Equity Research

VALE

3Q25 Operational Preview: Premiums back to positive territory

LatAm Metals & Mining

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Company

VALE US Equity
Buy

Price: US$ 10.97 (14-Oct-2025)
Target Price 12M: US$ 12.20 (NYSE)

VALE3 BZ Equity
Target Price 12M: R$ 66.00 (B3)

Main takeaways:

(i) Iron ore **production** of **93.9Mt Genial Est.** (+12.4% q/q; +3.3% y/y), driven by continued operational momentum in the Southeast System, following the start-up of the fourth line at Brucutu (MG) and the ramp-up at Capanema (MG), which added +3Mt y/y in 2Q25, with continued positive performance at S11D (PA); **shipments** of fines projected at **72.3Mt Genial Est.** (+6.9% q/q; +4.3% y/y), closely following the evolution of production and with a smaller gap between production and sales, reflecting logistics normalization and reduction of strategic inventories; **realized price** at **US$94.7/t Genial Est.** (+11.3% q/q), sustained by the recovery of the 62% Fe curve; **premium** should return to **positive territory**, at **+US$0.9/t Genial Est.** (vs. -US$1.3/t in 2Q25); **(ii) Production** of pellets at **9.1Mt Genial Est.** (+15.5% q/q; -12.5% y/y), driven by drier weather, although limited by the redirection of pellet feed to fines; **shipments** at **8.9Mt Genial Est.** (+18.6% q/q; -12.5% y/y), in line with production growth, but maintaining supply discipline in a market of compressed premiums; **realized price** at **US$129/t Genial Est.** (-3.7% q/q; -12.9% y/y), reflecting the acceleration of the 65% Fe curve (~US$118/t, +4.5% q/q), partially offset by the decline in contractual premiums (-US$10/t q/q); **(iii) Net revenue** of **US$10.1bn Genial Est.** (+15.0% q/q; +6.0% y/y), driven by the combined advance in volumes and prices of fines and partially offset by weaker premiums on pellets; **(iv) C1/t ex-third parties** at **US$21.0/t Genial Est.** (-5.5% q/q; +1.7% y/y), benefiting from the dilution of fixed costs in light of the sequential increase in fines shipments (+6.9% q/q Est.); **(v) Pro forma EBITDA** at **US$4.2bn Genial Est.** (+22.8% q/q; +12.4% y/y), with a **margin** of **41.5%** (+2.6p.p. q/q; +2.3p.p. y/y), driven by the improved performance of ferrous metals; **(vi) Net income** of **US$2.5bn Genial Est.** (+18.4% q/q; +5.7% y/y); **(vii)** We reiterate our **BUY rating**, with a **12M Target Price** of **US$12.20 ADRs – NYSE** and **R$66.00 VALE3–B3**, implying an **upside** of **+11.1%.**

Vale will release its **Production and Sales Report** for **3Q25** on **Oct. 21**, after the market closes. We believe that the quarter should be marked by a sequential expansion in EBITDA, reflecting the dual effect on iron ore fines of the increase in realized prices (+11.3% q/q Est.) and the seasonal increase in shipments (+6.9% Est.). Therefore, a priori, our understanding is that the figures to be reported would show **satisfactory progress**.

Table 1. Operational Summary (3Q25 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.	Reported		Reported	
Summary	**3Q25E**	**2Q25**	**% q/q**	**3Q24**	**% y/y**
Iron Ore Production	93.972	83.599	**12,4%**	90.971	**3,3%**
Iron Ore Fines Shipments	72.345	67.678	**6,9%**	69.344	**4,3%**
Pellets Production	9.066	7.850	**15,5%**	10.363	**-12,5%**
Pellets Shipments	8.873	7.483	**18,6%**	10.143	**-12,5%**

Source: Genial Investimentos, Vale

In iron ore, we project production of **93.9Mt Est.** (+12.4% q/q; +3.3% y/y) and i.o. fines shipments of **72.3Mt Est.** (+6.9% q/q; +4.3% y/y), reflecting **(i)** seasonal effects with less rainfall in both the Southeast and North systems, **(ii)** logistical and operational stability, and **(iii)** a smaller gap between production and sales, after the peak concentration in Chinese ports observed in 1H25. We also expect an acceleration in realized prices for fines to **US$94.7/t Est.** (+11.3% q/q; +4.5% y/y), benefiting from gains in the 62% Fe reference curve to an average of US$102/t (+4.2% q/q) and the formation of a **slight positive premium** of **+US$0.9/t Est.** (vs. -US$1.3/t in 2Q25), after two consecutive quarters of discount.

On the **pellets** side, we estimate production of **9.1Mt Est.** (+15.5% q/q; -12.5% y/y) and shipments of **8.9Mt Est.** (+18.6% q/q; -12.5% y/y), reflecting a sequential increase driven by seasonality and a decline on an annual basis, considering greater supply discipline to avoid expanding production in a market that is less attractive, limited by lower contract premiums and weakened demand from China—especially in the European and Japanese markets.

As a result, we project consolidated **Net Revenue** of **US$10.1bn Genial Est.** (+15.0% q/q; +6.0% y/y); **C1/t ex-third parties** should decline to **US$21.0/t** (-5.5% q/q; +1.7% y/y), sequentially reflecting greater cost dilution helping to reduce expenses, but with the effect mitigated by the USD/BRL FX rate softening (-4% q/q). We emphasize that a +R$0.10 increase in the USD/BRL FX rate causes C1/t to fall by -US$0.25/t, and vice versa. Thus, **Pro forma EBITDA** is estimated at **US$4.2bn Genial Est.** (+22.8% q/q; +12.4% y/y), with a **margin of 41.5%** (+2.6p.p. q/q; +2.3p.p. y/y), while **Net Income** should clock in at **US$2.5bn Genial Est.** (+18.4% q/q; +5.7% y/y). Please note that **these figures are provisional**, as **we will update the estimates** as soon as Vale reports its Production and Sales report. The financial results will only be released on Oct 30.

3Q25 Operational Preview: Production and sales in detail

Iron Ore: Production and sales are expected to accelerate y/y. We project that iron ore production will total 93.9Mt Genial Est. (+12.4% q/q; +3.3% y/y), reflecting continued operational momentum in the Southeast System after the start-up of the 4th line in Brucutu (MG) and ramp-up in Capanema (MG) — assets that, combined, added +3Mt y/y in 2Q25 (we expect something similar in 3Q25E). In addition, we believe that in the North System, performance will be driven by S11D (PA) and the continuation of the more efficient mining plan in Serra Norte (PA), in line with the new strategic mix direction (Mid-grade Carajás ~63% Fe). We project that iron ore fines shipments will reach 72.3Mt Genial Est. (+6.9% q/q; +4.3% y/y), closely following the production pace.

In our view, the gap between production vs. sales — which had widened in the last quarter due to the strategy of concentrating inventories in Chinese ports — tends to return to the historical pattern of 3Q24, as the company probably will reduce the accumulation of strategic inventories and optimizes logistics conversion. This dynamic reflects a more balanced commercialization dynamic. The maintenance of the medium-grade blend strategy, such as BRBF (~63% Fe), and the greater sequential reach of IOCJ sales (~65% Fe fines), mainly due to the seasonality of less rainfall in the Northern System, should contribute to a better-quality mix composition.

Table 2. Production and Shipments Summary Vale (3Q25 Genial Est.)

Production Summary (Kt)	3Q25E Genial Est.	2Q25 Reported	% q/q	3Q24 Reported	% y/y
Iron Ore[1]	93.972	83.599	12,4%	90.971	3,3%
Pellets	9.066	7.850	15,5%	10.363	-12,5%
Nickel	41	40	2,5%	47	-11,9%
Copper	90	93	-2,7%	86	5,0%

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

Shipments Summary (Kt)	3Q25E Genial Est.	2Q25 Reported	% q/q	3Q24 Reported	% y/y
Iron ore fines	72.345	67.678	6,9%	69.344	4,3%
Pellets	8.873	7.483	18,6%	10.143	-12,5%
ROM	2.351	2.185	7,6%	2.351	0,0%
Nickel	41	41	-1,0%	41	0,7%
Copper	89	89	0,0%	75	18,4%

[1] Including third-party purchases

Source: Genial Investimentos, Vale

Iron Ore Fines: Price recovery with a slightly positive premium. We project that the realized price of iron ore fines will reach US$94.7/t Genial Est. (+11.3% q/q; +4.5% y/y), reflecting the recovery of the 62% Fe curve, which reached an average of US$102/t (+4.2% q/q) in 3Q25, combined with a slight mix improvement. The period should mark the first turning point towards a tactical price recovery, after a 1H25 of continuous compression. The movement would be sustained by medium-grade blends (BRBF, ~63% Fe) — ~50% of the portfolio (flat vs. 3Q24) — and by the gradual redirection of IOCJ (~65% Fe) to premium contracts (7.2Mt Est. or +12.5% q/q), sustained by the onset of the dry season in the Northern System, although we maintain our bias that the company will reduce sales on an annual basis, reaching ~10% Est. of the mix vs. 16% in 3Q24. We believe that the mix composition gains more representation y/y only in PFC China in addition to Mid-grade Carajás, which until then had been reported under “Others” category.

Simply put, we estimate that the +US$3/t q/q increase in the BRBF premium and +US$4–5/t q/q increase in IOCJ, weighted by the relative share of each product (~50% and ~10%, respectively), will generate a net effect of +US$0. 9/t Est, bringing the fines mix premium back into positive territory — in contrast to the -US$1.3/t discount observed in the previous quarter.

Pellets: Sales should rise q/q, but with a sharp deterioration in the premium. We project pellet production to reach 9.1Mt Genial Est. (+15.5% q/q; -12.5% y/y), reflecting an operational recovery q/q driven by drier weather, but with effects on an annual basis after the guidance downgrade to ~33Mt 25E (-17.5% vs. previous midpoint). We believe there will be a strategic redirection of more pellet feed — previously destined for the pelletizing process — to the fines market. We believe this move preserves margins in an environment of sharp contraction in premiums for the pellet market (US$11/t Est. vs. ~US$30/t on average over the last 2Y).

The sequential improvement should occur mainly due to seasonal effects and after negative adjustments for quality and moisture in the feed from Carajás (PA) and Itabira (MG) observed in the last quarter. Even so, our understanding is that the recovery remains technical, since the company maintains a disciplined supply stance and avoids expanding production in a market that is currently less attractive.

Sales are expected to total 8.9Mt Genial Est. (+18.6% q/q; -12.5% y/y), following similar movements to production. Finally, we project a realized price of US$129/t Genial Est. (-3.7% q/q; -12.9% y/y). Within the price composition, we believe that the acceleration of the 65% Fe reference curve (~US$118/t, +4.5% q/q) should be offset by the compression of contractual premiums (-US$10/t Est. q/q), resulting in a net decline of -US$5/t in the effective price. On the demand side, we note a weakening in the main consumer centers (Europe and Japan), where mills are operating with reduced margins in the face of growing competition from Chinese steel exports, leading to the renegotiation of contracts on smaller bases. In addition, it appears that Samarco's incremental supply (+6Mt 25E) at aggressive prices to regain market share exposes overcapacity to the global balance, making it difficult to drive pellet spreads.

Nickel: Operational stability and limited profitability. We project production of 41Kt Genial Est. (+2.5% q/q; -11.9% y/y), reflecting operational stability after scheduled downtime in Sudbury (ON) last quarter, with plants now operating close to normal pace. Shipments are expected to total 41Kt Genial Est. (-1.0% q/q; +0.7% y/y), in line with the absence of new relevant production triggers. The realized price is expected to decline marginally, reaching US$15,663/t Genial Est. (-0.9% q/q; -7.9% y/y), following the LME curve adjustment (-1% q/q) and reflecting global oversupply — mainly of class II nickel from Indonesia — which continues to damage the pricing environment.

In addition, it is worth noting that, on the cost side, we project a slight increase q/q because of the lag effect of 2Q25 maintenance and the partial pass-through of energy and inputs, which tends to restrict refining margins in the short term. Furthermore, the lack of the positive one-off effect of inventory impairment reversal (+US$79mn in 2Q25) should weigh on the sequential EBITDA comparison. In summary, the nickel segment should remain under margin pressure, combining stagnant prices, normalized and residually high costs, and still sluggish global demand.

Copper: operational stability and slight price improvement sustain the segment. We project that copper production will reach 90Kt Genial Est. (-2.7% q/q; +5.0% y/y), remaining essentially stable q/q, in line with the average range of the guidance released by the company in conjunction with the operational structure after the cycle of preventive maintenance carried out last quarter at the plants in Canada. Sales are expected to remain stable at 89Kt Genial Est. (flat q/q; +18.4% y/y), reflecting consistent commercial dynamics and the absence of significant logistical bottlenecks, within the expected range of 2H25.

On the price side, our model points to US$9,322/t Genial Est. (+3.7% q/q; +3.4% y/y), following the LME curve recovery, which advanced +4% q/q, driven by the perception of short-term supply tightness and a movement to hedge short positions in the global market.

On the cost side, it is worth noting that we are adhering to the low end of the updated guidance – an average of US$700/t in 2H25 – justified by the positive effect of the appreciation of gold prices as a by-product discounted from expenses vs. the update assumption (US$3,458/oz in 3Q25 vs. US$3,200/oz previously), which should contribute to the division's EBITDA.

Table 3. Income Statement Vale (3Q25 Genial Est.)

(US$ millions)	3Q25E Genial Est.	2Q25 Reported	% q/q	3Q24 Reported	% y/y
Net Revenue	**10.127**	**8.804**	**15,0%**	**9.553**	**6,0%**
COGS	(6.298)	(6.085)	3,5%	(6.281)	0,3%
Proforma EBITDA	**4.204**	**3.424**	**22,8%**	**3.741**	**12,4%**
EBITDA Margin (%)	41,5%	38,9%	2,6p.p	39,2%	2,3p.p
Adjusted EBITDA	**3.854**	**3.386**	**13,8%**	**3.615**	**6,6%**
EBIT Margin (%)	38,1%	38,5%	-0,4p.p	37,8%	0,2p.p
D&A	(725)	(780)	-7,1%	(748)	-3,1%
Financial Result	203	167	21,4%	(374)	-
Net Income	**2.527**	**2.135**	**18,4%**	**2.391**	**5,7%**
Net Margin (%)	25,0%	24,3%	0,7p.p	25,0%	-0,1p.p

Source: Genial Investimentos, Vale

Our Take on Vale

Premiums back to positive territory. Consolidated **net revenue** is expected to reach **US$10.1bn Genial Est.** (+15.0% q/q; +6.0% y/y). In a sequential comparison, we project sustained growth driven by increased shipments of iron ore fines (+6.9% q/q Est.) and a recovery in realized prices (+11.3% q/q Est.), benefiting from the advance of the 62% Fe reference curve (+4.2% q/q) and the return of premiums to positive territory (+US$0.9/t Est. vs. -US$1.1/t in 2Q25). Fe curve (+4.2% q/q) and the return of premiums to positive territory (+US$0.9/t Est. vs. -US$1.1/t in 2Q25). The additional contribution should come from pellets, with volumes on the rise (+18.3% q/q), although partially offset by weaker contract premiums. In the **y/y comparison**, growth should reflect increased i.o. fines sales (+4.3% y/y) vis a vis the operational maintenance of the Southeast systems (+3Mt in 2Q25 vs. 2Q24), added to better market conditions exemplified by the 62% Fe reference curve Fe (+7% y/y), which should more than offset the penalized pellet market.

C1/t ex-third parties is projected at **US$21.0/t Genial Est.** (-5.5% q/q; +1.7% y/y). In the sequential comparison, we estimate a decline due to the greater effect of fixed cost dilution derived from the increase in iron ore fines shipments. As a result, **Proforma EBITDA** is projected in our model at **US$4.2bn Genial Est.** (+22.8% q/q; +12.4% y/y), with a margin of 41.5% (+2.6 p.p. q/q; +2.3 p.p. y/y). Finally, we assume a **Net Income** of **US$2.5bn Genial Est.** (+18.4% q/q; +5.7% y/y). We remind investors that **these figures are provisional**, as **we will update our estimates** as soon as Vale reports its Production and Sales report on Oct. 21, after the market closes.

Participating debentures buyback: potentially unconvincing incentives. We believe that the current announcement confirms the intention to eliminate a relatively high-cost obligation, as it is complex (being hybrid) and economically burdensome, with an **effective cost** of **~12% in 12M** that seems incompatible with the company's current capital allocation discipline. Although the **total disbursement** could reach **~R$16.3bn** (if 100% of holders accept the offer), the repurchase increases the FCF predictability, reduces exposure to the IGP-M index, improves the quality of FCF generation indicators, and simplifies the company's accounting. In summary, we assess that **(i)** the premium to be paid at the moment is not considered high enough (+15%, in line with the current SELIC rate), with no defined coupon rate (given the hybrid structure), and **(ii)** there is no YTM (perpetual structure), we believe that **not all investors will exercise the binding offer**. We spoke with a significant number of investors (especially hedge funds) who prefer to remain exposed to participating debentures rather than company shares.

According to our preliminary calculations and considering 100% acceptance – we emphasize that this is unlikely to happen – the **FCF yield** may **downshift** to **~7% 25E** (vs. 13% Est., without buybacks payment), and with an additional gain of **+3p.p.** in **FCF yield** from **2026+**. The undiscounted return is 12Y away. We believe this is a long-term measure for the company, as the short-term effects are potentially greater on the negative side. It is possible that part of the market was already expecting the company to announce the buyback, but under potentially more convincing conditions.

On the right path. We believe that one of the major concerns arising from our conversations with investors is related to timing. Despite the resilience of 62% Fe ore Fe ore, fluctuating between **US$100–105/t**, the strong commitment of FCF to the Mariana/Brumadinho settlement expenditures (~US$5bn over the next 2Y) postpones the recovery of the payout until **27E**, when the macro environment may be more challenging, with **Simandou** and **Pilbara**, for example, adding supply to the market. In this sense, however, the company argues that much of the incremental volumes will only serve to replace mines in depletion and compensate for the quality drop, which will require **greater volumes** to be redirected to **blending** to maintain the **62% Fe** standard. This dynamic, therefore, should mitigate the net impact of the new supply, favoring a gradual rebalancing between production and demand.

Thus, maintaining the **guidance of 360Mt 2030+** reflects a calibrated strategy between cost dilution and market absorption, with management recognizing average structural losses of **~10% in pelletizing**, **20–30% in concentration in China**, and **~1–1.5% in moisture**. In the operational field, the company continues to execute what is within its reach vis-à-vis **CAPEX optimization**, reduction of **C1/t 25E** to **US$20.5–22/t** (-2.5% y/y) and **repricing of BRBF**, which should add **~US$400mn/y** in incremental **EBITDA**. Furthermore, despite the recent deterioration in China's economic data, iron ore continues to show surprising support, which should provide greater visibility to margins and postpone the materialization of a more adverse scenario. Therefore, we reiterate our **BUY rating**, with a **12M Target Price** of **US$12.20 ADRs – NYSE** and **R$66.00 VALE3–B3**, implying an **upside** of **+11.1%.**

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. 2024-2029)

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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under Review	Under review	**5%**

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