Equity Research

GERDAU

1Q25 Preview: US remakes, Brazil anchors

LatAm Metals & Mining

(i) Brazil BD: Shipments estimated at **1,379Kt Genial Est.** (-5.0% q/q; -3.9% y/y), impacted by the prolonged shutdown of BQ2, which limited flat steel deliveries during the quarter. Realized price at **R$5,324/t Genial Est.** (-0.5% q/q), reflecting a tougher environment in long steel, partially offset by the weight of special steel products; **(ii) North America BD:** Shipments estimated at **1,173Kt Genial Est.** (+9.0% q/q; +1.2% y/y), driven by plant restarts and an improved order book. Realized price of **R$7,089/t** (Genial Est.; +1.2% q/q; +3.8% y/y), supported by the end of discounts and the beginning of price pass-throughs; **(iii) Net Revenue:** Estimated at **R$17.0bn Genial Est.** (+1.1% q/q; +4.9% y/y), mainly supported by North America BD, partially offsetting declines in other regions; **(iv) EBITDA:** Projected at **R$2.3bn Genial Est.** (-3.5% q/q; -18.0% y/y), with a margin of **13.6%** (-1.1p.p. q/q; -3.1p.p. y/y), reflecting asymmetric performance between regions and ongoing challenges in Brazil and South America; **(v) Net Income: R$1.3bn Genial Est.** (+3.0x q/q; +2.9% y/y), driven by a reversal of the FX effect that had pressured financial results in 3Q24; **(vi) FCF under pressure in 1Q25:** We expect a cash burn in the quarter due to front-loaded **CAPEX** (**R$1.5bn**, Genial Est.) and seasonal working capital effects. The new CAPEX budget distribution will require greater discipline in 2H25; **(vii) Positive drivers for the remainder of 2025:** We see gradual improvement in FCF due to lower CAPEX intensity in 2H25, ramp-up of BQ2, and normalization of prices in the U.S; **(viii) Forecast revisions:** We revised our projections for volumes in North America BD (2026 and 2027) and for long steel prices in Brazil BD. As a result, we **maintain** our **BUY rating** but **cut** our **12M Target Price** to **R$19.00** (from **R$23.40**), implying an **upside** of **+26.16%**.

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Company

GGBR4 BZ Equity
Buy

Price: R$ 15.06 (24-Apr-2025)
Target Price 12M: R$ 19.00

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

(Thousand Tonnes - kt)	Genial Est.	Reported		Reported	
Summary (Shipments)	**1Q25E**	**4Q24A**	**% q/q**	**1Q24A**	**% y/y**
Brazil BD	1.379	1.452	**-5,0%**	1.436	**-3,9%**
North America BD	1.173	1.076	**9,0%**	1.159	**1,2%**
South America BD	252	271	**-7,0%**	227	**11,0%**

Source: Gerdau, Genial Investimentos

Table 2. Income Statement Summary (1Q25 Genial Est.)

(R$ millions)	Genial Est.	Reported		Reported	
Income Statement	**1Q25E**	**4Q24A**	**% q/q**	**1Q24A**	**% y/y**
Net Revenue	17.006	16.823	**1,1%**	16.210	**4,9%**
Adjusted EBITDA	2.308	2.391	**-3,5%**	2.813	**-18,0%**
Net Income	1.281	324	**295,8%**	1.244	**2,9%**

Source: Gerdau, Genial Investimentos

Gerdau will release its **1Q25 results** on **April 28**, after the market closes. For the quarter, we expect a **performance in opposite vectors** between the operating units, with emphasis on the **acceleration of North America BD**, in contrast to the **pressures in Brazil BD**. We project **Net Revenues** of **R$17.0bn Genial Est.** (+1.1% q/q; +4.9% y/y), mainly driven by shipments and prices recovery at North America BD. Our model points to a **consolidated EBITDA** of **R$2.3bn Genial Est.** (-3.5% q/q; -18.0% y/y), with a **margin** of **13.6%** (-0.6 p.p. q/q; -3.8 p.p. y/y) - a reflection of the operational restrictions in Brazil and prices normalization in South America BD, which should return part of the extraordinary gains obtained in 3Q24. Finally, **Net Income** should reach **R$1.3bn Genial Est.** (+3.0x q/q; +2.9% y/y), benefiting from a more benign financial result, due to the reversal of non-recurring FX losses observed in the previous quarter.

At **North America BD**, we project a **more favorable scenario from a sequential standpoint**. The operation should see a significant recovery in volumes, totaling **1,173kt Genial Est.** (+9.0% q/q; +1.2% y/y), driven by (**i**) the re-activation of plants after stoppages in 4Q24; (**ii**) the resumption of the order book - with backlogs already exceeding 60 days -; and (**iii**) the tactical rebuilding of inventories by distributors, in anticipation of the tariffs' effects imposed by the US on crude steel imports. In terms of price, the slight increase projected should reflect the end of discounts on long products and the gradual improvement in the mix, raising **EBITDA** to **R$1.0bn Genial Est.** (+27.7% q/q; -41.5% y/y).

On the other hand, **Brazil BD** results are likely to have **occasional negative effects in the sequential view**, especially due to the stoppage for the integration of the BQ2 line, which took longer than initially expected, probably compromised inventories formation and restricted deliveries - especially of flat steel. We estimate that shipments will reach **1,379kt Genial Est.** (-5.0% q/q; -3.9% y/y), while prices should remain flat, with a **worsening in the dynamics of long steel** (more on this throughout the report), offset by the absorption of operations in Specialty Steel division, respectively by Brazil BD (and North America BD) as of 1Q25. In addition, lower cost dilution - should limit operating earnings, with **EBITDA** of **R$1.1bn Genial Est.** (-17.9% q/q; +38.2% y/y).

Despite a **still pressured quarter, especially in Brazil**, we see the first vectors of operational rebalancing underway. The **recovery of North America**, coupled with the expectation of cost dilution with the ramp-up of BQ2 in 2H25, should sustain a gradual recovery of margins throughout the year. Added to this is the **maintenance of the guidance** of **+R$1.0bn in EBITDA** via the **operational efficiency program**, in addition to the new tariff context in the US, which is consolidating itself as a relevant path to support better results throughout 2025.

1Q25 Preview: In detail!

Brazil BD: Shipments are expected to be restricted by the BQ2 implementation stoppage. We project shipments to a total of 1,379kt Genial Est. (-5.0% q/q; -3.9% y/y), mainly impacted by the scheduled stoppage for the integration of the new HRC line (BQ2) at the Ouro Branco (MG) plant. The stoppage duration, of which exceeded the schedule originally planned, seems to have compromised the formation of strategic inventories, restricting deliveries throughout the quarter - especially of flat steel to the domestic market.

According to the information we have, even though the stoppage lasted longer than expected, the situation has already normalized, and we should see the ramp-up of this volume from 2Q25 onwards.

Brazil BD: Price under dual compensatory effects. Regarding to price dynamics, we project a realized price of R$5,324/t Genial Est. (-0.5% q/q; +4.0% y/y), practically flat in the sequential movement and high on an annual basis due to a heterogeneous composition in the mix, with (**i**) a retraction in prices in the long steel product basket, pressured by the intensification of imports and the liquidation of inventories by smaller players, who entered the year with high positions; being offset by (**ii**) a greater share of specialty steel, whose higher pricing brought additional support to the consolidated average.

It is important to note that, given the competitive deterioration at the start of the year - marked by aggressive pricing practices by regional players - the company plans to adopt a tactical strategy of defending its market share, especially in the Southeast and South regions in Brazil, possibly giving up part of its short-term profitability to preserve its strategic position with its customer base.

Brazil BD: The scenario is difficult for long steel. Although we believe that there is no more room for further price drops in long steel, the current scenario is not positive. We have identified a pressure on rebar related not only to competition between mills, in fights for market share which are driving down prices, but also to a reduction in demand, which is weakening in the residential construction sector, especially for high-income projects. Sales are already slowing down, and the number of new launches is expected to fall this year. Although “Minha Casa, Minha Vida” (MCMV) projects are helping to mitigate this decline, with the number of units growing by ~9% YTD, both the mix and volume of steel for low-income projects are still depressing compared to high-income projects.

We have found that the current prices of some sub-items of the long steel group are at the same price level as 3Y ago, but it is important to make it clear that the cost environment is much higher today. For this reason, although we believe in stability, the argument for price increases is also gaining strength. S&P Platts data revealed that the rebar is at a discount of -7.7% vs. imported products. In recent weeks, lower prices have widened the range of negotiated prices, indicating worsening demand and a bearish market, with many small and medium-sized mills facing financial difficulties that could worsen if demand remains low.

North America BD: Volume should be robust due to a combination of factors. We estimate that the unit's shipments will total 1,173Kt Genial Est. (+9.0% q/q; +1.2% y/y), reflecting a significant recovery in the sequential base, which had been impacted by typical year-end seasonality and scheduled maintenance shutdowns at some plants - especially in Midlothian (TX). We believe that the (**i**) resumption of operations after the maintenance, combined with an environment with a (**ii**) warmer orderbook (it exceeded 60 days, after falling in the last two quarters), resulted in volumes acceleration. In addition, the movement by distributors to rebuild inventories in anticipation of the potential impact of tariffs on imported crude steel - announced in March and April by the Trump administration - also seems to have contributed to the advance in sales.

South America BD: Volumes in Peru converging to average and persistent slowdown in Argentina. We estimate that the business unit's shipments will total 252Kt Genial Est. (-7.0% q/q; +11.0% y/y), a move that essentially represents sales volume returning to average point after the large anticipation of orders recorded in Peru in 4Q24. On the price side, we project a realized price of R$6,124/t Genial Est. (-3.0% q/q; +16.7% y/y), reflecting a more cautious pricing strategy, given the lower demand in some markets and the weakening of the FX rate in selected regions.

Net Revenue: Slight increase driven by North America BD. We expect consolidated Net Revenue to total R$17.0bn Genial Est. (+1.1% q/q; +4.9% y/y), with performance sustained by the recovery of North America BD, which should more than offset the expected declines in the other operations. For the unit, we project revenues of R$8.3bn (+10.3% q/q; +5.1% y/y), reflecting the restocking of inventories, progress in the order book and the start of price normalization - with transfers announced throughout the quarter, but whose full effects should occur in 2Q25.

At Brazil BD, we estimate net revenue of R$7.3bn (-5.5% q/q; -0.1% y/y), impacted by the stoppage of BQ2 in Ouro Branco, which should reduce shipments of flat steel. Despite the competitive pressure, the realized price should remain stable, sustained by the dual bias of (**i**) a greater share of specialty steel in the mix and (**ii**) price retraction in long steel. In South America BD, our model points to revenues of R$1.5bn (-9.8% q/q; +29.6% y/y), with normalization of volumes in Peru after strong order anticipation in 4Q24. The realized price is expected to decline at the margin, in line with a more conservative approach given the still challenging macroeconomic environment in the region.

Table 3. Net Revenue Gerdau (1Q25 Genial Est.)

(R$ millions)	1Q25E Genial Est.	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**17.006**	**16.823**	**1,1%**	**16.210**	**4,9%**
Brazil BD	7.343	7.769	-5,5%	7.354	-0,1%
North America BD	8.315	7.536	10,3%	7.914	5,1%
South America BD	1.543	1.711	-9,8%	1.191	29,6%
Eliminations	(195)	(193)	1,2%	(249)	-21,6%

Source: Gerdau, Genial Investimentos

Brazil BD: COGS/t to be pressured by the BQ2 stoppage. We estimate that COGS/t will reach R$4,665/t Genial Est. (+4.0% q/q; -0.2% y/y), with a sequential increase mainly explained by the one-off effects of the stoppage to connect the BQ2 line in Ouro Branco (MG), which should inevitably reduce the dilution of fixed costs in 1Q25. Even so, we expect that the reduction in the price of metallurgical coal - the effect of which is delayed by spot market conditions - should mitigate the outcome of the stoppage and continue to cool costs in the following quarter. It is worth noting that, even with the expected increase in 1Q25, management's structural plan continues to be to reorganize the unit, generating a positive effect of +R$1.0bn in EBITDA 25E.

For the coming quarters, with the operational standardization of the new line and a lower incidence of stoppages, we expect COGS/t to return to the downward trend shown during 2H24.

North America BD: COGS/t basically stable due to offsetting effects. We estimate that COGS/t will reach R$6,419/t Genial Est. (-0.8% q/q; +16.6% y/y), reflecting a marginal sequential drop due to a direct offset between (**i**) the seasonal pressure on ferrous scrap prices - which have risen by around +US$100/t since the end of 2024 - and (**ii**) the scale gains derived from the increase in volumes shipped, which favored the dilution of fixed costs with the end of maintenance stoppages.

We stress that chain verticalization continues to play a key role in the company's cost control: with ~40% of ferrous scrap being captive, we assess that only 1/2 of the total variation in the market price impacts the operation's raw material cost. In addition, as the dynamics of scrap have a lag of ~60 days, a large part of the impact is concentrated in this 1Q25, with a tendency for partial relief in 2Q25, given the recent cooling observed in the spot prices of the input (-12.9% q/q) and the increase and recompositing of the metal spread in view of the price readjustments that we have already commented on throughout the report.

EBITDA: North America's BD improved performance tends to be neutralized by other BDs. We project consolidated Adjusted EBITDA of R$2.3bn Genial Est. (-3.5% q/q; -18.0% y/y), reaching a margin of 13.6% (-1.1p.p. q/q; -3.1p.p. y/y), reflecting the significant sequential improvement at North America BD, which is shown in our model with an EBITDA of R$1.1bn (+27.7% q/q; -41.5% y/y), driven by accelerated shipments and gains from cost dilution. However, this performance should be offset by the expected downturn in the other business units. It is worth noting that the operation should suffer a strong detraction because of market confluence, especially for the realized price base.

At Brazil BD, we estimate EBITDA of R$1.2bn (-17.9% q/q; +38.2% y/y), impacted by the stoppage of BQ2 in Ouro Branco (MG), which should reduce volumes and increase COGS/t due to the lower dilution of fixed costs. At South America BD, we project EBITDA of R$205mn (-9.5% q/q; -28.3% y/y), reflecting standardization around average volumes and a weaker realized price.

Table 4. EBITDA Gerdau (1Q25 Genial Est.)

(R$ millions)	1Q25E Genial Est.	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Adjusted EBITDA	**2.308**	**2.391**	**-3,5%**	**2.813**	**-18,0%**
Brazil BD	1.129	1.376	-17,9%	817	38,2%
North America BD	1.038	812	27,7%	1.774	-41,5%
South America BD	205	227	-9,5%	286	-28,3%
Eliminations	(64)	(24)	170,3%	(64)	0,0%

Source: Gerdau, Genial Investimentos

Net Income: Reversal of BRL/USD depreciation should be positive for the bottom line. We project Net Income of R$1.3bn Genial Est. (+3.0x q/q; +2.9% y/y), driven by operational improvement at North America BD and the positive effect of the financial result, which in 4Q24 had been pressured by non-recurring FX expenses due to the high BRL depreciation (-7.1% q/q vs. +13.4% q/q in 4Q24). The net margin should reach 7.5% (+5.6p.p. q/q; -0.2p.p. y/y). Year-on-year, the result should remain stable, reflecting the expected margin challenges faced by North America BD (-9.9 p.p. y/y) and South America BD (-10.7 p.p. y/y), as well as non-recurring effects on the capital structure.

Table 5. Income Statement Gerdau (1Q25 Genial Est.)

(R$ millions)	1Q25E Genial Est.	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**17.006**	**16.823**	**1,1%**	**16.210**	**4,9%**
COGS	(15.169)	(14.803)	2,5%	(13.791)	10,0%
Adjusted EBITDA	**2.308**	**2.391**	**-3,5%**	**2.813**	**-18,0%**
EBITDA Margin (%)	13,6%	14,2%	-0,64p.p	17,4%	-3,8p.p
EBIT	**1.431**	**993**	**44,1%**	**1.944**	**-26,4%**
EBIT Margin (%)	8,4%	5,9%	2,51p.p	12,0%	-3,6p.p
D&A	(939)	(833)	12,7%	(726)	29,3%
Financial Result	19	(627)	-103,0%	(476)	-103,9%
Net Income	**1.281**	**324**	**295,8%**	**1.244**	**2,9%**
Net Margin (%)	7,5%	1,9%	5,61p.p	7,7%	-0,1p.p

Source: Gerdau, Genial Investimentos

Our Take on Gerdau

The company should burn FCF in 1Q25. With our expectation of a practically flat q/q consolidated nominal EBITDA, the company's FCF generation should shrink in 1Q25, even moving into **negative territory**. Two main factors explain this movement that we are anticipating: (**i**) the **seasonal effect of tightening working capital**, typical of the 1Qs. In addition, (**ii**) the **CAPEX execution schedule**, pulling forward relevant disbursements as early as 1Q25, with a projection of **~R$1.5bn Genial Est.** (+75% vs. 1Q24), or ~25% of the total CAPEX budgeted for 2025. The acceleration in CAPEX at the start of the year is associated with the Miguel Burnier (MG) mining project.

Although the **CAPEX guidance** has been maintained at **R$6.0bn for 2025**, execution will occur more **linearly throughout the process** (25% in each quarter), unlike the pattern observed in previous years, when most of the contributions were **concentrated in the 2H**. As a result, we believe it is even more important to keep a close eye on the FCF trajectory of 2H25, since there will be less room for slippage in budget execution towards the year-end. Last year, almost 40% of CAPEX was concentrated on 4Q alone. For this reason, we believe that the strategy of bringing forward a larger portion than usual to 1Q imposes a risk linked to the discipline of capital allocation.

Brazil BD: Challenging backdrop, but with occasional signs of support. In Brazil, the macroeconomic backdrop remains challenging. Projections for **GDP** growth **25E** are **+2%** vs. +3.4% in 2024. In addition, with the **25E IPCA** at a high level (5.65%) the terminal **SELIC rate** is projected at **15.0%,** a very restrictive level, which tends to jeopardize investments, especially in the most credit-sensitive sectors, such as construction and industry. Even so, we have identified some vectors that could **support** a **marginal recovery** in **Brazil BD.**

Among them, we highlight (**i**) the possible **resilience** of **low-income residential construction**, via Minha Casa, Minha Vida (MCMV) program and **the infrastructure segment**, which continue to sustain demand for long steel; (**ii**) the **gradual easing** of **excess inventories in the distribution chain**, coupled with a cooling of the pressure for discounts practiced by less structured players. Both factors could open space for a **slight recovery in volumes**; and (**iii**) the **conclusion of the integration of the BQ2 line**, which should increase operational efficiency and free up capacity with more attractive margins.

US tariff: positive vector for Gerdau's local operation. In the international environment, the US eliminated exemptions and imposed tariffs on all steel and aluminum imports **as of March 2025** - a measure that, although it represents an obstacle for Brazilian exporters, tends (**i**) to **directly benefit North American's BD operation**, since the company has steel manufacturing plants in the US and should capture the competitive gain resulting from the lower penetration of imports, especially in more sensitive lines such as rebar and beams. Combined with (**ii**) the **backlog** that is coming into an **increasing process** and (**iii**) the prospect of the **supply chain being recomposed** in favor of domestic production, the new tariff framework in the US is a vector of support for volumes in the short term. On the other hand, the (**iv**) **inflationary pressures** linked to the **tariffs' application**, which should be observed in the medium term, could **inhibit the cycle of interest rate cuts promoted by the FED**, which could lead to a **demand reduction** due to a higher for longer stance.

US rowing, Brazil anchored. This time, the **quarter storyline** will be the **reverse of 4Q24**. **North America BD** should show an **important recovery** in the sequential movement, and **Brazil BD should curb the possibility of greater gains** in the consolidated result. Despite the **one-off pressure expected** in 1Q25, we maintain a constructive reading for the FCF trajectory for the remainder of 2025. As a result, (**i**) although **CAPEX is expected to rise in 1Q25 vs. historical 1Qs**, the company has maintained its annual guidance of **R$6.0bn**, indicating that the coming quarters should see **lower relative disbursement intensity** (it is still too early to say whether the budget will be suppressed). It is important to note that, by opting for a more **linear distribution of investments** - replacing the historical concentration observed in the 2H - the company is imposing a dynamic of less slack towards the end of the year, a period which traditionally absorbed most of the contributions, while at the same time reducing the volatility of q/q cash outlays.

On the operational front, we believe that the trend is towards a **gradual recovery looking forward**, sustained by (**ii**) **the working capital control**, after the seasonal squeeze typical of 1Q, and the **sequential advance of EBITDA**, as the price increases implemented in the US gain traction and Brazil BD resumes its usual pace after the BQ2 stoppage. The **distribution of maintenance stoppages throughout the year** should also contribute to a more balanced trajectory of costs and CAPEX in Brazil, diluting peaks of pressure on FCF.

Although we still maintain a bullish outlook for the 2025 results vs. the current trading value of the shares, we see that the risks implicit in the medium and long-term cycle justify an **adjustment to our valuation assumptions**. We have changed (**i**) the **projections for shipments** in North America BD for **2026** and **2027** (with a downward bias), given the expectation of higher inflation in the US, brought about above all by the **counterproductive effect of tariffs** - a scenario which should inhibit the process of cutting interest rates by the FED and limit the pace of replenishment of downstream demand from next year onwards. In addition, (**ii**) we also **cut** our **long steel pricing assumptions** for **Brazil BD**, due to the challenging context in the domestic environment, with oversupply, fierce competition and weak demand for high-income residential construction projects (which should slow down in 2H25). As a reflection of these changes in our proprietary model, we still maintain our **BUY rating**, however we have **cut** the **12M Target Price** to **R$19.00** (vs. R$23.40 previously) implying an **upside** of **+26.16%.**

Appendix: Gerdau

Figure 1. Gerdau – Income Statement in R$ Millions (Genial Est. 2025-2028)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**72.335**	**77.762**	**78.069**	**79.442**
(-) COGS	(63.044)	(67.492)	(67.137)	(66.822)
Gross Profit	**9.291**	**10.269**	**10.932**	**12.620**
(-) Expenses	(2.340)	(2.506)	(2.530)	(2.580)
Adjusted EBITDA	**11.178**	**12.012**	**12.506**	**13.953**
(-) D&A	(3.869)	(4.131)	(4.370)	(4.590)
EBIT	**7.620**	**8.541**	**9.182**	**10.834**
(+/-) Financial Result	(545)	(686)	(471)	(1.105)
(-) Taxes	(1.595)	(1.946)	(2.408)	(2.684)
Net income	**5.480**	**5.909**	**6.303**	**7.046**
Profitability				
Net margin (%)	7,6%	7,6%	8,1%	8,9%

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

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**72.335**	**77.762**	**78.069**	**79.442**
(-) COGS	(63.044)	(67.492)	(67.137)	(66.822)
Adjusted EBITDA	**11.178**	**12.012**	**12.506**	**13.953**
EBIT	**7.620**	**8.541**	**9.182**	**10.834**
(-) Taxes	(1.595)	(1.946)	(2.408)	(2.684)
(+) D&A	3.869	4.131	4.370	4.590
(+/-) Δ WK	186	(6)	(193)	169
(-) Capex	(6.000)	(6.075)	(6.150)	(6.226)
FCFF	**4.081**	**4.645**	**4.802**	**6.684**

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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%**
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under Review	Under review	**5%**

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