genial | Equity Research

VALE

Water Outflows-MG: Operationally manageable, legally less clear

LatAm Metals & Mining

What happened?

Brazil's Federal Public Prosecutor's Office (**MPF**) filed an urgent lawsuit against Vale, requesting the **freeze of R$1bn in cash and equivaments** and the suspension of activities and transfer rights at the Fábrica mine (MG) following an outflow event on Jan 25. According to the MPF, around **262 thousand m³ of water and sediments** leaked from **Pit 18th zone** after heavy rainfall led to the collapse of an improvised containment structure built on an internal access road — allegedly in breach of the site's environmental license.

The MPF statement quotes: "Although Vale had authorization to temporarily deposit tailings at the site, the environmental license expressly **prohibited the construction of any containment structure** (such as a dam) **within the pit**." The outflow affected streams connected to the Maranhão and Paraopeba river basins, with water turbidity reportedly exceeding legal limits. The water overflow first occurred at the Fábrica mine (MG), and the MPF also cited a roughly 10-hour delay in company's notification to authorities (vs. a 2-hour legal limit) and mentioned a second, similar incident at the Viga mine (MG) on the following day.

The requests include **(i)** freezing **R$1bn** (~US$190mn) **in cash and equivalents**, halting operations at Pit 18th zone (except for emergency works), **(ii)** hiring independent technical advisors, **(iii)** conducting environmental analyses, and **(iv)** identifying other improvised structures, under daily fines of R$500k in case of non-compliance. The statements from the MPF can be found at the attached link (link, original text in Portuguese).

Our Take on Vale

Comparison with previous disasters seems excessive. Recent water overflow incidents (25-Jan) at Vale's Fábrica (MG) and Viga (MG) operations generated short-term press headline noise, but we do not believe they warrant a precautionary reassessment of the equity story. The events were caused by heavy rainfall and originated from mining pits, not tailing dams, **(i)** involved **no mining waste**, **(ii)** resulted in **no casualties**, and **(iii) did not affect local communities**. As such, any comparison with past dam-related tragedies (Brumadinho and Mariana) is, in our view, **misplaced and should not be considered** from an analytical or risk-assessment standpoint. From an operational perspective, although the municipality of Congonhas (MG) has suspended operating licenses until investigations and repairs are carried out at the mine site, the **impact also remains limited.** In conversations we had today with the company, it reiterated that **no mining waste was released**.

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Company

VALE US Equity
Neutral

Price: US$ 16.10 (02-Feb-2026)
Target Price 12M: US$ 17.00 (NYSE)

VALE3 BZ Equity
Target Price 12M: R$ 90.00 (B3)

The MPF's own statement says, "As this road was not designed to withstand such pressure, it collapsed after heavy rainfall, releasing a **wave of mud and water** into the environment and even reaching the offices of a neighboring mining company (in this case, CMIN). After discussions, we note that both Vale's material fact and the MPF's statement refer to the release of **water with sediments** (mud and dirt), **not tailings**, and there is **no reference to dam failure or tailings disposal**.

Operationally manageable, legally less clear… In fact, it still seems to us to be an accident of much smaller proportions than previous disasters involving dams. Conversely, it is important to keep in mind that the MPF statement mentions that the company's environmental license states that **it could not build any containment structures in the pit**. Although the water outflow did not occur from a mining dam rupture, nevertheless, according to the MPF's argument, **there was a containment structure** (what was prohibited by the license) which was damaged by the rains' pressure. This is the point that **may cause greater complexi**ty for the complete resolution of the matter **from a legal standpoint**. Based on what we know so far, we cannot say that the company actually violated the terms of its environmental license. Nevertheless, this will be an additional legal burden given the nature of the MPF's statement. Therefore, we believe that the company will need a little more time to reestablish operations at both locations. Fábrica and Viga together account for ~**8Mtpy** (2% of the unchanged output guidance 26E – we are assuming 340Mt, mid-point), implying that even a full-quarter suspension would translate into a manageable production loss of ~2Mt.

Reiterating the NEUTRAL bias. Added to this risk factor, as we already pointed out in our last report (**Vale 4Q25 Preview**), we still believe the **equity catch up is fully complete** (we downgraded the company last week). Following a **sharp rally of +55% in 6M** (~2/3 of that in 60 days), largely driven by **(i)** strong foreign inflows into Brazilian equities and **(ii)** iron ore upshift (+10% in 6M), the company's market cap now stands broadly in line with what we view as fair value under our model, as we now calculate the **FCF yield 26E** at **9%** (vs. 14% previously), creating a compression of **-5p.p. in 60 days**. Looking at multiples, the **EV/EBITDA 26E** is now at **5.3x** (slightly above the historical average of 5x), also indicating that the previous discount has been purged. On the dividend side, there was also a decline to a **26E dividend yield** of **~8%** (vs. 12% previously). Therefore, to sum up, even though this is **incomparable** to what Vale's has been through since Mariana and Brumadinho's environmental disasters, we see this case as a **possible additional induction** that supports our **NEUTRAL rating** for now.

Appendix: Vale

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

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**38.259**	**39.346**	**41.232**	**42.560**
(-) COGS	(25.223)	(26.272)	(28.329)	(30.428)
Gross Profit	**13.036**	**13.074**	**12.902**	**12.132**
(-) Expenses	(3.625)	(3.813)	(3.998)	(4.149)
Proforma EBITDA	**15.536**	**15.339**	**15.268**	**14.548**
(-) D&A	(3.040)	(3.126)	(3.276)	(3.382)
EBIT	**9.411**	**9.261**	**8.904**	**7.983**
(+/-) Financial Result	(422)	(793)	(874)	(888)
(-) Taxes	(724)	(476)	(431)	(385)
Net income	**8.583**	**8.656**	**8.302**	**7.445**
Profitability				
Net margin (%)	22,4%	22,0%	20,1%	17,5%

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

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**38.259**	**39.346**	**41.232**	**42.560**
(-) COGS	(25.223)	(26.272)	(28.329)	(30.428)
Proforma EBITDA	**15.536**	**15.339**	**15.268**	**14.548**
EBIT	**9.411**	**9.910**	**10.173**	**9.253**
(-) Taxes	(724)	(476)	(431)	(385)
(+) D&A	3.040	3.126	3.276	3.382
(+/-) Δ WK	105	88	878	721
(-) Capex	(5.496)	(5.725)	(6.040)	(6.243)
FCFF	**6.335**	**6.923**	**7.857**	**6.727**

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

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