genial Equity Research

GERDAU

Investor Day 25: Guidance cut, confidence raised

LatAm Metals & Mining

Main takeaways:

(i) The company revised its **CAPEX guidance** for 26E to **R$4.7bn** (-22% y/y), with 62% allocated to sustaining capital and R$1.8bn to competitiveness, reflecting the completion of relevant projects and schedule adjustments. The three main priorities are: (1) expansion of Midlothian (TX), with a cut of -R$300mn and a remaining disbursement of ~R$500mn, +150Kt in phase 1 with start-up in 2H26; (2) the new recycling center in Pindamonhangaba (SP); and (3) the sustainable mining project in Miguel Burnier (MG), with total CAPEX of R$3.6bn (+13% vs. previous budget), start-up in 4Q25 and ramp-up in 1H26; **(ii)** Average sustaining CAPEX was disclosed at **R$3bn/year over the next 5Y**, covering mini-mills and Ouro Branco (MG). Advances in the critical asset management model allowed the AF1 shutdown to be postponed to 28E (vs. 27E) and the useful life of Coking Plant 2 to be extended to 2038 (+4A), bringing it closer to the longevity of AF2 — **a significant gain in terms of capital efficiency**; **(iii)** The company reinforced its self-generation strategy with the acquisition of two small hydroelectric plants for **R$440mn**, reducing its energy bill by ~60% (4p.p. → 1.6–1.8p.p. of COGS) and ensuring returns in the order of **IPCA+16%**; **(iv)** Since 2018, ~75% of FCF has been returned via dividends and buybacks, with a 7% reduction in the share count. Considering dividends and buybacks, shareholder returns should reach ~6% in 25E and 7–8% in 26E; **(v)** In Brazil, the company highlighted competitive distortions and reinforced its strategic pillars: (1) the Miguel Burnier mine (MG), integrated by a slurry pipeline to Ouro Branco, with a capacity of 5.5Mtpy, a cost of US$30/t, and potential for +R$400mn in EBITDA in 26E (reaching up to R$1.1bn in 27E+); (2) flat steel with the BQ2 rolling mill in Ouro Branco (CAPEX of R$1.5bn, +250Ktpy and +R$400mn/year in incremental EBITDA); and (3) the optimization of regional mini-mills; **(vi)** In North America, 50% tariffs on imports and regional defense measures reduced imports to 2.8Mt in 25E, raising the utilization rate of Gerdau's mills to **85–87%**. The Midlothian (TX) project, with CAPEX of R$1.2bn, is expected to add +150Ktpy and +R$275mn/year in EBITDA starting in 2H26.

We attended the **Gerdau Day 2025** event held in São Paulo (SP) **today**, **Oct 1**. This edition brought together the management team with investors and analysts in a classic format, consisting of technical presentations, a Q&A session, and direct interaction with management. The executive team present included **Mr. Gustavo Werneck** (CEO), **Mr. Rafael Japur** (CFO), **Mr. Mauricio Metz** (COO Brazil), and **Mr. Chia Wang** (CCO North America), reinforcing the emphasis on integrating commercial, operational, and financial perspectives.

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Company

GGBR4 BZ Equity
Buy

Price: R$ 16.96 (01-Oct-2025)
Target Price 12M: R$ 20.50

Investor Day 25: In detail!

CAPEX guidance revised downward in 26E. For 2025, the company is expected to disburse CAPEX within the expected range of R$6bn. However, Mr. Japur commented that Gerdau is nearing the completion of relevant projects, which opens room for a natural reduction in the disbursements pace further ahead. Therefore, **CAPEX guidance** was **revised downward** to **R$4.7bn 26E** (-22% y/y; same % decrease vs. previous budget), with 62% of this amount allocated to sustaining and R$1.8bn to competitiveness projects (growth).

From a strategic standpoint, management emphasized that the company has been gradually reducing the number of large-scale projects underway and readjusting schedules. The portfolio now prioritizes three central areas: **(i)** the expansion of the Midlothian (TX) plant within the North America BD, which had a CAPEX cut of R$300mn vs. previously budgeted, with a disbursement of ~R$500mn still to be executed (60% in the next 2Y), generating +150Ktpy in phase 1 (vs. 250Ktpy previously, both phases), with start-up in 2H26 and postponing the maintenance shutdown to 2H25; **(ii)** the new recycling center in Pindamonhangaba (SP); and **(iii)** the completion of the sustainable mining project in Miguel Burnier (MG), which will start up in 4Q25 and ramp up throughout 1H26. The latter underwent adjustments in scope and USD/BRL FX rate fluctuations above initially expected, causing the total disbursement to rise to R$3.6bn (+13% vs. previously budgeted), with 30% of this amount still to be invested, which in turn will be concentrated later this year, with a remainder of R$500mn expected for 26E.

Within this design, almost 1/2 of the 2026 competitiveness CAPEX (R$800mn) will be concentrated in these three priority projects. Even with the formal completion of the mining project scheduled for the end of 2025, part of the residual disbursements will be carried over to 2026 due to the ramp-up final stages.

Sustaining will be R$3bn/year over the next 5Y. The company also presented for the first time an average guidance for sustaining CAPEX for the next 5Y, estimated at R$3bn/year (-2.5% vs. Genial Est.), covering **(i)** mini-mills and **(ii)** the integrated plant in Ouro Branco (MG). In this case, we highlight advances in the critical asset management model, with the creation of multidisciplinary teams dedicated to the maintenance of blast furnaces and coking plants. As a result, the company was able to postpone the major shutdown of Blast Furnace 1 to 28E (vs. 27E previously) and extend the useful life of coke oven 2 to 2038 (+4Y vs. previously), bringing it closer to the longevity of Blast Furnace 2 — a significant gain in terms of capital efficiency.
Another highlight mentioned during the presentation was the strategy of self-generation of electricity in Brazil, with the company having purchased two sets of small hydroelectric plants (PCHs) for R$440mn earlier this year. As power accounts for ~4% of COGS, investing in its own generation assets significantly reduce electricity and wire charges, in addition to replacing take-or-pay contracts with OPEX. In practice, the company will be able to reduce its electricity bill by ~60%, bringing the cost share from 4p.p. to levels close to 1.6–1.8p.p. Mr. Japur pointed out that these projects offer returns in the order of IPCA + 16%.

Healthy leverage, shareholder remuneration. Leverage remains at a very comfortable level, at **0.85x Net debt/EBITDA**, below the internal covenant of 1.0x and well beneath the threshold of 2.0x for investment grade. In practice, this means additional space of R$6–8bn without compromising the credit rating, even though the company has no intention of increasing its debt level.

With low leverage, the company has been systematically distributing more than the 30% statutory payout. Since 2018, ~75% of FCF has been returned via dividends and buybacks. Since the beginning of the buyback programs, Gerdau's share count has already been reduced by -7%. The current program, valid until Sept, is already 85% complete (with 2.8% of the free float repurchased and 71% of these shares canceled in treasury).

Although we have received pushbacks from investors that shareholder remuneration is low (R$0.12/share in 2Q25, annualized yield of ~3%), many still disregard the buyback program and focus only on dividends, given a more short-term perspective. However, if we assume that the company will reach 100% of the program by the end of the year — which seems quite feasible to us — we believe that the **total combo** (dividends + share repurchase) will lead to a **shareholder return** of **~6% in 25E**, which is satisfactory if we consider the current stage of the steel cycle in Brazil, in addition to it having been a year of significant CAPEX outlay with the Miguel Burnier (MG) project.

Along these lines, Mr. Japur continued to reinforce that buybacks remain an efficient lever for value creation, given the discount level on the shares. He pointed out the implied value by **sum of the parts** suggests **R$22/share** (upside of +30% vs. today's closing price), considering a **fairer implied multiple** of **EV/EBITDA LTM** in the range of **5.4x** (vs. ~4x trading at today's values). This gap supports the view that continuing to make buybacks is the best capital allocation at the moment, and that new programs may be implemented after the current one is completed. Therefore, we believe that the **Dividend Yield 26E will remain low** (even with the reduction in CAPEX), reaching **4% Genial Est.,** but with the accompanying combo of the buyback program going to **7-8% Genial Est.** (clearly depending on the share price).

Brazil BD: US tariffs may have negative indirect effects. Mr. Metz pointed out that although the company's DNA is still linked to rebar for reinforced concrete, this item now represents only ~30% of the mix, while industrial long steel (including automotive) already accounts for ~40% and flat steel is gaining increasing market share. In addition, the verticalization of the operation is marked by the presence of 23 downstream units and Gerdau's commercial division in steel distribution, which ensures capillarity in all regions of Brazil.

Regarding the impact of the tariffs imposed by the Trump administration on imported crude steel (+50% under Section 232), the company's Brazilian operations practically do not export slabs to the US market, unlike several of its peers (ArcellorMittal's division in Brazil, for example). Therefore, the direct effect on Gerdau is minimal. However, several of the company's clients — notably processors, manufacturers of machinery, equipment, and auto parts — have a significant portion of their revenue subject to tariffs (~20% of auto parts are exported, and of that volume, ~20% goes to the US). Therefore, it is important to note that this may lead to **indirectly reduction of steel volume consumed in Brazil.**

Another critical point highlighted by management was the imbalance between supply vs. demand in the domestic market. Brazil is experiencing record steel imports, annualized at 6.3Mt 25E, with ~65% coming from China. In addition to the high volume, the import mix has changed: flat steel grew to ~26% (+15p.p. in 5Y); long steel reached ~17% (+8p.p. in 5Y); and the total relative to apparent consumption reached ~23% (+13p.p. in 5Y).

Logically, this change put pressure on profitability and created a more challenging competitive environment. The quota-tariff regime implemented by the Ministry of Trade (MDIC) over a year ago, which underwent a review with the addition of more NCMs in Jun, continues to be ineffective in practice, advocating the discussion of more effective instruments, such as formal anti-dumping measures.

Brazil BD: Miguel Burnier as the main strategic pillar. Faced with a more adverse scenario for Brazil BD, the company has structured an internal strategic plan based on three pillars. The **first pillar** is the verticalization of the Ouro Branco (MG) operation via its own mining in Miguel Burnier-MG, whose project includes **5.5Mtpy** of **iron ore**, with a 40Y certified reserves and **CAPEX** of **R$3.6bn** (as detailed throughout the report). The extraction of low-grade Fe itabirite — but also low SiO_2 at ~3-4% — undergoes a double flotation process in concentration, resulting in a **pellet feed** of **65% Fe** (high grade), with dry stacking. Integrated logistics with a slurry pipeline (~30km long) will allow for potential gains in agility and reduced logistics costs through direct integration with the supply of Ouro Branco's plant. The ramp-up is scheduled for 1H26. The cash cost is US$30/t (pellet feed delivered to the plant), with projected internal consumption of 3Mtpy, leaving ~2.5Mtpy for sale of iron ore to third parties.

For 2026, the expectation is for an annual EBITDA gain of +R$400mn, mainly due to the reduction in the company's need to continue purchasing i.o. from third parties. The **total capture** is expected to reach **R$1.1bn** in **27E+** – 60% via cost reduction and 40% via sales to third parties (reversing the current dynamic). However, it is worth noting that the company is using a **long-term** (2028+) **assumption of ~US$100/t** (vs. US$75/t Genial Est.) for the 62% Fe reference price. Knowing that the market is pricing a backwardation curve due to several capacity additions in 2027+ (Simandou and Pilbara) and declining demand in China, with the spot price currently fluctuating between US$100-105/t, it is possible that the company has been too bullish in assuming a long-term price very similar to what we are currently seeing.

When we question this, Mr. Japur argues that a significant part of the additional capacity will be to **cover the supply outflow via depletion**, in addition to the **gradual decline in Fe content** in mines that are reaching exhaustion. Thus, more mass will have to be used in the blending trend to reach medium grade (62% Fe) vs. what is applicable in today's reality, which would better accommodate the incoming volume of new capacities (Simandou + Pilbara), not affecting the i.o. price as much as the market indicates today. In addition to cost reduction, higher-grade i.o. brings indirect benefits, such as lower consumption of sinter and coke and greater stability of BFs.

Brazil BD: Two other pillars of value creation. The second pillar is growth in flat steel for the Brazilian operation, supported by the new BQ2 rolling mill, the result of a CAPEX of R$1.5bn already executed in Ouro Branco (MG). The additional capacity is 250ktpy, leading to a total capacity of +1.1Mtpy in 4Q25E (+30% vs. currently in this rolling mill) and potential to generate +R$400mn/year of incremental EBITDA. The equipment recently reached a record 4.5kt/day and is already operating at full capacity. The benefit of the project comes mainly from the replacement of plates with HRC (80% of the gain occurs via net revenue, not cost reduction), adding value, enabling new industrial applications, and increasing yield (elimination of side cuts).

The expanded portfolio focuses on serving clients in the oil & gas segment and industrial sectors with higher added value, while distribution is reinforced by the company's own network (Comercializadora Gerdau) and the recent acquisition of a distributor in Araucária, specializing in flat and structural steel.

The third pillar is the optimization of regional mini-mills, with a focus on maximizing asset utilization, reducing costs, and increasing local competitiveness. Mr. Metz cited examples such as the closure of the Mogi das Cruzes (SP) unit, with production migrating to Charqueadas (RS); the investment to supply billets to Calcaia; the installation of a large shredder in Pindamonhangaba (SP) to capture competitive scrap in the Paraíba Valley (SP); and the expansion of Cosigua (RJ) to larger profiles, reducing dependence on Ouro Branco (MG) to serve the Southeast region. We believe that these initiatives should reinforce the flexibility of the mini-mill model, which, by capturing regional scrap, ensures competitive costs and proximity to clients.

North America BD: Tariffs and import dynamics. Mr. Wang structured his presentation around the regulatory and competitive impact of the 50% tariffs imposed on imported crude steel entering the US. The immediate effect was a **drop in imports to levels** similar to those observed in 2018-2020 – **2.8Mt/year 25E** vs. 3.1Mt/year 22-24A – with direct repercussions on the dissipation of domestic demand with local production. This trade protection is not restricted to the US: Canada also applied retaliatory tariffs of +25% in response to US measures, while Mexico proposed rates ranging from 10-50%, reinforcing the trend of regional "self-defense." The net result of this situation was the **strengthening of local players**, allowing Gerdau's US mills to operate at **85–87% utilization rates,** which already represents a considerable acceleration vs. ~70% in the pre-tariff steel scenario.

In addition, we believe that the decline in imports has increased domestic spreads in the US vs. the international market, especially in beams (+10%) and merchant bars (+7%). This competitive advantage has boosted prices and margins. For Mr. Wang, the logic of **trade defense** has taken on the contours of **"national security" in the US**, which should prolong this tariff regime (unlike what we see in Brazil). The renegotiation of the USMCA at the end of 1Q26E will be a critical point, as it may redefine trade flows between the US, Canada, and Mexico.

The effect on the company's operations was twofold. On the one hand, units located in the US began to focus almost exclusively on the domestic market, capturing high margins. On the other hand, in Canada, strategic adjustments were necessary. It is important to note that the company owns 25% of North America's BD assets located in Canada and that it usually transfers 250Kt of slabs (10% of quarterly production) for subsequent rolling in the US. As a result, plants such as Cambridge (ON) and Whitby (ON) repositioned themselves with a greater focus on merchant bars and rebar, while Manitoba (MB) maintained its relevance in special steel – 50% of which are destined for the US. This mitigated the impact by adapting the mix and partially sharing tariffs with clients, resulting in more stable performance, albeit with lower profitability than in the US.

North America BD: Solar energy, data centers, and automotive. In his sector analysis, Mr. Wang also pointed out that, although total demand remained relatively flat, the reduction in imports in the US strengthened domestic producers, directly benefiting Gerdau.

Among the segments, one of the highlights is the solar energy market, leveraged by the Inflation Reduction Act. Currently, the market for stakes in solar plants in the US moves ~1Mtpy, in which the company holds a ~30% share, captured mainly via plants in Texas and Florida. This niche, which 7Y ago represented zero in the portfolio, today accounts for ~6% of the North American division's total production, largely due to the verticalization of the commercial strategy, which includes everything from the direct sale of rolled steel to the delivery of processed products in its own downstream units.

Another growth vector cited was the demand for data centers structures, especially at the Petersburg (VA) plant, which benefits from its strategic location. According to Mr. Wang, differentiation also comes from the lower carbon intensity of the company's beams, which should gain relevance in the face of growing sustainability requirements. In the automotive sector, the management was more cautious: although the onshoring movement brings a positive outlook, it is still a long-term process. The most promising indicator has been the increase in quotes and inquiries from OEMs for new projects in special steels, a sign that there is a future trend toward demand recovery. Even so, affordability issues (high vehicle prices) have limited production in the short term (-1.9% in 1H25 vs. 1H24), partially offset by domestic manufacturers' gains in market share. In civil construction, the non-residential segment to which the company is most exposed remains weak, although there are expectations of improvement with the downward trend in interest rates. Infrastructure, despite high expectations generated by federal programs, has not yet had a significant impact, although management believes it represents "investment savings" to be activated in the coming years, given the evident structural deterioration of infrastructure in the US.

North America BD: micro mills should not compete in the same product mix. In terms of supply, Mr. Wang noted that the new projects announced focus on rebar and flat-rolled products, supported by **micro mill technologies** (operated by peers such as Nucor), consisting of continuous casting that reduces the need for three units to just two, eliminating the cooling stage for subsequent rolling, which makes the **process less complex**, leading to **cost reductions**. However, in the merchant bars and beams segments — where Gerdau concentrates its portfolio in the US — there should be no significant new greenfield investments in micro mills, given the difficulties in achieving different types of specifications and gauges, being a viable and scalable option only for rebar. This reinforces the company's competitiveness in these lines.

Among recent highlights, management presented the downstream project for solar piles, with a production capacity of +90Ktpy, operating with laser cutting technology — an innovation that increases efficiency and reduces unused materials vs. the traditional press model. Three lines are already in ramp-up and should be 100% operational by the end of this year, generating cost advantages. Another strategic project is the modernization of the **Midlothian (TX) plant**, the company's largest mini-mill in the region. The first phase of CAPEX, worth R$1.2bn, will increase the weight of the steel mill's runs and expand continuous casting capacity, introducing **combo caster technology** to increase production by **+150Ktpy**, generating an increase of **+R$275mn/year in EBITDA**, with startup scheduled for the 2H26.

Our Take on Gerdau

Brazil faces difficulties in rebar; US should perform with new projects. At **Brazil BD**, one issue that many investors are concerned about is the **more aggressive commercial stance** on **rebar** in the last 9M. Management argued that the discounts applied at the beginning of the year were strategic in nature, aimed at ensuring minimum plant utilization rates and responding to the increase in imports and opening of capacities, with a view to recovering share. Market prices are falling sharply (-19% YTD). In addition to a defensive strategy in an environment of high supply, Gerdau reiterated its role as a price maker for a product that has always been intrinsically linked to the company's image (top of mind). For this reason, Mr. Werneck argued that **market share is non-negotiable**, even if the trade-off **is profitability** at this stage. According to our weekly publications, we believe that demand in the construction sector will not be able to quickly absorb the excess supply created by increased capacity. Therefore, mills (Gerdau and its peers) will likely continue to struggle to pass on prices until fundamentals improve, with the adjustments announced in Oct. facing strong resistance. We estimate that the **excess supply** to be **~615Kt**.

At the **North America BD**, Mr. Wang's speech was emphatic: competitive discipline must be understood as structural, with only 3–4 relevant players in long steel. Furthermore, we believe that elevated CAPEX and extended execution times should make greenfield projects in the US unfeasible, making very marginal expansions (+25–50Ktpy) the only realistic option without changing the supply situation. At the same time, **brownfield projects** at some plants that the company itself may invest in as a possible expansion of production capacity to 1.7–1.8Mt (vs. 1.4–1.5Mt previously) via **ComboCaster**, which should generate an **IRR** of between **15–20%** with a **payback** of **4–6Y**. This shows us how the priority should be to optimize existing assets rather than invest in high-risk greenfields.

Guidance cut, confidence raised. Adding to our model **(i)** the **downward revision** for **CAPEX guidance** to **R$4.7bn 26E** (-22% y/y), reflecting not only the completion of relevant projects, but above all the extension of the useful life of strategic assets – such as blast furnaces (BFs) and coking plants – allowing the company to postpone significant renovations until 2028+; and **(ii)** the total elimination of the peripheral negative impacts associated with the integration of the Miguel Burnier mining project at the Ouro Branco (MG) mill – which resulted in a **loss of 120–150Kt** of **pig iron/steel** in **May-Jun** – but which **should be reversed** as early as **3Q25E**, contributing to an incremental margin and greater dilution of fixed costs in the operation, we not only maintained our **BUY rating** for the company, but also adjusted our **12M Target Price** to **R$20.50** (vs. R$20.00 previously), implying an **upside** of **+20.6%.**

Appendix: Gerdau

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

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**73.095**	**77.049**	**74.109**	**72.940**
(-) COGS	(63.232)	(65.221)	(63.430)	(62.197)
Gross Profit	**9.863**	**11.827**	**10.679**	**10.744**
(-) Expenses	(2.343)	(2.414)	(2.335)	(2.300)
Adjusted EBITDA	**12.377**	**14.688**	**13.609**	**13.735**
(-) D&A	(3.720)	(3.981)	(4.220)	(4.441)
EBIT	**7.991**	**10.184**	**9.085**	**9.173**
(+/-) Financial Result	(1.630)	(1.170)	(643)	-809
(-) Taxes	(1.465)	(1.469)	(1.636)	(1.564)
Net income	**4.896**	**7.545**	**6.806**	**6.800**
Profitability				
Net margin (%)	6,7%	9,8%	9,2%	9,3%

Figure 2. Gerdau– Cash Flow in R$ Millions (Genial Est. 2025-2028)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**72.894**	**75.605**	**71.184**	**68.750**
(-) COGS	(62.374)	(63.294)	(60.577)	(58.871)
Adjusted EBITDA	**12.882**	**15.014**	**13.327**	**12.831**
EBIT	**8.551**	**10.652**	**9.026**	**8.346**
(-) Taxes	(1.800)	(2.126)	(2.187)	(1.924)
(+) D&A	3.771	4.028	4.146	4.391
(+/-) Δ WK	(1.216)	907	516	657
(-) Capex	(6.177)	(4.700)	(6.348)	(6.027)
FCFF	**3.129**	**8.762**	**5.153**	**5.444**

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