

CSN

March 12, 2015

4Q14 Results: costs reduction offset lower volumes

CSN delivered results marked by the improvement in exports and sales in the foreign market coming from the overseas subsidiaries, despite weaker prices of iron ore putting pressure over the mining unit.

Steel: weak DM partially offset by Exports. In 4Q14, CSN reported sales volumes 1.6% lower QoQ due to a weaker domestic market with sales decreasing by 5.9% while exports + foreign market rose by 9.3%. Since the consolidated net revenue per unit remained stable at BRL 2,134/t, the company ended 4Q14 with revenues of BRL 2.73 billion (-1.9% QoQ). We highlight the drop of 7.0% QoQ in COGS as a result of lower sales volumes and raw material costs, added to the fall in consumption of slabs purchased from third-parties. Thus, the adjusted EBITDA of BRL 723 million was 9.9% higher than 3Q14.

Mining: price pressure x lower costs. Iron ore sales volumes reached 7.5 million tonnes, a decrease of 2.6% over 3Q14. Since the average price fell to USD 43/t from USD 51/t (according to our calculations), revenues of the mining unit plummeted by 9.1% to BRL 831 million. However, in the same path as the steel unit, lower COGS led to an adjusted EBITDA of BRL 199 million, a fall of only 2.0% QoQ.

Financial Result and Indebtness. The financial result came in at a negative BRL 1.24 billion (+31.5% QoQ). Thus, CSN ended the 4Q14 with a net income of BRL 67.8 million, versus net loss of BRL 250.4 million in the 3Q14. The gross debt rose by BRL 1.2 billion to BRL 30,983 million mainly due to investments in capex, payment of taxes and increase in working capital. Considering the lower LTM EBITDA QoQ, the Net Debt/EBITDA reached 4.0x (versus 3.2x in 3Q14).

Outlook. Despite perspectives of a weak scenario for the steel segment and a low price range of iron ore for 2015, which led to a lower cash flow generation, CSN has made clear its focus on deleveraging. According to the company, the goal will be reached through the improvement in operating costs in both segments and the preservation of cash flow by reducing capital expenditures – the amount estimated for 2015 is BRL 1.3 billion, versus BRL 2.2 billion in 2014.

CSN also expects iron ore shipments to increase up to 3 million tonnes in a market where, regarding production costs, its competitiveness is comparable to the biggest players. We maintain our CSNA3 target price of BRL 8.50 for YE2015, with Market Perform recommendation.

BRL million	4Q14	QoQ	YoY	2014	YoY
Net Revenue	3,353	-13.7%	-32.3%	13,166	-24.0%
Gross Profit	855	-11.9%	-48.4%	4,006	-18.1%
Gross Margin (%)	25.5%	0.5 p.p.	-8.0 p.p.	30.4%	2.2 p.p.
Adjusted EBITDA	1,010	3.4%	-42.5%	4,729	-12.5%
EBITDA Margin (%)	30.1%	7.1 p.p.	-1.9 p.p.	35.9%	7.9 p.p.
Net Income	68	-127.1%	-113.9%	-105	-119.7%
Net Margin (%)	2.0%	8.5 p.p.	11.9 p.p.	-0.8%	-3.9 p.p.

Steel Production (Kt)	4Q14	QoQ	YoY	2014	YoY
Crude Steel (UPV*)	1,063	-10%	-3%	4,458	0%
Rolled Steel	1,051	-4%	-8%	4,302	-6%

Steel Sales	4Q14	QoQ	YoY	2014	YoY
Volume (Kt)	1,253	-2%	-4%	5,177	-15%
Domestic Market	69%	-3 p.p.	-7 p.p.	72%	-5 p.p.

Iron Ore Sales (Mt)	4Q14	QoQ	YoY	2014	YoY
C. Pedra + 100% Namisa	7.5	-3%	-4%	28.9	12%
CSN	6.7	1%	-2%	25.3	17%

Indebtedness (BRL million)	4Q14	QoQ	YoY
Gross Debt	30,983	4.1%	7.6%
Net Debt	18,908	7.3%	20.2%
Net Debt / EBITDA adjusted	4.0x	0.8x	1.1x

Source: CSN and BB Investimentos

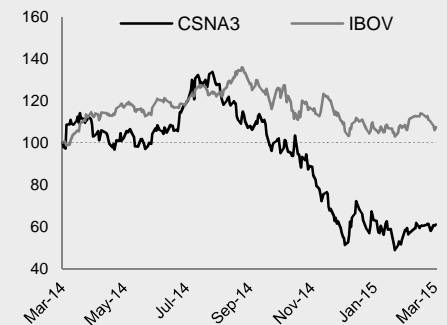
Steel & Mining

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CSNA3	Market Perform
Last Price 03/11/2015 (BRL)	5.20
Target Price 12/2015 (BRL)	8.50
Upside	63.5%
Market Cap (BRL million)	7,067
1 Month Change	2.8%
LTM Change	-37.6%
YTD Change	-3.3%
52w Low (BRL)	4.06
52w High (BRL)	11.64

Multiples	2015e	2016e	2017e
EV/EBITDA	5.1x	4.6x	4.2x
P/E	11.1x	8.3x	7.0x
EPS (BRL)	0.77	1.03	1.21



Source: Bloomberg and BB Investimentos

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