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GERDAU

4Q24 Review: Costs reducing in Brazil, difficulties in the U.S.

LatAm Metals & Mining

(i) Brazil BD: The achieved price was **R$5,177/t** (+2% vs. Genial Est.), with a slight decline of **-0.9% q/q**. Shipments totaled **1,284Kt** (+0.5% vs. Genial Est); **(ii) North America BD:** The achieved price came in at **R$6,800/t** (+0.2% vs. Genial Est.), practically flat, though retreating **-US$60/t** in USD. Shipments reached **914Kt** (-6.4% q/q; +3.3% y/y); **(iii) South America BD:** Demand in Peru offset the weakness in Argentina. Shipments amounted to **271Kt** (+3.0% q/q; +11.4% y/y), while the achieved price advanced **+14.4% q/q; (iv) Specialty Steels:** Shipments fell to **331Kt** (-8.0% vs. Genial Est.; -13.1% q/q), impacted by lower demand in the US that only partially offset strong activity in the Brazilian automotive sector; **(v) Consolidated Net Revenue** was **R$16.8bn** (+3.2% vs. Genial Est.), a decline of **-3.2% q/q**, but an increase of **+14.3% y/y; (vi) COGS/t in Brazil** was **R$4,464/t** -1.1% y/y, marking the lowest level for a Q4 since 2021. In **North America**, **COGS/t** rose to **R$6,186/t** (+6.0% q/q; +11.3% y/y); **(vii) Adjusted EBITDA** was **R$2.4bn** (+12.1% vs. Genial Est; -20.7% q/q; +12.0% y/y; **(viii) Net Income** was **R$666mn** (-5.3% vs. Genial Est.; -50.9% q/q; +13.3% y/y); **(ix) FCFE** reached **R$427mn** (vs. R$2.9bn in 3Q24), reflecting lower EBITDA and an increase in CAPEX to **R$1.9bn** (+26.7% q/q); **(x) Dividends** of **R$0.10/share** (-5.2% vs. Genial Est), reinforcing the priority on buybacks; **(xi) Outlook:** Brazil BD continues to gain weight in **consolidated EBITDA**, with a significant cost reduction and margins exceeding projections. Meanwhile, North America BD is expected to **benefit from tariffs on steel imports in the US**, restoring margins throughout 2025 and amplifying the dual positive effect on the company's consolidated performance. Traded at an **EV/EBITDA of 3.2x** (vs. an average of 5x), we reiterate our **BUY rating**, with a **12M Target Price of R$23.40**, implying an **upside** of **+34.80%.**

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Company

GGBR4 BZ Equity
Buy

Price: R$ 17.36 (19-Feb-2025)
Target Price 12M: R$ 23.40

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**
Brazil BD	1.284	1.278	**0,5%**	1.290	**-0,5%**	1.268	**1,3%**
North America BD	914	914	**0,0%**	976	**-6,4%**	885	**3,3%**
South America BD	271	241	**12,4%**	263	**3,0%**	243	**11,4%**
Special Steel BD	331	360	**-8,0%**	381	**-13,1%**	339	**-2,3%**

Source: Gerdau, 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	16.822	16.305	**3,2%**	17.378	**-3,2%**	14.716	**14,3%**
Adjusted EBITDA	2.391	2.132	**12,1%**	3.016	**-20,7%**	2.135	**12,0%**
Net Income	666	704	**-5,3%**	1.357	**-50,9%**	588	**13,3%**

Source: Gerdau, Genial Investimentos

Gerdau released its **4Q24** results yesterday, **February 19**, after the market closed. In line with our projections, the company **maintained its trajectory of operational recovery in Brazil BD**, driven both by **shipments**, which reached **1,284Kt** (+0.5% vs. Genial Est.), with a gentle rise of **+1.3% y/y**, despite the sequential slowdown of **-0.5% q/q**, typical of seasonality, and also by the marginal increase compared to what we expected in the **realized price to R$5,177/t** (+2% vs. Genial Est.), with a slight compression of -0.9% q/q, but a gain of +8.8% y/y.

On the other hand, **North America BD** faced a quarter of **temporary pressure on profitability**, reflecting the -**US$60/t drop in realized price q/q**, reporting at **R$6,800/t** (+0.2% vs. Genial Est.), impacted by a more challenging scenario for steel consumption, amid **(i)** high interest rates in the US, **(ii)** scheduled maintenance shutdowns, and **(iii)** fierce competition with imports for market share. As a result, sales totaled 914Kt (-6.4% q/q; +3.3% y/y), perfectly in line with Genial Est., reflecting this adverse scenario. **Consolidated Net Revenue** stood at **R$16.8bn** (+3.2% vs. Genial Est.), down **-3.2% q/q** and up **+14.3% y/y**, partially sustained by the appreciation of the USD/BRL exchange rate, which helped mitigate the impact of the price drop realized at North America BD in USD, when converting to BRL.

COGS/t at Brazil BD showed a **decompression** of **-1.1% y/y**, reaching **R$4,464/t** (0% vs. Genial Est.), stable q/q and totally in line with our projections, making up the **lowest level for a 4Q since 2021**. This achievement was made possible by **(i)** a strict fixed cost containment plan, including the hibernation of plants in MG and CE; **(ii)** a reduction in the price of metallurgical coal, which more than offset the **(iii)** sequential increase in the prices of other key inputs, as well as **(iv)** scheduled maintenance stoppages. In **North America BD**, **COGS/t** was **R$6,186/t** (+0.6% vs. Genial Est.), up +6.0% q/q and +11.3% y/y, reflecting **(i)** the delay in capturing the fall in ferrous scrap spot prices and **(ii)** the impacts of scheduled maintenance stoppages with the acceleration of the USD/BRL exchange rate, although it remained stable in USD.

As a result, **Adjusted EBITDA** totaled **R$2.4bn** (+12.1% vs. Genial Est.), down -20.7% q/q, despite the +12.0% y/y increase. **Margin** stood at **14.2%,** reflecting **offsetting effects between Brazil** (+) **and North America** (-). **Adjusted Net Income** was **R$666mn** (-5.3% vs. Genial Est.), down -50.9% q/q and up +13.3% y/y, impacted by the expansion of the net financial loss (+16.8% q/q), which was pressured by the foreign exchange variation line. Lastly, **FCFE** totaled **+R$427mn** (vs. +R$2.9bn in 3Q24), with a sharp decrease q/q driven by the comparative basis with the non-recurring effect of 3Q24, due to the release of funds from a court decision.

Disregarding this effect for the sequential comparison, **FCFE still shrank** (-57.3% q/q), reflecting **(i)** a contraction of -20.7% q/q in Adjusted EBITDA; **(ii)** an increase in CAPEX with a cash effect to R$1.9bn (+26.7% q/q) and **(iii)** the impact of the half-yearly payment of interest on bonds issued abroad (-R$487mn), in addition to **(iv)** the payment of the agreement signed with CADE (-R$256mn). These four factors created greater negative pressure on FCF than **(v)** the release of the company's working capital, which reached +R$888mn (+154.4% q/q).

4Q24 Review: In detail!

Brazil BD: Realized price slightly better than estimates. The realized price was reported at R$5,177/t (+2% vs. Genial Est.), with a very slight drop of -0.9% q/q and a rise of +8.8% y/y. The slight sequential drop in the price realized on the foreign market, which reflects the greater share of exports in the mix (+54%), neutralized the +4.2% t/t advance in the price realized on the domestic market, driven by recent increases in the flat steel product line. In the year-on-year comparison, pricing was driven by the more favorable environment in the domestic market, countered by the acceleration of the USD/BRL exchange rate, which increased the momentum of exports and reduced the realized price, since the mix is focused on semi-finished products. We expect updates on negotiations on the long steel product line, which are still being discussed with construction companies.

Brazil BD: Shipments slow down a little due to seasonality. Shipments reported at 1,284Kt (+0.5% vs. Genial Est.), down -0.5% q/q and +1.3% y/y, reflecting sequential stability and moderate annual growth. We believe that the slight decrease y/y is due to scheduled maintenance stoppages, mainly in Ouro Branco (MG), in preparation for the start-up of the new HRC rolling mill, in section BQ2 with start-up in 1Q25. Even so, the increase in exports offset the fall in the domestic market, favoring the dilution of fixed costs and the maintenance of operating leverage.

Shipments on the foreign market (ME) reached 332Kt (+13% vs. Genial Est.), up +43.7% q/q and +9.2% y/y, marking the highest level since 4Q19. We believe that this growth was driven by the favorable USD/BRL exchange rate and the greater appetite of distributors, who sought to benefit from the low-price realization in USD. The domestic market (MD) recorded 952Kt (-3.2% vs. Genial Est.), with a contraction of -10.1% q/q and -1.2% y/y, impacted by the typical sequential cooling of demand. Even so, sales of long steel showed resilience, up 6.3% y/y, sustained by the positive performance of the construction segment. On the other hand, flat steel sales were pressured by lower production due to the scheduled stoppage at the Ouro Branco (MG) unit.

North America BD: Price lateralized in BRL, even with the heavy discounts. The realized price was R$6,800/t (+0.2% vs. Genial Est.), basically stable at -0.3% q/q, with a slight increase of +1.5% y/y. Despite the figure being very close to our estimates, we believe that the price environment could improve over the course of 1H25, impacted by the increase in the bargaining power of mills with their customers, who have succumbed to a lower supply of imported steel that should be established by the dynamics of the tariffs established by the Trump administration.

In USD, the realized price fell by -US$60/t q/q and -US$180/t y/y, reflecting strong pressure from discounts granted on the main product lines and the impact of the sales mix, which became more exposed to lower value-added lines, such as rebar. Even so, in BRL, price realization was partially offset by the appreciation of the USD/BRL exchange rate by +5.4% q/q and +17.9% y/y, softening the effects of discounts.

North America BD: Shipments down q/q, as expected. Shipments were reported at 914Kt (+0% vs. Genial Est.), totally in line with what we had estimated, comprising a cooling of -6.4% q/q, despite a rise of +3.3% y/y. In our view, the sequential contraction reflects the typical end-of-year seasonality and scheduled maintenance stoppages, especially at the Midlothian (TX) plant, where investments in expanding capacity are progressing. This factor reduced capacity utilization by -5p.p. q/q.

In addition, demand in the North American market remained volatile, pressured by the increase in steel imports and the political uncertainty generated by the US presidential elections at the time, which affected customer behavior and led to a "wait and see" feeling in sales. In the annual view, the volume grew, sustained by industrial investments linked to reshoring and the Infrastructure Investment and Jobs Act (IIJA). It's worth noting that the visibility of sales in the order backlog returned to an average level of 60 days (in line with history) in all categories of the product mix, after having been close to 50 days last quarter.

South America BD: Peru offsetting Argentina. Shipments were reported at 271Kt (+12.4% vs. Genial Est.), accelerating +3.0% q/q and +11.4% y/y, driven by demand in Peru, where public works advanced significantly, taking local operations to the best level of sales since 1Q22. This growth more than offset the weakness of demand in Argentina, which continues to be impacted by the economic slowdown, especially in the construction and industrial sectors.

The realized price was R$6,314/t (+14.5% vs. Genial Est.), an increase of +14.4% q/q, with **(i)** an increase in the weight of higher value-added products in the mix, **(ii)** soft price adjustments in some locations with more prominent demand, and **(iii)** appreciation of the ARS/BRL exchange rate. Even so, we believe that, for 1H25, the macroeconomic constraints in Argentina should restrict the region's volume recovery potential.

Specialty Steel: USA and Brazil in opposite directions. The division reported shipments of 331Kt (-8% vs. Genial Est.), with compression of -13.1% q/q and -2.3% y/y, impacted by the typical seasonality of the 4Qs plus scheduled maintenance stoppages. In Brazil, sales fell -4% q/q, but grew +14% y/y, driven by the strong performance of the automotive sector, especially in heavy vehicles. ANFAVEA data indicates that vehicle production in Brazil advanced +19% y/y, marking the best quarter in the last 5 years for light and heavy vehicles. In the US, sales volume fell by -21% q/q and -15.3% y/y, pressured by lower demand in the automotive sector due to interest rates still high by US standards and greater competition in the automotive industry from the used car market. For other products in the portfolio linked to the oil and gas industry, there is also an accumulated retraction of -9% y/y in 2024.

The realized price was reported at R$7,882/t (+7.8% vs. Genial Est.), up +2.9% q/q and +3.5% y/y. Despite the challenging environment, we believe that the acceleration of the USD/BRL exchange rate (+5.4% q/q; +17.9% y/y) helped mitigate the impacts of the fall in USD steel prices in the US and the lower share of higher value-added products in the mix.

For 2025, we expect marginal growth in Brazil vs. growth expected by ANFAVEA, sustained by a recovery in demand from a weak base in 2024 and a slightly more favorable scenario for heavy vehicles, which should be mitigated by an increase in the SELIC rate hitting the supply of credit.

Net revenue was down q/q, but up double-digit y/y. Consolidated net revenue was reported at R$16.8bn (+3.2% vs. Genial Est.), a contraction of -3.2% q/q and an acceleration of +14.3% y/y, reflecting a retraction in both sales prices and shipments in international operations sequentially. The strong year-on-year growth was driven by both **(i)** the acceleration of the USD/BRL exchange rate by +17.9% y/y, as well as **(ii)** selective repricing at Brazil BD throughout 2H24, mainly for flat steel, which more than offset the price retraction at North America BD, in USD.

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

	4Q24A	4Q24E		3Q24A		4Q23A	
(R$ millions)	Reported	Genial Est.	% q/q	Reported	% q/q	Reported	% y/y
Net Revenue	**16.822**	**16.305**	**3,2%**	**17.378**	**-3,2%**	**14.716**	**14,3%**
Brazil BD	6.647	6.486	2,5%	6.738	-1,4%	6.034	10,2%
North America BD	6.215	6.202	0,2%	6.657	-6,6%	5.927	4,9%
South America BD	1.711	1.330	28,6%	1.452	17,8%	326	424,6%
Special Steel BD	2.609	2.630	-0,8%	2.919	-10,6%	2.580	1,1%
Eliminations	(360)	(344)	4,7%	(388)	-7,3%	(152)	137,4%

Source: Gerdau, Genial Investimentos

Brazil BD: COGS/t in line, down significantly y/y. Reported COGS/t stood at R$4,464/t (+0% vs. Genial Est.), fully lateralized +0% q/q and -1.1% y/y, remaining stable in the quarter and reaching the lowest level for a 4Q since 2021. We believe the result reflects the continuity of cost-cutting and operational efficiency initiatives, with ~50% of the savings projected for 2024-25 (~R$1bn) already captured in 2H24.

Among the main drivers of this improvement, we highlight **(i)** greater operating leverage, with the fall in the price of metallurgical coal, **(ii)** the optimization of maintenance expenses; offsetting **(iii)** the residual costs of termination and reorganization of the footprint, resulting from the hibernation of the Barão de Cocais (MG) and Maracanaú (CE) plants. These factors helped neutralize the impacts of scheduled maintenance stoppages and the increase in the cost of some raw materials, such as pig iron and iron ore. We expect efficiency gains to intensify throughout 1H25, with additional impacts on incremental EBITDA estimated at +R$1bn in 2025.

North America BD: COGS/t up sequentially driven by the USD/BRL exchange rate. COGS was reported at R$6,186/t (+0.6% vs. Genial Est.), accelerating +6.0% q/q and +11.3% y/y, in line with projections mainly reflecting the delay in capturing the fall in ferrous scrap spot prices, while inventories of material previously acquired at higher prices were reflected in the P&L.

The USD/BRL exchange rate effect also contributed to the rise in BRL costs, since, on the one hand, the higher exchange rate helped mitigate the fall in steel prices in USD, but on the other, it made it more expensive to convert costs, which in USD remained relatively stable t/t. In the annual comparison, there was a reduction of -US$60/t q/q, reflecting the gradual contraction of the metal spread from the fall in the price of spot scrap throughout 2024.

EBITDA compresses sequentially, in line with expectations. Consolidated Adjusted EBITDA was reported at R$2.4bn (+12.1% vs. Genial Est.), down -20.7% q/q and up +12.0% y/y, comprising a margin of 14.2% (-1.1p.p vs. Genial Est.), a contraction of -3.1p.p q/q and -0.3p.p y/y. The quarterly drop reflects both the price pressure at ON North America and the lower total sales volume due to the typical 4Q seasonality (-3.8% q/q), which brought the unit's EBITDA to R$751mn (-0.9% vs. Genial Est.), down -34.8% q/q and -39% y/y.

Brazil BD, on the other hand, was the highlight, with EBITDA of R$1bn (+7% vs. Genial Est.), coming in a little higher than we expected, but with a fall of -12.1% q/q and a strong rise of +95.8% y/y. The performance was sustained by the increase in shipments and the strong decompression of COGS/t. However, the greater share of exports in the sales mix - which have lower margins - squeezed profitability, leading to -1.8p.p q/q contraction in the unit's margin. South America BD recorded EBITDA of R$227mn (+51% vs. Genial Est.), surprising us with Peru's performance, even though it represented a slight drop of -1.3% q/q. The Specialty Steel division posted EBITDA of R$452mn (+30% vs. Genial Est.), down -16.1% q/q and up +33.1% y/y, sustained by resilient demand for heavy vehicles in Brazil, despite pressure from the North American market on the light vehicle segment.

Table 4. Adjusted EBITDA Gerdau (4Q24 vs. Genial Est.)

(R$ millions)	4Q24A Reported	4Q24E Genial Est.	% q/q	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Adjusted EBITDA	**2.391**	**2.132**	**12,1%**	**3.016**	**-20,7%**	**2.135**	**12,0%**
Brazil BD	1.002	937	7,0%	1.140	-12,1%	512	95,8%
North America BD	751	758	-0,9%	1.152	-34,8%	1.231	-39,0%
South America BD	227	150	51,8%	230	-1,3%	135	67,8%
Special Steel BD	452	347	30,2%	539	-16,1%	340	33,1%
Eliminations	(41)	(59)	-30,4%	(50)	-17,4%	(83)	-50,7%

Source: Gerdau, Genial Investimentos

Net income is slightly lower than expected. Adjusted net income was R$666mn (-5.3% vs. Genial Est.), down -53.5% q/q, but accelerating +13.3% y/y, with a net margin of 4% (-0.4p.p vs. Genial Est.; -3.9p.p q/q; stable y/y). The quarterly decline reflects the cooling of operating results, while the year-on-year growth was driven by better operating efficiency at BD Brazil and positive impacts from the BRL/USD exchange rate. Net financial result was -R$628mn (+95% q/q), pressured by the fair value adjustment of the company's USD debt due to the devaluation of the exchange rate, as well as inflation adjustments on non-monetary items of subsidiaries in Argentina.

Table 5. Income Statement Gerdau (4Q24 vs. Genial Est.)

(R$ millions)	4Q24A Reported	4Q24E Genial Est.	% q/q	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**16.822**	**16.305**	**3,2%**	**17.378**	**-3,2%**	**14.716**	**14,3%**
COGS	(14.803)	(14.523)	1,9%	(14.801)	0,0%	(13.083)	13,1%
Adjusted EBITDA	**2.391**	**2.132**	**12,1%**	**3.016**	**-20,7%**	**2.135**	**12,0%**
EBITDA Margin (%)	14,2%	13,1%	1,14p.p	17,4%	-3,14p.p	14,5%	-0,29p.p
EBIT	**993**	**1.407**	**-29,4%**	**2.121**	**-53,2%**	**891**	**11,4%**
EBIT Margin (%)	5,9%	8,6%	-2,73p.p	12,2%	-6,3p.p	6,1%	-0,15p.p
D&A	(833)	(708)	17,6%	(796)	4,6%	(791)	5,3%
Financial Result	(628)	(538)	16,8%	(322)	95,0%	(155)	305,2%
Net Income	**666**	**704**	**-5,3%**	**1.357**	**-50,9%**	**588**	**13,3%**
Net Margin (%)	4,0%	4,3%	-0,36p.p	7,8%	-3,85p.p	4,0%	-0,04p.p

Source: Gerdau, Genial Investimentos

Our Take on Gerdau

FCFE of +R$427mn, down on last quarter but higher than expected. The company's FCFE totaled R$427mn (vs. +R$2.9bn in 3Q24) because of a strong recovery last quarter due to the boost from the release of the judicial deposit regarding the exclusion of ICMS from the PIS/COFINS calculation base, which represented ~60% of FCFE in 3Q24. Disregarding this effect, the variation in adjusted FCFE t/t was -R$750mn (-57.3% q/q) explained by **(i)** a contraction of -20.7% q/q in Adjusted EBITDA (+12.1% vs. Genial Est.), indicating a slowdown in operating results; **(ii)** the increase in CAPEX with cash effect in 4Q24 to R$1.9bn (+26.7% q/q) and **(iii)** the impact of the half-yearly interest payment on bonds issued abroad (-R$487mn) and the agreement signed with CADE (-R$256mn) which more than offset **(iv)** the release of working capital of +R$888mn (+154.4% q/q).

Dividends of R$0.10/share, low yield of 2.3% annualized, but with the buyback program. In addition, the company fulfilled its commitment to generating shareholder value, exceeding the minimum payout policy of 30% (vs. 65.9% effective 24A). It achieved a 24A Dividend Yield of 5% (-1p.p vs. Genial Est.) corroborating our expectation for 25E of 6.0%, coupled with a robust buyback program which, in 2024, reached a level of ~R$729.4mn (~3,5% of market cap). The company announced a dividend distribution of R$0.10/share (-5.2% vs. Genial Est.), with an ex-dividend date of March 5, 2025. The annualized Dividend Yield for this quarter was 2.3%, which is below what we expected, even if we were conservative. As we commented in our preview report, we believe that the company will continue to prioritize buybacks rather than paying dividends throughout 2025.

CAPEX slightly exceeds guidance in 2024 and remains apartment for 2025. Management CAPEX in 2024 totaled R$6.2bn (+3.3% vs. Genial Est.), above the company's guidance of R$6.0bn for the year. For 2025, Gerdau announced a new investment plan of R$6bn (-1.6% vs. Genial Est.), in line with our expectations. In 4Q24, investments amounted to R$2.4bn, with 46% sustaining and 54% allocated to growth. Brazil BD and North America BD accounted for ~88% of total CAPEX.

Among the main projects, we highlight **(i)** the expansion of the flat steel rolling mill in Ouro Branco (MG), through the BQ2 section, which should add +250Ktpy and is in the final testing phase, with start-up in 1Q25 and full operational capacity expected by the middle of the year; **(ii)** the improvement of iron ore extraction at Miguel Burnier (MG), which is in the assembly phase, with completion expected for Dec/25 and full capacity of 5.5Mtpy from 2H26; **(iii)** the technological upgrade of the Cosigua plant (RJ), guaranteeing the reallocation of the footprint with the hibernations of Barão dos Cocais (MG) and Maracanaú (CE) without the impact of volume reduction.

North America BD has performed poorly now but could improve with tariffs. Reinforcing our assumptions from our 4Q24 preview (Brazil reversing the game with the US), as Gerdau's exports from Brazil BD to the US are immaterial, the impact of the tariffs tends to be positive, **favoring North America's BD operation** by allowing **margins to be restored through greater pricing power** and an eventual increase in production capacity, given that the steel sector in the US remains weak, operating at **70-75% of installed capacity** (vs. 90-95% historically). In a sensitivity exercise, our model indicates that a **+5% increase in the realized sales price in the US** could boost **North America's BD EBITDA by +12%,** for example.

On the other hand, we understand that there is an implicit risk for Brazil BD... We believe that a factor that is still underestimated by investors is the possible impact of **US import quotas and trade barriers** on the supply of steel in Brazil, which could intensify local competition, either with **unlisted medium and large domestic mills** (such as ArcelorMittal do Brasil), which redirect production to the US, or with foreign exporters, such as China, thus threatening to prolong **the price war**, **especially in flat steel**. Thus, while **North America BD would benefit from the Trump administration's 25% tariffs**, the company should face greater pressure at **Brazil BD**. As previously stated, we continue to monitor developments to assess the short- and medium-term effects of such customs measures.

Costs reducing in Brazil, difficulties in the U.S. The company has been refining its strategy through cost containment, especially in **Brazil BD**, which has already resulted in a **significant reduction in COGS/t**, reaching the lowest level since 4Q21 (-1.1% y/y). We understand that this move **increases the unit's share in consolidated EBITDA**, reversing the scenario of compressed margins in Brazil compared to North America BD as early as 1H25. For **4Q24**, we had projected that **Brazil BD** would achieve a **margin 2 percentage points higher than that expected for North America BD**, marking a significant reversal. However, **the result exceeded our expectations by 1 percentage point versus Genial Est.**, signaling a crystallization of assumptions at a faster pace than projected, thus reflecting a high degree of improvement for Brazil BD with extensions for 25E.

Furthermore, we believe that North America BD should improve its performance throughout 2025, as the imposition of tariffs in the USA should restore margins and boost the productive capacity of local plants. Therefore, in a dual manner, we expect year-over-year improvements in 2025, both via Brazil BD and via North America BD. Consequently, we assess that the result of 4T4 has already indicated that the path to an **incremental EBITDA of +R$1bn 25E** is perfectly achievable. Accordingly, we recommend **taking long positions in the shares**, given this **asymmetry of prices versus the unfolding execution capability**. The **attractive valuation** is ratified by an **EV/EBITDA of 3.2x** (versus a historical average of 5x). Thus, we reiterate our **BUY recommendation**, with a **12M Target Price of R$23.40**, which reflects an upside of **+34.80%.**

Appendix: Gerdau

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**66.509**	**73.540**	**78.776**	**79.480**	**77.650**
(-) COGS	(57.543)	(59.545)	(62.062)	(62.458)	(61.408)
Gross Profit	**8.966**	**13.995**	**16.714**	**17.022**	**16.242**
(-) Expenses	(2.118)	(3.250)	(3.496)	(3.552)	(3.498)
Adjusted EBITDA	**10.387**	**15.134**	**18.019**	**18.578**	**18.091**
(-) D&A	(3.002)	(3.066)	(3.383)	(3.676)	(3.949)
EBIT	**6.992**	**11.480**	**14.006**	**14.265**	**13.521**
(+/-) Financial Result	(1.708)	(1.866)	(1.654)	(295)	(1.140)
(-) Taxes	(988)	(1.835)	(2.358)	(2.667)	(2.368)
Net income	**4.296**	**7.778**	**9.994**	**11.303**	**10.012**
Profitability					
Net margin (%)	6,46%	10,58%	12,69%	14,22%	12,89%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**66.509**	**73.540**	**78.776**	**79.480**	**77.650**
(-) COGS	(57.543)	(59.545)	(62.062)	(62.458)	(61.408)
Adjusted EBITDA	**10.387**	**15.134**	**18.019**	**18.578**	**18.091**
EBIT	**6.992**	**11.480**	**14.006**	**14.265**	**13.521**
(-) Taxes	(988)	(1.835)	(2.358)	(2.667)	(2.368)
(+) D&A	3.002	3.066	3.383	3.676	3.949
(+/-) Δ WK	(1.553)	(1.252)	(981)	751	(244)
(-) Capex	(6.024)	(6.100)	(6.185)	(6.278)	(6.378)
FCFF	**1.430**	**5.359**	**7.865**	**9.748**	**8.480**

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