Metals & Mining

Steel tariffs implemented by the Trump administration

LatAm Metals & Mining

Main takeaways:

(i) The new **full duty of +25% on steel** and **+10% on aluminum** imposed by the **Trump administration** may have varying effects on the global steel industry, particularly on trade relations between the U.S. and exporting countries. The mesure, set to take effect **on March 12**, is expected **(ii)** to **protect domestic U.S. production**, as steel output in the country has not yet returned to pre-2018 levels (right now is operating with ~27% idle capacity). In the s**hort term**, we anticipate **local producers will gain market share,** with probable **price increase**s due to a lower supply caused by a slowdown in export volumes reaching the region. **(iii)** We believe mills with domestic operations will be able to restore margins. Within our coverage, we see **Gerdau as the main winner** in this scenario, given that ~35% of its total production volume is based in the U.S. **(iv)** Although **Brazil ranks among the top 3 steel exporters** to the U.S., **~80% of this volume** comes from **non-listed companies** shipping low-value-added semi-finished products. Therefore, **(v)** the 25% tariff on steel should have a **limited negative impact** on other **companies under our coverage**, such as **Usiminas** and **CSN**, whose export exposure to the U.S. is minimal. Additionally, **(vi)** we view the measure as having **a more contained impact on global iron ore demand**, as China ranks only 10th among the largest steel exporters to the U.S. in terms of volume. **(vii)** A potential **downside** for **U.S. steel producers**, including Gerdau, is that price recovery could create **inflationary pressure throughout the supply chain**. We expect these effects to reach end consumers through **higher prices on durable goods containing embedded steel**. As previously mentioned, the Fed has been signaling a "higher for longer" stance on interest rates. In our view, with **rates taking longer to decline**, U.S. steel consumption will also take more time to regain momentum. **(viii)** Lastly, **potential international retaliations** could harm the U.S. economy and increase costs for both consumers and industries. The global response—especially from the European Union, Canada, and China—will be critical in shaping the next steps and the real impact of these tariffs.

What happened?

On February 10th, during an interview, US president Donald Trump announced the imposition of full duty of **+25% on steel** and **+10% on aluminum**. The measure was formalized today, February 11th, and will take **effect on March 12th**. These actions mark a resumption of **similar measures taken during the first Trump administration** under a **legal provision** called **Section 232**, although at that time, exceptions were made for countries like Brazil, Mexico, and Canada (which were excluded from Section 232 in 2018).

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Companies

VALE US Equity
Buy

Price: US$ 9.57 (11-Feb-2025)
Target Price 12M: US$ 11.10 (NYSE)

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

CMIN3 BZ Equity
Neutral

Price: R$ 5.32 (11-Feb-2025)
Target Price 12M: R$ 5.75

GGBR4 BZ Equity
Buy

Price: R$ 17.74 (11-Feb-2025)
Target Price 12M: R$ 23.40

CSNA3 BZ Equity
Neutral

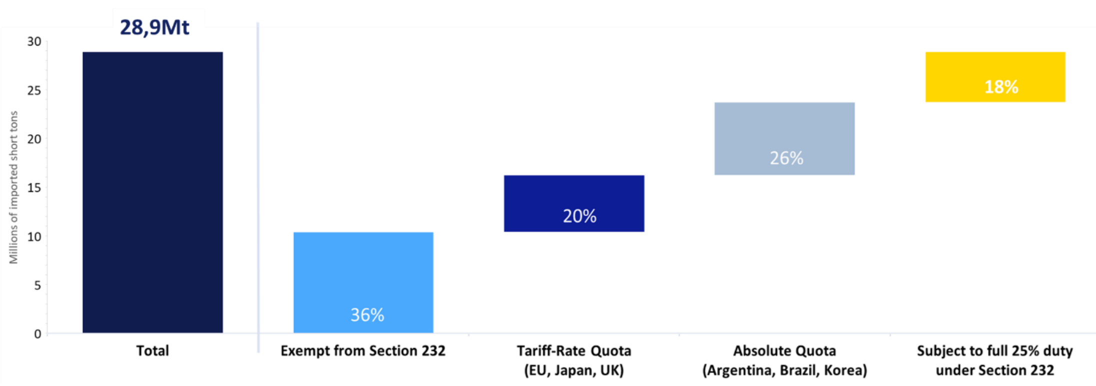
Price: R$ 8.87 (11-Feb-2025)
Target Price 12M: R$ 12.75

USIM5 BZ Equity
Neutral

Price: R$ 5.92 (11-Feb-2025)
Target Price 12M: R$ 6.00

According to data released by Nucor (one of the major U.S. steel producers), approximately 82% of the steel volume imported by the U.S. in 2024 was either exempt or subject to poorly sized quota regimes, which will now be modified. According to our data collection from the U.S. Department of Commerce, summing all steel subproducts, Brazil had a quota of ~15Mt in 2024. This represents only ~30% of the total volume of steel exported by Brazil to the U.S. In a way, **Brazil was outside of Section 232 but was still subject to quotas**. Still, Brazilian mills exporting steel were not being taxed since the **quota volumes were oversized**. The impact on China, the world's largest steel producer, will be more marginal compared to Brazil. Currently, **China ranks as the 4th largest steel exporter to the U.S.** in nominal value, behind Canada, Brazil, and Mexico.

Graph 1. US Steel Imports



Source: American Iron and Steel Institute, Nucor, Genial Investimentos

Why are tariffs being implemented now?

According to Trump's statements, this new tariff policy aims to **(i)** protect the U.S. domestic industry, **(ii)** reinforce national security, and **(iii)** maintain jobs in steel mills. Looking at traded volumes, we indeed observe an increase in steel exports to the U.S., which, although growing modestly (+2.5% y/y), reached the highest volume in the past 5Y in 2024. Tariff policies also impact global supply chains, as China has been using exports to offset weakened domestic demand. However, we highlight that the U.S. is not among China's top-priority destinations for crude steel. Over the past 6M, U.S. steel mills have been granting **several discounts** to clients on steel selling prices, reducing the **metal spread** by approximately -10% in LTM. As a result, industry margins have been contracting, and **idle capacity at mills has increased** (currently at 27% vs. 5-8% in a bullish cycle). This has occurred, among other factors, due to **increased competition from imported steel,** which reached 24% of penetration on apparent consumption in 2024. Therefore, in our view, the Trump administration's decision to remove Section 232 exemptions and impose a 25% full duty reflects an effort to protect a domestic industry that has been under pressure in recent years.

What are the implications for U.S. Steel Mills?

We can break down the effects into two phases. **(i)** In **the short term** (next 12M), our initial expectation is that not only the discounts that we mention will cease, but **steel and aluminum prices** in the U.S. will rise due to the potential for regional supply shortages and supply chain disruptions. This would be the **upside of the tariff application** for mills. However, the global impact tends to be limited, as supply redirection between regions may ease pressure on global prices. The effects are more significant for the North American regional market, with direct implications for local consumption and production dynamics.

It's not all a bed of roses...

(ii) In the **medium term** (1-2 years), we believe the price recomposition will create inflationary pressure across the production chain. We expect these consequences to reach the end consumer through **higher prices for durable goods** containing embedded steel. Therefore, the measure is by no means non-inflationary. We have already observed a more cautious stance from the Fed regarding the interest rate-cutting cycle. As previously mentioned, the Fed is shifting toward a “higher for longer” approach, partly due to the **counterproductive effects of tariffs** on household budgets and spending behavior. In our view, with interest rates taking longer to decline, U.S. steel consumption will also take more time to recover. From this perspective, tariffs also **represent a downside** for steel producers.

Direct effects on Brazilian Mills.

In terms of volume, **Brazil was the 2nd largest steel exporter to the U.S.** in 2024 (~16% of U.S. imports). Additionally, approximately 60% of Brazil’s total steel exports in 2024 (28.9Mt) were shipped to the U.S. Of this total, **~80% of exports to the U.S. came from non-listed companies** such as Ternium Brasil, ArcelorMittal/CSP, and also several mid-sized mills. This group of companies is expected to be more negatively impacted by the newly sanctioned tariffs. It is also worth noting that the export focus of these mills is primarily on low-value-added products, such as semi-finished steel. For the **publicly listed companies under our coverage**, we see a generally **low impact** on CSN and essentially no effect on Usiminas.

More specifically, **CSN** is likely to experience some impact on new transactions due to the full duty; however, its volume exposure to the U.S. is minimal, accounting for 250-300Kty (~8% of CSN’s total shipments) and representing less than 5% of the steel segment’s EBITDA. Therefore, we believe the company will be able to reallocate part of these sales, given that, in addition to its direct exposure through LLC in the U.S., CSN also operates in Germany (SWT) and Portugal (Lusosider). For **Usiminas**, the impact of the tariffs should be immaterial, as its direct exposure to the U.S. market is small (at most 3% of total revenue). Most of its shipments are directed to Argentina, further minimizing the effect of the new trade measures.

Table 1. US Imports of steel by country of origin (Mt)

Country	2024	2023	y/y (%)
1. Canada	6,6	6,9	-4,8%
2. Brazil	4,5	3,9	14,1%
3. Mexico	3,5	4,2	-15,9%
4. South Korea	2,8	2,6	6,5%
...			
10. China	0,5	0,6	-15,1%

Source: American Iron and Steel Institute, Genial Investimentos

Our take

Gerdau is the biggest beneficiary! Considering our coverage universe, we believe **Gerdau** is the primary beneficiary of this measure, as **~35% of its operations are based in the U.S.** (3.8Mtpy of steel in the U.S. + 300Ktpy exported from Canada to the U.S.). The presence of mills located on U.S. soil within its asset portfolio allows Gerdau to profit from the tariff increase as much as mills that operate and were founded in the U.S. As a result, the company will be able to effectively shield itself in the short term against the rising penetration of imported steel, which, according to the American Iron and Steel Institute, accounted for 23% of apparent consumption in 2024 (vs. 21% in 2023).

We believe this could lead to a **recovery in local margins** through greater pricing power and a potential increase in local production capacity utilization, given that the U.S. steel sector remains weak, operating at a ~73% of installed capacity. As an example of the fragile pre-full duty scenario, we estimate a 12.2% Genial Est. EBITDA margin for Gerdau's North America division in 4Q24, representing a contraction of -5.1p.p q/q and -8.5p.p y/y. If confirmed, this would be the company's lowest margin since 2020. Recently, we observed a -7% y/y decline in metal spread and the adoption of strategies to sustain volume, such as discounts and product mix adjustments. Running a sensitivity analysis on the tariff effects, our model indicates that a **+5% increase in Gerdau's realized selling price** in the U.S. could drive a **+12% acceleration in North America BD's EBITDA**. Additionally, only ~1% of total revenue from Gerdau's Brazil BD comes from steel exports to the U.S., which in this case are semi-finished products. Thus, in the short term, the impacts are positive in helping restore margins.

Limited impact on Chinese Steel and the Iron Ore Market. The implementation of tariffs affects the distribution of steel produced outside the U.S. For some time now, we have highlighted that Chinese mills have been increasingly directing more crude steel to global markets as a way to offset weak domestic demand without making deeper production cuts. However, the impact on iron ore demand is expected to be shyer, given that in 2024, **China ranked only 10th in export volume to the U.S.** (0.5Mt; -15% y/y) and 5th in nominal value (US$5.2bn). From the perspective of Chinese mills, U.S. imports accounted for only 0.5% of China's total crude steel exports, indicating an extremely **low dependency** on American clients.

It is worth noting that while the 25% tariff on crude steel is expected to have a mild effect on Chinese exports, an additional **+10% tariff on all durable goods from China** was announced ~15 days ago. This includes embedded steel in finished products, amplifying the potential impact on Chinese steel-consuming sectors. For us, this effect would be even more pronounced if the **Trump administration** continues raising this rate **progressively toward 60%**—a level mentioned during the election campaign—rather than stopping at the already announced 10%. In such a scenario, the impact on steel demand from Chinese mills would be significantly greater, potentially **exacerbating the imbalance between iron ore supply and demand**, affecting **Vale** and other major producers.

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	**25.829**	**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**

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