USIMINAS

1Q25 Review: EBITDA expands, but working capital tightens

LatAm Metals & Mining

(i) steel sales totaled **1,093Kt**, with robust performance in the DM — while **COGS/t in the steel segment** fell to **R$5,081/t**, reflecting operating gains and one-off effects; **(ii)** The **average export price of steel** reached **R$5,859/t**, benefiting from a higher value-added portfolio and a selective export strategy, although volume declined sequentially; **(iii)** The mining division posted solid performance, with shipments of **2,218Kt** and an **realized price of R$413/t**, driven by a higher share of CFR sales, lower incidence of discounts and exchange rate stability; **(iv)** Consolidated **EBITDA to R$733mn**, with a margin of **10.7%** (+0.1p.p. vs. Genial Est.); **(v)** Despite operational progress, **FCF** was negative at **-R$560mn**, pressured by a significant immobilization of **R$778mn in WC**, partially offset by a **more contained CAPEX of R$219mn**; **(vi)** The company projects partial normalization in wc already in **2Q25**, with an estimated reversal of ~50% of the pressure observed in 1Q25, while **CAPEX tends to accelerate**, reflecting the progress of strategic projects, within the **guidance of R$1.4bn–R$1.6bn**; **(vii)** The cost structure remains heavily indexed to the USD (**~60% of the total**); **(viii)** Starting in **2H25**, the context is likely to become more challenging; **(ix)** Even operating at attractive multiples (**EV/EBITDA 25E of 3.0x** vs. historical average of **4.8x**), the absence of short-term catalysts and structural uncertainties impose a more cautious view; **(x)** We reiterate our **NEUTRAL rating**, with a **12M Target Price of R$6.00**, equivalent to an **upside** of **+3.3%**.

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Company

USIM5 BZ Equity
Neutral

Price: R$ 5.81 (24-Apr-2024)
Target Price 12M: R$ 6.00

Usiminas released its **1Q25 results** on **April 24**. In a **still challenging** environment, we believe that the company's performance was consistent with a recovery in results, **slightly above our expectations from an operational standpoint**, although it still has a long way to go to reach an EBITDA margin of 15% in the steel division vs. 8.7% in 1Q25.

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

(Thousand Tonnes - kt)	Reported	Genial Est.		Reported		Reported	
Summary (Shipments)	**1Q25**	**1Q25E**	**% R/E**	**4Q24**	**% q/q**	**1Q24**	**% y/y**
Steel	1.093	1.064	**2,7%**	1.057	**3,4%**	1.042	**4,9%**
Iron Ore	2.218	2.195	**1,0%**	2.202	**0,7%**	1.962	**13,0%**

Source: Usiminas, Genial Investimentos

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

(R$ millions)	Reported	Genial Est.		Reported		Reported	
Income Statement	**1Q25**	**1Q25E**	**% R/E**	**4Q24**	**% q/q**	**1Q24**	**% y/y**
Net Revenue	6.858	6.636	**3,4%**	6.480	**5,8%**	6.223	**10,2%**
Adjusted EBITDA	733	702	**4,4%**	518	**41,4%**	416	**76,2%**
Net Income	337	193	**74,9%**	(117)	**-**	60	**458,9%**

Source: Usiminas, Genial Investimentos

The highlights were the good performance in the domestic steel market and the appreciation of iron ore prices. Still, as a **negative highlight**, we point out **additional pressure on working capital**, above our expectations (we will detail this further below), which may have justified the **negative reaction of investors to the results**.

The company reported **Consolidated Net Revenue** of **R$6.8bn** (+3.4% vs. Genial Est.), up +5.8% q/q and +10.2% y/y, benefiting from higher steel volumes in the domestic market and higher mining prices. EBITDA was R$733mn (+4.4% vs. Genial Est.), exceeding our estimates, with an increase of **+41.4% q/q** and **+76.2% y/y**, and a margin of 10.7% (+2.7 p.p. q/q), sustained by lower steel costs. **COGS/t of steel was R$5,081/t** (-2.4% vs. Genial Est.), down **-1.9% q/q** and **-3.7% y/y**. Finally, the company reported **Net Income of R$337mn** (+74% vs. Genial Est.), reversing the loss in 4Q24, favored by the exchange rate reversal and more robust operating performance.

1Q25 Review: In detail!

Steel Domestic Market: Automotive sector drives growth. Steel shipments to the domestic market (DM) totaled 1,002Kt (+2.7% vs. Genial Est.), rising +4.2% q/q and +9.0% y/y, reflecting the gradual recovery of industrial activity and the improved dynamics of the automotive sector, which consolidated its position as the main driver of demand in the period. As exemplified in our preview, the improvement in volume was indeed noticeable in 1Q25, in line with data from AFAVEA – light vehicle production rose +8.3% y/y in the quarter, helping to sustain volumes.

The average price realized was R$5,539/t (-1.9% vs. Genial Est), basically stable at +0.1% q/q, with a compression of -1.3% y/y. We believe that the price should have reflected the adjustments implemented at the beginning of the year, with emphasis on the +2–3% increases in contract renegotiations with automakers (17–20% of the portfolio) and additional adjustments of +2–5% in the industrial and distribution segments. However, prices remained flat due to the deterioration of the sales mix in the period. The decline in the quality of the mix ultimately led to a lower realized price than we expected.

Steel Foreign market: Selling less for more. Steel shipments to the foreign market (FM) totaled 92Kt (+4.0% vs. Genial Est.), down -4.3% q/q and -25.5% y/y, slightly higher than projected, reflecting a selective export strategy focused on regional markets with lower logistics costs. As anticipated, the annual decline still reflects the end of specific contracts with higher added value — such as the supply for the Néstor Kirchner gas pipeline in Argentina (81% of exports vs. 49% in 4Q24) — while, in the quarterly comparison, the decline is associated with the prioritization of the domestic market over the foreign market. The average export price was R$5,859/t (+6.8% vs. Genial Est.), accelerating more than expected, rising +8.3% q/q and +15.0% y/y, sustained by a higher-quality product mix in the period. Although the external scenario remains pressured by international steel prices, the BRL's continued depreciation vs. the USD helped to partially mitigate this effect, favoring opportunistic shipments throughout the quarter.

Steel Consolidated: Higher shipments in the DM; Improved mix in the FM. Consolidated steel sales totaled 1,093Kt (DM + FM), with up +2.7% vs. Genial Est., +3.4% q/q and +4.9% y/y, exceeding our projections and reflecting, above all, the good performance of the domestic market, which regained traction amid the resumption of industrial activity and resilient automotive demand. As we highlighted in our preview, the company's strategy of directing volumes to channels with higher value generation proved effective, mitigating the lower contribution from the foreign market in the period.

The division's consolidated average price (DM + FM) was R$5,571/t (-1.1% vs. Genial Est.), a slight increase of +0.9% q/q and +0.4% y/y, sustained by adjustments implemented in the domestic market – even though offset by a deterioration in the domestic mix – and by a slight improvement in the export mix. Despite the still competitive environment in the international market and the end of specific contracts with higher added value, the company has sought to reconfigure its commercial portfolio, promoting a gradual recovery in prices and increasing marginal profitability in the segment.

Mining: Weather helps despite seasonality; removal of discounts leads to higher prices. Iron ore shipments totaled 2,218Kt (+1.0% vs. Genial Est.), representing a slight acceleration of +0.7% q/q and a stronger +13.0% y/y, in line with our projections and reflecting a normalization of operations, especially in seasonal comparison. Despite the continued maintenance of the East Treatment Plant (ETM), which remains out of operation, we noted the effect, as we anticipated in our preview of the new mining fronts — activated at the end of 2024 — which began to feed the other treatment units, helping to stabilize volumes in the period. Unlike in previous years, 1Q25 was not significantly impacted by rains in the regions where MUSA operates, which favored the maintenance of the logistics chain and resulted in a slight sequential increase in shipments. In addition, exports accounted for 75% of the volume billed (+5 p.p. q/q), evidencing the continuity of external demand, now with a predominance of sales from own production, given the decline in third-party volume, which reached 139Kt (-20% q/q).

The average price realized was R$413/t or US$70.7/t (+17.5% vs. Genial Est.), rising sharply +18.7% q/q and +24.9% y/y, driven by (**i**) a higher proportion of shipments with sea freight included (63% in 1Q25 vs. 34% in 4Q24); (**ii**) lower incidence of discounts and (**iii**) stability in the BRL/USD exchange rate, averaging 5.85 vs. 5.84 in 4Q24. Although the 62% Fe ore curve varied only +0.2% q/q, the more favorable commercial mix in the period sustained price appreciation.

Net Revenue: Steel and Mining contributed positively, with varying intensities. Consolidated Net Revenue reached R$6.9bn (+3.4% vs. Genial Est.), rising +5.8% q/q and +10.2% y/y and exceeding our estimates, with positive contributions from both the Steel and Mining divisions. In the steel business unit, revenue was R$6.1bn (+1.6% vs. Genial Est.), representing an increase of +4.3% q/q and +5.3% y/y, driven by the advance in domestic shipments, combined with a qualitatively more favorable export mix.

Table 3. Net Revenue Usiminas (1Q25 vs. Genial Est.)

(R$ millions)	1Q25 Reported	1Q25E Genial Est.	% R/E	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**6.858**	**6.636**	**3,4%**	**6.480**	**5,8%**	**6.223**	**10,2%**
Steel	6.089	5.993	1,6%	5.840	4,3%	5.784	5,3%
Mining	917	773	18,7%	767	19,5%	649	41,2%
Eliminations	(148)	(130)	13,5%	(127)	16,2%	(211)	-29,8%

Source: Usiminas, Genial Investimentos

COGS/t: Positive dynamics in Steel and negative in Mining Consolidated COGS/t reached R$5,386/t (-1.7% vs. Genial Est.; -1.3% q/q; -2.9% y/y), below projections, with a positive impact from reductions due to efficiency gains. In the steel division, COGS/t was R$5.081/t (-2.4% vs. Genial Est.), declining -1.9% q/q and -3.7% y/y, with better than expected efficiency, but with non-recurring effects that helped reduce costs, as they were combined with operating gains and lower input pressure. Therefore, the reduction of -R$99/t vs. 4Q24 came mainly from other costs (-R$98/t), driven by one-off effects from raw material insurance indemnities and reversal of provisions related to freight, in addition to operational improvements after the BF3 reform – one-off effects that should not be understood as structural to the downward trend in costs. There was also a contribution from the volume effect (-R$13/t), with greater dilution of fixed costs. These factors more than offset the price/exchange rate impact (+R$11/t), derived from the slight appreciation of the USD against the BRL and continued dependence on third-party slabs.

In Mining, COGS/t stood at R$306/t (+10.7% vs. Genial Est.), rising +10.5% q/q and +12.0% y/y, with a significant increase in expenses explained by the greater weight of exports in the CFR modality (including freight), which accounted for 63% of foreign shipments (vs. 34% in 4Q24). This effect more than offset the reduction in USD-denominated input prices and the stability in logistics resulting from more favorable weather, with no atypical rains, already considering the seasonality at the beginning of the year.

EBITDA: Slightly above expectations, with recovery q/q and y/y. Consolidated EBITDA totaled R$733mn (+4.4% vs. Genial Est.), rising more prominently by +41.4% q/q and +76.2% y/y with a margin of 10.7% (+1.1 p.p. q/q). In the steel division, EBITDA was R$528mn (+0.4% vs. Genial Est.), rising +44.3% q/q and +58.2% y/y, sustained by three main drivers: (**i**) a reduction of -R$109mn in costs; (**ii**) a positive effect of +R$52mn from price/mix, driven by improved quality in sales, mainly in the external market; and (**iii**) an increase of +R$12mn from higher sales volume. These effects offset the impact of -R$10mn in additional operating expenses, mainly in sales and SG&A. As a result, the division's margin advanced to 8.7% (vs. 6.3% in 4Q24).

In Mining, EBITDA totaled R$206 million (+16% vs. Genial Est.), also above expectations and up +33.8% q/q and +149.5% y/y, also above expectations.

The result was driven by the appreciation of the average realized price (+18.7% q/q), which partially offset the increase in COGS/t, due to the higher share of sales with freight included (CFR) and lower volume of purchases from third parties.

Table 4. EBITDA Usiminas (1Q25 vs. Genial Est.)

(R$ millions)	1Q25 Reported	1Q25E Genial Est.	% R/E	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Adjusted EBITDA	**733**	**702**	**4,4%**	**518**	**41,4%**	**416**	**76,2%**
Steel	528	526	0,4%	366	44,3%	334	58,2%
Mining	206	177	16,6%	154	33,8%	83	149,5%
Eliminations	(1)	(0)	129,4%	(2)	-36,7%	0	129,4%

Source: Usiminas, Genial Investimentos

Net Income: Operating gains and reversal of FX losses. The company reported Net Income of R$337mn (+74% vs. Genial Est.), up +4.6x y/y, reversing the loss in the previous quarter and comfortably exceeding our forecast. The net margin was 4.9% (+2.0 p.p. vs. Genial Est.), mainly reflecting operating gains in both divisions, in addition to a significantly more benign performance in the financial result.

The financial result was positive at +R$20mn (vs. -R$299mn in 4Q24), a variation of +R$319mn q/q, driven by net foreign exchange gains of +R$112mn vs. a loss of -R$233mn in 4Q24. This reversal stems from the effect of the +15 p.p. q/q appreciation of the BRL vs. the USD (end of period), which reduced the BRL value of liabilities in USD. We found that this financial relief, coupled with the +79.0% q/q increase in EBIT, was decisive for the recovery of the bottom line in the period.

Table 5. Income Statement Usiminas (1Q25 vs. Genial Est.)

(R$ millions)	1Q25 Reported	1Q25E Genial Est.	% R/E	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**6.858**	**6.636**	**3,4%**	**6.480**	**5,8%**	**6.223**	**10,2%**
COGS	(6.085)	(5.994)	1,5%	(5.961)	2,1%	(5.824)	4,5%
Adjusted EBITDA	**733**	**702**	**4,4%**	**518**	**41,4%**	**416**	**76,2%**
EBITDA Margin (%)	10,7%	10,6%	0,1p.p	8,0%	2,7p.p	6,7%	4p.p
EBIT	**438**	**368**	**19,0%**	**245**	**79,0%**	**131**	**234,6%**
EBIT Margin (%)	6,4%	5,6%	0,8p.p	3,8%	2,6p.p	2,1%	4,3p.p
D&A	(311)	(255)	21,8%	(314)	-1,1%	(131)	137,3%
Financial Result	20	(5)	-	(597)	-	(311)	-
Net Income	**337**	**193**	**74,9%**	**(117)**	**-**	**60**	**458,9%**
Net Margin (%)	4,9%	2,9%	2p.p	-1,8%	-	1,0%	3,9p.p

Source: Usiminas, Genial Investimentos

Our Take on Usiminas

FCF: Working capital compression dynamics offset EBITDA growth. The company reported an **FCF burn of -R$560mn** (42% worse than Genial Est.), marking not only a significant decline both sequentially and y/y, reflecting, above all, the **exacerbated seasonal pressure on working capital** — typical of the first quarters (but with slightly more intensity). Operating cash flow (OCF) was **-R$341mn**, impacted by a **R$778mn** immobilization in working capital, exceeding the **+R$733mn** generated via EBITDA. **CAPEX at R$219mn** (-42.7% q/q) contributed to partially softening the FCF burn. Even so, the result shows that the **effective conversion of EBITDA into FCF was compromised**, given the need to rebuild inventories and adjust the payment cycle. Despite the strengthening of liquidity, the increase in leverage to 0.71x Net Debt/EBITDA **LTM** (vs. 0.58x in 4Q24) reinforces the importance of financial discipline and rigor in working capital management throughout the rest of the year.

FCF for 2Q25: Less pressure on working capital but increase in CAPEX. Based on the dynamics discussed at the conference with analysts after the results were released, our qualitative assessment was neutral. Regarding **working capital**, management indicated that **~50% of the negative variation recorded in 1Q25 (-R$780mn) should be reversed already in 2Q25E**, with expected realization in inventories and an increase in the balance of suppliers. In addition, for **2Q25**, the company projects a **significant acceleration in the pace of investments q/q** and **maintenance of guidance** for annual **CAPEX between R$1.4bn and R$1.6bn**, after more restrained disbursements in 1Q25. Strategic projects such as the **PCI in Blast Furnace 3** (BF3) — scheduled for completion by the end of 2025 — and the **refurbishment of the coking plant** are entering a more advanced stage, with a more significant financial impact starting this quarter.

Steel: How much further will COGS/t fall? For **2Q25**, in addition to the expectation of **stable sales**, the fact that the company has implemented **pass-throughs of +3%** for the remainder of its customer portfolio in the **automotive segment**, combined with the projection of **stability in the export mix**, should favor a stable bias for revenue. Additionally, the downward trend in **coke and coal prices**, combined with the **appreciation of the BRL** (from **R$6.00** at its peak in Dec/24 to around **R$5.70** in Apr/25) – since ~60% of its costs are linked to the dollar – should **boost the reduction in COGS/t** — a movement that has already begun to materialize in 1Q25, with a **decline of -2% q/q** which, according to the company, **~1% of the reduction in COGS/t**, excluding non-recurring items, can be directly attributed to industrial efficiency.

For **2H25**, the scenario looks more **challenging and uncertain**, especially in terms of **competitiveness vs. imports**. The growing **presence of subsidized foreign steel** (mainly Chinese and with NCMs (National Classification of Merchandise) loopholes) in the domestic market remains the main point of attention, directly affecting **price formation** and putting pressure on the **sector's profitability.**

According to management, flat steel imports in 1Q25 reached **1.0Mt**, up **+42% y/y**, highlighting the loss of domestic industry share in apparent consumption.

Mining: Pressure on the 62% Fe curve should imply a negative bias. For **Q2 2025**, the projection is for **stable volumes**, sustained by the continuation of new mining fronts started in December 2024, which have been providing a **richer mix** — with a higher percentage of iron and lower silica content. This superior quality profile should continue throughout the quarter, acting as an operational differential amid a **less favorable price** scenario. The company signals that the cooling of international benchmarks, such as the 62% Fe ore curve, should limit the potential for revenue expansion, even with production stability guaranteed by the reinforcement of the other MUSA plants and occasional purchases from third parties. For **2H25**, the expectation remains for **maintaining volumes and mix quality** until the reactivation of the East Treatment Plant (ETM Leste), although **global price dynamics** remain the main risk variable for the mining unit's performance.

EBITDA expands, but working capital tightens. Despite the **operational improvement** recorded in 1Q25 — particularly with the **reduction in COGS/t of steel** and the **increase in the realized price of iron ore** — the company's cash flow generation was negatively impacted by a more intense seasonal effect on **working capital**. The company reported **FCF burn of -R$560mn**, driven by a R$778mn increase in inventories and suppliers. Even so, despite expectations of a **partial reversal in 2Q25**, with a recovery of ~50% of the observed impact, **CAPEX should accelerate**, in line with the annual guidance of R$1.4–1.6bn. On the operational side, the outlook is positive for 2Q25: in addition to stability in the export mix, the combination of price pass-throughs in the automotive sector (+3% in April), a decline in input commodity prices, and the appreciation of the BRL vs. **USD** (~R$5.70 vs. a peak of R$6.00 in Dec/24) should intensify the trajectory of **COGS/t reduction**, which already began this quarter.

On the other hand, **2H25 tends to be more challenging**. The persistence of **subsidized steel imports** (1.0Mt in 1Q25, +42% y/y) should continue to pressure price formation in the domestic market, while the **cooling of the 62% Fe curve** should limit revenue expansion in mining. Despite the **more qualified mix** and the **progress of strategic projects** — such as the AF3 PCI and the coking plant reform —, we still do not see **material triggers for appreciation in the short term**. Thus, even trading at a **25E EV/EBITDA of 3.0x** (vs. 4.8x historical average), we reiterate our **NEUTRAL** rating, with a **Target Price of R$6.00** and **upside of +3.3%**.

Appendix: Usiminas

Figure 1. Usiminas – Income Statement in R$ Millions (Genial Est. 25-28)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**26.433**	**27.532**	**28.735**	**30.001**
(-) COGS	(24.416)	(25.081)	(25.672)	(26.988)
Gross Profit	**2.017**	**2.451**	**3.064**	**3.013**
(-) Expenses	(876)	(814)	(851)	(881)
Adjusted EBITDA	**2.440**	**2.956**	**3.564**	**3.501**
(-) D&A	(1.181)	(1.250)	(1.256)	(1.242)
EBIT	**1.141**	**1.637**	**2.212**	**2.132**
(+/-) Financial Result	4	(65)	302	421
(-) Taxes	(327)	(393)	(1.308)	(1.149)
Net income	**818**	**1.179**	**1.207**	**1.404**
Profitability				
Net margin (%)	3,1%	4,3%	4,2%	4,7%

Figure 2. Usiminas– Cash Flow in R$ Millions (Genial Est. 25-28)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**26.433**	**27.532**	**28.735**	**30.001**
(-) COGS	(24.416)	(25.081)	(25.672)	(26.988)
Adjusted EBITDA	**2.440**	**2.956**	**3.564**	**3.501**
EBIT	**1.141**	**1.637**	**2.212**	**2.132**
(-) Taxes	(327)	(393)	(1.308)	(1.149)
(+) D&A	1.181	1.250	1.256	1.242
(+/-) Δ WK	83	204	(198)	4
(-) Capex	(1.413)	(1.413)	(1.130)	(1.074)
FCFF	**665**	**1.285**	**833**	**1.156**

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Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**49%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

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