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VALE

2Q25 Preview: A droplet of demand in an ocean of supply

LatAm Metals & Mining

Main takeaways:

(i) Iron ore fines: Production totaled **83.6Mt** (+2.1% vs. Genial Est.; +23.6% q/q; +3.7% y/y), while **shipments** reached **67.7Mt** (+1.6% vs. Genial Est.; +19.2% q/q; -1.2% y/y), with the gap dilating to 19% (+4p.p. y/y). The **realized price** was **US$85.1/t** (+1.6% vs. Genial Est.; -6.3% q/q), with a premium of -US$1.1/t (+US$0.2/t vs. Genial Est.) and all-in at +US$1.1/t (-US$0.7/t q/q); **(ii) Pellets**: Production clocked in at **7.9Mt** (-3.4% vs. Genial Est.; +9.3% q/q; -12.3% y/y), with **shipments** of **7.5Mt** (-0.6% vs. Genial Est.; flat q/q; -15.6% y/y) and **price** of **US$134.1/t** (-1.1% vs. Genial Est.; -4.8% q/q), pressured by lower contractual premiums of US$21.3/t (-6.6% vs. Genial Est.); **(iii) Net revenue** of **US$9.0bn Genial Est.** (+3.9% vs. previous Est.; +11.4% q/q; -8.8% y/y); **(iv) C1/t ex. third parties** projected at **US$23.4/t** (+1.3% vs. previous Est.; +11.5% q/q; -5.9% y/y), impacted by higher third-party participation and lagged inventory dynamics; **(v) Proforma EBITDA** projected at **US$3.4bn Genial Est.** (+4.1% vs. previous Est.; +4.4% q/q; -20.1% y/y), with a higher contribution from base metals, reaching **US$727mn Genial Est.** (+23.4% q/q; +43.5% y/y); **(vi) Net income** at **US$1.5bn Genial Est.** (+5.6% vs. previous Est.; +9.2% q/q; -45.0% y/y); **(vii)** The stock remains discounted, trading at **3.8x EV/EBITDA 26E** vs. 5x historical average; **(x)** The positive reaction to the **news of the hydroelectric plant in Tibet** (+3% acceleration in i.o. prices in 2 days) seems disproportionate to us given the marginal impact on steel demand. Even so, we maintain a constructive bias with **FCF Yield** at **~13% 25E** and **~15% 26E**, with **Dividend Yields** of **~8%** and **~10%**, in addition to a more resilient portfolio. We reiterate our **BUY rating**, with a **Target Price 12M** of **R$64.50** for **VALE3-B3** and **US$11.60** for **ADRs-NYSE**, implying an **upside** of **+11.8%.**

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Company

VALE US Equity
Buy

Price: US$ 10.37 (22-Jul-2025)
Target Price 12M: US$ 11.60 (NYSE)

VALE3 BZ Equity
Target Price 12M: R$ 64.50 (B3)

Vale released its **Production and Sales Report** for **2Q25** yesterday, **July 22**, after the market closed. Operating figures were mostly **slightly above our estimates**, but still **not enough to change** the trajectory of a **weak narrative** for the quarter. **Iron ore production** totaled **83.6Mt** (+2.1% vs. Genial Est.), up sharply by +23.6% q/q and +3.7% y/y, driven by ramp-up of strategic assets that contributed to annual growth in the Southeast (+2.1Mt y/y) and North (+2.2Mt y/y) systems. **Iron ore fines shipments** reached **67.7Mt** (+1.6% vs. Genial Est.), accelerating +19.2% q/q, although declining -1.2% y/y, in line with the strategy of allocating more inventory to concentrate them in Chinese ports, causing longer lead times.

Table 1. Operational Summary (2Q25 vs. Genial Est.)

(Thousand Tonnes - kt)	Reported	Genial Est.		Reported	Reported		Reported	
Summary	**2Q25**	**2Q25E**	**% Diff.**	**2Q25**	**1Q25**	**% q/q**	**2Q24**	**% y/y**
Iron Ore Production	83.599	81.894	**2,1%**	83.599	67.663	**23,6%**	80.598	**3,7%**
Iron Ore Fines Shipments	67.678	66.594	**1,6%**	67.678	56.762	**19,2%**	68.512	**-1,2%**
Pellets Production	7.850	8.123	**-3,4%**	7.850	7.184	**9,3%**	8.955	**-12,3%**
Pellets Shipments	7.483	7.529	**-0,6%**	7.483	7.493	**-0,1%**	8.864	**-15,6%**

Source: Genial Investimentos, Vale

The **realized price of fines** was recorded at **US$85.1/t** (+1.6% vs. Genial Est.; -1% vs. BBG Consensus), down -6.3% q/q and -13.3% y/y. The **premium for fines** showed slight sequential progress, but remained in **negative territory**, reaching **-US$1.1/t** (vs. -US$1.3/t in 1Q25), reflecting a **mix improvement** (-65.8% y/y in high silica shipments). We believe that the positive deviation of the realized price from our model was mainly due to a **lower share of contracts under provisional pricing** (more on this further down). However, it is important to emphasize that we were more bearish on prices than the consensus.

Finally, in the **pellet** division, total **production** totaled **7.9Mt** (-3.4% vs. Genial Est.), growing +9.3% q/q, but contracting -12.3% y/y, below our expectations due to challenges at the São Luís (MA) plant, in addition to limitations in Tubarão (ES). **Shipments** reached **7.5Mt** (-0.6% vs. Genial Est.), practically flat sequentially (-0.1% q/q), but contracting -15.6% y/y. The **realized price of pellets** was reported at **US$134.1/t** (-1.1% vs. Genial Est.), falling -4.8% q/q and -14.7% y/y, pressured by the downturn in the 65% Fe reference curve Fe (-US$5/t q/q) and by the reduction in contractual premiums to US$21.3/t (-6.6% Genial Est.), with greater intensity than expected.

Subtle changes in the 2Q25 projection

In our assessment, as operating data came in slightly above expectations, **we revised our estimate** for **Net Revenue** to **US$9.0bn Genial Est.** (+3.9% vs. previous Est.; +11.4% q/q; -8.8% y/y), supported by both the increase in shipments (+1.6% vs. previous Est.) and price realization (+1.6% vs. previous Est.) of iron ore fines, as well as by the base metals division.

Total iron ore fines shipments were slightly better than expectations, but own production sales have clocked in lower than our estimates due to an increase in third-party purchases, which totaled 8.1Mt (+10% vs. Genial Est.). As a result, with minor dilution of fixed costs in own production, **C1/t ex. third parties** were marginally increased in the revised calculations, which is now expected to reach **US$23.4 Genial Est.** (+1.3% vs. previous Est.).

Our **Proforma EBITDA** adjustment reached **US$3.4bn Genial Est.** (+4.1% vs. previous Est.; +4.4 q/q; -20.1% y/y). Finally, **Net income** should reach **US$1.5bn Genial Est.** (+5.6% vs. previous Est.; +9.2% q/q; -45% y/y). The financial results will be released on July 31, after the market closes.

Table2. New 2Q25 Est. vs. Old one

(US$ millions)	Genial Est.	Old Est.	
Income Statement	**2Q25E**	**2Q25E**	**% Diff.**
Net Revenue	9.047	8.706	**3,9%**
Proforma EBITDA	3.353	3.221	**4,1%**
Net Income	1.524	1.443	**5,6%**

Source: Genial Investimentos

Table3. New 2Q25 Est. vs. 1Q25 and 2Q24

Genial Est.	Reported		Reported	
2Q25E	**1Q25**	**% q/q**	**2Q24**	**% y/y**
9.047	8.119	**11,4%**	9.920	**-8,8%**
3.353	3.212	**4,4%**	4.198	**-20,1%**
1.524	1.396	**9,2%**	2.769	**-45,0%**

Source: Genial Investimentos

Preview 2Q25: In detail!

Iron Ore: Production slightly above expectations. Iron ore production totaled 83.6Mt (+2.1% vs. Genial Est.), increasing +23.6% q/q and +3.7% y/y, with significant operating gains and ramp-up of strategic assets. The strong sequential increase is explained by the onset of more favorable seasonal conditions, with less rainfall, mainly in the Southeast System. On an annual basis, we observed an acceleration of +2.1Mt y/y in own production, reflecting the start-up of the 4th line in Brucutu (MG) in the Southeast System — which reached its highest production level for 2Qs since 2019 — in addition to the progress of the Capanema project (MG), which in turn added +600Kt y/y (commissioning took place in Dec/24), in line with the ramp-up execution schedule (+15Mtpy in total).

In the North System, the +2.2Mt y/y expansion resulted from **(i)** excellent performance at S11D (PA), which once again recorded record production for 2Qs, complemented by **(ii)** the gradual reestablishment of Serra Norte (PA), favored by a more efficient mining plan — in line with the new strategic direction — which in turn not only inhibited depletion, but also lifted production by +4% y/y. On the other hand, the South System declined by -2.2Mt y/y, because of lower run-of-mine (ROM) supply due to circularity initiatives implemented at the Vargem Grande (MG) and Paraopeba (MG) complexes.

Iron Ore Fines: Production vs. sales gap widens. Iron ore fines shipments totaled 67.7Mt (+1.6% vs. Genial Est.), advancing +19.2% q/q, but slowing down -1.2% y/y. We believe that the slightly better performance compared to our estimates reflects improved logistics after last quarter's restrictions. However, as we had mentioned in our previous report, the strategy of concentrating inventory in Chinese ports contributed to widening the gap between production vs. sales of ferrous division (i.o. fines + pellets) — 6.3Mt diff., 37% of which was linked to the mass losses in concentration process ex-Brazil. The gap between production vs. sales of i.o. fines reached 19% (+4p.p. y/y; -0.3p.p. vs. Genial Est.).

In addition to **(i)** port concentration outside Brazil, implying longer lead times, the gap also resulted from **(ii)** inventory build-up in Brazil (2Mt diff.); **(iii)** usual operating losses associated with moisture variation (1.3Mt diff.) and **(iv)** mass loss in the process of transforming iron ore fines into pellets (0.7Mt diff.). It is worth noting that the dynamics confirm the new alignment of the portfolio strategy, which is now focused on medium-grade (~62% Fe) and greater flexibility to serve clients directly at the destination ports, even if this leads to adjustments in dispatch flows and sales accounting.

Iron Ore Fines: Realized price falling sharply, but we expected worse. The realized price of iron ore fines was reported at US$85.1/t (+1.6% vs. Genial Est.), decelerating -6.3% q/q and -13.3% y/y. Although it slowed down significantly, we note that the realized price ended up contracting slightly less sequentially vs. the 62% Fe curve (-US$5.7/t vs. -US$5.9/t Platts benchmark). Although the price environment has been challenging, we believe that two factors may explain the positive deviation from our model:

(i) Contracts under provisional pricing seem to have had less weight than estimated — we projected ~25% of the sales mix, with forward price -US$4/t vs. the curve average. Therefore, we believe that a higher shipments percentage vs. our expectations may have been sold based on prices prior to the curve's inflection.

In addition, we also observed that **(ii)** there was an improvement in the product mix, with an average grade possibly above what we had in our model.

Table 4. Production Summary Vale (2Q25 vs. Genial Est.)

Production Summary (Kt)	2Q25 Reported	2Q25E Genial Est.	% R/E	2Q25 Reported	1Q25 Reported	% q/q	2Q24 Reported	% y/y
Iron Ore[1]	83.599	81.894	2,1%	83.599	67.663	23,6%	80.598	3,7%
Pellets	7.850	8.123	-3,4%	7.850	7.184	9,3%	8.955	-12,3%
Nickel	40	30	34,1%	40	44	-8,2%	25	61,8%
Copper	93	83	12,2%	93	91	1,9%	79	17,8%

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

Source: Genial Investimentos, Vale

Table 5. Shipments Summary Vale (2Q25 vs. Genial Est.)

Shipments Summary (Kt)	2Q25 Reported	2Q25E Genial Est.	%R/E	2Q25 Reported	1Q25 Reported	% q/q	2Q24 Reported	% y/y
Iron ore fines	67.678	66.594	1,6%	67.678	56.762	19,2%	68.512	-1,2%
Pellets	7.483	7.529	-0,6%	7.483	7.493	-0,1%	8.864	-15,6%
ROM	2.185	2.416	-9,6%	2.185	1.886	15,9%	2.416	-9,6%
Nickel	41	39	7,4%	41	39	6,3%	34	20,7%
Copper	89	82	8,5%	89	82	8,7%	76	17,0%

[1] Including third-party purchases

Source: Genial Investimentos, Vale

Table 6. Realized Price Vale (2Q25 vs. Genial Est.)

Realized Price (US$/t)	2Q25 Reported	2Q25E Genial Est.	% R/E	2Q25 Reported	1Q25 Reported	% q/q	2Q24 Reported	% y/y
Iron ore fines	85,1	83,8	1,6%	85,1	90,8	-6,3%	98,2	-13,3%
Pellets	134,1	135,6	-1,1%	134,1	140,8	-4,8%	157,2	-14,7%
Nickel	15.800	15.342	3,0%	15.800	16.106	-1,9%	18.638	-15,2%
Copper	8.985	8.953	0,4%	8.985	8.891	1,1%	9.202	-2,4%

Source: Genial Investimentos, Vale

Iron Ore: Sales mix improves, with a sharp decline in high silica. Sales of high-silica products fell -65.8% y/y, while the volume of pellet feed concentrated in China ports increased +65.4% y/y. BRBF (blend ~63% Fe) accelerated +7.6% y/y. We also draw attention to the "other fines" category (60-62% Fe), which clocked in with a large increase in sales share (up +108.3% y/y). As we have mentioned in previous reports, this is part of the strategy to create a new product in the medium grade fines category (~62% Fe), which for now remains classified under "Others."

Even with shipments of IOCJ (Carajás fines ~65% Fe) reducing their share by -51.5% y/y, the improvement in the composition of the other items seems to have contributed to mitigating part of the pressure on the company's realized price vs. our estimates. As a result, the iron ore fines premium stood at -US$1.1/t (+US$0.2/t vs. Genial Est.), reflecting advances in commercial execution, although still in negative territory. The all-in premium was reported at +US$1.1/t (-US$0.7 q/q), with a sequential contraction mainly impacted by the lower contribution from the pellet business (-US$0.9/t q/q).

Pellets: Production and prices below expectations. Pellets production totaled 7.9Mt (-3.4% vs. Genial Est.), advancing to +9.3% q/q, but down -12.3% y/y. The sequential increase reflects seasonality, but even so, although we had already anticipated the redirection of pellet feed to sales as i.o. fines — given that pellet plants are operating at low profitability for current price levels — performance was still disappointing. The company faced challenges in São Luís (MA), due to higher moisture in the feed coming from Carajás (PA), in addition to limitations in Tubarão (ES) due to lower standardization of inputs from Itabira (MG). These operational constraints were compounded by a deliberate moderation in pellet production, reflecting the downgrade in production guidance to 31–35Mt (-17.5% vs. previous middle point).

Shipments reached 7.5Mt (-0.6% vs. Genial Est.), flat q/q and down significantly by -15.6% y/y. The realized price was reported at US$134.1/t (-1.1% vs. Genial Est.), falling -4.8% q/q and -14.7% y/y, pressured by the downturn in the 65% Fe reference curve (-US$5/t q/q) and the reduction in contractual premiums to US$21.3/t (-6.6% Genial Est.). Although slightly more intense than expected, we believe that the -US$1.5/t q/q contraction in the premium is consistent with the lower attractiveness of the agglomerates business, due to the unwillingness of mills — especially in China — to pay for quality premiums.

Copper: Production accelerates with the boost from ramp-ups. Copper production reached 92.6Kt (+12.2% vs. Genial Est), rising +1.9% q/q and +17.8% y/y, exceeding our forecast. This performance was mainly driven by **(i)** the ramp-up completion of the Salobo complex (PA); and **(ii)** greater feed availability for the Sossego plant (PA). In Canada, production growth came from ramp-up progress of underground mines in Voisey's Bay (NL). Sales reached 89Kt (+8.7% q/q; +17.0% y/y), also above expectations (+8.5% vs. Genial Est.), in line with production pace.
The realized price clocked in at US$8,985/t (+1.1% q/q; -2.4% y/y), on point with expectations (+0.4% vs. Genial Est.). The variation follows the +0.6% q/q recovery in the LME curve and reflects lower spot TC/RC levels, which were partially offset by timing effects. In addition, we highlight the granting of the preliminary license for the Bacaba project, aimed at extending the useful life of the Sossego Mining Complex (PA) for another 8Y, with average production of ~50Ktpy (CAPEX of ~US$290mn and start-up in 1H28).

Nickel: Positive surprise driven by Canada; prices still under pressure. Nickel production totaled 40.3Kt (+34.1% vs. Genial Est.), down -8.2% q/q but up +61.8% y/y, well above our expectations. This was due to a greater-than-expected effect from successive expansions, such as **(i)** +1.2x y/y in production at the Voisey's Bay (NL) underground mines in Canada; and **(ii)** +35% y/y in production at the Sudbury (ON) complex, in addition to **(iii)** +1.3x y/y in Thompson (MB); and **(iv)** +60% y/y in Onça Puma (PA), which was particularly favored by a weaker basis of comparison from the previous year, when the asset faced stoppages due to licensing difficulties. Shipments totaled 41.4Kt (+6.3% q/q; +20.7% y/y), above both the quarter's production and our forecast (+7.4% vs. Genial Est.).

The difference between production vs. sales may be related to remaining inventories from previous quarters. Finally, the realized price stood at US$15,800/t (+3% vs. Genial Est.), with a compression of -1.9% q/q and -15.2% y/y, but still at a lower level than we had anticipated, since the contraction was less intense than that observed in the LME reference (-2.8% q/q).

Net Revenue: Volume drives q/q; annual base pressured by price. Consolidated Net revenue should total US$9.0bn Genial Est. (+11.4% q/q; -8.8% y/y), slightly above our previous forecast, driven by a more solid performance in i.o. fines and copper divisions. The positive surprise in the sequential comparison seems to stem mainly from the iron ore fines division, due to the increase in shipped volumes (+19.2% q/q), but also from the good performance in copper sales volume (+8.7% q/q).

In the year-on-year comparison, on the other hand, the trend is likely to reverse: the ferrous division should exert greater pressure, given the sharp drop in realized prices — both in iron ore fines (-13% y/y) and pellets (-15% y/y) — in addition to the decline in volumes sold (-1.2% y/y and -15.6% y/y, respectively). The fines division is estimated at US$5.7bn (+11.7% q/q; -14.4% y/y), while pellets should reach US$1.0bn (-4.9% q/q; -28.0% y/y). In the Base Metals division (VBM), nickel revenue is also projected at US$1.0bn (+5.0% q/q; +15.7% y/y), while copper should report the same US$1.0bn (+12.8% q/q; +30.3% y/y), reflecting the combination of higher volume and slight appreciation in realized prices.

Table 7. Net Revenue Vale (2Q25 Genial Est.)

	2Q25E	1Q25		2Q24	
(US$ millions)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**9.047**	**8.119**	**11,4%**	**9.920**	**-8,8%**
Iron Ore Fines	5.759	5.154	11,7%	6.728	-14,4%
Pellets	1.003	1.055	-4,9%	1.393	-28,0%
Other Ferrous	252	208	21,2%	141	79,1%
Nickel Operations	1.017	969	5,0%	879	15,7%
Copper Operations	1.015	900	12,8%	779	30,3%

Source: Genial Investimentos, Vale

C1/t revised upward with higher third-party volume. C1/t ex. third parties should total US$23.4 Genial Est. (+11.5% q/q; -5.9% y/y), representing a slight revision from the old estimate (+1.3% vs. previous Est.). Even though iron ore fines shipments were close to our expectations, sales from their own production were lower than our projection, due to the advance in shipments from third-party purchases, which reached 8.1Mt (+10% vs. Genial Est.). With less fixed cost dilution in the own production base compared to what our model previously indicated, we recalculated the figure, slightly increasing C1/t ex. third parties.

To explain the sequential increase, it is necessary to clarify that there is an effect associated with the accounting of inventory in transit from the previous quarter, increasing C1/t (lagged dynamics). As the production cost for 1Qs is typically higher due to the lower capacity to dilute fixed expenses (softer volumes), the cost of sales for 2Qs usually accelerates. In the year-on-year comparison, the decline should reflect the estimated -8% y/y in production costs, in addition to the favorable impact of the +10.5% y/y acceleration in the USD/BRL FX rate, which helps mitigate the conversion of BRL denominated costs. For freight, even though the Tubarão-Qingdao (SSY) benchmark upshifted +6% q/q, we still believe that costs will remain basically flat, reaching US$18.7/t Genial Est. (+1% q/q), softening the rise in spot prices due to long-term contracts with shipowners.

Proforma EBITDA: VBM should contribute to q/q growth, but ferrous weigh on y/y. Consolidated Proforma EBITDA should total US$3.4bn Genial Est. (+4.4% q/q; -20.1% y/y), slightly above the previous quarter, but with strong y/y compression. Looking at the breakdown by business unit, iron ore fines EBITDA is projected at US$2.3bn (-3.2% q/q; -27.0% y/y), weighed down by the contraction in realized prices. The pellet business unit is expected to reach US$462mn (-13.9% q/q; -36.6% y/y), also with very weak performance due to compromised commercial viability at certain higher-cost plants, in addition to lower feed availability. Consolidated performance could have been even worse, but the base metals business division will bring an increase in profitability. The combination (nickel + copper) should total US$727mn Genial Est. (+23.4% q/q; +43.5% y/y), with nickel operations standing out (+2.5x q/q), driven by increased shipments and lower costs.

Table 8. EBITDA Vale (2Q25 Genial Est.)

	2Q25E	1Q25		2Q24	
(US$ millions)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Proforma EBITDA	**3.353**	**3.212**	**4,4%**	**4.198**	**-20,1%**
Iron Ore Fines	2.276	2.351	-3,2%	3.117	-27,0%
Pellets	462	536	-13,9%	729	-36,6%
Nickel Operations	142	41	246,8%	108	31,7%
Copper Operations	585	546	7,2%	351	66,7%
Others	(112)	(262)	-57,3%	(106)	5,4%

Source: Genial Investimentos, Vale

Net income improves q/q, but pricing scenario limits y/y performance. We project Net income of US$1.5bn Genial Est. (+9.2% q/q; -45.0% y/y), sequentially supported by the eventual operational improvement in EBITDA (+4.4% q/q). In the y/y comparison, however, EBITDA is expected to reverse in response to the sharp decline in operating income (-20.1% y/y). This, in turn, should more than offset the positive financial dynamics, as the negative net financial line is expected to cool down by -63% y/y.

Table 9. Income Statement Vale (2Q25 Genial Est.)

	2Q25E	1Q25		2Q24	
(US$ millions)	**Genial Est.**	**Reported**	**% q/q**	**Reported**	**% y/y**
Net Revenue	**9.047**	**8.119**	**11,4%**	**9.920**	**-8,8%**
COGS	(6.067)	(5.451)	11,3%	(6.349)	-4,4%
Proforma EBITDA	**3.353**	**3.212**	**4,4%**	**4.198**	**-20,1%**
EBITDA Margin (%)	37,1%	39,6%	-2,5p.p	42,3%	-5,3p.p
Adjusted EBIT	**2.234**	**2.411**	**-7,3%**	**3.405**	**-34,4%**
EBIT Margin (%)	24,7%	29,7%	-5p.p	34,3%	-9,6p.p
D&A	(769)	(704)	9,3%	(793)	-3,0%
Financial Result	(465)	185	-	(1.252)	-62,9%
Net Income	**1.524**	**1.396**	**9,2%**	**2.769**	**-45,0%**
Net Margin (%)	16,8%	17,2%	-0,3p.p	27,9%	-11,1p.p

Source: Genial Investimentos, Vale

Our Take on Vale

Hydroelectric plant in Tibet: Investor euphoria has a speculative bias. The recent acceleration in the company's share price (+6% in just 2 days) was driven by news of the **construction of the world's largest hydroelectric dam** in the eastern Tibetan plateau (an autonomous region of China), officially announced on Saturday (July 19). Although the project is monumental — with an expected CAPEX of ¥1.2 trillion or ~US$170bn — we see the **relief in bearish investor sentiment** as something that should be **interpreted with caution**. We believe that the **real impact on steel demand —** and consequently on iron ore demand — **is quite limited**.

According to our estimates, the additional steel consumption associated with the construction of the new plant should be between **1.4-1.9Mt** (3x more vs. Three Gorges powerplant) and will be distributed over the **10Y** of the dam's construction phase, which is equivalent to something between **140-190Ktpy** of demand — i.e., **less than 0.5% of China's annual** crude steel production. In other words, despite the temporary boost in iron ore prices, which rose by +3% in 2 days on Sept. futures contract at the Dalian Commodity Exchange (DCE), the **effect on fundamentals seems marginal**. We believe that part of the market may assume that the Chinese central government will be more inclined to increase the GDP deficit by allocating resources to large-scale infrastructure projects to mitigate the slowdown in steel consumption from residential construction. Even so, we believe that **euphoria is speculative** and should not disrupt the scenario of excess iron ore supply.

Iron Ore Market: Still an imbalance between supply and demand. Our analysis suggests that the context should remain challenging for the iron ore market, given that **steel production in China** fell **-7% y/y** in **May** (86.6Mt) and **-9% y/y** in **June** (83.2Mt). As if falling demand were not enough, there is also the imminent arrival of **+120Mtpy** of **iron ore** – full ramp-up – from the Simandou complex in New Guinea (GN), with start-up in 2026 and a more significant volume in the seaborne system by 2027. This tends to intensify **deflationary pressure on prices** in the medium term. We believe that the recent rally in the sector's assets seems to have been driven by **(i)** covering of short positions and **(ii)** speculation on iron ore prices, rather than by a concrete change in supply and demand dynamics.

We continue to project our 62% Fe curve at **US$94/t 25E** (yearly average) – with **US$95/t** in **3Q25E** and **US$89/t** in **4Q25E** – reflecting the deflationary sum of two factors: **(i)** favorable weather conditions for production typical of the 3Qs, which tends to lift shipment levels in 4Q, increasing supply throughout 2H; and **(ii)** expected cooling in seaborne demand due to **capacity cuts** at older mills promoted by the Chinese central government (reduction of -45Mt Genial Est. in Chinese demand for iron ore over the next 12M).

Portfolio reconfiguration continues... As noted, the company maintained its strategy of reconfiguring its iron ore portfolio, prioritizing **(i)** reducing high-silica volumes (-65.8% y/y); **(ii)** expanding the concentration of pellet feed in Chinese ports (+65.4% y/y); and **(iii)** leveraging the presence of other fines (+108.3% y/y), in line with the intensification of the medium grade production strategy in order to increase its commercial flexibility to meet demand.

Despite the still unfavorable scenario for iron ore, with prices fluctuating between US$93–108/t in 1H25 and expectations of a drop to ~US$80/t in 2027E, we continue to view the company as undervalued according to intrinsic valuation metrics. Although we believe that the **outlook remains unfavorable,** it is worth noting that the stock continues to trade at **4x EV/EBITDA 25E** and **3.8x 26E**, well below its historical average of 5.0x, corroborating our understanding that there is an **exaggerated bearish bias** – and unjustifiable – by most investors towards the investment thesis.

A droplet of demand in an ocean of supply. Despite the recent wave of optimism sparked by the **construction of the world's largest hydroelectric dam** on the Tibetan plateau, the combination of a challenging macroeconomic environment in China and the market's predisposition to **react excessively to triggers of low materiality** reinforces the asymmetry between the acceleration in iron ore prices (+3% in 2 trading sessions) and fundamentals (imbalance between supply and demand). The impact of the new hydroelectric dam on steel demand is equivalent to **a drop in an ocean of supply**: residual, diluted over a decade and incapable of significantly altering the fundamentals of the global iron ore balance, as we mentioned above.

Even so, we remain **constructive on the equity story** from a **valuation metrics** perspective. We see the following as supporting factors: **(i)** the company's resilience to cyclical changes, given changes in its product portfolio, with a lower share of high-silica products; **(ii)** the **FCF Yield** at **~13% 25E** (almost 2x higher than BHP and Rio Tinto) and rising to ~**15% 26E** due to lower cash outflows from the Mariana-MG settlement next year, supporting **Dividend Yields** of **~8% 25E** and **~10% 26E** (it would be higher if not for the company's preference for share buybacks), indicating that the company **continues to be penalized beyond what is fair**. In this context, we reiterate our **BUY rating**, with a **12M Target Price** of **R$64.50 VALE3–B3** and **US$11.60 ADRs–NYSE**, representing an **upside** of **+11.8%.**

Appendix: Vale

Figure 1. Vale – Income Statement in US$ Millions (Genial Est. 2025-2029)

Income Statement	2025E	2026E	2027E	2028E	2029E
Net Revenue	**26.082**	**38.348**	**38.821**	**39.690**	**40.484**
(-) COGS	(17.302)	(24.348)	(25.679)	(26.997)	(28.370)
Gross Profit	**8.780**	**14.001**	**13.142**	**12.693**	**12.114**
(-) Expenses	(1.542)	(1.798)	(2.427)	(2.099)	(1.675)
Adjusted EBITDA	**13.764**	**15.904**	**15.075**	**14.665**	**14.121**
(-) D&A	(2.165)	(2.965)	(3.019)	(3.084)	(3.149)
EBIT	**11.600**	**12.939**	**12.055**	**11.581**	**10.972**
(+/-) Financial Result		(661)	(249)		
(-) Taxes	(2.231)	(2.425)	(2.237)	(2.327)	(2.424)
Net income	**10.624**	**9.853**	**9.569**	**9.410**	**9.237**
Profitability					
Net margin (%)	40,7%	25,7%	24,6%	23,7%	22,8%

Figure 2. Vale– Cash Flow in US$ Millions (Genial Est. 2025-2029)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E	2029E
Net Revenue	**26.082**	**38.348**	**38.821**	**39.690**	**40.484**
(-) COGS	(17.302)	(24.348)	(25.679)	(26.997)	(28.370)
Adjusted EBITDA	**13.764**	**15.904**	**15.075**	**14.665**	**14.121**
Adjusted EBIT	**11.600**	**12.939**	**12.055**	**11.581**	**10.972**
(-) Taxes	(2.231)	(2.425)	(2.237)	(2.327)	(2.424)
(+) D&A	2.165	2.965	3.019	3.084	3.149
(+/-) Brumadinho and Samarco	(531)	(989)	(661)	(831)	(199)
(+/-) Δ WK	424	1.139	(506)	372	(220)
(-) Capex	(4.162)	(3.910)	(4.223)	(4.382)	(4.382)
FCFF	**7.265**	**9.718**	**7.448**	**7.497**	**6.896**

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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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