09 OCT 2023

Fitch Affirms Gerdau S.A. at 'BBB'; Outlook Stable

Fitch Ratings - New York - 09 Oct 2023: Fitch Ratings has affirmed Gerdau S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. In addition, Fitch has affirmed Gerdau's National Scale Ratings at 'AAA (bra)', senior unsecured notes, and the senior unsecured notes issued by its related or subsidiary companies at 'BBB'. The Rating Outlook remains Stable.

Gerdau's rating affirmation reflects the continued strength of the company's market position, capital structure, long tenor maturity schedule, and liquidity profile. Gerdau's geographic operational diversification, and flexible operating structure of electric arc furnace (EAF) steel production, allows the company to swiftly respond to changing market conditions.

Gerdau's ratings are above Brazil's 'BB+' Country Ceiling based on the company's ability to service its debt with cash flow generated by its U.S. subsidiaries and/or the cash and marketable securities it holds outside of Brazil.

Key Rating Drivers

Robust Business Position: Gerdau is a leading long steel producer in the Americas with industrial presence in nine countries. The company's diversified portfolio of assets hedges the company against sharp downturns in key markets, such as Brazil or the U.S., and provides the company's cash flow a degree of stability. The company's EBITDA during 1H23 was comprised of North America at 50%, Brazil at 25%, South America (excluding Brazil) at 12% and Special Steel at 13%.

Flexible Operating Profile: Gerdau has a flexible production cost structure, with approximately 75% of output from electric arc furnaces mini-mills and 25% from integrated blast furnaces. Gerdau's numerous scrap collection facilities and direct mine operations undergird its raw material self-sufficiency. This allows the company to promptly react to changes in steel demand in Brazil and the U.S. Furthermore, a BRL3.2 billion investment program between 2023 and 2026 targets the development of high grade iron ore (65%) to reduce pellet consumption, and enable the potential for direct reduced iron and pellet production in the future.

Sound Capital Structure: Gerdau's commitment to maintaining a strong capital structure is a key rating consideration. The company's gross and net debt/EBITDA ratio reached 0.6x and 0.4x in LTM 2Q23. Fitch expects additional gross debt to be close to Gerdau's BRL 12.0 billion long-term target. The expected average gross and net leverage metrics between 2023 and 2025 are 1.0x and 0.2x. Gerdau's financial policy also includes keeping an average maturity term beyond six years and net leverage below 1.5x.

Steel Demand Softening: Apparent consumption of steel in Brazil fell by 0.7% in the first half of 2023, less than the 11.0% decrease in 2022. The decrease in 1H23 was attributable to a decrease in apparent consumption of long steel products while special steel sheets saw a partial recovery from their 2022 fall. Fitch projects the special steel segment for Gerdau will see lower shipments in 2023 as the Brazilian auto sector remains depressed and due to the expectation of decreased production in the US auto sector.

High FCF Generation: Continued high steel price dynamics in North America allowed EBITDA/tonne to reach BRL1,822 (USD380), compared with about BRL738 (USD154) in Brazil, keeping profitability in 1H23 above midcycle levels. Fitch forecasts Gerdau's EBITDA will decrease to BRL15.0 billion in 2023 from BRL21.1 billion in 2022 with average EBITDA/tonne at BRL1,400 (USD 277) in 2023. Gerdau targets a BRL 5.0 billion capex for 2023. The company is expected to generate BRL4.5 billion of FCF after capex and dividends in 2023.

North American Cash Flow: Gerdau's ratings are not constrained by a country ceiling. Fitch deems the company's applicable country ceiling is North America at 'AAA', as Fitch estimates its EBITDA from operations in the U.S. can comfortably cover its consolidated hard-currency interest expense by an average of 16.9x over the next 24 months.

Should the company's North American operations EBITDA fail to cover 12 months of hard-currency interest expense by at least 1.0x, the company's rating, per Fitch's "Non-Financials Exceeding the Country Ceiling Criteria," will be limited to three-notches above the next applicable country ceiling, which is that of Brazil at 'BB+'. Therefore, a multi-notch downgrade of Brazil coupled with deteriorating cash flows from its North American business division would have a negative impact on Gerdau's ratings.

Derivation Summary

Gerdau's diversified operational footprint, significant operating cash flows from its assets abroad, mainly in the U.S., and flexible business model that allows it to better withstand economic and commodity cycles, are all key competitive advantages. Gerdau has also met creditors' demands proactively by selling assets twice in the last six years, for total considerations of BRL7.4 billion, and raising equity three times with most of the proceeds reallocated to repay debt in the last 14 years.

Gerdau's vertical integration as a dominant competitor in the scrap market and downstream multiproduct distribution network compares with Companhia Siderurgica Nacional's (CSN; BB/Positive) and Usinas Siderurgicas de Minas Gerais S.A.'s (Usiminas; BB/Stable) integrated business profile. CSN and Usiminas are highly exposed to the local steel industry in Brazil, particularly to the flat steel sector, and have large iron ore exports.

Among the three Brazilian steel producers, Gerdau has consistently maintained the strongest balance sheet, most manageable debt amortization schedule, and has consistently made efforts to improve its capital structure through assets sales or equity issuances. Gerdau's Fitch adjusted gross debt (BRL 12.6 billion at YE 2022) is higher than Usiminas's (BRL6.2 billion), but lower than CSN's (BRL 43 billion). Gerdau's gross and net leverage of 0.6x and 0.3x, at YE 2022, and Usiminas's 1.2x and 0.2x are lower than CSN's at 3.1x and 2.2x.

Unlike the operating profile of blast furnace led North American peer's U.S. Steel (BB/Stable) or Cleveland-Cliffs (BB-/Stable), Gerdau's operation is more similar to Nucor (A-/Stable), Steel Dynamics (BBB/Positive), and, Commercial Metals Company (BB+/Positive), with Electric Arc Furnace facilities, scrap collection markets presence, long steel predominance and U.S. operations. Gerdau has a larger global production capacity (17 million tonnes of crude steel), but lower in the U.S. than that of Steel Dynamics (14 million tonnes) and Commercial Metals (10 million tonnes), as well as smaller capacity than Nucor (29 million tonnes).

Gerdau has obtained better profitability in 2022 with EBITDA/tonne of USD350 (USD253 is the last three years average), similar to Commercial Metals (USD354 in NA, USD201 in Europe), but lower than Steel Dynamics (USD455/tonne) and Nucor (USD 459/tonne), and has posted a higher three-year average EBITDA margin of 23.9% than Steel Dynamics' 22.1%, Commercial Metals' 11.2%, and Nucor's 22.8%. Gerdau's product diversification is larger than Commercial Metal's with its emphasis on the North American rebar, but lower than Steel Dynamics and Nucor.

Gerdau is more geographically diversified across the Americas compared with Commercial Metals U.S. and Poland operations or Steel Dynamics' and Nucor's sole North American focus.

Gerdau's leverage metrics (three-year average gross and net leverage of 1.2x and 0.7x) compare similarly to those of Commercial Metals (1.3x and 0.7x), Steel Dynamics (1.3x and 0.7x) and Nucor (1.2 and 0.5x).

Key Assumptions

Fitch's Key Assumptions Within The Rating Case for the Issuer:

--Brazil's domestic steel volumes remain flat through the forecast horizon;

--Brazilian export steel volumes grow by 13% in 2023, and remain elevated in 2024 and 2025;

--Specialty steel volumes fall by 10% in 2023, and remain softened in 2024 and 2025;

--North America steel volumes increase by 5% in 2023, and remain elevated in 2024 and 2025;

--Combined EBITDA/tonne fall to BRL 1,400 in 2023, to BRL 869 in 2024 and BRL 648 in 2025;

--Capex at BRL 5.0 billion in 2023, and averaging BRL 5.0 billion over the rating horizon;

--Taxes at BRL 4.1 billion in 2023, BRL 2.1 billion in 2024 and BRL 1.4 billion in 2025;

--An exchange rate of BRL5.1/USD1.00 at YE 2023, and BRL5.2/USD1.00 in average FX rate for the remainder of the forecast horizon.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Further geographic diversification in low risk operating environments;

--Larger contribution to cash flows from higher value-added products;

--Sustained adjusted total debt/EBITDA below 1.5x and/or adjusted net debt/EBITDA below 0.5x.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained adjusted total debt/EBITDA above 2.5x and/or adjusted net debt/EBITDA above 1.5x;

--Persistent negative FCF;

--EBITDA margins below 12% on a sustained basis.

Liquidity and Debt Structure

Plentiful Liquidity: Gerdau consistently has kept a conservative financial strategy resulting in the company terming out its debt and holding enough cash to cover upcoming maturities. The company had BRL4.2 billion of cash and marketable securities as of June 30, 2023. Gerdau's cash holdings are sufficient to cover amortizations until 2027. Its debt profile has an average term of 7.8 years.

Approximately 53% of Gerdau's cash was held in U.S. dollars as of June 2023. During the same period, the company kept its Brazilian reals denominated cash in time deposits and exclusive closed funds. Its U.S. dollar-denominated cash was kept in time deposits and interest-bearing accounts or sweep accounts. In addition to the cash it holds, Gerdau has a USD875 million global credit revolving facility till 2027, none of which has been used as of June 30, 2023.

Gerdau has strong access to local and international debt markets, as well as Brazilian and international banks. Gerdau's debt consists of cross-border issuances (66%), local Brazilian debentures (8%) and working capital lines (26%). Approximately 69% of the company's debt is U.S. dollar denominated.

Issuer Profile

Gerdau S.A. is a leading manufacturer of long steel in the Americas and has a strong presence in special steel in the U.S. and Brazil. It also produces flat steel and has iron ore operations in Brazil, and a strong presence in the scrap market.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Hector Collantes
Director
Primary Rating Analyst
+1 212 908 0369
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Debora Jalles
Director
Secondary Rating Analyst
+55 21 4503 2621

Martha Rocha
Managing Director
Committee Chairperson
+1 212 908 0591

Media Contacts

Eleis Brennan
New York
+1 646 582 3666
eleis.brennan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Gerdau Trade Inc.					
• senior unsecured	LT	BBB	Affirmed		BBB
Gerdau S.A.	LT IDR	BBB	Affirmed		BBB
	LC LT IDR	BBB	Affirmed		BBB

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Natl LT	AAA(bra)	Affirmed		AAA(bra)
• senior unsecured	LT	BBB	Affirmed		BBB
GTL Trade Finance Inc.					
• senior unsecured	LT	BBB	Affirmed		BBB
GUSAP III LP					
• senior unsecured	LT	BBB	Affirmed		BBB

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Rating Criteria (pub.28 Oct 2022) (including rating assumption sensitivity)

Corporates Exceeding the Country Ceiling Criteria (pub.08 Dec 2022) (including rating assumption sensitivity)

National Scale Rating Criteria (pub.22 Dec 2020)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub.12 May 2023)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Gerdau S.A.	EU Endorsed, UK Endorsed
Gerdau Trade Inc.	EU Endorsed, UK Endorsed
GTL Trade Finance Inc.	EU Endorsed, UK Endorsed
GUSAP III LP	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.