genial | Equity Research

CSN & CMIN

Investor Day 2024: Only cement saved

LatAm Metals & Mining

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Companies

CSNA3 BZ Equity
Neutral

Price: R$ 11.58 (11-Dec-2024)
Target Price 12M: R$ 12.75

CMIN3 BZ Equity
Neutral

Price: R$ 5.72 (11-Dec-2024)
Target Price 12M: R$ 5.75

Main Takeaways:

Consolidated highlights included **(i)** a revision of the **25E CAPEX** projection (R$5.0-6.0bn vs. R$6.0-7.0bn); **(ii)** the announcement of a binding proposal for the **acquisition of 70% of Estrela S.A**. for **R$742.5mn**, of which R$300mn will be paid on completion and the remainder in 3 annual installments, justified by the search for synergies arising from new opportunities in the market via inorganic growth; and **(iii)** optimization of terms (51.15 months) and costs for greater liquidity (USD 6.7% and BRL 117.25% of CDI), although a large part of its financial obligations are in USD and, therefore, should be influenced by the Fx rate depreciation, in addition to the fact that the current situation of national monetary compression, as the **SELIC rise** in COPOM yesterday by **+100bps** (vs. +0.75bps consensus) has the power to **leverage its average cost of debt**, compromising FCFE; the **(iv)** consistent performance supported by the low operating drop (US$10.5bn 24LTM vs. US$11.9bn 2023) even under a scenario of lower iron ore and steel prices and diversification resulting from the change in representativeness (+27% y/y cements and +13% y/y logistics); and, above all, the **(v)** commitment to **deleveraging** outlined by the **25E target** (less than 3.0x Net Debt/EBITDA vs. 3.3x in 4Q24), an **issue which is highly sensitive** to the repulsion to investing in the shares, which should be driven by operational improvement in the steel industry, transformation in mining and selective continuity in terms of projected expansion CAPEX in order to return to investment grade level.

Yesterday, **December 11**, we attended **CSN** and **CMIN**'s **Investor Day 2024**, with Mr. Benjamin Steinbruch (CEO), Mr. Marco Rabello (CFO) and Mr. Pedro Oliva (CFO CMIN), in addition to the rest of the corporate staff, who presented the company's main growth levers for the future. The main points highlighted were **(i) the** quest to reduce leverage, with **(ii)** a slowdown in CAPEX and **(iii)** an attempt to take the company to **investment grade**. In general, the **guidance** and other forecasts did **not indicate any major surprises** in the **steel division**. However, figures **disappointed** in the **mining** (CMIN) and were **surprisingly positive** in the **cement division**.

Mining (CMIN)

Guidance for long-term production is reducing. We believe that the FCF generation of the mining segment (CMIN) could be negatively impacted given the adjustments disclosed by the new production guidance. The downward revision, with a projection of iron ore production + third party purchases reaching **43.5Mt-65.0Mt 27E-30E** vs. 53.0Mt-68.0Mt 27E-30E previously, is already considering expansion projects, such as P15 (startup in 4Q27 with +16.5Mtpy) and B4 tailings recovery (startup in 1Q27 with +2.5Mtpy). For **25E**, the **guidance** is **42-43.5Mt**, not indicating any growth y/y, but in line with what we already had in our model.

Figures presented by the company suggest a more bullish take on the price, which we find difficult. We note an increase in optimism by the company about the **iron ore price of 62% Fe,** reaching **US$100-110/t 25E** vs. US$90-100/t previously in the company's budget, which consolidates a slightly higher expectation of what we believe will be the fair balance point between supply and demand for next year. We continue with our projection of an average of **US$99/t Genial Est**. for **25E**, down from the ~US$110/t average in 2024 so far. From the polling we do with investor groups periodically, in general, many believe that the price of iron ore will be close to or below US$100/t next year, which would be 9% less than CSN estimates in the upper band.

Freight costs are expected to fall by double digits and C1/t will be flat, which is disappointing. According to data provided during the presentation, the closing of 7.5Mt charter contracts with shipowners (COAs) at an average price of US$21.07/t indicates a double-digit drop in **freight costs** for **25E**, which is projected in the company's budget at **US$21-23/t** vs. ~US$26/t YTD. In addition, management provided **guidance of C1/t** reaching **US$21.5-23/t** in **25E** (flat y/y), going **against our expectation of** a continued **reduction** in C1/t even in 2025, which until then was -5% vs. 24E.

Even though the indicator released by the company disappointed us, considering that Vale has guidance for 25E C1/t that could reach a reduction of -6.8% y/y and which should not be replicated by CMIN, it still reinforced the continued **prioritization of unit margins through contraction of purchases from third parties**, which for a time sustained the greater optimism we had with the company's performance. Clearly, we still see this move as positive, helping not only to improve margins, but also to **reduce the asymmetry of confidence** that investors had regarding the gradual increase in production, with no disclosure of how much of this increase actually came from own production in the past.

P15 remains the highlight, but the distant start-up partially takes the shine off. As for the highlights related to expansion projects, the main one continues to be **Itabirito P15**, prospected for **start-up in 4Q27** and which will have **(i)** installed production capacity of **+16.5Mtpy** (+40% vs. current production); and **(ii)** qualitative content of 67% Fe. Although conditioned by R$1.1bn already contracted for 2025, its **potential EBITDA** is **R$4.6bn**, resulting in a conclusive logical rationale for the company's ability to generate FCF and create shareholder value. However, the conditions of this incremental EBITDA are **questioned by some investors we spoke to**, since there is a great deal of uncertainty as to what the price of iron ore will be like in the future, and although there is a premium for quality, the current situation demonstrates a **weakness in adhering to higher prices** for products with less silica. For 2025, the company has signaled a stable quality mix, which has already been more impoverished than in 2023, since it is the demand for low grade that has been sustaining some level of price equilibrium with the seaborne supply increasing.

Lower CAPEX is one of the few pieces of good news. One of the few good aspects of this event for CMIN was the **CAPEX's guidance** contracting to **R$13.2bn 25E-30E** vs. R$15.2bn 25E-28E previously, which should help to better accommodate the volume reduction without significantly hurting the valuation in our proprietary model, since it frees up a bit more space in the FCF. It's also important to say that the leverage ratio should remain very low in 24E (-0.8x vs. -0.2x in 2023). In addition, management reiterated its maintenance of the **dividend policy** (80%-100% payout) and since its IPO the company has already distributed R$16.9bn or 55% of Market Cap, reiterating its commitment to returning value to shareholders.

Steel (CSN Holding)

Figures indicate marginal market growth with stable sales volumes in 2025. Management announced that it sees a scenario of flat steel prices recovering to 25E (US$900/t USA vs. U$743/t in 24E; and U$580/t China vs. U$478/t 24E). It is also important to mention that in the Brazilian market, the company sees exports falling to 19% (-3p.p y/y) of apparent consumption of flat steel, which would expand by +3.2% y/y to 16Mt, due to the increase in domestic sales. Apparent consumption of long steel is projected at 10.9Mt in 25E (+3.8% y/y). During the presentation, it was announced that CSN's **market share** should close 2024 at **26% in flat steel** and 4% in long steel. If we maintain these market share figures for 2025, we calculate at an **implied sales volume** of **4.6Mt** for the company, basically flat vs. the last two years.

We are conservative about the reduced penetration of imported steel, but there is a potential upside. Although CSN's apparent consumption projection is in line with ours, we are more bearish about the overall scenario for Brazilian mills, since **we believe that export penetration will not fallback next year**. Our view is considering an environment where the Brazilian authorities will not add significant protective measures beyond the quota system and that China should step up exports if domestic consumption continues to weaken. Although we recognize a **potential upside** in this situation, we prefer to maintain a more conservative stance for the time being.

It is well known that the penetration rate of imports in the apparent consumption of flat steel is set to be historical in 2024 (~22% of the total), however, management claims that the trade defense measures arising from CSN's individual and joint claims through IABr (of which the company is not a member), such as **(i)** the inclusion of 31 steel items in LETEC, with 11 items granted in Apr/24; **(ii)** quotas with an increase to 25% for volumes that exceed it and **(iii)** requests under analysis: I-beams, H-beams and wire rod, have the potential to stop this lack of competitive isonomy bargained for by the company.

EBITDA in the steel division is expected to partially recover. We believe that the possibility of EBITDA expansion in 2025 is feasible, while positive vectors began to establish themselves as early as 4Q24E, driven by **(i)** a greater share of domestic units (91% vs. 78% previously); **(ii)** an increase in the production of our own slabs (+10% y/y); **(iii)** higher LTQ production (+13% y/y); **(iv)** high deliveries of rolled products (+14% y/y**)** and, above all, **(v)** a reduction in the cost of slabs (-9% y/y).

CAPEX guidance for steel division is high but implies efficiency gains. The company gave a **strategic CAPEX guidance** of **R$8bn**, with 21% of the expenditure already made and 82% to be invested by 2028, of which **~R$1.7bn in 25E**. The figure is slightly higher than what we had in our proprietary model (+6.7% vs. Genial Est.), however, this proposition expected by management has been realized and delimited to create foundations that would sustain the cost reduction process. In turn, the efficiency gains initiatives represent ~60% of the EBITDA increase seen from 1Q24-3Q24 (65.8%). Therefore, we believe that the **increase in EBITDA** of **+R$2.6bn** by **30E** resulting from the modernization of the industrial park proposed by CSN should be understood as credible. In addition, the company has pledged that from now on any prioritization of adjustments to these continued vertiginous investments will be linked to the company's new proposal of directional conservatism.

Cement (CSN Holding)

A business that is growing and that we have reason to be bullish about. For the Cement segment, which has been expanding (+26% CAGR between 2018 and 2024) and gaining greater importance in CSN's portfolio, there are some **levers on the demand side**, such as **(i)** Minha Casa Minha Vida (MCVM) program, which plans to deliver 2 million more units by 2026, **(ii)** the government's new spending package (PAC) for infrastructure, with total investment planned at R$1.7 trillion, of which R$610bn is earmarked for the development of urban projects, as well as **(iii)** optimistic GDP projections for 2025. These positive demand factors should also, according to the company, contribute to a **turnaround in cement prices**, which are currently growing below construction inflation.

Capacity expansion must continue. This increase on the demand side should be more than met by an impressive expansion of the company's production capacity over the next few years, due to **(i)** four **expansion projects that are currently underway**, the main ones being **Sergipe** (+3Mtpy) and **Paraná** (+3.6Mtpy), with a **total incremental production** expected by the company of **+9Mtpy** (+53% of current production capacity), and **(ii)** growth prospects via M&A, with the company signaling that it is open to evaluating new opportunities in the segment, despite the fact that the deal with **Intercement has basically been discarded** at this point.

Diversification within diversification. In addition to expanding its installed capacity for cement, CSN sees opportunities in increasing its penetration in the **agribusiness** segment, a market it entered last year with operations in Arcos (MG) with sales of **agricultural limestone**. This niche has shown **relevant margins** for the company of **50%-60%** and has room for consolidation. Apart from this, we see the integration of the mining division (CMIN) with the cement business bearing good fruit, with the use of mining tailings, energy, infrastructure and logistics promoting greater operational efficiency, which should be intensified in the medium term with the conclusion of new projects such as P15 and Transnordestina.

Natural gas (CNS Holding)

Initiatives related to **optimizing costs with the use of natural gas** involve **(i)** replacing PCI coal with vented natural gas in the Blast Furnaces, as well as **(ii)** migrating the Araucária and Porto Real plants to the free market, after having already completed the migration of the Presidente Vargas Plant in 2H24, and **(iii)** selling the surplus on the **free energy market**. The company estimates that these changes should generate an **incremental EBITDA of +R$200m/year** (50% of which would be absorbed in 24E).

Our take on CSN and CMIN

CMIN: Target price cut, with disappointing bias. Due to the **(i)** long-term volume reduction, with iron ore production guidance reaching **43.5Mt-65.0Mt** of **27E-30E** vs. 53.0Mt-68.0Mt 27E-30E previously, as well as **(ii)** C1/t cost lateralized by **US$21.5-23/t** to **25E** (flat t y/y vs. -5% Genial Est. anterior), gave rise to a reinforcement of our **Neutral rating,** but with a **reduction** in the **12M Target Price** to **R$5.75** (vs. R$6.00 previously), which represents a **very marginal upside** of **+0.5%**. The cut could have been more intense if it hadn't been partially offset by **(iii) CAPEX** contracting to **R$13.2bn 25E-30E** (vs. R$15.2b 25E-28E previously).

CSN Holding: We already considered an improvement in EBITDA for 2025, so not much has changed. Despite greater optimism about the cement business, we still **don't see sufficient catalysts for the holding company's shares**, especially after our valuation cut in CMIN and how this affects CSN's FCF generation. Another point that worries us is that, even though management has reinforced its commitment to **deleveraging**, setting a **target of less than 3x Net Debt/EBITDA 25E**, we believe that the reduction is still too small, considering that it closed 3Q24 at 3.3x.

There have been no clearer and more tangible signs of definitive paths to make a consistent deleveraging process credible. The macro variables play against the company, with the **SELIC** rate **having just risen +100bps to 12.25%** at yesterday's COPOM meeting and CNS having 39% of its debt in BRL, which is linked to an **average cost of 117.25% of** the **CDI** (a very high level). This means that interest expenses are likely to get worse in the coming quarters. The company's dream of returning to investment grade still seems distant to us. We reiterate our **NEUTRAL rating**, with a **12M Target Price** of **R$12.75** (no change) and an **upside** of **+10.10%.**

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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under Review	Under review	**5%**

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