

# Usiminas

February 19, 2015

## 4Q14 results: weak results softened by energy sales

Usiminas released weak results driven by the less favorable domestic market for steelmakers and by the pressured scenario for iron ore producers, since the price delivered to China has plummeted from USD 130 per tonne early in 2014 to around USD 70 in the end of the year. The sale of energy surplus has contributed to the company's results, but we still believe in a more challenging scenario ahead.

**Lower sales in the DM and Exports.** Despite a stable steel production QoQ, Usiminas reported weaker sales of steel by 11.0% in the 4Q14, following the anemic performance in the automotive, industrial and white goods sectors in the domestic market. The average price was 3.1% higher QoQ due to the dollar appreciation, but steel exports were down by 28.2% in the same comparison. Thus, steel revenues reached BRL 2.45 billion, a drop of 8.2% when compared to the 3Q14. In reason of higher costs of raw materials and the domestic currency devaluation, the gross margin of the steel unit fell 1.5 pp to 3.8%.

**Mining unit focused only on the company's needs.** As happened in the 3Q14, the absence of exports due to the drop in iron ore prices resulted in a revenue of BRL 87 million (-18.7% QoQ). Despite cost savings initiatives, operational improvements and higher extraction yield of iron ore, the reduction in the dilution of fixed cost led to a gross loss of BRL 12 million.

**Operating and Financial Results.** Net operating expenses increased by 17.7% QoQ due to a 6.3% increase in the payroll at the Ipatinga Plant. The consolidated sales of surplus energy reached BRL 90 million (versus BRL 124 million in the 3Q14) and the adjusted EBITDA – which includes these non-recurring sales – was BRL 302 million (-15.3% QoQ), with a margin of 11.7%. Usiminas registered a net financial expenses of BRL 213.8 million (-8.0% QoQ), thus, the company ended the last quarter with a net loss of BRL 117.3 million.

**Outlook.** Usiminas will continue to face a more challenging scenario in the upcoming months, due to a weak domestic market and an inflationary pressure over the company's costs. Despite the lower pressure in the sector by the dollar appreciation, we do not believe in a price hike in Brazil, for steel, in the short term. Therefore, Brazilian steelmakers will probably maintain its margins under pressure. Moreover, the probable risk of energy rationing in Brazil would affect not only steelmakers' production, but mainly steelmakers' sales volumes, since the final use consumer would be more affected. We maintain our USIM5 target price of BRL 7.10 for YE2015, with Market Perform recommendation.

BRL million	4Q14	QoQ	YoY	2014	YoY
Net Revenue	2,585	-11.1%	-19.0%	11,742	-8.5%
Gross Profit	58	-53.4%	-86.7%	1,037	-29.7%
Gross Margin (%)	2.2%	-2.0 p.p.	-11.4 p.p.	8.8%	-2.7 p.p.
Adjusted EBITDA	302	-15.3%	-41.3%	1,863	3.1%
EBITDA Margin (%)	11.7%	-0.6 p.p.	-4.4 p.p.	15.9%	1.8 p.p.
Net Income	-117	380.3%	-349.6%	208	1141.6%
Net Margin (%)	-4.5%	-3.7 p.p.	-6.0 p.p.	1.8%	1.6 p.p.

Indebtedness (BRL million)	4Q14	QoQ	YoY
Gross Debt	6,702	-1.9%	-2.9%
Net Debt	3,850	1.9%	12.1%
Net Debt / EBITDA	2.1x	0.2x	0.2x

Source: Usiminas and BB Investimentos

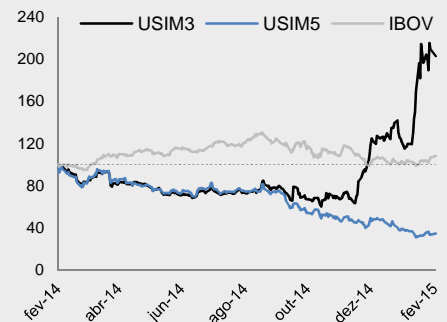
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USIM5	Market Perform
Last Price 02/18/2015 (BRL)	3.75
Target Price 12/2015 (BRL)	7.10
Upside	89.3%
Market Cap (BRL million)	12,044
1 Month Change	-11.6%
LTM Change	-62.7%
YTD Change	-25.7%
52w Low (BRL)	3.35
52w High (BRL)	10.78

Multiples	2015e	2016e	2017e
EV/EBITDA	6.2x	5.7x	5.4x
P/E	6.5x	5.7x	5.3x
EPS (BRL)	0.58	0.66	0.70



Source: Bloomberg and BB Investimentos

<b>Steel Sales (kt)</b>	<b>4Q14</b>	<b>QoQ</b>	<b>YoY</b>	<b>2014</b>	<b>YoY</b>
Heavy Plates	280	-13%	-6%	1,217	-5%
Hot Rolled	400	-8%	-23%	1,863	-14%
Cold Rolled	295	-1%	-20%	1,309	-10%
Galvanized	203	-6%	-9%	878	-4%
Processed Products	7	-22%	-72%	56	-59%
Slabs	62	-48%	2%	218	-19%
<b>Total Sales</b>	<b>1,247</b>	<b>-11%</b>	<b>-16%</b>	<b>5,541</b>	<b>-11%</b>
<b>Iron Ore Production (kt)</b>	<b>1,452</b>	<b>1%</b>	<b>-29%</b>	<b>6,067</b>	<b>-7%</b>
Sales - DM	39	-80%	-96%	833	-59%
Sales - Exports	0	-	-	680	36%
Sales to Usiminas	1,122	8%	7%	4,110	-3%
<b>Total Sales</b>	<b>1,161</b>	<b>-6%</b>	<b>-48%</b>	<b>5,623</b>	<b>-17%</b>

Source: Usiminas and BB Investimentos

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