**47.035**	**51.041**	**58.920**	**63.289**
(-) COGS	(27.633)	(28.885)	(29.402)	(33.161)	(35.222)
Gross Profit	**15.274**	**18.150**	**21.639**	**25.759**	**28.067**
(-) SG&A and others	(7.089)	(8.124)	(8.207)	(8.678)	(8.627)
EBITDA	**8.184**	**10.026**	**13.432**	**17.081**	**19.440**
(+/-) Financial Result	(4.400)	(3.873)	(4.362)	(4.874)	(5.230)
EBT	**172**	**1.991**	**4.342**	**6.941**	**8.369**
(-) Taxes	(469)	(681)	(1.389)	(2.221)	(2.678)
Net Income	**(297)**	**1.310**	**2.952**	**4.720**	**5.691**
Profitability					
Net Margin (%)	-0,69%	2,78%	5,78%	8,01%	8,99%

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

Cash Flow	2024E	2025E	2026E	2027E	2028E
Net Revenue	**42.907**	**47.035**	**51.041**	**58.920**	**63.289**
(-) COGS	(27.633)	(28.885)	(29.402)	(33.161)	(35.222)
Adjusted EBITDA	**8.184**	**10.026**	**13.432**	**17.081**	**19.440**
EBIT	**4.590**	**5.864**	**8.703**	**11.814**	**13.599**
(-) Taxes	(469)	(681)	(1.389)	(2.221)	(2.678)
(+) D&A	3.595	4.163	4.728	5.266	5.841
(+/-) Δ WK	(1.080)	(372)	(4)	(866)	(562)
(-) Capex	(4.485)	(6.142)	(6.113)	(5.586)	(5.629)
FCFF	**2.151**	**2.831**	**5.926**	**8.408**	**10.571**

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