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# USIMINAS

## 2Q25 Preview: Stars alignment is unlikely to be enough

LatAm Metals & Mining

**(i) DM**: at **973Kt Genial Est.** (-2.9% q/q; -0.1% y/y), impacted by weakness in credit-sensitive sectors. The realized price should fall to **R$5,645/t Genial Est.** (-2.4% q/q); **(ii) FM:** Shipments are expected to advance to **93Kt Genial Est.** (+1.4% q/q; +37.0% y/y), but with a less qualified portfolio. The realized price should fall to **R$5,295/t Genial Est.** (-3.5% q/q), hampered by a simpler mix and lower added value; **(iii)** Total steel shipments (DM+FM) at **1,066Kt Genial Est.** (-2.5% q/q; +2.3% y/y), with consolidated prices falling to **R$5,490/t Genial Est.** (-2.5% q/q); **(iv) MUSA:** Shipments of **2,408Kt Genial Est.** (+8.6% q/q; +19.5% y/y), driven by seasonality. The realized price is expected to fall to **R$312/t Genial Est.** (-15.8% q/q); **(v) Net Revenue** of **R$6.5bn Genial Est.** (-5.6% q/q; +2.0% y/y); **(vi) COGS/t:** In the steel division, costs should reach **R$5,196/t Genial Est.** (+2.3% q/q; -3.2% y/y), pressured by additional components (freight, repairs, and third-party slabs) that offset the positive effects of lower input prices; **(vii) EBITDA** of **R$446mn Genial Est.** (-39.2% q/q; +80.2% y/y); **(viii) Net Income:** Bottom Line at **R$103mn Genial Est.** (-69.5% q/q; reversing y/y loss); **(ix) FCF** still **negative**, with **WC** at **-R$520mn Genial Est.** (vs. -R$778mn in 1Q25). **CAPEX** should accelerate to **R$311mn Genial Est.** (+42% q/q; +16% y/y); **(x) Steel imports** continue to pressure **apparent consumption**, up +42% y/y through May and accounting for over 30% of apparent consumption. Even with light vehicle production growing **+21% q/q** in **2Q25**, this advance has been mostly **captured** by **foreign steel**; **(xi)** The external environment also poses risks — such as the **50% tariff on Brazilian products** announced by the Trump administration, which could **accelerate the USD/BRL FX rate**. We maintain our cautious view and **cut** the **12M Target Price** to **R$4.75** (vs. R$6.00), reiterating our **NEUTRAL rating**, with an **upside** of **+13.1%.**

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**Company**

**USIM5 BZ Equity**
**Neutral**

**Price:** R$ 4.22 (14-Jul-2024)
**Target Price 12M:** R$ 4.75

**Table 1. Shipments Summary (2Q25 Genial Est.)**

| (Thousand Tonnes - kt) | Genial Est. | Reported | | Reported | |
|---|---|---|---|---|---|
| **Summary (Shipments)** | **2Q25E** | **1Q25** | **% q/q** | **2Q24** | **% y/y** |
| **Steel** | 1.066 | 1.093 | **-2,5%** | 1.042 | **2,3%** |
| **Iron Ore** | 2.408 | 2.218 | **8,6%** | 2.015 | **19,5%** |

*Source: Usiminas, Genial Investimentos*

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

| (R$ millions) | Genial Est. | Reported | | Reported | |
|---|---|---|---|---|---|
| **Income Statement** | **2Q25E** | **1Q25** | **% q/q** | **2Q24** | **% y/y** |
| **Net Revenue** | 6.477 | 6.858 | **-5,6%** | 6.350 | **2,0%** |
| **Adjusted EBITDA** | 446 | 733 | **-39,2%** | 247 | **80,2%** |
| **Net Income** | 103 | 337 | **-69,5%** | (100) | **-** |

*Source: Usiminas, Genial Investimentos*

Usiminas will release its **2Q25 results** on **July 25**, before the market opens. Our estimates point to a **weak quarter**, marked by a deterioration in key operating indicators, reflecting a more adverse environment in both of the company's divisions. We project Consolidated **Net Revenue** of **R$6.5bn Genial Est.** (-5.6% q/q; +2.0% y/y), impacted by lower sales in the steel division, and also a sharp drop in prices in the mining division. In the **steel** division, shipments should reach **1.1Mt Genial Est.** (-2.5% q/q, +2.3% y/y), with domestic activity affected by high interest rates and the growing substitution of domestic demand by imports. The **realized price** should go down to **R$5,490/t Genial Est.** (-2.5% q/q; -0.1% y/y), reflecting a more aggressive competitive environment and the volumes redirection to less profitable channels.

What strikes us as odd is that, even though **there was a star's alignment for a decline in COGS/t**, the company **should still not be able to slow down costs** (more on this in the "Our Take" section). COGS/t is projected to clock in at **R$5,196/t Genial Est**. (+2.3% q/q; -3.2% y/y), pressured by complementary items such as higher freight costs, maintenance, and greater use of third-party slabs. In **mining**, shipments are pointed to in our model at **2.4Mt Genial Est.** (+8.6% q/q; +19.5% y/y), with a **realized price** of **R$312/t Genial Est.** (-15.8% q/q; -19.0% y/y), justified both by **(i)** the deterioration of the 62% Fe reference curve (-5% q/q) and **(ii)** the decline in the average USD/BRL FX rate (-3.1% q/q).

In this context, we estimate Consolidated **Adjusted EBITDA** of **R$446mn Genial Est.** (-39.2% q/q; -80.2% y/y), representing a significant sequential decline in operating profitability for both divisions. Finally, we project **Net Income** of **R$103mn Genial Est.** (-69.5% q/q, loss reversal y/y), with a lower net margin.

## 2Q25 Preview: In detail!

**Steel: DM with lower volume and prices.** The performance of the steel segment in the domestic market (DM) should reflect a more pressured environment, albeit partially sustained by the resilience of the automotive chain. We project domestic shipments at 973Kt Genial Est. (-2.9% q/q; -0.1% y/y), reflecting sequential contraction and a slight decline in the annual base. Although volumes linked to the automotive sector remained solid, segments more exposed to the credit cycle — such as white goods and truck trailers — showed weakening signs, which resulted in the volumes redirection to less attractive channels, especially distribution in the North and Northeast regions. This dynamic compromised the sales mix and negatively impacted on the portfolio's profitability.

We estimate a realized price of R$5,645/t Genial Est. (-2.4% q/q; +1.2% y/y). Despite the adjustments made at the beginning of the year — which traditionally concentrates on contract renegotiations in 1Q25 —, the significant increase in imports put strong pressure on domestic prices. In May and June alone, imported flat steel volumes reached their two highest monthly levels in the historical series. In response, the company adopted a more cautious approach, reversing part of the increases granted through selective discounts. The combination of the weakening of the mix and fierce competition from imported steel at depreciated prices resulted in a compression of the realized price in the sequential movement.

**Steel: FM with higher sales and weaker mix.** Contrary to what we observed in previous quarters, shipments to foreign markets (FM) should show slight growth, totaling 93Kt Genial Est. (+1.4% q/q; +37.0% y/y). The acceleration, although temporary, reflects a tactical adjustment by the company in light of domestic market constraints, given the weakness in credit-sensitive sectors and increased competition from imported steel. Although the company's policy continues to prioritize the domestic market, the challenging scenario has led to a strategy of intensifying exports, even with less selectivity in the shipped portfolio. As such, we project a realized price of R$5,295/t Genial Est. (-3.5% q/q; -16.0% y/y), pressured by lower value-added volumes and a poorer mix.

**Steel: DM + FM consolidate weaker prices and shipments.** The consolidated performance of the steel division should reflect a notoriously adverse environment, marked by **(i)** volume contraction, **(ii)** price compression, and **(iii)** deterioration of the commercial mix. We project total shipments (DM+FM) at 1,066Kt Genial Est. (-2.5% q/q; +2.3% y/y), with a sequential decline and modest growth on an annual basis — largely explained by a depressed basis of comparison in 2Q24. The quarterly decline should result from persistent weakness in credit-sensitive domestic sectors, given the SELIC rate level, which is causing the company to redirect a little more volume to the foreign market. We had already anticipated that this would happen since the beginning of the year.

On the price side, we project (DM+FM) realization of R$5,490/t Genial Est. (-2.5% q/q; -0.1% y/y). The decline reflects not only the partial reversal of the price adjustments made at 1Q — especially in the domestic market—but also the significant increase in imports, which reached record volumes in May and June and imposed strong competitive pressure. Given this scenario, the company adopted a more defensive stance, with targeted commercial concessions.

**MUSA: Shipments accelerated due to seasonality, but prices fell.** In the mining segment (MUSA), we project shipments of 2,408Kt Genial Est. (+8.6% q/q; +19.5% y/y), driven by the better seasonality after the typical seasonal slowdown during the heavy rains of 1Q and added to by the gradual effects of the opening of new mining fronts that feed other processing units, which occurred at the end of last year, while the eastern processing unit (ETM) remains shut down. Despite higher sales volume, we estimate a significant drop in the realized price to R$312/t Genial Est. (-15.8% q/q; -19.0% y/y), reflecting **(i)** the contraction of -US$6/t to ~US$97 (-5% q/q) in the 62% Fe reference index in 2Q25; **(ii)** the increase in sea freight costs, which rose by +US$2–3/t in 2Q25; and **(iii)** the depreciation of the USD/BRL FX rate.

**Net Revenue: Sequential contraction of mid-single digit.** We project that the company's consolidated Net revenue will decline to R$6.5bn Genial Est. (-5.6% q/q; +2.0% y/y), given lower volume and prices in the steel business unit and lower realized mining prices. We estimate that revenue from the steel division will total R$5.9bn Genial Est. (-5.0% q/q, +2.1% y/y), pressured by weaker domestic demand, mainly due to the high-interest rate environment and more subdued consumption. Revenue from the mining division is expected to decrease to R$752mn Genial Est. (-8.6% q/q, -3.2% y/y), impacted by the significant drop in realized prices, due to a worse sales mix, contracted 62% Fe curve and FX rate effects, which offset shipments growth.

**Table 3. Net Revenue Usiminas (2Q25 Genial Est.)**

| (R$ millions) | 2Q25E Genial Est. | 1Q25 Reported | % q/q | 2Q24 Reported | % y/y |
|---|---|---|---|---|---|
| **Net Revenue** | **6.477** | **6.858** | **-5,6%** | **6.350** | **2,0%** |
| Steel | 5.852 | 6.157 | -5,0% | 5.729 | 2,1% |
| Mining | 752 | 823 | -8,6% | 777 | -3,2% |
| Eliminations | (127) | (135) | -5,4% | (156) | -18,4% |

*Source: Usiminas, Genial Investimentos*

**COGS/t: Could slow down but probably won't.** We project that consolidated COGS/t will reach R$5,501/t Genial Est. (+2.1% q/q; -3.0% y/y), with a sequential increase explained by non-recurring factors and the composition of the cost recorded. Although global fundamentals point to cost relief — with declines in input prices such as metallurgical coal (-6% q/q), iron ore (-5% q/q) and also the USD/BRL FX rate (-3% q/q) — 1Q25 benefited from extraordinary events, such as the reversal of provisions, which distorted the comparative basis. It is worth noting that, excluding this effect, the actual cost increase would have been lower.

In the steel division, we estimate COGS/t of R$5,196/t Genial Est. (+2.3% q/q; -3.2% y/y). The acceleration should occur even with the fall in the price of key inputs and gradual gains in operating efficiency from Blast Furnace 3 (BF3). Residual pressure comes from complementary components, such as freight (+US$2/t q/q), ICMS credits, maintenance costs, and the use of third-party slabs, which compromise the full capture of cost gains from other inputs. Mining, on the other hand, should report COGS/t of R$304/t Genial Est. (-0.5% q/q; +1.4% y/y), practically flat.

**EBITDA: Sharp decline.** We expect consolidated Adjusted EBITDA to reach R$446mn Genial Est. (-39.2% q/q; +80.2% y/y), reflecting a significant margin compression vs. the previous quarter. In the steel division, we estimate EBITDA of R$403mn (-23.6% q/q; +478.4% y/y). The result reflects the deterioration in the realized price — both in the domestic and foreign markets — in view of the escalation of imports and the need for selective trade concessions. The redirection of volumes to lower value-added channels, combined with less selectivity in exports, should also hurt profitability. In mining, we project EBITDA of R$21mn Genial Est. (-89.9% q/q; -86.6% y/y), a sharp decline from a base inflated by non-recurring effects in 1Q25. Even with costs remaining virtually stable, the 62% Fe (-5% q/q) benchmark index decline and the USD/BRL FX rate (-3% q/q) should ultimately offset the positive effect of seasonal acceleration in shipments.

**Table 4. EBITDA Usiminas (2Q25 Genial Est.)**

| (R$ millions) | 2Q25E Genial Est. | 1Q25 Reported | % q/q | 2Q24 Reported | % y/y |
|---|---|---|---|---|---|
| **Adjusted EBITDA** | **446** | **733** | **-39,2%** | **247** | **80,2%** |
| Steel | 403 | 528 | -23,6% | 70 | 478,4% |
| Mining | 21 | 206 | -89,9% | 156 | -86,6% |
| Eliminations | 21 | (2) | - | 21 | 0,0% |

*Source: Usiminas, Genial Investimentos*

**Net income: Profit declines amid operating pressure.** We project that the company's net income will reach R$103mn Genial Est. with a sharp decline of -69.5% q/q but reversing the loss on an annual basis. The sequential decline should be explained mainly by the worsening consolidated operating performance, with a decline in net revenue and margin compression in the steel unit, impacted by lower volume, deterioration in the mix, and more pressured prices. In addition, we expect a lower contribution from the mining division, which, despite our forecast for an increase in shipments, should show a sharp drop in prices in BRL. We estimate a net margin of 1.6% Genial Est., indicating a compression of -1.3p.p. vs. 1Q25.

**Table 5. Income Statement Usiminas (2Q25 Genial Est.)**

| (R$ millions) | 2Q25E Genial Est. | 1Q25 Reported | % q/q | 2Q24 Reported | % y/y |
|---|---|---|---|---|---|
| **Net Revenue** | **6.477** | **6.858** | **-5,6%** | **6.350** | **2,0%** |
| COGS | (6.018) | (6.085) | -1,1% | (6.021) | -0,1% |
| **Adjusted EBITDA** | **446** | **733** | **-39,2%** | **247** | **80,2%** |
| EBITDA Margin (%) | 6,9% | 10,7% | -3,8p.p | 3,9% | 3p.p |
| **EBIT** | **145** | **438** | **-67,0%** | **438** | **-67,0%** |
| EBIT Margin (%) | 2,2% | 6,4% | -4,2p.p | 6,9% | -4,7p.p |
| D&A | (304) | (311) | -2,2% | (311) | -2,2% |
| Financial Result | (31) | 41 | - | 41 | - |
| **Net Income** | **103** | **337** | **-69,5%** | **(100)** | **-** |
| Net Margin (%) | 1,6% | 4,9% | -3,3p.p | -1,6% | - |

*Source: Usiminas, Genial Investimentos*

## Our Take on Usiminas

**FCF burn: Working capital still under pressure, CAPEX likely to rise.** With regard to **working capital** (WC), we expect a slight easing of pressure to **-R$520mn Genial Est.** (vs. -R$778mn in 1Q25), with no reversal for the release of funds in the short term. Although there are control measures in place with **(i)** stricter accounts receivable management — including more rigorous credit analysis for clients' payments — the company also needs to **(ii)** balance sometimes shorter accounts payable terms, in addition to one-off movements, such as **(iii)** a possible tactical increase in inventories, given the opportunity to purchase third-party slabs. These points should delay the effective release of WC.

In **CAPEX**, the **trend is toward acceleration**, reaching **R$311mn Genial Est.** (+42% q/q; +16% y/y), with a greater concentration of planned investments. Despite internal pressure for austerity — which includes cuts in operating expenses on several fronts — the company's management has not yet signaled any formal revision to the CAPEX plan beyond what was already announced in February. Still, depending on the progression of the macroeconomic scenario and results throughout the year, we believe that **eventual adjustments are not ruled out**. We therefore expect the company to **continue to report negative FCF,** also in view of lower EBITDA (-39.2% q/q).

**Domestic Market: Imports climb up to +42% y/y through May.** The increase in **steel imports**, mainly from China or countries where triangulation has taken place, such as Egypt, remains one of the main drivers of pressure on apparent consumption in Brazil, restricting the space for domestic mills in the flat steel segment and intensifying competition for market share. Imports have been gaining momentum for the second consecutive year and have already accumulated a **+42% y/y increase** in 2025 (through May), with China accounting for ~78% of the volume entering Brazilian ports. This movement raised the share of imported products to over **30% of apparent consumption** in May, according to data from the Brazil Steel Institute (IABr).

Therefore, we believe that even in segments that are traditionally relevant to the company, such as the automotive sector, **the growth in activity has not translated into greater absorption of domestic steel**. Although it showed signs of slowing down in June, light vehicle production in Brazil still grew +21% q/q and +28% y/y in 2Q25 (Anfavea). However, this growth has been **mostly absorbed by imported steel**, rather than by the company's domestic sales. In fact, a **quota system** has been adopted, which underwent a **recent renewal** process stipulated by the Ministry of Commerce (MDIC), including **23 NCMs** (vs. 11 in the previous model), with a 25% tax after the quarterly quota is exceeded. Even so, the current trade defense policy design has **proved ineffective and permeable**, with exceptions such as the Manaus (AM) free trade zone, some “escape NCMs” not included, and special regimes. Including more NCMs does not seem to resolve the impasse.

In addition, the **slowness of government decisions** regarding **anti-dumping** proceedings contributes to the worsening scenario. Although there are ongoing investigations into claims filed by the company itself—involving **(i)** cold-rolled steel, **(ii)** coated steel, and, more recently, **(iii)** HRC — the postponement of measures even in the face of favorable technical reports reinforces the misalignment between trade policy and the needs of the steel sector in Brazil.

**Investors going short is the general perception.** We note that the company's stock has been facing **strong selling pressure**, with a **significant movement in short positions**, indicating that many investors have concentrated on a **bearish sentiment**. The stock has already accumulated a **YTD decline of 18%** and is currently trading at R$4.30-4.20. In our view, this perception may be derived from a combination of factors, such as the still fragile operating environment, marked by a slowdown in domestic demand for steel, especially in segments sensitive to interest rates (with the SELIC rate reaching 15%) and the 62% decline in the reference index Fe (-10% YTD), making it difficult to generate additional revenue from the Mining division (MUSA); in addition to increased competition from Chinese imports, which poses a risk to local prices.

When analyzing metrics that signal investor appetite for short positions, the high level of interest in the company's shares is evident. This movement is confirmed from different angles: **(i)** the volume of shares rented is ~69 million, a level **close to the maximum observed in the last 12M**; **(ii)** the Loan-to-ADTV Ratio (LI Ratio), which relates the total number of shares rented to the average daily trading volume, is around 9x – also close to the annual peak; and **(iii)** the percentage of shares borrowed in relation to the **equity float** is around **~14%**, reinforcing the level of short leverage in the share base.

**Favorable alignment of factors is unlikely to be enough.** Despite the resilience — so far — of the automotive sector in Brazil (~1/3 of Usiminas' total orderbook), amid a very high interest rate (SELIC at 15%), **demand does not seem to be translating into additional** volumes, since most of the absorption has been captured by imported products. Apparent steel consumption in Brazil continues to be significantly filled by foreign flat steel, especially from China.

Looking ahead, **the 2H25 looks even more challenging**. The **acceleration in the USD/BRL FX rate** due to the uncertain environment promoted by the recent announcement of the Trump administration's 50% tariffs on all Brazilian products arriving in the US may **diminish the possibilities of efficiency gains** and a more consistent reduction in COGS/t, since the company depends on inputs priced in USD, in addition to the purchase of third-party slabs. What strikes us as odd is that even with a 2Q25 where **there was an alignment of stars for a decline in COGS/t**, the company **should still not be able to slow down costs**.
The -3.1% q/q decline in the average USD/BRL FX rate during 2Q25, in addition to the contraction in input prices — such as coal and iron ore — initially formed a scenario conducive to the COGS/t decompression process that began in 1Q25. However, this dynamic is unlikely to be confirmed. The **probable reduction in steel shipments** in the domestic market **eliminates the potential for fixed cost dilution**, effectively canceling out what should have been short-term relief.

In addition, the **continuation of a restrictive credit environment** should hamper a sustained recovery in demand for flat steel throughout 2H25. We have already seen a **slowdown in production data for the automotive segment in June**. In short, even if the company continues to trade at attractive multiples, with a **25E EV/EBITDA** of **3.0x** (vs. 5x on historical average), we believe that investor sentiment remains *bearish*, given that **there are no short-term micro catalysts** for the shares and the **sectoral outlook** for steel in Brazil **is also not promising**. This justifies not only maintaining a more conservative stance on our side, but also a **cut in 12M Target Price** to **R$4.75** (vs. R$6.00 previously), reiterating our **NEUTRAL rating**, implying an **upside** of **+13.1%**.

## Appendix: Usiminas

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

| Income Statement | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|
| **Net Revenue** | **26.562** | **27.688** | **28.684** | **29.807** |
| (-) COGS | (24.449) | (25.617) | (26.274) | (27.732) |
| **Gross Profit** | **2.113** | **2.071** | **2.410** | **2.075** |
| (-) Expenses | (1.009) | (853) | (885) | (911) |
| **Adjusted EBITDA** | **2.132** | **2.097** | **2.414** | **2.039** |
| (-) D&A | (1.223) | (1.225) | (1.223) | (1.203) |
| **EBIT** | **1.116** | **1.218** | **1.525** | **1.163** |
| (+/-) Financial Result | (52) | (290) | (102) | (116) |
| (-) Taxes | (151) | (247) | (740) | (494) |
| **Net income** | **816** | **680** | **683** | **553** |
| **Profitability** | | | | |
| Net margin (%) | 3,1% | 2,5% | 2,4% | 1,9% |

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

| Cash Flow (FCFF) | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|
| **Net Revenue** | **26.562** | **27.688** | **28.684** | **29.807** |
| (-) COGS | (24.449) | (25.617) | (26.274) | (27.732) |
| **Adjusted EBITDA** | **2.132** | **2.097** | **2.414** | **2.039** |
| **EBIT** | **1.116** | **1.218** | **1.525** | **1.163** |
| (-) Taxes | (151) | (247) | (740) | (494) |
| (+) D&A | 1.223 | 1.225 | 1.223 | 1.203 |
| (+/-) Δ WK | (181) | 293 | (128) | 61 |
| (-) Capex | (1.282) | (1.282) | (1.026) | (975) |
| **FCFF** | **725** | **1.206** | **854** | **959** |

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|---|---|---|
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