Metals & Mining

From Macro to Micro: Data reaction, capacity cutbacks on the horizon

LatAm Metals & Mining

Main takeaways on China:

(i) Average daily pig iron production rose to **2.36Mt/day** (+2.5% w/w), but final demand for iron ore remained weak, driven by the sale of old stocks and the beginning of the process of cutting installed capacity in China; **(ii) Stacked iron ore inventories** at the 45 main ports **fell** to **~126Mt** (-0.7% w/w), with a marginal decline compared to the same week last year (-0.3% y/y), but still **+9.7% above the average for the last 5 years.** We highlight the influence of seasonal factors, the cyclone in Australia and strategic adjustments by major players such as Vale; **(iii)** The expectation of a **cut in steel production at less efficient Chinese mills** could **reduce seaborne demand for iron ore by -45Mt** over the **next ~12M**, weighing on the curve in 2H25 (which could **fall to ~US$90/t**). Our average price projection remains at **US$99/t** for **2025E**; **(iv)** The spot price rose to **US$103.6/t** (+2.1% w/w), and futures contracts for May reached US$107.8/t (+3.0% w/w), with geopolitical tensions, uncertainties about the cuts in China being offset by the fall in port stocks and the seasonal pick-up in demand; **(v) Total steel stocks** in mills yards we monitor fell to **5.0Mt** (-2.1% w/w**), the lowest level of the year.** Products such as wire rod (-17.0% w/w), HRC (-9.0% w/w) and rebar (-8.6% w/w) drove the reduction, **signaling a reactivation in downstream segments** (manufacturing and infrastructure); **(vi) Flat steel production** rose to **3.2Mt** (+1.8% w/w), sustained by confidence in domestic demand. As for the long steel category, we saw a decline of **-0.4% w/w**, with mini-mills in East and Central China reducing shifts in the face of margin compression and lower order visibility; **(vii)** The **Blast Furnace utilization rate** reached **88.7%** (+2.1p.p. w/w), **the highest level since Aug/24**, reflecting the post-holiday ramp-up. Although higher, the level is seen as operational recovery, rather than full recovery of demand; **(viii)** The **EAF utilization rate** rose to **54.9%** (+1.4p.p. w/w) but remained **-17.6p.p. below the historical average.** The segment is still suffering from squeezed margins and low demand predictability in the construction sector.

This is another edition of our weekly report on the **Metals & Mining sector**, focusing on the chapters of **Macroeconomics in China** and **market sentiment**, this week's series is part of the **"From macro to micro"** sequence. This report refers to week 4 of March 2025. This series of reports aims to update investors on the **main macroeconomic data in China**, with a focus on their correlation with the Metals & Mining sector. Market dynamics in China directly affect mining companies, as well as indirectly affecting steel mills in Brazil. Therefore, we believe it is necessary to analyze the macro without losing focus on the micro. We believe that this series of reports will be essential for monitoring the sector fundamentals that reverberate in the investment theses of the companies we cover in the sector (**Vale, CMIN, Gerdau, CSN and Usiminas**).

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Companies

VALE US Equity
Buy

Price: US$ 10.04 (28-Mar-2025)
Target Price 12M: US$ 11.40 (NYSE)

VALE3 BZ Equity
Target Price 12M: R$ 65.20 (B3)

CMIN3 BZ Equity
Neutral

Price: R$ 6.30 (28-Mar-2025)
Target Price 12M: R$ 5.75

GGBR4 BZ Equity
Buy

Price: R$ 16.90 (28-Mar-2025)
Target Price 12M: R$ 23.40

CSNA3 BZ Equity
Neutral

Price: R$ 9.74 (28-Mar-2025)
Target Price 12M: R$ 9.50

USIM5 BZ Equity
Neutral

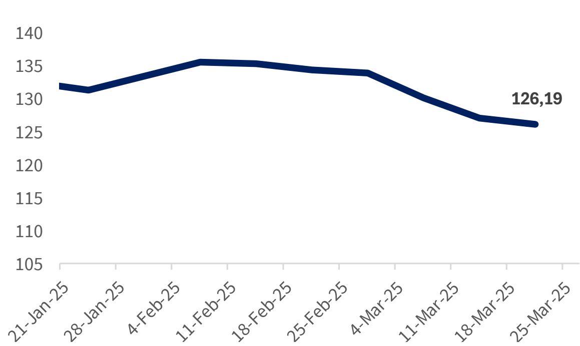
Price: R$ 5.72 (28-Mar-2025)
Target Price 12M: R$ 6.00

Iron ore and Steel

Iron ore: Higher steel mill production does not prevent price correction. Even with the advance in steel production in China over the week of March 14-21, iron ore prices continued to fall by **-0.5% w/w** (last week ended), reflecting fragile restocking. Historically, March marks a period of stronger demand in China, due to the start of spring and the resumption of work in the construction sector. However, we didn't notice a more prominent improvement in demand for iron ore, since **(i)** the mills are still selling steel inventory that were accumulated in the yard and **(ii)** the Chinese government is starting the process of readjusting installed capacity, which will cause the mills to shut down blast furnaces in older, inefficient facilities, as we had already anticipated. According to our market analysis, the average daily volume of pig iron produced by the 247 integrated mills monitored reached **2.36Mt/day (+2.5% w/w).** In our view, despite the partial operational recovery, downstream activity was lower than expected, **anticipating a strategic setback in the production capacity contraction at the old Chinese mills**, which limited the support for iron ore prices.

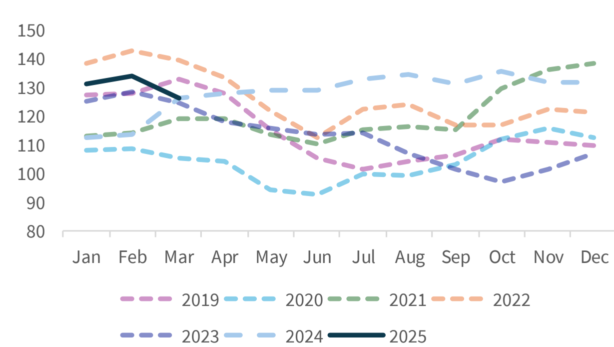
Iron ore: Port inventory continues to contract but is still above historical levels. According to our monitoring, inventory levels at the 45 main Chinese ports ended last week at **~126Mt (-0.7% w/w),** justified by the drop in iron ore shipments in the seaborne system and the volume of cargoes actually unloaded at Chinese ports, representing a marginal decrease vs. 2024 **(-0.3% y/y)**, although it still remains **+9.7%** above the average of the last 5Y of **~115Mt.** Despite the still elevated base, we have seen some sequential downward stability in the last ~7 weeks, corroborating our anticipated bearish bias in previous writings, with emphasis on **(i)** the seasonally typical effects - whose demand is warmer in China- added to the remnants of the **(ii)** repercussions from the climatic crises in Australia, such as the occurrence of cyclones; and **(iii)** strategic adjustments by relevant players, such as Vale, aimed at better balancing supply, should be the driving factors of such contrition. We believe that, although the aggregate stockpile remains high, the relief accumulated over the last few weeks (-4.9% YTD) contributes to our reduced view of some of the **negative pressure on the 62% Fe ore curve**, given the still-present imbalance between supply and demand in the short term.

Graph 1. . Iron ore port inventory 2025 (Mt)



Source: CRIC, Genial Investimentos

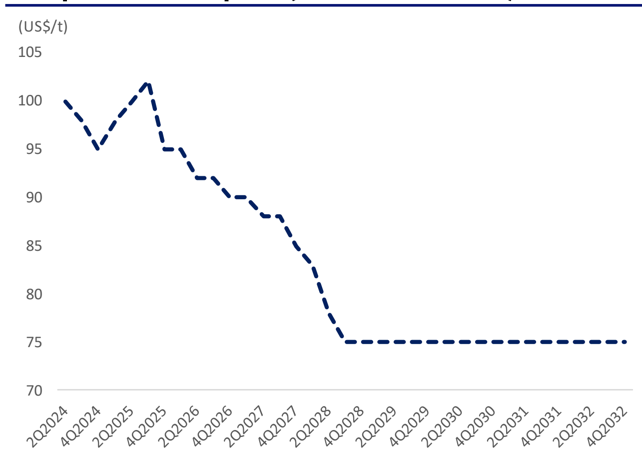
Graph 2. Iron ore port inventory vs. 5Y (Mt)



Source: CRIC, Genial Investimentos

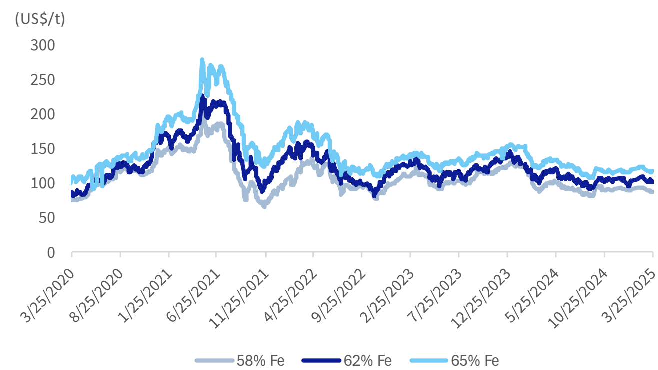
Iron ore: Falling supply relieves pressure on price, but in 2H25 the production cut will put pressure back on. Although we are witnessing a week-on-week reduction in the piling up of iron ore in Chinese port inventory, when we reach the most favorable weather conditions in 2H25, both in Brazil and Australia, we believe that this will coincide with the shutdown of part of the Chinese blast furnaces promoted by the capacity cut in the older plants, which should begin as early as April. It is important for investors **to keep an eye on these imminent changes in China**, with the government having already decided that it will **readjust capacity**, focusing **the production cut on less efficient plants with older blast furnaces that pollute more.** This, according to our calculations, could lower seaborne demand for iron ore by **-45Mt Genial Est. over the next 12M** (counted from April). Therefore, the central government's aim is to adapt to the new condition of steel demand, which is shrinking compared to the cycle we experienced when the infrastructure and construction market was booming. It is worth noting that we are maintaining our projection for **the average price** of **62% Fe iron ore** at **US$99/t in 25E**, supported by **global marginal costs** of around **US$80-90/t.**

Graph 3. Iron ore price (Genial Est. 24-32E)



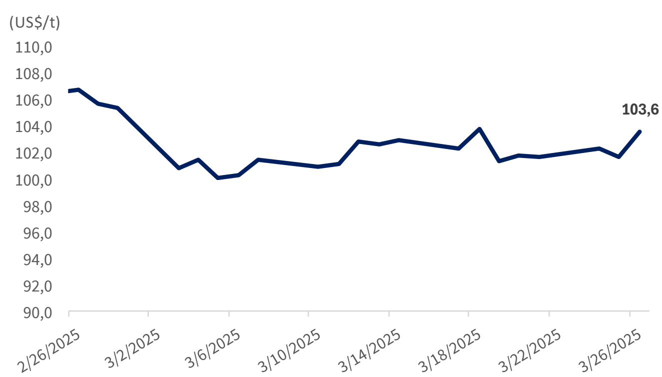
Source: Genial Investimentos

Graph 4. Iron ore price (Spot - S&P Platts)



Source: S&P Platts, Genial Investimentos

Graph 5. 30 Days Iron ore prices (Spot - S&P Platts)



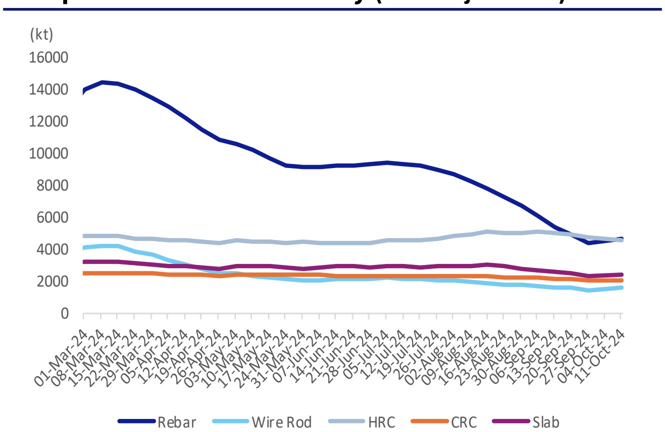
Source: S&P Platts, Genial Investimentos

Steel: Mills yard inventory is falling, demand is picking up, but dynamics still call for caution. Total steel stocks at the Chinese mills we monitor continued to fall last week, reaching a level of 5.0Mt (-2.1% w/w). We found this to be the lowest level of the year so far, indicating an eventual gradual normalization of steel demand from the downstream segments, which had been penalized by the winter seasonality and the Chinese New Year holiday (mainly the construction sector). The visual reading of inventories reinforces this diagnosis that, after the strong accumulation seen in mid-Feb/25 - the peak of the year, with 5.5Mt - the levels of all 5 main products (HRC, Rebar, Wire rod, CRC and Slabs) have been falling more intensely - especially wire rod (-17.0% w/w), HRC (-9.0% w/w) and rebar (-8.6% w/w) - signaling an improvement in perceptions of a partial reheating of demand.

When we look at the utilization capacity of blast furnaces, this index expanded for almost all the 5 main products, with the biggest highlights being Slabs (+3.8p.p. w/w) and HRC (+1.5p.p. w/w), suggesting that our recovery perception of demand is improving w/w, suggesting in our view, a joint upturn in production. This upturn is driven by signs of inventory replenishment in specific cut-out segments, such as manufacturing and infrastructure, whose investments outlined by the FAI showed an expansion m/m that more than offset the fall in the residential real estate sector.

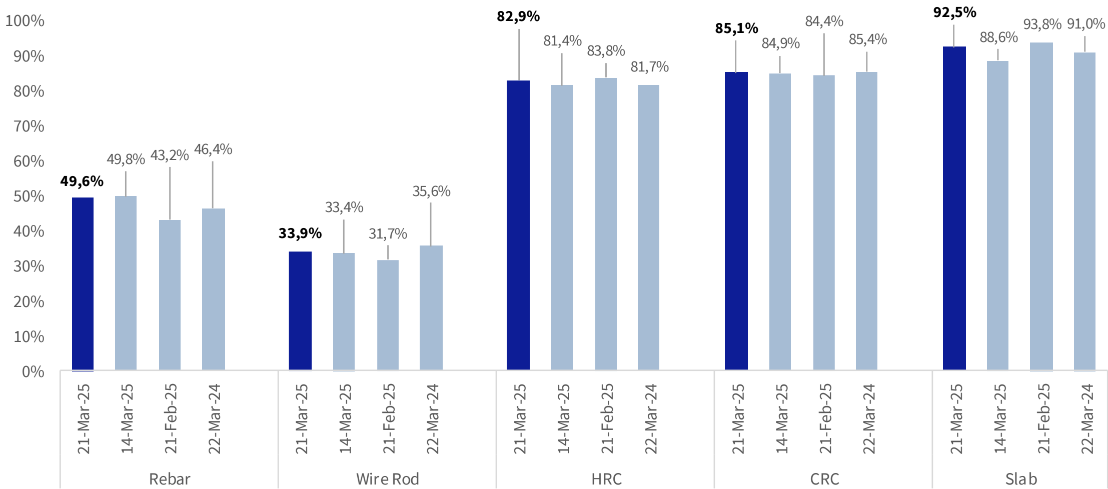
Steel: Despite improvement, the recovery was not homogeneous. Even though we identified a reduction in long steel inventories, the slight drop in production of -0.4% w/w - interrupting 4 consecutive weeks of progress -, because of the combination of projected squeezed margins for Chinese mills, raises our idea that the steel sector was not seeing a warming horizon for products in this segment. This is corroborated by the fact that mini mills in eastern and central China have reduced shifts to adapt to this possible slowdown, even though their weekly production level of 2.3Mt is still +6.9% vs. 2024. As for the flat steel segment, the bias is towards a gradual increase in downstream demand once weekly production has risen to 3.2Mt (+1.8% w/w), reflecting the resumption of operations at mills in the north of the country and greater short-term confidence in demand from the domestic market. This opposed to our previous understanding that both the uncertainties linked to the regulatory environment and the risk of tariffs (US vs. China) on exports of durable goods would lead to a slowdown on exports of durable goods would continue to limit the optimism of the mills' orderbook for March.

Graph 6. Steel mills inventory (130 major cities)



Source: My Steel, Genial Investimentos

Graph 7. Inventory months- 80 major cities

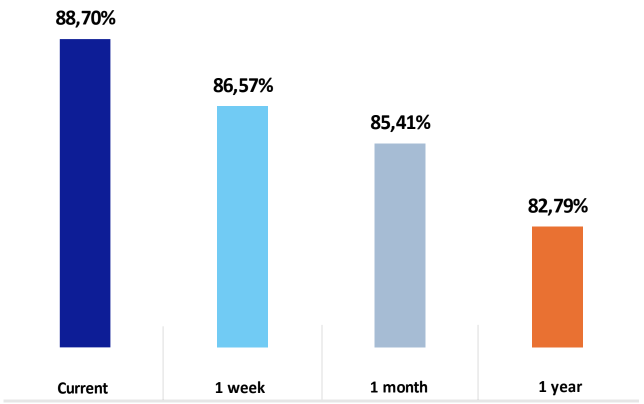


Source: My Steel, Genial Investimentos

Steel: Blast furnace recovery gains traction, but EAFs continue to operate sub-optimally. The **Blast Furnace** utilization rate in China advanced for the 4th consecutive week, reaching **88.7%** (+2.1p.p. w/w) - the highest level since August 2024, reflecting the mills operational resumption after scheduled maintenance and the ramp-up of furnaces after the Chinese New Year holiday, indicating a progressive reactivation of installed capacity (pre-cut). Compared to the same period last year, the indicator is up **+5.9p.p**, benefiting from the later timing of the Chinese New Year in 2025, which favored a faster recovery in production. Our understanding is that, although the indicator is close to historically high levels, the reading should not be interpreted as a sign that the sector is fully heating up since part of the recent increase stems from operational recovery, and not necessarily from an acceleration sustained by a perception of warmer future demand. Even so, the current level denotes moderate confidence on the part of the mills, sustained by the normalization of inventories and a gradual improvement in spot sales.

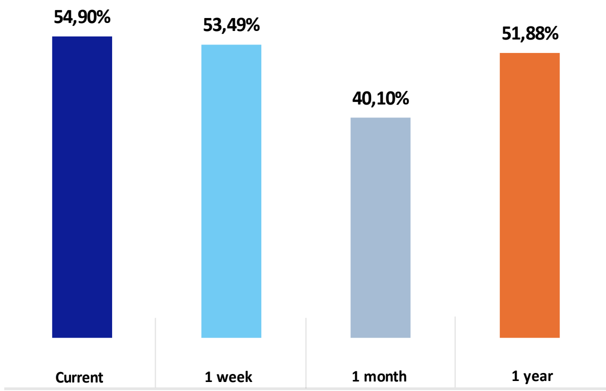
In the electric arc furnace (**EAF**) segment, the recovery is also notable. The utilization rate rose last week to **54.9%** (+1.4p.p. w/w), mainly due to the upsurge via the reactivation of several mini mills since the holiday. Despite the significant weekly variation, the absolute level remains far from the historical average (-17p.p. down vs. historical average), which reinforces the analogous reading to that made for Blast Furnaces, that the segment (especially for long steel) remains pressured by compressed margins, with lower energy efficiency and still restricted visibility regarding future orders from the construction sector.

Graph 8. Daily sales of primary housing GFA (Tier 3)



Source: My Steel, Genial Investimentos

Graph 9. Daily sales of primary housing GFA (Tier 3)



Source: My Steel, Genial Investimentos

Appendix: Vale

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

Income Statement	2024E	2025E	2026E	2027E	2028E	2029E
Net Revenue	**38.701**	**39.152**	**39.956**	**39.136**	**40.138**	**41.163**
(-) COGS	(23.761)	(23.119)	(24.141)	(23.723)	(24.096)	(24.553)
Gross Profit	**14.939**	**16.033**	**15.815**	**15.413**	**16.042**	**16.609**
(-) Expenses	(1.947)	(2.686)	(2.532)	(2.021)	(1.679)	(1.735)
Adjusted EBITDA	**16.066**	**16.777**	**16.674**	**16.966**	**18.130**	**18.823**
(-) D&A	(3.083)	(3.226)	(3.419)	(3.614)	(3.816)	(4.007)
EBIT	**12.984**	**13.551**	**13.255**	**13.352**	**14.314**	**14.817**
(+/-) Financial Result	(2.777)	(2.167)	(1.876)	(2.077)	(2.290)	(2.418)
(-) Taxes	(817)	(1.877)	(1.925)	(1.920)	(2.067)	(2.148)
Net income	**9.389**	**9.507**	**9.454**	**9.355**	**9.957**	**10.251**
Profitability						
Net margin (%)	24,26%	24,28%	23,66%	23,90%	24,81%	24,90%

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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under Review	Under review	**5%**

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