genial Equity Research

Metals & Mining

From macro to micro: New year, old problems

LatAm Metals & Mining

Main takeaways on China:

(i) Manufacturing PMI fell to **49.1** (-1pt m/m), **below consensus** (-0.6pt), marking the lowest level since August 2024; **(ii)** New domestic orders fell to 49.2 (-1.8pt m/m) and new export orders to 46.4 (-1.9pt m/m), reflecting weak demand; **(iii) Trump trade:** bringing forward inventories in November may have contributed to the slowdown in exports in December/January; **(iv) Services PMI** stood at 50.2 (-0.4pt vs. consensus), suggesting a risk of economic stagnation; **(v) Industrial profits** fell **-3.3% y/y** in 2024 to reach ¥7 trillion (~US$1 trillion); **(vi) Steel sector profits** fell **-54.6% y/y**, with **only ~10% of mills** operating with a positive net margin; **(vii)** Crude steel production fell -2.7% y/y in the first 20days of January; **(viii) Real estate** investments remain weak: new launches fell **-49.2% y/y in 2024**; **(ix) Iron ore prices** rose to **US$104.5/t** (+2.0% w/w), but **rebar production** fell **-9.9% y/y**; **(x) Iron ore inventory** retreated to **131.3Mt** (-1.8% w/w), but port activity slowed ahead of the Chinese New Year holiday; **(xi) Post-holiday outlook:** Weak recovery expected due to real estate contraction; **(xii) Upside in the short term**: **cyclone in Australia** could impact exports and put pressure on i.o. prices.

In yet another edition of our weekly report on the **Metals & Mining sector**, focusing on **Macroeconomics in China** and **market sentiment**, this week's series is part of the "**From macro to micro**" sequence. This report refers to **week 4** of **January 2025**.

Why should I read this report?

The aim of this series of reports is to **update investors on macro data in China**, with coverage of the **main indicators linked to economic activity** and their respective impacts on the **Metals & Mining sector**. Market dynamics in China directly affect mining companies, as well as indirectly affecting steel mills in Brazil. Therefore, we believe it is necessary to analyze the macro without losing focus on the micro. We believe that this series of reports will be essential for **monitoring the sector fundamentals** that reverberate in the investment theses of the companies we cover in the sector (**Vale, CMIN, Gerdau, CSN and Usiminas**).

The report's format is designed to provide **text-based sections** with a conclusion in the "**Our Take**" section and will always be filled with **visual stimuli** through graphs and tables. Our intention is to carry out weekly monitoring of these graphs and tables, depending on the available data (some data are monthly, not weekly).

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Companies

VALE US Equity
Buy

Price: US$ 9.16 (27-Jan-2025)
Target Price 12M: US$ 11.10 (NYSE)

VALE3 BZ Equity
Target Price 12M: R$ 65.60 (B3)

CMIN3 BZ Equity
Neutral

Price: R$ 5.36 (27-Jan-2025)
Target Price 12M: R$ 5.75

GGBR4 BZ Equity
Buy

Price: R$ 17.75 (27-Jan-2025)
Target Price 12M: R$ 23.40

CSNA3 BZ Equity
Neutral

Price: R$ 8.80 (27-Jan-2025)
Target Price 12M: R$ 12.75

USIM5 BZ Equity
Neutral

Price: R$ 5.41 (27-Jan-2025)
Target Price 12M: R$ 6.50

China

Macroeconomics

Manufacturing PMI below consensus. China's economic activity began the year with signs of weakening, reinforced by PMI data that was lower than expected. The official manufacturing PMI, released by the NBS on Monday, fell to 49.1 (-1pt m/m) and came below expectations (-0.6pt vs. consensus), marking the lowest level since August 2024. With this result, the PMI has been in the contraction zone (below 50) for more than 2/3 of 2024.

The contraction in the manufacturing PMI is explained by weak domestic demand, as the domestic new orders sub-index fell to 49.2 (-1.8pt m/m). In addition, the new export orders sub-index fell to 46.4 (-1.9pt m/m), highlighting a slowdown in demand for Chinese products globally. Once again, we'd like to point out that the official PMI measured by the NBS weights exports less heavily than Caixin. We will therefore only have a clearer reading of exports when Caixin releases its calculation next week.

Declines in all sub-indices reinforce the sluggish economy. We saw a drop in all the weighting factors in December, such as new orders, production and even exports. We believe that the PMI's export indicator cooled, reflecting a reduction in the impetus for companies in other markets to buy Chinese products after restocking in November, in the face of possible increases in tariff barriers following the election of Donald Trump to the US government. This anticipation may have led to a greater slowdown in the new export orders sub-index. Donald Trump's latest statements indicate that the US government may inflict tariffs with less impact than initially expected by the market (~60% for any products). Therefore, we believe it is possible that in January and February the PMI readings may reflect the return of exports.

Services PMI above 50 but slowing down. The non-manufacturing PMI, also released by the NBS, fell back to 50.2, still in expansion territory (above 50pts) but below expectations (-0.4pt vs. consensus). We believe that given the number of months of contraction in the manufacturing PMI, having a non-manufacturing PMI only slightly above the threshold of the expansion zone is a result that signals quite a risk of economic stagnation. The services PMI clocked in at 50.3 (-1.7pt m/m), and although it has implicit seasonality, it also fell -0.2pt y/y.

The construction PMI was reported at 49.3 (-3.9pt m/m), a sharp drop, but within what we expected. We were already expecting an accelerated contraction due to the reduction in the workforce on construction sites at the end of the year, coupled with the difficulties faced by developers in paying suppliers of building materials.

Table 1. December PMI

	Dec/24	Zone	Δ Monthly	Δ Annual
PMI Manufacturing	49,1	Contraction	-1pt	-0,1pt
PMI Services	50,3	Expansion	-1,7pt	-0,2pt
PMI Construction	49,3	Contraction	-3,9pt	-4,6pt

Data from December, released on January 27, 2025

Source: Bloomberg, Genial Investimentos

Industrial profits fell, but to a lesser extent than expected. According to data also released by the NBS on Monday, the accumulated profit up to December in China of the entire pool of industrial companies fell -3.3% y/y (+1.5p.p vs. consensus), also making up a contraction of -1.4p.p vs. 11M24, reaching a nominal value of ¥7.4 trillion in 2024 (~US$1.2 trillion) and marking the third consecutive year of retraction.

Although December's growth of +11% y/y (+4.5% vs. November) surprised us positively, it reflects one-off factors such as **(i)** anticipated exports and **(ii)** a seasonal increase in sales prior to the Chinese New Year holiday (lunar calendar), which begins on January 28. We believe that the macroeconomic scenario should remain challenging, with **(iii)** prolonged deflation and **(iv)** structural weakness in the real estate sector.

Our take on Macroeconomics

Fiscal stimuli provided some support, downturn in profits could be worse. Government stimuli introduced in 2H24, including subsidies and specialized credit lines for consumer goods and equipment, contributed to the industry's sectoral performance in 4Q24. However, structural weakness persists, with producer price deflation (PPI) at 27M in a row and weakened domestic investment.

Steel mill profits halved. Although the total pool of companies in the industrial sector fell by -3.3% y/y, this figure can be considered mild compared to the contraction in steel mill profits. The steel sector had a profit contraction in 2024 of -54.6% y/y. Currently, according to our data base, only ~10% of mills in China are operating with a net margin above zero. In the data we compiled earlier this year, the pace continues to fall. For example, crude steel production contracted by -2.7% y/y in the first 20 days of January, down from the modest increase of +0.5% y/y in December.

Impact of the real estate crisis on steel mills' margins. We believe that the biggest contributor to this significant reduction in profits is the slowdown in real estate investment, which in turn drives ~1/3 of all domestic steel demand. As we published in our sector report last week, the number of new real estate launches in 2024 in China's 12 major cities was 159 thousand units, representing a drop of -49.2% y/y.

The long steel that is used in construction activities is demanded in the foundation and structure phases and sometimes in the masonry, which are primary stages and represent less than half of the building and finishing process of homes. If the number of newly launched real estate projects drops dramatically, the demand for steel reduces substantially, which in turn is reflected in a downtrend of steel pricing and mill margins. We believe that **2025 will be as bad a year as 2024**, with a drop in **new real estate launches** to **below 100 thousand units** in the 12 main cities, something that has never happened in the last 10 years.

New stimuli are required, but they need to be different from what we've already seen. The urgency of action is aggravated by the potential tariffs that could be applied under the Trump administration, which in turn would create a squeeze on foreign demand. Exports of durable goods are what is somehow providing support to redirect China's industrial installed capacity.

Even if it is necessary to turn things around and possibly announce more incentives, we believe that the new measures to be taken by the central government would have to move away from old policies that no longer fit within China's current economic reality.

Policy Updates and Market Sentiment

How long will demand stay low? The price of iron ore rose to US$104.5/t (+2.0% w/w), but underlying indicators remain soft. Steel production is typically weak in January. According to our database query, rebar production declined for the fifth week in a row, reaching 191.6Kt (-9.9% w/w), resulting in a near 5M low of -1.74Mt. In the previous week, production had decreased by -3.1% w/w. We believe that the most prominent contraction is due to the fact that several electric arc furnace plants have slowed down their operations or halted production in anticipation of the Chinese New Year holiday, scheduled for the period 28 Jan-4 Feb. After the holiday, the seasonally more favorable period of the year for construction begins, which runs until April-May. However, as we commented, we believe that there will be a contraction in new real estate launches on top of an already very weak 2024 base. Therefore, we don't expect much of a recovery after the recess.

Inventories are reducing, but port activity slows down. Iron ore inventory at the ports we follow closed last week at 131.3Mt (-1.8% w/w), clearing some of the oversupply and helping to drive a partial recovery in iron ore prices, as we commented. The level of stockpiles is approaching that of the same period in 2024, but still well above the level of recent years (2023-2022). It's important to mention that the Chinese New Year holiday is taking place earlier in 2025 than last year, which was only on February 10th. This means that the restoking period has started earlier, along with the slowdown in port movements. We believe that this factor may have created downward pressure on port stockpiles due to the loading flow, transferring the volume of iron ore from the port to the mill yard earlier.

Our take on Policy Updates and Market Sentiment

Sentiment is bearish, but weather conditions in Australia could create upside. Considering that we are seeing an anticipation of the restocking movement by the mills, we wouldn't be surprised if after the recess returns in two weeks' time, inventory levels start to rise again quickly, since the sentiment at the steel mills is still one of weak demand. On the other hand, it's worth noting that Australia was affected by a cyclone last week, which could interfere with loading at ports and generate a price upside for iron ore in the short term.

Appendix: Vale

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

Income Statement	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	**38.306**	**37.953**	**39.242**	**39.780**	**40.801**	**41.883**
(-) COGS	(24.391)	(24.982)	(26.016)	(26.581)	(27.127)	(27.893)
Gross Profit	**13.915**	**12.971**	**13.226**	**13.200**	**13.674**	**13.991**
(-) Expenses	(1.469)	(2.500)	(2.566)	(2.475)	(2.150)	(1.736)
Adjusted EBITDA	**16.061**	**15.320**	**15.562**	**15.670**	**16.284**	**16.722**
(-) D&A	(3.107)	(3.301)	(3.473)	(3.651)	(3.826)	(3.992)
EBIT	**12.954**	**12.020**	**12.089**	**12.018**	**12.458**	**12.730**
(+/-) Financial Result	(189)	128	314	471	676	982
(-) Taxes	(1.212)	(1.051)	(1.159)	(1.227)	(1.364)	(1.497)
Net income	**11.553**	**11.097**	**11.243**	**11.262**	**11.770**	**12.216**
Profitability						
Net margin (%)	30,16%	29,24%	28,65%	28,31%	28,85%	29,17%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	**38.306**	**37.953**	**39.242**	**39.780**	**40.801**	**41.883**
(-) COGS	(24.391)	(24.982)	(26.016)	(26.581)	(27.127)	(27.893)
Adjusted EBITDA	**16.061**	**15.320**	**15.562**	**15.670**	**16.284**	**16.722**
Adjusted EBIT	**12.954**	**12.020**	**12.089**	**12.018**	**12.458**	**12.730**
(-) Taxes	(1.212)	(1.051)	(1.159)	(1.227)	(1.364)	(1.497)
(+) D&A	3.107	3.301	3.473	3.651	3.826	3.992
(+/-) Brumadinho and Samarco	(415)	(1.511)	(1.300)	(718)	(893)	(279)
(+/-) Δ WK	2.956	499	283	150	625	(36)
(-) Capex	(6.088)	(6.710)	(6.854)	(7.130)	(7.130)	(7.130)
FCFF	**11.301**	**6.547**	**6.531**	**6.744**	**7.522**	**7.780**

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: Gerdau

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**65.953**	**67.829**	**66.093**	**65.557**	**65.344**
(-) COGS	(56.337)	(55.654)	(53.917)	(53.106)	(52.033)
Gross Profit	**9.616**	**12.174**	**12.177**	**12.451**	**13.312**
(-) Expenses	(2.441)	(3.023)	(2.957)	(2.940)	(2.933)
Adjusted EBITDA	**10.897**	**14.226**	**14.507**	**15.010**	**16.073**
(-) D&A	(3.011)	(3.853)	(4.098)	(4.319)	(4.518)
EBIT	**7.394**	**9.830**	**9.880**	**10.167**	**11.032**
(+/-) Financial Result	(1.099)	(453)	(342)	(50)	142
(-) Taxes	(880)	(1.275)	(1.296)	(1.375)	(1.533)
Net income	**5.416**	**8.102**	**8.241**	**8.742**	**9.641**
Profitability					
Net margin (%)	8,21%	11,94%	12,47%	13,33%	14,75%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**65.953**	**67.829**	**66.093**	**65.557**	**65.344**
(-) COGS	(56.337)	(55.654)	(53.917)	(53.106)	(52.033)
Adjusted EBITDA	**10.897**	**14.226**	**14.507**	**15.010**	**16.073**
EBIT	**7.394**	**9.830**	**9.880**	**10.167**	**11.032**
(-) Taxes	(880)	(1.275)	(1.296)	(1.375)	(1.533)
(+) D&A	3.011	3.853	4.098	4.319	4.518
(+/-) Δ WK	(663)	(260)	194	99	143
(-) Capex	(5.615)	(5.676)	(5.739)	(5.802)	(5.866)
FCFF	**3.248**	**6.473**	**7.137**	**7.407**	**8.295**

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**

Appendix: Usiminas

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**25.104**	**28.136**	**31.204**	**34.167**	**37.105**
(-) COGS	(23.626)	(25.754)	(27.974)	(29.505)	(30.596)
Gross Profit	**1.478**	**2.383**	**3.230**	**4.662**	**6.509**
(-) Expenses	(1.211)	(1.316)	(1.571)	(1.602)	(1.708)
Adjusted EBITDA	**1.341**	**2.120**	**2.745**	**4.213**	**5.698**
(-) D&A	(1.119)	(1.054)	(1.087)	(1.152)	(897)
EBIT	**267**	**1.067**	**1.659**	**3.061**	**4.801**
(+/-) Financial Result	(526)	(285)	(446)	(594)	(644)
(-) Taxes	(76)	(434)	(673)	(1.370)	(2.308)
Net income	**42**	**348**	**540**	**1.098**	**1.849**
Profitability					
Net margin (%)	0,17%	1,24%	1,73%	3,21%	4,98%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**25.104**	**28.136**	**31.204**	**34.167**	**37.105**
(-) COGS	(23.626)	(25.754)	(27.974)	(29.505)	(30.596)
Adjusted EBITDA	**1.341**	**2.120**	**2.745**	**4.213**	**5.698**
EBIT	**267**	**1.067**	**1.659**	**3.061**	**4.801**
(-) Taxes	(76)	(434)	(673)	(1.370)	(2.308)
(+) D&A	1.119	1.054	1.087	1.152	897
(+/-) Δ WK	1.360	(739)	(830)	(611)	(503)
(-) Capex	(1.443)	(1.241)	(2.047)	(1.638)	(1.556)
FCFF	**1.228**	**(293)**	**(805)**	**594**	**1.331**

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under Review	Under review	**5%**

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