

# Gerdau

March 04, 2015

## 4Q14 Results: lower volumes x higher net sales per tonne

Gerdau showed stronger numbers in the Brazilian exports and, added to the positive effects came from dollar appreciation, its adjusted EBTIDA in Brazil BO\* reached margin of 20.3% (+3.8 pp. QoQ). On the other hand, the North America unit showed a drop in volume sales and EBITDA. For 2015, Gerdau plans to invest BRL 1.9 billion (versus BRL 2.3 billion in 2014), focused in productivity improvements and maintenance.

**Positive: higher exports and FX effects.** Gerdau released lower sales volumes by 3.5% QoQ, mainly due to the drop of 14.9% in sales in the North America BO, but partially offset by higher exports (+30.9% QoQ) from Brazil unit as a result of an improvement in the international market for semi-finished products. However, the dollar appreciation led to higher revenue per tonne in all of the BO (without Brazil) and so total revenues reached BRL 10.84 billion (+1.3% QoQ). When compared to 4Q13, revenues increased by 5.1% also due to the Brazilian real depreciation despite lower sales volumes.

**Operating Results.** Adjusted EBITDA reached BRL 1.24 billion in 4Q14 and it was at the same level QoQ, with margin of 11.4%. While Brazilian BO increased by 25.7% to BRL 738 million, North America BO fell 40.9% QoQ. On the other hand, compared to 4Q13 there was a drop in EBITDA of 9.6% mainly due to Brazilian operations (-25.5%) and Latin America BO (-19.9%). The iron ore business showed higher sales volume both QoQ and YoY but, due to the fall in international iron ore price, EBITDA was negative at BRL 24 million.

**Financial Result.** The financial result came negative at BRL 673 million (+17.0% QoQ) as a result of the FX variation. The bottom line was also impacted by non-recurring events like the impairment of some Latin America assets (-BRL 339 million) and by the sale of Gallatin Steel Company (+BRL 637 million). Thus, Gerdau ended the 4Q14 with a net income of BRL 393 million.

**Indebtedness.** Due to the effect of the dollar appreciation over the company's debt, the gross debt in Brazilian reais increased by BRL 1.1 billion, but the Net Debt/EBITDA fell to 2.4x (versus 2.7x in 3Q14), after the recording of the proceeds from the divestment of Gallatin Steel Company.

**Outlook.** In the upcoming months, Gerdau will probably continue to face a moderate expansion in the North America BO but threatened by the increase in imported products, and negatively impacted by the decline in sales in the domestic market, due to the current macroeconomic prospects and to the energy crisis. Moreover, the inflation over the company's costs may put additional pressure over its margins. Regarding the iron ore unit, the company has not planned any capacity expansion in the short/mid term and mostly of its production will be destined to the Ouro Branco unit. We maintain our GGBR4 target price of BRL 15.90 for YE2015, with Outperform recommendation.

\*BO – Business Operation

BRL million	4Q14	QoQ	YoY	2014	YoY
Net Revenue	10,844	1.3%	5.1%	42,546	6.7%
Gross Profit	1,285	0.7%	-4.8%	5,140	0.1%
Gross Margin (%)	11.8%	-0.1 p.p.	-1.2 p.p.	12.1%	-0.8 p.p.
Adjusted EBITDA	1,238	1.1%	-9.6%	4,828	0.9%
EBITDA Margin (%)	11.4%	0.0 p.p.	-1.9 p.p.	11.3%	-0.7 p.p.
Net Income	393	50.0%	-20.1%	1,488	-12.1%
Net Margin (%)	3.6%	1.2 p.p.	-1.1 p.p.	3.5%	-0.8 p.p.

Production (kt)	4Q14	QoQ	YoY	2014	YoY
<b>Crude Steel</b>					
Brazil	1,619	1.0%	-4.3%	6,458	-7.3%
North America	1,509	-11.5%	-2.6%	6,649	8.6%
Latin America	384	-0.5%	-9.9%	1,614	-6.5%
Special Steel	811	4.2%	4.0%	3,307	3.4%
<b>Total</b>	<b>4,323</b>	<b>-3.3%</b>	<b>-2.8%</b>	<b>18,028</b>	<b>0.1%</b>
<b>Iron Ore</b>	<b>1,681</b>	<b>-24.2%</b>	<b>-8.7%</b>	<b>7,623</b>	<b>36.5%</b>

Source: Gerdau and BB Investimentos

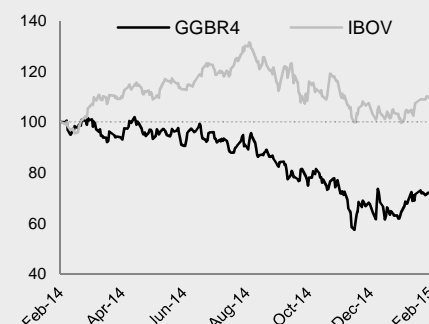
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GGBR4	Outperform
Last Price 03/03/2015 (BRL)	10.17
Target Price 12/2015 (BRL)	15.90
Upside	56.3%
Market Cap (BRL million)	16,305
1 Month Change	16.2%
LTM Change	-30.0%
YTD Change	6.2%
52w Low (BRL)	7.86
52w High (BRL)	14.58

Multiples	2105e	2016e	2017e
EV/EBITDA	5.2x	4.9x	4.7x
P/E	9.6x	9.1x	8.8x
EPS (BRL)	1.66	1.75	1.82



Source: Bloomberg and BB Investimentos

Sales (kt)	4Q14	QoQ	YoY	2014	YoY
Brazil	1,738	4.7%	-3.0%	6,583	-9.6%
Domestic Market	1,357	-0.9%	-4.2%	5,540	-5.8%
Exports	381	30.9%	1.3%	1,043	-25.4%
North America	1,402	-14.9%	-5.0%	6,154	0.1%
Latin America	664	2.6%	-7.1%	2,623	-6.6%
Special Steel	677	-4.6%	-4.8%	2,894	1.3%
<b>Total</b>	<b>-82</b>	<b>-3.5%</b>	<b>-3.4%</b>	<b>17,869</b>	<b>-3.5%</b>
<b>Iron Ore</b>	<b>2,254</b>	<b>13.8%</b>	<b>5.4%</b>	<b>7,971</b>	<b>58.9%</b>

EBITDA Margin per B.O.	4Q14	T/T	A/A	2014	A/A
Brazil	20.3%	3.8 p.p.	-4.5 p.p.	18.6%	-2.8 p.p.
North America	5.7%	-3.4 p.p.	1.2 p.p.	6.3%	1.7 p.p.
Latin America	7.1%	-0.5 p.p.	-2.2 p.p.	8.3%	0.3 p.p.
Special Steel	12.1%	1.1 p.p.	2.1 p.p.	10.6%	-0.7 p.p.
Iron Ore	-11.7%	-16.5 p.p.	-49.4 p.p.	17.0%	-18.5 p.p.

Indebtedness (BRL million)	4Q14	QoQ	YoY
Gross Debt	19,521	5.7%	16.8%
Net Debt	13,673	-0.9%	9.5%
Net Debt / EBITDA	2.4x	-0.3x	-0.1x

Source: Gerdau and BB Investimentos

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