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VALE

1Q25 Operational Preview: Between Rain and Tariffs

LatAm Metals & Mining

Main takeaways:

(i) Iron ore fines production at **69.4Mt Genial Est.** (-18.7% q/q; **-2.1% y/y**), impacted by rainfall in the Northern System; **(ii)** Shipments of fines estimated at **52.8Mt Genial Est.** (-24.5% q/q; +0.5% y/y), sustained by the use of inventories built up in 2H24; **(iii)** Realized price of fines should reach **US$92.0/t Genial Est.** (-1.1% q/q), with compression of premiums (-US$2.0/t) related with deterioration of the quality mix; **(iv) Pellet** production projected at **8.2Mt Genial Est.** (-10.6% q/q; -3.2% y/y), affected by lower feed standardization; **(v) Pellet** shipments projected at **8.8Mt Genial Est.** (-12.7% q/q), pressured by the absence of accumulated inventory; **(vi)** Realized pellet price projected at **US$142.0/t Genial Est.** (-0.7% q/q; -17.4% y/y), with contract premiums falling; **(vii) Nickel** production expected to reach **43Kt Genial Est.** (-5.5% q/q; +8.9% y/y), with sales projected at **36Kt Genial Est.** (-23.5% q/q; **+8.9% y/y)**. **(x)** Realized price at US$16,050/t Genial Est. (-0.7% q/q); **(ix) Copper** production projected at **84Kt Genial Est.** (-18.1% q/q; +2.0% y/y), with shipments at **78Kt Genial Est.** (-20.9% q/q; **+2.0% y/y**); **(x)** Realized price at US$9,279/t Genial Est. (+1.0% q/q;); **(xi) Consolidated Net Revenue** clocking in at **US$8.1bn Genial Est.** (-20.0% q/q; -4.2% y/y); **(xii) Adjusted EBITDA** at **US$2.8bn Genial Est.** (-25.7% q/q; -17.3% y/y), with a margin of 34.8%; **(xiii) C1/t ex. third parties** projected at **US$22.6/t Genial Est.** (+20.2% q/q; -3.5% y/y), impacted by lower dilution of fixed costs; **(xiv)** Company continues to trade at **EV/EBITDA 25E of 3.0x** (vs. 5.0x historical), with **FCF Yield 25E** of **~15%** and **Dividend Yield 25E** of **~9%**, even with a 62% Fe curve revision to an average of **US$94/t** in **25E** (vs. US$99/t previously); **(xv)** We reiterate our **BUY rating**, with a **cut** in the **12M Target Price** to **R$61.50** (vs. R$65.20 previously) for **VALE3-B3** and **US$10.50** (vs. US$11.40 previously) for the **ADRs-NYSE**, with an **upside** of **+18.4%**.

Vale will **release** its **Production and Sales** report for **1Q25** on **April 15**, after the market closes. We believe that the quarter should be marked by a challenging environment, especially the impact of **heavy rain on the Northern System operations**, which negatively affected production volumes, especially in iron ore and pellets. Even so, we believe that the company managed to sustain an **iron ore fines healthy level** of **sales**, supported by the **strategic use** of **accumulated inventories** in 2024. We remind investors that the **financial results** will be released on **April 24**, also after the market closes.

Table 1. Operational Summary (1Q25 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.	Reported		Reported	
Summary	**1Q25E**	**4Q24A**	**% q/q**	**1Q24A**	**% y/y**
Iron Ore Production	69.364	85.279	**-18,7%**	70.827	**-2,1%**
Iron Ore Fines Shipments	52.809	69.912	**-24,5%**	52.546	**0,5%**
Pellets Production	8.194	9.167	**-10,6%**	8.465	**-3,2%**
Pellets Shipments	8.792	10.067	**-12,7%**	9.225	**-4,7%**

Source: Genial Investimentos, Vale

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Company

VALE US Equity
Buy

Price: US$ 8.86 (09-Apr-2025)
Target Price 12M: US$ 10.50 (NYSE)

VALE3 BZ Equity
Target Price 12M: R$ 61.50 (B3)

We project **shipments** of **iron ore fines** at **52.8Mt Genial Est.** (-24.5% q/q; +0.5% y/y), with a relevant drop on a sequential basis (motivated by the rainfall), but with support in the annual comparison due to the strategy of balancing production and destocking. Relative to **prices**, we project **iron ore fines** at **US$92.0/t Genial Est.** (-1.1% q/q; -8.6% y/y), reflecting the combination of a **deterioration** in the **quality mix** (more rain in the Northern system, less possibility of a blend with a higher % Fe). We estimate **premium compression** (**-US$2.0/t Genial Est.** vs. +US$1.0/t in 4Q24), despite the slight increase in the 62% Fe benchmark in 1Q25 (+7.2% q/q). On the **cost** side, the company should report a **C1/t ex. third party** of **US$22.6/t Genial Est.** (+20.2% q/q; -3.5% y/y), pressured by the **lower dilution** of **fixed costs** considering the expected reduction in volumes.

From a commercial standpoint, we believe that **Vale remains committed** to its **strategy** of **operational flexibility** and **focuses** on **higher value-added products.** Even with the deterioration in premiums for 1Q25 - which we project at **-US$2.0/t Genial Est.**, in the annual outlook, we assess that the company will continue to **reduce its share of high silica products**, prioritizing margins over volumes. This approach, coupled with disciplined inventory management, reinforces our view that the company is making progress in redesigning its commercial strategy - regardless of the expected detraction typical of 1H - with a focus on: **(i) recomposing quality premiums** and **(ii) operational and cost discipline.**

Therefore, we maintain our **BUY rating**, but with a **cut** in the **12M Target Price** to **R$61.50** (vs. R$65.20 previously) for **VALE3** and **US$10.50** (vs. US$11.40 previously) for **ADRs-NYSE**, linked to the **downgrade we made to the projected iron ore curve** (explored in the "Our Take" section), reflecting an **upside** of **+18.4%.**

1Q25 Operational Preview: Production and sales in detail

Iron ore: heavy rains put pressure on production; sales resilience supported by inventories. We project ore fines production to reach 69.4Mt Genial Est. (-18.7% q/q; -2.1% y/y), reflecting the strong impact of the rains at the beginning of the year, especially in the Northern System, where rainfall exceeded historical levels. The year-on-year comparison reinforces this contrast, given that 1Q24 was marked by an atypically mild rainfall regime. In addition, the 5-day blockade of the EFC railroad by indigenous protests posed an additional challenge. Although the stoppage was not material in terms of direct impact, considering that part of production was maintained via inventories, the event reinforces the more challenging operating environment of the quarter. We believe that shipments of iron ore fines will total 52.8Mt Genial Est. (-24.5% q/q; +0.5% y/y). The slight increase y/y can be explained by using inventories built up in 2H24. This factor allowed the company to sustain sales even in the face of the adverse weather conditions which limited production.

Table 2. Production and Shipments Summary Vale (1Q25 Genial Est.)

Production Summary (Kt)	1Q25E Genial Est.	4Q24A Reported	% q/q	1Q24A Reported	% y/y
Iron Ore[1]	69.364	85.279	-18,7%	70.827	-2,1%
Pellets	8.194	9.167	-10,6%	8.465	-3,2%
Nickel	43	46	-5,5%	40	8,9%
Copper	84	102	-18,1%	82	2,0%

[1] Including third-party purchases, run-of-mine and feed of other pelletization plants.

Shipments Summary (Kt)	1Q25E Genial Est.	4Q24A Reported	% q/q	1Q24A Reported	% y/y
Iron ore fines	52.809	69.912	-24,5%	52.546	0,5%
Pellets	8.792	10.067	-12,7%	9.225	-4,7%
ROM	2.056	1.216	69,1%	2.056	0,0%
Nickel	36	47	-23,5%	33	8,9%
Copper	78	99	-20,9%	77	2,0%

[1] Including third-party purchases

Source: Genial Investimentos, Vale

Deterioration q/q in mix will probably push the premium into negative territory again. We are projecting that the realized price of iron ore fines will reach US$92.0/t Genial Est. (-1.1% q/q; -8.6% y/y), reflecting a slight sequential decline and a significant retraction compared to the same period last year. We believe that the decline can be explained by a combination of factors: **(i)** deterioration in the quality mix - influenced by the higher incidence of products with more silica and lower iron content in 1H vs. 2H typical of each year, in line with historical seasonality -, **(ii)** generalized compression of market premiums, which should return to negative territory when reaching -US$2.0/t Genial Est. vs. +US$1.0/t in 4Q24.

We assess that the detraction in premiums such as Metal Bulletin 65% Fe and the BRBF 63% Fe blend, with the latter even trading at a negative premium vs. Platts 62% Fe, is indicating a still depressed market price environment. We believe that this situation is not linked to factors specific to Vale, but rather to a global dynamic of weaker pricing for higher quality products; and **(iii)** lower exposure to spot sales in 1Q25 - whose 62% Fe reference curve averaged US$103.0/t (+7.2% q/q).

Pellets: volume should be impacted by lower feed standardization; with a drop in realized prices. We project pellet production to reach 8.2Mt Genial Est. (-10.6% q/q; -3.2% y/y), reflecting the adverse effects of the heavy rains at the start of the year. Unlike iron ore fines, pelletizing requires a feed with a higher degree of standardization, which becomes more challenging in periods of high rainfall. We believe that this operational factor should compromise stability supply of raw materials to the pelletizing plants, directly impacting the volume produced. Pellet shipments should total 8.8Mt Genial Est. (-12.7% q/q; -4.7% y/y), down on both bases of comparison.

The weaker performance can be explained by the absence of accumulated inventories throughout 2024, which prevents the company from cushioning production shocks in the short term. In addition, Vale has historically taken a cautious approach to selling pellets at the beginning of the year. We estimate that the realized pellet price will be US$142.0/t Genial Est. (-0.7% q/q; -17.4% y/y), reflecting a slight sequential compression and a more significant drop compared to the previous year. Despite the stability of the reference price for 65% Fe iron ore (US$118/t in 1Q25 vs. US$116.1/t in 4Q24), the expected retraction in realized prices is due to the reduction in contractual premiums by -US$3.0/t q/q.

Nickel: production in line with the stabilization plan, while sales are strategically held back. We project nickel production to reach 43Kt Genial Est. (-5.5% q/q; +8.9% y/y), reflecting the continued execution of the company's plan to marginally expand volumes in base metals, as exemplified by the guidance. Shipments are expected to total 36Kt Genial Est. (-23.5% q/q; +8.9% y/y), with production exceeding sales due to the company's intention: to build up inventories in Q1, with the aim of fulfilling contracts in Q2 - when there are scheduled maintenance shutdowns at plants in Canada. The realized price is projected at US$16,050/t Genial Est. (-0.7% q/q; -4.7% y/y), in line with the decline in the LME reference curve (US$15,794/t in 1Q25 vs. US$16,255/t in 4Q24) and the still volatile market environment. Despite the oscillation in spot prices, the company's contracts continue to be protected by pricing mechanisms that smooth out the short-term effects.

Copper: production and sales advance year-on-year, despite the seasonal impact of rains. We estimate that copper production will total 84Kt Genial Est. (-18.1% q/q; +2.0% y/y), reflecting the impact of heavy rains - seasonally typical in Q1 - on operations at the Salobo and Sossego mines, both in Pará (PA). Sales are expected to total 78Kt Genial Est. (-20.9% q/q; +2.0% y/y), in line with the pace of production, with no significant deviations. The realized price is projected at US$9,279/t Genial Est. (+1.0% q/q; +21.6% y/y), in line with the slight recovery in the LME curve on a quarterly basis, which reached US$9,419/t in 1Q25 vs. US$9,318/t in 4Q24, and smoothed by the company's contractual mechanisms.

Table 3. Income Statement Vale (1Q25 Genial Est.)

(US$ millions)	1Q25E Genial Est.	4Q24A Reported	% q/q	1Q24A Reported	% y/y
Net Revenue	**8.100**	**10.124**	**-20,0%**	**8.459**	**-4,2%**
COGS	(5.337)	(6.281)	-15,0%	(5.367)	-0,6%
Adjusted EBITDA	**2.818**	**3.794**	**-25,7%**	**3.406**	**-17,3%**
EBITDA Margin (%)	34,8%	37,5%	-2,69p.p	40,3%	-5,48p.p
Adjusted EBIT	**2.171**	**2.867**	**-24,3%**	**2.692**	**-19,4%**
EBIT Margin (%)	26,8%	28,3%	-1,52p.p	31,8%	-5,03p.p
D&A	(647)	(748)	-13,4%	(714)	-9,3%
Financial Result	(424)	(374)	13,3%	(437)	-3,0%
Net Income	**777**	**(872)**	**-**	**1.687**	**-53,9%**
Net Margin (%)	9,6%	-8,6%	-	19,9%	-10,35p.p

Source: Genial Investimentos, Vale

Our Take on Vale

Improved cost dynamics should not offset the drop in revenues in 1Q25. Consolidated **Net revenue** for 1Q25 is projected at **US$8.1bn Genial Est.** (**-20.0% q/q; -4.2% y/y**), reflecting the drop in sales and prices of iron ore and pellets. **C1/t ex. purchases from third parties** is projected at **US$22.6/t Genial Est.** (+20.2% q/q; -3.5% y/y) due to the gain in operational efficiency which should be partially mitigated by the high rainfall in the northern system - the one with the lowest cost for the company combined with the minor dilution of fixed costs, which should compromise operating leverage for the quarter. Finally, **Adjusted EBITDA** is estimated at **US$2.8bn Genial Est.** (**-25.7% q/q; -17.3% y/y**), with a margin of **34.8%** (**-2.69p.p. q/q; -5.48p.p. y/y**), showing the deterioration in profitability. **Net income** should clock in at **US$777mn**, down -53.9% y/y, but reversing the accounting loss of the previous quarter. We remind investors that these figures are provisional, as we will update the estimates as soon as Vale reports its Production and Sales report on April 15, after the market closes.

China hits back and the US doesn't let up: escalating tariffs intensify tensions. The trade dispute between **China** and the **US** reached a new level of severity with the announcement of **reciprocal tariffs** of **34%** on bilateral trade on **April 4**, marking China's first counterattack. In response to the measures imposed by the US, China adopted a wide range of countermeasures. The geopolitical environment heated up one again today (**April 9**) with yet another announcement by the Trump administration to raise **tariffs on Chinese products** to **125%** (10% + 10% + 34% + 50% + 21%), in response to retaliation by the Chinese government, which in turn raised tariffs on **any US products** to **84%** (34% + 50%).

We believe that the decision, which will take **effect immediately**, represents a substantial intensification of the trade war, with the potential to reverberate through supply chains. On the other hand, in the face of market turbulence, the US government reassessed, and a **90-day tariff pause was instituted for strategic partners** - including Canada and Mexico, with the values remaining at the **+10% bottom range**. We believe that this should **reduce the risk of a global recession** and remove the excessive pressure that has been seen in recent trading sessions, with capital fleeing risk assets (mainly equity). The **suspension of tariffs does not apply to China**, which remains at 125% for the time being. We believe that this signals an attempt to reconcile a protectionist stance with room for negotiation (countries that approach the US to negotiate should receive differentiated treatment).

Now, it is difficult to measure the impact, but we have the impression that **trade** is becoming **unviable for China** and **the US at these tariff levels**. We believe that the feasible alternative is negotiation, although the level of tariffs applied could increase the animosity of the Chinese government. On the rational side, it seems to us that **China is in a weaker position in the narrative**, and even with resentment, it will have to give in, opening space to reach an understanding that relieves the excessive pressure exerted by the US government on its exports.

Fundamentals are not so bad: demand is recovering, supply is tightening. Our data collection points out that **blast furnaces** at the mills we monitor in China are operating at an average of **89.6%** of **capacity** (high cycle could be considered 90-95%), boosted by post-maintenance normalization in Hubei and Henan and by positive price adjustments promoted by mills such as Angang and Bensteel. The utilization rate has been rising week by week, reaching **+6p.p. y/y** at this stage. The movement is also driven by the recovery after the Chinese New Year holiday (early February), with an acceleration in industry and the seasonal entry of construction (residential and non-residential). The movement, however, **reflects an operational recovery**, not a full heating of demand. Inputs are falling and **steel mills** are starting to **pass on adjustments** of **+US$50/t**. **Coal** prices fell **-11% m/m**, leading to higher margins. Even so, margins were almost negative for most mills up to now.

On the supply side, **iron ore inventory in China fell for the 9th consecutive week**, reaching **125.3Mt** (-0.5% q/q; -7.3% vs. Feb/25) in the 45 main ports, with pressure coming from: **(i)** extreme weather in Australia (cyclones); **(ii)** a drop in domestic iron ore production in China (-12.6% y/y), **(iii)** a reduction in supply placed by Vale in the seaborne system and **(iv)** a slightly warmer demand from mills.

Iron ore: 62% Fe curve revised again. Average 25E falls to US$94/t. The external environment remains unstable, with +25% tariffs on steel and aluminum imposed by the US, as well as +**125% tariffs on all Chinese goods** (announced today by the Trump administration, after China's second retaliation), adding volatility to the market. We have lowered our **average price projection for 2025E** to **US$94/t** (-5% vs. previous Est.) and decrease our average price projection for 2026E to US$91/t (-2.2% vs. previous est.). Although we have cut the curve projection for this year and the next, given the potential loss of demand from the Chinese industry with exports, we assess that the iron ore curve will remain **sustained by the global marginal cost** in the range of **US$80-90/t**, but with occasional adjustments in the quarters.

Looking at the specifics, **2Q25E** has moved downwards to **US$90/t** (vs. US100/t previously), even with more favorable data observed over the last few weeks (already mentioned in the excerpt above), as we are trying to capture the speculative effect of reduced demand linked to tariffs. The spot price for the 62% Fe benchmark fell sharply today, reaching US$95.9/t (-5.6% in the last 3 days), quoted on the Dalian Commodities Exchange (DCE). Going forward, we **lowered** the **3Q25E** estimate to **US$94/t** (vs. US$99/t previously) and downgraded **4Q25E**, now coming in at **US$89/t** (vs. US$93/t previously), reflecting the deflationary sum of two factors: **(i) favorable weather conditions for production typical of the 3Qs**, which tends to **raise the shipments level** in the **4Q**, increasing supply throughout the 2H; and **(ii) expected cooling** in **steel demand**, due to the **impact** of **tariffs on China's trade balance**, in addition to **capacity cuts** in **old steel mills** promoted by the Chinese central government (-45Mt Genial Est. reduction in Chinese demand over the next 12M).

Between Rain and Tariffs, we cut the Target Price. Despite the significantly more volatile global environment - with **(i)** the escalation of the US-China trade war; **(ii)** revision of the 62% Fe 25E curve to **US$94/t** (-5% vs. previous Est.); and **(iii)** a still faltering recovery in demand - we reiterate our view that Vale continues to be traded at excessively **discounted multiples**, detached from its operational fundamentals. Even with the price of iron ore having contracted significantly, reaching **US$95.9/t** (-5.6% in the last 3 days), the stock remains the most discounted global major vs. the 62% Fe spot curve (-46% discount, nearly 2x above average). Priced at an **EV/EBITDA 25E** of **3.0x** (vs. 5.0x historical), delivering a **25E FCF Yield** of **~15%** (vs. ~16% previously) and a **25E Dividend Yield** of **~9%** - underpinned by continued robust cash flow generation, even against a backdrop of expected ore price detraction to US$89/t in 4Q25E (vs. ~US$95.9/t currently).

We expect the 1Q25 operating data to be released to show a **greater impact** from **the rains**, generating a slight y/y drop in iron ore fines production and worsening a bit the mix quality. In addition, although we recognize the risks inherent in a **possible deterioration** in the **Chinese trade balance** and pressure on industrial growth, we believe that **this risk is already more than priced into the company's shares** - as it is, so far, highly speculative - and is accentuating the hyperbolic penalty on the equity story, stemming from the escalation of tariff reciprocity (the share has fallen **-7.4%** in the last 5 days). On the rational side, our view is that the fundamentalist price vectors are currently contributing to a scenario that is not as bad as the one that was priced in. **Supply** continues to be **reduced** at China's ports - with port inventories falling for 9 consecutive weeks, while **demand** is showing signs of **recovery**, with Chinese mills' **blast furnaces** operating at **89.6%** of capacity (**+6p.p. y/y**), driven by margins in the process of being rebuilt (steel price readjustments and a fall in the price of metallurgical coal).

We are still in favor of the strategic repositioning from a commercial standpoint expected by the company for 2025. For this reason, we maintain our **BUY rating**, but with a **cut** in the **12M Target Price** to **R$61.50** (vs. R$65.20 previously) for **VALE3-B3** and **US$10.50** (vs. US$11.40 previously) for the **NYSE-ADRs**, linked to the **downgrade we made to the projected iron ore curve**, reflecting an **upside** of **+18.4%.**

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**

Disclosure Section

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	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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