USIMINAS

4Q24 Preview: Mining is getting better; steel is getting worse

LatAm Metals & Mining

Analysts

Igor Guedes
+55 (11) 3206-8286
igor.guedes@genial.com.vc

Luca Vello
+55 (11) 3206-1457
luca.vello@genial.com.vc

Isabelle Casaca
+55 (11) 3206-8244
isabelle.casaca@genial.com.vc

Company

USIM5 BZ Equity
Neutral

Price: R$ 5.60 (07-Feb-2024)
Target Price 12M: R$ 6.00

Main takeaways:

(i) Shipments in the **DM** of **999Kt Genial Est.** (-6.6% q/q; +8.6% y/y). Unfavorable mix make it difficult to readjust with the realized price projected at **R$5,361/t Genial Est.** (-2.0% q/q); automotive growth in 25E should be more modest (+3.5% Genial Est. vs. +7.8% Anfavea); **(ii) FM** Shipments of **75Kt Genial Est.** (+34.0% q/q; -38.0% y/y) should redirect the domestic surplus, but **external price going down**, estimated at **R$5. 760/t** (-5.9% q/q; -5.0% y/y); **(iii) Total Shipments** close to **1,074Kt Genial Est.** (-4.6% q/q; +4.6% y/y); **(iv) Realized price (DM + FM)** at **R$5,389/t Genial Est.** (-2.1% q/q; -6.0% y/y), which should be impacted by the mix deterioration, despite partial support from the FX rate; **(v) Mining Division (MUSA)** shipments of **2.2Mt Genial Est.** (-4.5% q/q; -8.3% y/y) and price estimated at **R$361/t** (+7.5% q/q; -18.1% y/y); **(vi) Net Revenue** projected at **R$6.4bn Genial Est.** (-5.5% q/q; -5.0% y/y), made up of R$5.8bn from steel (-6.6% q/q; -1.7% y/y) and R$788mn from mining (+2.7% q/q; -24.9% y/y); **(vii) COGS/t for steel** at **R$5.148/t Genial Est.** (-2.0% q/q) due to inputs in USD and ramp-up of BF3 still below full potential; mining at R$279/t Genial Est. (-8.9% q/q) **(viii)** We project **Adjusted EBITDA** clocking at R$404mn Genial Est. (-5.3% q/q; -35.4% y/y) with flat margin at 6.3%; **(ix) Net income** at **R$179mn Genial Est.** (-2.9% q/q; -81.6% y/y); **(x)** Effect of price adjustments erased due to the unfavorable mix, strong competition from imports and high dependence on USD inputs; **(x) CAPEX 24E** adjusted to **R$1.1bn**, with a projection of **R$1.5bn/year** for **25E-26E**, we understand that postponing the PCI to the end of 2025 could delay efficiency gains and maintain a high dependence on costs in USD; **(xiii)** We reinforce our **NEUTRAL rating**, with the **12M Target Price adjusted to R$6.00** (previously R$6.50), reflecting a marginal **upside** of **+7.14%.**

Table 1. Shipments Summary (4Q24 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.	Reported		Reported	
Summary (Shipments)	**4Q24E**	**3Q24A**	**% q/q**	**4Q23E**	**% y/y**
Steel	1.074	1.126	**-4,6%**	1.027	**4,6%**
Iron Ore	2.186	2.288	**-4,5%**	2.384	**-8,3%**

Source: Usiminas, Genial Investimentos

Table 2. Income Statement Summary (4Q24 Genial Est.)

(R$ millions)	Genial Est.	Reported		Reported	
Income Statement	**4Q24E**	**3Q24A**	**% q/q**	**4Q23E**	**% y/y**
Net Revenue	6.439	6.817	**-5,5%**	6.781	**-5,0%**
Adjusted EBITDA	404	426	**-5,3%**	625	**-35,4%**
Net Income	179	185	**-2,9%**	975	**-81,6%**

Source: Usiminas, Genial Investimentos

Usiminas will release its **4Q24 results** on **February 14**, and our estimates point to **still fragile consolidated figures**. We project a **Net Revenue** close to **R$6.4bn Genial Est.** (-5.5% q/q; -5.0% y/y), partially supported by the domestic steel market, with **999Kt Genial Est.** in shipments (-6.6% q/q; +8.6% y/y). The sequential downturn considers typical seasonality, with mills slowing down after the annual peak that occurs in the 3Qs. Although the **automotive segment** may have offered some respite, helping the company to **increase volume on an annual basis**, we assess that **(i)** strong competition with Chinese imports and **(ii)** a less favorable sales mix, are factors that tend to **limit price readjustments.** For **2025**, we expect **lower growth for the automotive segment** than Anfavea (+3.5% Genial Est. vs. +7.8% Anfavea 25E), which **should affect Usiminas' demand** throughout the year.

Turning to 4Q24 dynamics, for **the mining division**, we estimate a more challenging scenario for demand, with shipments of around **2.2Mt Genial Est**. (-4.5% q/q; -8.3% y/y), mainly reflecting the weakening of Chinese demand. Despite this, we believe that the higher USD/BRL exchange rate and the slight increase in the reference price should sustain **an acceleration in the realized price** to **R$361/t Genial Est.** (+7.5% q/q). In terms of profitability, we project a **Consolidated Adjusted EBITDA** of **R$404m Genial Est.** (-5.3% q/q; -35.4% y/y), suggesting that margin recovery remains restricted. In the **steel division**, **EBITDA** should stand at **R$308m Genial Est.** (-18.5% q/q; +15.5% y/y), impacted by high operating costs and inefficiencies resulting from the refurbishment of BF3, whose ramp-up remains below initially expected by consensus. **Mining**, on the other hand, tends to post an **EBITDA** of **R$176m Genial Est.** (+3x q/q; -46.3% y/y), benefiting mainly from the appreciation of the USD/BRL exchange rate and an increase in the price of iron ore converted into BRL.

Finally, our projection for **Net income** is **R$179m Genial Est.** (-2.9% q/q; -81.6% y/y), which reinforces the view that, despite some occasional improvement in indicators, the competitive environment and regulatory uncertainties will continue to hinder a more significant recovery in the short term. Given this context, we **maintain a Neutral bias**, considering that the full capture of operating gains - whether through the implementation of the PCI or the full stabilization of BF3 - should only occur over a longer horizon.

4Q24 Preview: In detail!

The domestic market is likely to cool down, impacted by multiple factors. We expect the domestic market (DM) to cool somewhat, with shipments estimated at 999Kt Genial Est. (-6.6% q/q; +8.6% y/y). Although the typical 4Q vs. 3Q slowdown has weighed on volumes, we project a more positive outlook for demand from **(i)** the automotive sector, especially light vehicles, which grew production by +9.7% y/y in 2024, according to Anfavea data. Other segments, such as **(ii)** civil construction and **(iii)** capital goods, showed moderate growth, but were insufficient to offset the limitations. We believe that a possible price adjustment was frustrated by the deterioration in the sales mix, which continues to put pressure on results. Although the BRL vs. USD exchange rate depreciation has partially contributed to price repricing, strong competition from imported steel, mainly Chinese (~18.5% of apparent consumption in 2024), continues to squeeze the company's margins. For this reason, our view is that the realized price should remain depressed, projected at R$5,361/t Genial Est. (-2.0% q/q; -4.4% y/y).

Usiminas takes isolated action on anti-dumping claims. In addition to what IABr is working on with the MIDC, which addresses the diffuse interests of member mills, Usiminas has started to claim anti-dumping measures on specific products, such as cold-rolled and coated steel. We believe that, although the evaluation process is more time-consuming, there is evidence that probably works better than generic NCM measures. This is because, according to our survey, price retention is being proven with the case of metal sheets claimed by CSN. In the case of Usiminas, we believe that this could restrict future imports, increasing the cost of imports to up to US$568/t. However, in the short term, domestic prices should remain at low levels.

Foreign market with possible rising volumes, but margins still under pressure. We expect shipments in the foreign market (FC) to reach 75Kt Genial Est. (+34.0% q/q; -38.0% y/y), driven by **(i)** seasonal factors and **(ii)** efforts to mitigate the surplus volume in the domestic market by redirecting more steel to countries close to Brazil. However, we believe that the significant year-on-year drop reflects the closure of higher value-added contracts, such as the Néstor Kirchner gas pipeline project in Argentina. Over the long term, we expect a deterioration in the export mix, with greater penetration of low value-added products, which in turn should limit the capture of more robust margins. With this effect, we expect the realized price to contract to R$5,760/t Genial Est. (-5.9% q/q; -5.0% y/y).

Steel realized price favored by FX rate but mix and competition limit gains. We project the company's consolidated realized price (DM + FM) to reach R$5,389/t Genial Est. (-2.1% q/q; -6.0% y/y), reflecting the persistent challenges imposed by **(i)** intense competition with imported products, **(ii)** deterioration in the export mix and **(iii)** the seasonal downturn typical of the 4Qs. Although **(iv)** the devaluation of the BRL vs. USD provides some support for competitiveness, we believe that its contribution will be insufficient to offset **(v)** the negative effects of the mix. Without the implementation of trade protection measures, such as anti-dumping proceedings, we believe that the company will continue to face significant barriers to a consistent recovery.

Table 3. Net Revenue Usiminas (4Q24 Genial Est.)

(R$ millions)	4Q24E Genial Est.	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**6.439**	**6.817**	**-5,5%**	**6.781**	**-5,0%**
Steel	5.788	6.195	-6,6%	5.890	-1,7%
Mining	788	767	2,7%	1.049	-24,9%
Eliminations	(137)	(145)	-5,5%	(158)	13,3%

Source: Usiminas, Genial Investimentos

Mining division should be positive due to the FX rate as well, but structural challenges persist. We believe that MUSA continues to face structural challenges, with shipments projected at 2,186Kt Genial Est. (-4.5% q/q; -8.3% y/y), reflecting **(i)** the slowdown of the Chinese economy in the steel sector (-0.6pt. Chinese Industrial PMI vs. consensus), which remains at a contractionary level and continues to be the main limiting factor for iron ore demand. This scenario, combined with **(ii)** the restrictive seasonality due to higher rainfall, should more than offset **(iii)** the greater attractiveness of products in the face of currency depreciation. The realized price of i.o., in turn, should show improvement, estimated at R$361/t Genial Est. (+7.5% q/q), sustained by **(iv)** a marginal increase of +US$3/t in the 62% Fe reference curve, **(v)** the USD/BRL exchange rate and **(vi)** the reduction in freight costs. However, the focus on low grade should prevent a more significant price recovery. The company continues to invest in infrastructure and CAPEX, such as the new gasometer for gas reuse, which could generate future efficiency gains.

Net revenue with limited recovery. We project consolidated Net revenue of R$6.4bn Genial Est. (-5.5% q/q; -5.0% y/y). The steel division should reach R$5.8bn Genial Est. (-6.6% q/q; -1.7% y/y), pressured by the drop in domestic sales and the worsening export mix. As for the mining division, our expectation is for net revenue of R$788mn Genial Est. (+2.7% q/q; -24.9% y/y), benefiting from the USD/BRL exchange rate, which in turn drove part of the projected increase in iron ore prices.

COGS/t: Steel and Mining divisions should show different trends. We estimate that consolidated COGS/t will be R$5,427/t Genial Est. (-2.4% q/q; -12.7% y/y), with the steel division projected at R$5,148/t (-2.0% q/q; -13.3% y/y). Despite the small reduction in costs, some factors should contribute to maintaining the high-cost structure. These include **(i)** raw materials quoted in USD with price pressure in BRL (coke and iron ore) and significant dependence on the purchase of slabs from third parties to sustain production volume, in addition to **(ii)** production still in the efficiency maturation stage after the refurbishment of Blast Furnace 3 (BF3). On the other hand, mining will probably report more controlled costs, with COGS/t estimated at R$279/t (-8.9% q/q; +1.4% y/y), sustained by **(iii)** cooler freight rates and **(iv)** and a favorable exchange rate for exports, implying a dilation of fixed costs.

Table 4. COGS Usiminas (4Q24 Genial Est.)

(R$ millions)	4Q24E Genial Est.	3Q24A Reported	% q/q	4Q23A Reported	% y/y
COGS	**(5.994)**	**(6.403)**	**-6,4%**	**(6.636)**	**-9,7%**
Steel	(5.491)	(5.815)	-5,6%	(6.136)	-10,5%
Mining	(609)	(700)	-13,0%	(655)	-7,0%
Eliminations	106	112	-5,9%	155	-31,7%

Source: Usiminas, Genial Investimentos

EBITDA recovery is limited by high costs and depleted mix. We project consolidated adjusted EBITDA of R$404mn Genial Est. (-5.3% q/q; -35.4% y/y), with sequentially flat margin (6.3%). In the steel division, projected EBITDA is R$308mn (-18.5% q/q; +15.5% y/y), impacted by **(i)** volume drop; **(ii)** worsening export mix and **(iii)** still high costs, despite small advances with the ramp-up of BF3. In addition, we believe that the **(iv)** price adjustment in the domestic market will be mitigated by the poorer quality mix and **(v)** a just a slight reduction in costs. In the mining division, EBITDA should show significant growth, estimated at R$176mn (+3x q/q; -46.3% y/y). This strong 3x sequential acceleration is mainly due to a very weak 3Q24 base, where any improvement makes a big percentage difference. In addition, we see the performance supported by **(vi)** the favorable USD/BRL exchange rate and the smooth acceleration of the 62% Fe curve.

Table 5. EBITDA Usiminas (4Q24 Genial Est.)

(R$ millions)	4Q24E Genial Est.	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Adjusted EBITDA	**404**	**426**	**-5,3%**	**625**	**-35,4%**
Steel	308	378	-18,5%	267	15,5%
Mining	176	44	299,3%	327	-46,3%
Eliminations	(80)	4	-1955,1%	31	-361,4%

Source: Usiminas, Genial Investimentos

Net Income with mild contraction q/q. We project Net Income at R$179mn Genial Est. (-2.9% q/q; -81.6% y/y), with a slight sequential compression, mainly because the performance of the mining division attenuates the contractionary effect of the steel division, which should remain with high costs, being directly affected by the acceleration of the USD/BRL exchange rate. To complete the adverse scenario, as we commented on throughout the report, we expect a worsening in the export mix, limiting the consolidated net margin.

EBITDA: Expected percentage improvement is high, but the comparative base is very depreciated. We believe that EBITDA should reach R$325mn Genial Est. (+31.4% q/q; +774.9% y/y), with the steel division contributing most significantly, with R$282mn Genial Est. (+304.8% q/q +212.5% y/y), partially reflecting the better dilution of fixed costs, with BF3 reaching a more mature level of ramp-up and showing better thermal efficiency. Even so, these factors are attenuated by the upward movement in inputs, as we have already mentioned. As for the mining division, we believe that it should suffer a strong retraction, with EBITDA projected at R$73mn Genial Est. (-53.0% q/q; -42.9% y/y).

We attribute the expected slowdown to pressure on the realized price of iron ore, given the fall in the 62% Fe curve at -11% q/q, as well as high operating costs, showing that the challenges continue. In addition, it is clear that both comparative bases are not, in fact, a good relative picture. This is because they were atypically negative when compared to their respective histories. Therefore, any level of improvement in the case of the steel division makes a more striking percentage difference, in the face of a very depreciated numerical EBITDA base. We therefore believe that there is still a long and arduous road ahead to recovery.

Table 5. EBITDA Usiminas (4Q24 Genial Est.)

(R$ millions)	3Q24E Genial Est.	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Adjusted EBITDA	**325**	**247**	**31,3%**	**-48**	**774,5%**
Steel	282	70	304,1%	-251	212,3%
Mining	73	156	-53,4%	129	-43,5%
Eliminations	-30	21	-239,9%	74	-140,4%

Source: Usiminas, Genial Investimentos

Net income: following the recovery trend, but challenges remain. We project a Net income of R$63mn Genial Est. (+162.8% q/q; -137.8% y/y), representing a recovery from the loss in 2Q24, but still short of 2023 performance. As we had commented since the beginning of the year, 3Q24 would coincide with the more mature ramp-up level of Blast Furnace 3 (BF3) after the refurbishment, with a typically better quarter, due to seasonality and improvement in the automotive segment on the demand side. On the other hand, we point out that pressure on costs and prices keep the company in a slow recovery cycle, with the macroeconomic scenario in China still weighing on the prospect of substantial improvement, given the still high level of imports within Brazil's apparent steel consumption.

Table 6. Income Statement Usiminas (4Q24 Genial Est.)

(R$ millions)	4Q24E Genial Est.	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**6.439**	**6.817**	**-5,5%**	**6.781**	**-5,0%**
COGS	(5.994)	(6.403)	-6,4%	(6.636)	-9,7%
Adjusted EBITDA	**404**	**426**	**-5,3%**	**625**	**-35,4%**
EBITDA Margin (%)	6,3%	6,3%	0,02p.p	9,2%	-2,94p.p
EBIT	**147**	**151**	**-2,6%**	**373**	**-60,6%**
EBIT Margin (%)	2,3%	2,2%	0,07p.p	5,5%	-3,22p.p
D&A	(304)	(307)	-0,9%	(289)	5,0%
Financial Result	99	112	-11,3%	131	-24,2%
Net Income	**179**	**185**	**-2,9%**	**975**	**-81,6%**
Net Margin (%)	2,8%	2,7%	0,08p.p	14,4%	-11,59p.p

Source: Usiminas, Genial Investimentos

Our Take on Usiminas

Changes in the CAPEX curve and their repercussions. In our view, the company should adopt a more selective stance in its investments. This could already be reduced by considering the cut in the 24E CAPEX budget to ~R$1.1bn (-38% vs. previous guidance), announced last quarter. For 2025-26E we estimate a **CAPEX** of **~R$1.5bn/year**, thus prioritizing only essential projects to cool cash flow expenditure. To achieve this figure, we are also considering revising contracts with suppliers to strengthen spending control. If, on the one hand, we think this is a prudent attitude on the part of the company, justified by the low current EBITDA 24E-25E, on the other hand, postponing important projects could have adverse effects. Among the initiatives that we believe will be **altered in the execution schedule**, we highlight the postponement of the assembly of the PCI to the end of 2025, which could **(i)** delay both the capture of benefits from efficiency gains due to operational improvements related to the reduction of fuel consumption (such as coke) and **(ii)** feedback the high dependence on the steel division due to the escalation of USD-denominated costs imposed on COGS/t.

Reservations for 2025. Although we recognize the company's efforts to adopt a more selective investment stance - be it by postponing the assembly of the PCI, prioritizing CAPEX only in essential projects or even through greater cost control in contracts and suppliers - we assess that the structural improvement in margins should not occur at the speed initially expected by the consensus, reinforcing our bearish bias for the shares. The high correlation between the company's cost structure and the US dollar reinforces our more cautious stance, given that the **USD/BRL exchange rate** is expected to fluctuate between **R$5.60-6.00**, especially considering **the Brazilian political news.**

It's important to comment that **although the FX rate is cooling**, having contracted by **-6.7% YTD**, we still remind investors that Brazil went through its parliamentary recess period at the beginning of the year and more volatility may occur now after the recess returns. On the international side, the announcements about tariffs applied by the recent Trump administration ended up raising inflation expectations in the US, with the Fed adopting a “higher for longer” stance, influencing the interest rate differential between Brazil (which is on a trajectory of increasing the SELIC) and the US (which will only have a cut of -25bps by the end of the year). As it's too early to ascertain the extent of the effects of trade wars between the US and other countries, **we maintain our bullish bias for the USD/BRL until the end of the year**. This could have a more drastic effect on **Usiminas' COGS/t,** which is highly dependent on USD-denominated inputs.

Better mining, worse steel. We believe that a phrase that sums up the **dynamics of 4Q24** for the company would be **“better mining, worse steel”,** when referring to the two business units. As the steel division still has a much greater weight in net revenue share, the trend is for EBITDA to continue to decelerate t/t and y/y. Looking at the margin, we believe it should be basically stable sequentially (~6.3%), since the mining business has better margins than the steel business, generating a compensating effect. On the other hand, for **2025**, in addition to our expectation that the **USD/BRL exchange rate** will rise again and be close to the R$6.00 barrier again, we expect **lower growth for the automotive segment** than Anfavea (+3.5% Genial Est. vs. +7.8% Anfavea 25E), linked mainly to a tighter supply of credit due to the rise in the SELIC rate, which in turn **should affect Usiminas' demand** throughout the year.

Although it is trading at an **EV/EBITDA 25E of 3x** (historically low), and we see some recovery on the horizon - supported by the maturation of the coking plant projects and the full normalization of BF3 - the context of operating costs in USD combined with external competition with Chinese steel and macroeconomic volatility imposes a slower pace of recovery. We therefore reiterate our **NEUTRAL rating**. Given these factors, we have decided to adjust our **12M Target Price** to **R$6.00** (vs. R$6.50 previously), indicating an **upside** of **+7.14%.**

Appendix: Usiminas

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**25.829**	**26.910**	**28.261**	**29.729**	**30.598**
(-) COGS	(24.243)	(23.957)	(25.103)	(25.479)	(26.601)
Gross Profit	**1.586**	**2.954**	**3.159**	**4.250**	**3.997**
(-) Expenses	(1.232)	(991)	(993)	(1.039)	(1.053)
Adjusted EBITDA	**1.493**	**3.191**	**3.414**	**4.467**	**4.189**
(-) D&A	(1.216)	(1.228)	(1.248)	(1.256)	(1.244)
EBIT	**402**	**1.963**	**2.166**	**3.211**	**2.945**
(+/-) Financial Result	(494)	(126)	(167)	143	505
(-) Taxes	144	(1.020)	(1.110)	(1.862)	(1.915)
Net income	**324**	**817**	**889**	**1.492**	**1.534**
Profitability					
Net margin (%)	1,26%	3,04%	3,15%	5,02%	5,01%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**25.829**	**26.910**	**28.261**	**29.729**	**30.598**
(-) COGS	(24.243)	(23.957)	(25.103)	(25.479)	(26.601)
Adjusted EBITDA	**1.493**	**3.191**	**3.414**	**4.467**	**4.189**
EBIT	**402**	**1.963**	**2.166**	**3.211**	**2.945**
(-) Taxes	144	(1.020)	(1.110)	(1.862)	(1.915)
(+) D&A	1.216	1.228	1.248	1.256	1.244
(+/-) Δ WK	1.208	(650)	88	(121)	(471)
(-) Capex	(1.106)	(1.436)	(1.436)	(1.149)	(1.092)
FCFF	**1.863**	**85**	**955**	**1.335**	**711**

Disclosure Section

1. GENERAL DISCLAIMER

This report has been produced by the research department ("Genial Institutional Research") of Genial Institutional Corretora de Câmbio, Títulos e Valores Mobiliários S.A. ("GENIAL INSTITUTIONAL CCTVM"). Genial Institutional is a brand name of Genial Investimentos CCTVM.

Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**49%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUTIONAL CCTVM. GENIAL INSTITUTIONAL CCTVM accepts no liability whatsoever for the actions of third parties in this respect.

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither GENIAL INSTITUTIONAL CCTVM nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report

GENIAL INSTITUTIONAL CCTVM may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of GENIAL INSTITUTIONAL CCTVM.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by GENIAL INSTITUTIONAL CCTVM with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

The locally listed shares of Brazilian companies may only be purchased by investors outside of Brazil who are "eligible investors" within the meaning of applicable laws and regulations.

2. ANALYST(S) DISCLOSURES AND CERTIFICATION

The principal analyst, IGOR GUEDES, is responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

The analysts hereby certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers and it was prepared in an independent manner, including with respect to the person and to GENIAL INSTITUTIONAL.

The analyst hereby certifies that he (she) has no connection with any individual who works for the issuer(s) discussed in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, either directly or indirectly, in his or her own name or on behalf of a third party, does not hold any of the securities covered in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, is not directly or indirectly involved in the purchase, disposal or brokering of the securities covered in this report.

The analyst hereby certifies that he (she), or the his (her) spouse or companion, has no direct or indirect financial interest in the issuer covered in this report (other than trading shares in investment funds, in which the analyst cannot control, directly or indirectly, the administration or management of the fund, or which do not concentrate investments in sectors or companies that are covered by reports produced by the analyst).

The analyst's compensation is, directly or indirectly, determined by income from GENIAL INSTITUTIONAL´s business and financial operations.

In addition, the analysts certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The compensation of the analyst who prepared this report is determined by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of GENIAL INSTITUTIONAL CCTVM, its affiliates and/or subsidiaries as a whole, of which investment banking, sales and trading are a part. Compensation paid to analysts is the sole responsibility of GENIAL INSTITUTIONAL CCTVM.

The analyst hereby certifies that he (she), or his (her) spouse or companion, does not serve as an officer, director, or advisory board member of the subject company.

The principal analyst is responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

3. ADDITIONAL DISCLOSURE

(i) This document was prepared by GENIAL INSTITUTIONAL Research and is hereby supplied for the sole purpose of providing information about companies and their securities.

(ii) The information contained herein is provided for informational purposes only and does not constitute an offer to buy or sell, and should not be construed as a solicitation to acquire, any securities in any jurisdiction. The opinions expressed herein regarding the purchase, sale or holding of securities, or with respect to the weighting of such securities in a real or hypothetical portfolio, are based on careful analysis by the analysts who prepared this report and should not be construed by current or future investors as recommendations for any particular investment decision or action. The investor's final decision should be made considering all of the risks and fees involved. This report is based on information obtained from primary or secondary public sources, or directly from companies, and is combined with estimates and calculations prepared by GENIAL INSTITUTIONAL CCTVM. This report does not purport to be a complete statement of all material facts related to any company, industry, security or market strategy mentioned. The information has been obtained from sources believed to be reliable, but GENIAL INSTITUTIONAL CCTVM does not make any express or implied representation or warranty as to the completeness, reliability or accuracy of such information. The information, opinions, estimates and projections contained in this document are based on current data and are subject to change. Prices and availability of financial instruments are indicative only and subject to change without notice. GENIAL INSTITUTIONAL CCTVM is under no obligation to update or revise this document or to advise of any changes in such data.

(iii) The securities discussed in this report, as well as the opinions and recommendations contained herein, may not be appropriate for every type of investor. This report does not take into account the investments objectives, financial situation or particular needs of any particular investor. Investors who wish to buy, sell or invest in securities that are covered in this report should seek independent financial advice that takes individual characteristics and needs into consideration, before making any investment decision with respect to the securities in question. Each investor should make independent investment decisions after carefully analyzing the risks, fees and commissions involved. If a financial instrument is denominated in a currency other than an investor's currency, changes in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and the reader of this report assumes all foreign exchange risks. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment. Past performance does not necessarily indicate future results, and no representation or warranty, express or implied, is made herein regarding future performance. Therefore, GENIAL INSTITUTIONAL CCTVM, its affiliated companies, and the analysts involved in this report take no responsibility for any direct, indirect or consequential loss resulting from the use of the information contained in this report, and anyone using this report undertakes to irrevocably indemnify GENIAL INSTITUTIONAL CCTVM and its affiliates from any claims and demands.

(iv) Prices in this report are believed to be reliable as of the date on which this report was issued and are derived from one or more of the following: (i) sources as expressly specified alongside the relevant data; (ii) the quoted price on the main regulated market for the security in question; (iii) other public sources believed to be reliable; or (iv) GENIAL INSTITUTIONAL CCTVM's proprietary data or data available to GENIAL INSTITUTIONAL CCTVM.

(v) No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this report.

(vi) GENIAL INSTITUTIONAL CCTVM makes no representations herein that investors will obtain profits. GENIAL INSTITUTIONAL CCTVM will not share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. GENIAL INSTITUTIONAL CCTVM accepts no fiduciary duties on behalf of recipients of this report and in communicating this report is not acting in a fiduciary capacity. This report is not to be relied upon in substitution for the exercise of recipient's independent judgment. Opinions, estimates, and projections expressed herein constitute the current judgment of the analyst responsible for the substance of this report as of the date on which the report was issued and are therefore subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GENIAL INSTITUTIONAL CCTVM as a result of using different assumptions and criteria. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment.

(vii) Because the personal views of analysts may differ from one another, GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates may have issued or may issue reports that are inconsistent with, and/or reach different conclusions from, the information presented herein. Any such opinions, estimates, and projections must not be construed as a representation that the matters referred to therein will occur. Prices and availability of financial instruments are indicative only and subject to change without notice. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly.

(viii) This document may not be: (a) photocopied or duplicated in any manner, in whole or in part, and/or (b) distributed without GENIAL INSTITUTIONAL CCTVM's prior written consent. GENIAL INSTITUTIONAL CCTVM accepts no liability whatsoever for the actions of third parties in this respect.

(ix) Neither GENIAL INSTITUTIONAL CCTVM nor any of its affiliates, nor any of their respective directors, employees or agents, accepts any liability for any loss or damage arising out of the use of all or any part of this report.

(x) GENIAL INSTITUTIONAL CCTVM (or its affiliates, officers, directors or employees) may, to the extent permitted by law, have acted upon or used the information herein contained before the publication of this report and may have a position in securities issued by the companies mentioned herein and may make a market or act as a principal in any transactions in any such securities. Genial Institutional may from time to time perform investment banking or other services to, or solicit investment banking or other business from, the companies mentioned herein.

4. IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Genial Institutional CCTVM, a company authorized to engage in securities activities in Brazil. Genial Institutional CCTVM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) and is not being provided pursuant to a soft-dollar arrangement.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Auerbach Grayson & Company LLC ("AGCO"), a registered broker dealer in the United States with an office at 20 West 55th Street New York, NY 10019, (212) 453-3523 . Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Genial Institutional CCTVM.

If the report is to be distributed to anyone other than Major U.S. Institutional Investors in the United States. AGCO accepts responsibility for the contents of this report as provided for in relevant SEC releases and SEC staff no-action letters.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person at Auerbach Grayson & Company LLC ("AGCO") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

The disclosures contained in research reports produced by GENIAL INSTITUTIONAL CCTVM and distributed by Auerbach Grayson & Company LLC ("AGCO") in the U.S. shall be governed by and construed in accordance with U.S. law. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUTIONAL CCTVM. Additional information relative to the financial instruments discussed in this report is available upon request.

UK Disclaimer:

(i) This document is STRICTLY CONFIDENTIAL to the recipient, may not be distributed to the press or other media and may not be reproduced in any form. this document is directed only at persons who are “INVESTMENT PROFESSIONALS” falling within article 19(5) of the FSMA 2000 (FINANCIAL PROMOTION) ORDER 2005, or HIGH NET WORTH BODIES falling within ARTICLE 49(2) of that order (together THE “RELEVANT PERSONS”). This document must not be acted on or relied on by persons who are not RELEVANT PERSONS.

(ii) The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction.