genial Equity Research

USIMINAS

4Q24 Review: Better visibility, but still far from ideal

LatAm Metals & Mining

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Company

USIM5 BZ Equity
Neutral

Price: R$ 5.98 (14-Feb-2024)
Target Price 12M: R$ 6.00

Main takeaways:

(i) Crude steel production reached **3.2Mt (+54% y/y)**, the second-highest volume since **2015**, while **COGS/t fell -11% y/y**, reflecting efficiency gains that, despite **1H24** uncertainties, were delivered at a respectable level. **(ii)** Domestic flat steel demand reached **15.7Mt (+10% y/y)** but imported steel's share rose **+40% y/y**, reaching **32% of apparent consumption**, highlighting Usiminas' weakness against Chinese imports. **(iii)** Debt reprofiling strategy maintained financial discipline, but leverage increased to **0.58x Net Debt/EBITDA** (vs. **0.38x in 3Q24**), pressured by **lower LTM EBITDA (-17% y/y)** and currency acceleration. **(iv) 2025E-2026E CAPEX** was aligned with our scenario, with the company adopting a more selective approach, prioritizing essential projects and renegotiating contracts. **The guidance** of **R$1.4-1.6bn** was in line with our estimate of **R$1.5bn**. **(v) CAPEX reduction strategy** preserves cash in the short term but postpones strategic projects (**e.g., PCI**), impacting operational efficiency and maintaining high dependence on **USD-priced inputs**, pressuring **COGS/t**. **(vi)** Usiminas' cost structure is strongly correlated with **USD/BRL**, reinforcing a cautious view, with possible FX fluctuations between **R$5.60-6.00** due to local political uncertainties and potential **US tariffs on Chinese steel**. **(vii) FCF burned -R$260mn**, reversing a **+R$316mn generation in 3Q24**. **(viii)** EBITDA recovery prospects are limited: margin should remain stable at **~7.5% in 2025E** (vs. **10% historical**), with ongoing pressure on steel in the external market and domestic seasonality. **(ix)** Even with greater predictability, structural challenges remain for **2025**, with **USD/BRL** impact pressuring costs and automotive sector slowdown limiting price capture, maintaining a challenging scenario. **(x)** Despite the fact that the shares are indeed discounted, with **EV/EBITDA 25E** of **3.8x** (vs. 4.8x historical average), we reiterate our **NEUTRAL rating** with a **12M Target Price** of **R$6.00** (upside of +0.3%).

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

(Thousand Tonnes - kt)	Reported	Genial Est.		Reported		Reported	
Summary (Shipments)	**4Q24A**	**4Q24E**	**% R/E**	**3Q24A**	**% q/q**	**4Q23A**	**% y/y**
Steel	1.057	1.074	**-1,6%**	1.126	**-6,1%**	1.027	**2,9%**
Iron Ore	2.202	2.186	**0,7%**	2.288	**-3,8%**	2.384	**-7,6%**

Source: Usiminas, Genial Investimentos

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

(R$ millions)	Reported	Genial Est.		Reported		Reported	
Income Statement	**4Q24A**	**4Q24E**	**% R/E**	**3Q24A**	**% q/q**	**4Q23A**	**% y/y**
Net Revenue	6.480	6.439	**0,6%**	6.817	**-4,9%**	6.781	**-4,4%**
Adjusted EBITDA	518	404	**28,3%**	426	**21,5%**	625	**-17,1%**
Net Income	(117)	179	**-165,3%**	185	**-163,4%**	975	**-112,0%**

Source: Usiminas, Genial Investimentos

Usiminas released its **4Q24 results today**, **February 14**. In a challenging environment, we believe the company delivered **decent results**, slightly above our expectations. What **stood out** was the **subtly more positive outlook for 2025**. The company reported **consolidated Net revenue of R$6.4bn** (+0.6% vs. Genial Est.), down -**4.9% q/q** and **-4.4% y/y**, impacted by sequential seasonality and lower steel prices on an annual basis. **EBITDA** came in at **R$518mn** (+28% vs. Genial Est.), exceeding our estimates, with a **+21.5% q/q** increase despite a **-17.1% y/y** contraction. EBITDA **margin recovered partially** to **8%** (+1.7p.p q/q) due to lower **COGS/t**. Steel COGS/t reached R$5,147/t (+0% vs. Genial Est.), down -2.0% q/q and -13.4% y/y. Lastly, the company reported a **loss** of **-R$117mn**, diverging from our net profit expectation due to FX-related losses.

More positive outlook for 2025

Our takeaway from the earnings call was that the company's tone for 2025 was more constructive than the market anticipated. Key management highlights included: **(i) Domestic demand** is expected to **remain strong** despite high interest rates (we partially disagree), which, in management's view, should offset external market weakness and ongoing competition from imported steel; **(ii)** The company successfully implemented price increases for the **Industry** and **Distribution** segments at a **favorable moment** for negotiations, leveraging a previously weaker USD/BRL exchange rate; **(iii)** New **CAPEX guidance** for **2025** was set at **R$1.1-1.6bn** (vs. R$1.5bn Genial Est.), below consensus but in line with our estimates; **(iv)** Strategic projects remain intact, reinforcing the delivery of the new PCI plant at BF3, expected to reduce the coke rate and enhance efficiency; **(v)** Management expects **COGS/t** to **decline** in 1Q25, **independent of USD/BRL movements**, driven by continuous operational **efficiency gins** at **BF3**.

4Q24 Review: In detail!

Steel: High dependence on DM and its effects. The company recorded total steel sales (DM + FM) of 1,057Kt (-1.6% vs. Genial Est.), down -6.1% q/q, but up +2.9% y/y. The sequential downturn was driven by the domestic market (DM), which totaled 961Kt (-3.8% vs. Genial Est.), down -10.2% q/q, despite a rise of +4.5% y/y, impacted by the seasonality of the period (typical slowdown between 3Qs and 4Qs) and lower activity in the industrial sector (38% of DM sales in 4Q24). In the foreign market, shipments reached 96Kt (+28% vs. Genial Est.), accelerating +71.5% q/q, but down -20.7% y/y, reflecting the gradual recovery in foreign demand and opportunistic shipments due to the acceleration in the USD/BRL exchange rate during the quarter.

Crude steel production totaled 797Kt (-8.7% q/q), while rolled steel production reached 1.1Mt (-6.1% y/y). We believe that this reduction reflects the lower level of activity in the domestic market, as well as the normalization of volumes after a strong ramp-up of capacity at the beginning of the year. In 2024, crude steel production totaled 3.2Mt (+54% y/y), driven by the higher operating level of Blast Furnace 3 (BF3) in Ipatinga, which reached a more mature ramp-up stage after the refurbishment completed in November 2023.

Steel: Price pass-throughs in the DM offset a drop in the FM. The consolidated realized steel price (DM + FM) was R$5,525/t (+2.5% vs. Genial Est.), showing a slight increase of +0.4% q/q, but still with a retraction of -3.7% y/y. In the domestic market (DM), the realized price reached R$5,536/t (+3.3% vs. Genial Est.), up slightly by +1.2% q/q, driven by the price transfers implemented over the last few quarters, mainly in the industrial and distribution segments. On the foreign market (FM), the average price was R$5,417/t (-6.0% vs. Genial Est.), down -11.5% q/q, reflecting the deterioration in the mix of products sold and the impact of the fall in international steel prices.

Mining: Shipments fall due to operational restrictions and lower than expected prices. For MUSA, the volume of shipments was 2.2Mt (+0.7% vs. Genial Est.), with a slight decrease of -3.8% y/y and -7.6% y/y, in line with the stability of production in the period. Since the beginning of 2024, the company has been facing operational difficulties due to the stoppage of the East ore treatment facility (ITM Leste), which has limited its production capacity. As a result, the quarter's operations have not yet reflected a normalization, even though new mining fronts that feed other treatment units were expanded at the end of 2024 and should take effect in 1Q25.

Despite this, exports accounted for 70% of the invoiced volume (-2p.p vs. 3Q24), demonstrating the continuity of external demand. In our view, the slightly higher-than-estimated performance may have been driven by a higher level of sales of iron ore acquired from third parties. This factor implies lower margins, and we therefore believe that the result should not be interpreted in a structurally positive way until the operational restriction is resolved. The realized price in the mining segment was R$348/t (-3.4% vs. Genial Est.), up +3.9% t/t reflecting not only the full deceleration of the 62% Fe ore curve (-11% t/t), but also the higher discounts applied due to quality differentials pressuring the prices negotiated by the company which more than offset the devaluation of the BRL vs. USD.

Net revenue impacted by seasonality, but steel segment sustains performance. Consolidated net revenue was R$6.5bn (+0.6% vs. Genial Est.), reflecting a decrease of -4.9% q/q and -4.4% y/y. The sequential decline was influenced by seasonality, which impacted steel sales, resulting in a contraction of -6.1% q/q in volume. The steel segment was the main driver of the result, with net revenue of R$5.8bn (+0.9% vs. Genial Est.), down -5.7% q/q and -0.9% y/y, supported by a marginal increase in domestic market prices, which partially offset the drop in exports. In the mining segment, net revenue was R$767mn (-2.7% vs. Genial Est.), remaining stable q/q but down -26.9% y/y, reflecting a -3.8% q/q decline in sales volume that more than offset the mitigation from the sequential increase of +3.9% q/q in average realized iron ore prices.

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

	4Q24A	4Q24E		3Q24A		4Q23A	
(R$ millions)	**Reported**	**Genial Est.**	**% R/E**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**6.480**	**6.439**	**0,6%**	**6.817**	**-4,9%**	**6.781**	**-4,4%**
Steel	5.840	5.788	0,9%	6.195	-5,7%	5.890	-0,9%
Mining	767	788	-2,7%	767	0,0%	1.049	-26,9%
Eliminations	(127)	(137)	-7,1%	(145)	-12,3%	(158)	-19,5%

Source: Usiminas, Genial Investimentos

COGS/t shows signs of efficiency in line with estimates. The steel COGS/t reached R$5,147/t (+0% vs. Genial Est.), declining -2.0% q/q and -13.4% y/y, fully in line with our expectations, reflecting **(i)** operational improvements after the blast furnace 3 (BF3) upgrade, and **(ii)** reduction in raw material costs, including those quoted in USD, factors that more than offset the negative impact from the acceleration in the USD/BRL exchange rate and the still high dependence on third-party plates.

In the mining segment, COGS/t was R$277/t (-0.8% vs. Genial Est.), down -9.6% q/q, explained by the reduction in input prices, in USD, which offset the acceleration of USD/BRL, despite a still high export volume (70% of total sales), which was tied to **(iii)** an increase in maritime freight costs and **(iv)** the maintenance of the high dependence on third-party purchases in the domestic market (+36% q/q), which accounted for ~36% of domestic sales.

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

	4Q24A	4Q24E		3Q24A		4Q23A	
(R$ millions)	**Reported**	**Genial Est.**	**% R/E**	**Reported**	**% q/q**	**Reported**	**% y/y**
COGS	**(5.961)**	**(5.994)**	**-0,6%**	**(6.403)**	**-6,9%**	**(6.636)**	**-10,2%**
Steel	(5.477)	(5.491)	-0,2%	(5.815)	-5,8%	(6.136)	-10,7%
Mining	(609)	(609)	-0,1%	(700)	-13,0%	(655)	-7,1%
Eliminations	125	106	18,3%	112	11,4%	155	-19,2%

Source: Usiminas, Genial Investimentos

EBITDA shows significant percentage growth, but over a weak base. Consolidated adjusted EBITDA was R$518mn (+28% vs. Genial Est.), showing a +21.5% q/q increase, but a -17.1% y/y decline. The adjusted margin reached 8.0% (+1.7p.p vs. Genial Est.), an improvement sequentially from 6.3% in 3Q24, reflecting operational gains in the steel division and lower-than-expected costs in MUSA. The surprising steel EBITDA reached R$366mn (+18% vs. Genial Est.), with a one-off decline of -3.2% q/q due to typical sequential volume deceleration, which was partially offset by **(i)** the reduction in COGS/t and **(ii)** the increase in domestic market shipments on a y/y basis, **(iii)** without compromising realized prices, which were even slightly better than expected.

On the other hand, the mining division's performance was weaker, with EBITDA of R$154mn (-12% vs. Genial Est.), which, although up +3.5x q/q, did not meet our expectations. Despite the sequential recovery, we believe the result was below our expectations due to the disappointment seen in the company's net revenue (-2.7% vs. Genial Est.), with iron ore prices realized below our expectations, which more than offset the decline in COGS/t (-0.8% vs. Genial Est.). In summary, we believe that, despite the significant growth in the quarterly base, the result still reflects a challenging environment.

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

(R$ millions)	4Q24A Reported	4Q24E Genial Est.	% R/E	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Adjusted EBITDA	**518**	**404**	**28,3%**	**426**	**21,5%**	**625**	**-17,1%**
Steel	366	308	18,8%	378	-3,2%	267	37,3%
Mining	154	176	-12,3%	44	250,1%	327	-53,0%
Eliminations	(2)	-80	-97,5%	4	-146,4%	31	-106,5%

Source: Usiminas, Genial Investimentos

Net income was impacted by Fx rate losses, reversing the positive trend. The company reported a net loss of R$117mn, reversing both our profit expectation for the quarter and the quarterly and annual base. The deterioration in net income was mainly impacted by the negative financial result of -R$299mn, due to net exchange rate losses of -R$233mn, reflecting the depreciation of -13.7% of the BRL vs. USD during the period, which affected gross debt and other liabilities denominated in foreign currency.

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

(R$ millions)	4Q24A Reported	4Q24E Genial Est.	% R/E	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**6.480**	**6.439**	**0,6%**	**6.817**	**-4,9%**	**6.781**	**-4,4%**
COGS	(5.961)	(5.994)	-0,6%	(6.403)	-6,9%	(6.636)	-10,2%
Adjusted EBITDA	**518**	**404**	**28,3%**	**426**	**21,5%**	**625**	**-17,1%**
EBITDA Margin (%)	8,0%	6,3%	1,72p.p	6,3%	1,74p.p	9,2%	-1,22p.p
EBIT	**245**	**147**	**66,5%**	**151**	**62,1%**	**373**	**-34,3%**
EBIT Margin (%)	3,8%	2,3%	1,5p.p	2,2%	1,56p.p	5,5%	-1,72p.p
D&A	(314)	(304)	3,3%	(307)	2,4%	(289)	8,5%
Financial Result	(299)	99	-402,0%	56	-633,9%	65	-560,0%
Net Income	**(117)**	**179**	**-165,3%**	**185**	**-163,4%**	**975**	**-112,0%**
Net Margin (%)	-1,8%	2,8%	-4,59p.p	2,7%	-4,51p.p	14,4%	-16,18p.p

Source: Usiminas, Genial Investimentos

Our Take on Usiminas

It was a year of external challenges and internal achievements. Crude **steel production** reached **3.2Mt** (**+54% y/y**) in 2024, the second-highest volume since 2015, while **COGS/t** dropped **-11% y/y**, reflecting efficiency gains that, despite generating noise throughout 1H24, were ultimately delivered at a respectable level. As previously stated in our reports, we **believed consensus overestimated the cost reduction impact** of the Blast Furnace 3 (BF3) overhaul, with little justification at the time. This led investors to react in the early months of the year to a potential sharp cost decline, whereas we always argued that the reduction would be more modest—yet still material. The **disappointment with lower-than-expected** numbers triggered strong selling pressure on the stock, particularly after the 1Q24 and 2Q24 results **in April and July**, respectively.

In the domestic market, flat **steel demand reached 15.7Mt** (**+10% y/y**), the highest level since **2013**. However, this growth was not fully captured, as it was offset by a **higher share of imported steel** (**+40% y/y**), raising foreign products' share to **32% of total apparent consumption.** This underscores the company's **implicit market-share** fragility against Chinese steel imports. Nevertheless, the company reported a **+6% y/y** increase in steel shipments, with a highlight on the domestic market, which reached **3.9Mt (+8% y/y**).

Debt reprofiling strategy did not prevent leverage increase. The company remains focused on **debt management**, completing its **10th debenture issuance** in September 2024, totaling **R$1.8bn**, with reduced spreads over the CDI rate. Additionally, it issued **+US$500m** in **bonds maturing in 2032**, allowing for the early repayment of **-US$320m** in external market debt. We see this debt profile extension as a reinforcement of the company's commitment to **financial discipline** and efficient credit risk management, which could provide short-term support for FCFE. It is worth noting a **slight increase** in the leverage ratio to **0.58x Net Debt/EBITDA** (vs. **0.38x in 3Q24**), though it remains at a healthy level. On the other hand, we identified that the **(i)** reduction in gross USD-denominated debt after the early repayment was not offset by the **(ii) 17% y/y** decline in LTM EBITDA and the **(iii)** acceleration of the USD/BRL exchange rate. These factors appear to be the main drivers behind the leverage increase.

New 2025E-2026E CAPEX guidance surprises the market, but not us. As we anticipated in our preview report, the company adopted a more selective investment approach, **(i)** prioritizing essential projects and **(ii)** renegotiating material supply contracts to secure lower costs than previously budgeted. As a result, **2024 CAPEX totaled R$1bn**, fully aligned with the revised guidance from last quarter (**-36% vs. previous guidance**). Now, Usiminas has announced **2025 CAPEX** in the range of **R$1.4-1.6bn** (vs. **R$1.5bn Genial Est.**), perfectly in line with our prior expectations.

This, however, seemed to catch some by surprise, as there was an expectation that the **CAPEX reduction** vs. the 2024 budget would be rolled into 2025. While the announced figure was no surprise to us, it can still be seen as a positive signal, reflecting the company's strategy to mitigate **short-term cash burn**, which reached **-R$89m** in 2024 vs. **+R$1.6bn** generation in **2023.**

We believe the 2024 FCF burn was driven by the -8.3% y/y EBITDA decline and working capital changes, which affected cash release between the plate destocking process during BF3's 2023 overhaul and the post-overhaul period in 2024. For comparison, working capital release was +R$3.6bn in 2023 vs. just +R$49m in 2024.

A lower CAPEX vs. the need to reduce USD Input dependency. The company's strategy presents a significant dilemma. On one hand, curbing investments is prudent given the continuous downward revisions in **2025E EBITDA** by consensus. While our projection stands +12% above consensus, reaching R$2.8bn (+R$1bn vs. 2024), the company still falls short of a bullish cycle (~R$3.5-4bn). Thus, we view a lower CAPEX as a smart move to safeguard cash flow. However, postponing strategic projects to late 2025 (e.g., PCI) could impact operational efficiency, especially regarding fuel consumption—such as coke and overall fuel mix—and the steel division's high dependency on USD-priced inputs, which pressures COGS/t. Moreover, management reaffirmed in the earnings call that the expected COGS/t decline for 1Q25 is real, meaning it excludes BRL/USD appreciation effects, which should further drive down costs as **USD/BRL is down -10% YTD.**

Fx rate pressures and new trade dynamics reinforce caution. The strong correlation between Usiminas' cost structure and the **USD/BRL** exchange rate supports our cautious stance, particularly with FX likely fluctuating between **R$5.60-6.00.** This reflects both domestic political uncertainty and developments in U.S. trade policy, with potential tariff reinstatement under a Trump administration, which could redirect Chinese steel exports to markets like Brazil. However, we believe the direct impact of new tariffs on Usiminas will be limited due to its low exposure to the U.S. market (**~3% of total revenue**). Most exports are directed to **Argentina**, significantly mitigating these risks. Although the exchange rate has shown some relief, volatility may rise as legislative activities resume in Brazil throughout the year. Externally, new U.S. policy directives have heightened inflation expectations, prompting the Fed to maintain a restrictive tone and extend its "higher for longer" rate stance. This keeps the interest rate differential between Brazil, which remains in a high **SELIC** cycle, and the U.S., where now only a **-25bps** cut is expected by year-end, reinforcing caution regarding FX impacts on Usiminas' USD-denominated costs.

FCF Burn of -R$260mn The adjusted assumptions of **(i)** higher SELIC, **(ii)** sequential decline in steel sales due to the automotive sector slowdown and tighter credit conditions, and **(iii)** USD/BRL FX impact are materializing. As a result, **FCF burned -R$260mn**, a deterioration from the **+R$316mn reported in 3Q24**, reinforcing the need for strategic adjustments to prevent further compression in the coming periods. For us, Usiminas' 4Q24 highlighted a mixed sequential performance across divisions. While mining showed improvement, supported by a marginal price recovery (+3.9% q/q), the steel segment remained under pressure due to domestic demand seasonality (-10.2% q/q) and external market price deterioration (-11.5% q/q). Given steel's significant contribution to net revenue, this trend—expected to persist into 2025—limits EBITDA margin recovery prospects, which should remain stable at **~7.5% 2025E (vs. 10% historical).**

Better visibility, but still far from ideal. As stated, uncontrollable challenges should persist in **2025**. The expected **USD/BRL** appreciation, projected to approach **R$6.00**, will further pressure USD-denominated costs, impacting the company's operational efficiency. Additionally, the anticipated slowdown in the automotive sector—with our growth estimate (+3.5% vs. Anfavea's +7.8% for 2025E)—should more than offset price adjustments (+5% Jan/25 for the auto segment) and the pricing environment's expected improvement in 1Q25, given product mix stability. Coupled with credit supply restrictions from high SELIC rates, this trend is set to constrain domestic steel demand, reinforcing a challenging outlook. Although the company is trading at a **2025E EV/EBITDA** multiple of **3x,** below its historical average, and recovery prospects are supported by coke oven projects, **BF3** normalization, and new mining front expansions feeding other treatment units, the macroeconomic environment—both for steel and mining—remains unfavorable. Considering these factors, we reiterate our **NEUTRAL rating** with a **12M Target Price** of **R$6.00,** implying **an upside of +0.3%.**

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

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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%

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