S&P Global
Ratings

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Research Update:

Companhia Siderúrgica Nacional Downgraded To 'BB-' From 'BB' On Elevated Leverage; Outlook Stable

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Primary contact

Matheus H Cortes
Sao Paulo
55-11-3818-4129
matheus.cortes
@spglobal.com

Additional contact

Flavia M Bedran
Sao Paulo
55-11-3039-9758
flavia.bedran
@spglobal.com

Rating Action Overview

- Companhia Siderurgica Nacional (CSN)'s leverage peaked in September 2024, amid weaker-than-expected margins in mining and high debt. Adjusted debt to EBITDA reached 6.4x, while funds from operations (FFO) stayed at 6.2%.
- Volumes across business units should continue to grow in the next 12 months, which, coupled with margin gains in steel and the recent sale of a stake in CSN Mineração, will bring some relief to metrics. But leverage will remain high, with limited headroom for debt payment.
- On Dec. 6, 2024, S&P Global Ratings lowered its global scale issuer credit ratings on CSN to 'BB-' from 'BB' and its national scale issuer credit rating to 'brAA+' from 'brAAA'.
- At the same time, we lowered the national scale rating on CSN Mineração S.A. (CMIN) and on its senior unsecured debentures to 'brAA+' from 'brAAA', mirroring our action on its parent.
- The outlook is now stable, reflecting our view that CSN will be able to reduce leverage after it peaked this year, with debt to EBITDA at about 4.5x in 2025. However, high capex and interest rates could constrain FFO and free operating cash flow (FOCF).

Rating Action Rationale

CSN's third-quarter results were below expectations, pointing to weaker EBITDA for 2024. Lower iron prices, which stayed below U$100 for most of August and September, offset the higher volumes and reduction in production costs in the third quarter, with CSN's mining margin declining to about 37.6%, from 47.5% in second-quarter 2024 and 45.4% in third-quarter 2023. At the same time, although improving on a quarterly basis, margins on steel have been recovering slower than expected given still-high volumes of imported steel mainly from China.

We expect better overall results in the fourth quarter, with improving prices in both mining and steel, coupled with continued strong performance in cement (with margins of about 28%). However, we now forecast that CSN's consolidated EBITDA will be close to Brazilian real (R$) 8.7 billion, compared with our August 2024 forecast of R$10 billion and the R$9 billion achieved in 2023.

For 2025, the continued competition in the domestic steel market, more volatility in iron ore prices amid uncertainties on Chinese growth, and higher interest rates in Brazil likely pressuring consumption for cement and steel will be key challenges for an EBITDA recovery. But we still forecast a pronounced recovery to close to R$10.5 billion, coming from costs initiatives and volumes.

Leverage will decline from its peak but nominal debt will remain high. New issuances and the Brazilian real depreciation raised the company's nominal debt, which reached R$ 51.6 billion in September 2024--the highest in CSN's history.

At the same time, the company continued to resort to alternative financing to raise cash, as new iron ore prepayment agreements, also pressuring its adjusted gross debt, which reached R$ 69.4 billion. Our main adjustments are the Transnordestina project's debt, pension adjustments, iron ore prepayments, leasing obligations, asset retirement obligations, forfaiting, and tax installments. These added R$17.8 billion to CSN's debt as of Sept. 30, 2024.

The recent sale of a 11% stake in its subsidiary CSN Mineração (amounting to R$4.4 billion) prevented further weakening in leverage by the end of 2024. We expect leverage above 5.5x--higher than our previous forecast of 4.0x-4.5x but lower than the 6.4x in the 12 months ended September 2024. For FFO to debt, our forecast is around 4.0%, which is significantly weaker than our previous forecast of 10%-12%.

In addition, we see limited room for nominal debt payment with internal operating cash generation. This is due to our estimates of the interest burden exceeding R$5.8 billion and capital expenditure (capex) reaching about R$5 billion in 2025. In this scenario, CSN's leverage should decline but remain close to 4.5x only in the next few years, while FFO to debt stays below 12%. The higher leverage, weaker coverage ratios, and less flexibility to reduce debt are the main drivers of the downgrade.

Also, our current assessment of CSN considers the volatility in the industry, which could raise leverage in more distressed industry conditions, from an already elevated level.

Asset sales and other cash inflows would be key to deleveraging. Management has been vocal about reducing leverage, and after years of enumerating potential assets for divestments, it finally sold a minor stake in CMIN to help reduce leverage. CSN continues to pursue other asset sales that could contribute to this goal, which could include the sale of its stake in Usiminas (equivalent to R$985 million as of September 2024), additional stakes in CMIN, energy assets, or a potential IPO of the cement division (after the end of the agreement to study the purchase of Intercement).

Also, the company faces ongoing litigation against Ternium that could result in R$5 billion of cash inflow-- depending on the amount Ternium is ordered to pay CSN.

The above factors could lead to lower leverage than our base-case forecast. We don't include these factors in our base-case assumptions given significant uncertainties around their timing and amounts, along with willingness to sell more assets.

In addition, the lack of a track record on adopting countercyclical measures, such as reducing capex or dividends amid elevated leverage, can prevent quicker deleveraging amid more favorable market momentum or raising cash inflows from asset sales. For dividends, we forecast higher than the minimum levels required by law, exceeding R$1 billion per year.

For capex, we estimate R$5 billion per year, mainly for modernizing plants and increasing capacity in mining operations to close to 68 million tons per year until 2028, from 42.7 million tons in 2023, while improving the average quality of its iron ore. Although the expansion projects could pressure leverage and constrain FOCF, they should continue to benefit the company's business model and its position as one of the main integrated steelmakers in Latin America.

We view CMIN as a core subsidiary of CSN, and, as a result, our ratings on CMIN mirror those on CSN. Despite the weaker results in the third quarter, CMIN sustains lower leverage on an isolated basis, amid low nominal debt and robust cash generation. CMIN and its mining operations remain the main cash contributor to CSN--although CSN has reduced its stake in the subsidiary and will receive somewhat lower dividends going forward, it has the control and final decision of cash uses.

Outlook

The stable outlook reflects our expectation that CSN will reduce leverage, with debt to EBITDA close to 4.5x by the end of 2025. Our base case assumes this to be a result of gradual improvements in volumes and the company's measures to strengthen profitability, resulting in higher EBITDA. Still, nominal debt will remain high and CSN will have limited capacity to reduce it, with a heavy interest burden and capex maintaining FFO to debt below 12% and low FOCF in the next years.

Downside scenario

We could take a negative rating action in the next 12-18 months if operating performance does not improve as expected from persistently weak conditions for steel and declining iron ore prices, or if the company pursues a more aggressive shareholder remuneration or growth strategy. In these scenarios, we believe CSN would not reduce leverage as we expect, and debt to EBITDA would stay above 5.0x in 2025. We could also lower the ratings if liquidity deteriorates, from lower-than-expected cash generation, a high interest burden, and cash outflows toward capex and dividend payouts.

Upside scenario

A positive rating action would depend on CSN's ability to develop a longer track record of conservative financial discipline, including refraining from larger mergers and acquisitions, larger investments, or from aggressive shareholder remuneration if it's faced with weak market conditions. In this scenario, we would look for CSN to keep its adjusted debt to EBITDA below 4.0x consistently and its FFO to debt close to 20%, providing it more flexibility to face more stressful periods in the industry. Maintenance of an adequate liquidity cushion would also be key.

Company Description

CSN is a Brazil-based integrated steel, mining, and cement producer controlled by the Steinbruch family through the Vicunha Aços and Rio Iaco holding companies, which own 41.65% and 3.45% of CSN's voting shares, respectively. Most of the remaining shares are publicly traded on the São Paulo Stock Exchange and through American depositary receipts on the New York Stock Exchange.

The company generates the bulk of its EBITDA through its steel and mining businesses, but other businesses (such as logistics, cement, and energy) are gradually accounting for more and more of its EBITDA. CSN also has a noncontrolling stake in MRS Logistica S.A. (BB/Stable/--), the largest iron-ore-transporting railroad company in Brazil, and in the Transnordestina project, a large railroad project under development in the northeastern part of the country.

CMIN is CSN's iron-ore mining subsidiary. We view CMIN as a core entity of CSN, and we therefore expect the subsidiary to receive extraordinary support from the parent, if required, under any foreseeable circumstance given its relevance to the group's strategy and results, and given the presence of cross-default clauses.

Our Base-Case Scenario

Assumptions

- Brazil's real GDP to grow 3.1% in 2024, 1.9% in 2025, and 2.1% in 2026.
- Brazil's inflation of 4.3% in 2024, 4.2% in 2025, and 3.7% in 2026.
- Average exchange rate of R$5.30-R$5.65 per $1 in the next years.
- CSN's steel sales volumes of 4.4 million tons (MT) in 2024, 4.6 MT in 2025, and 4.7 MT in 2026, with about 65%-70% destined for the domestic market and 30%-35% for exports and foreign operations.
- Average domestic steel prices in 2024 about 7% higher than in the previous year, reflecting tough conditions in the first half of the year but improving in the following quarters. Average prices afterward will be affected by the foreign-exchange rate and international prices.
- Total iron ore sales of 44 MT in 2024, 45 MT in 2025, and 55 MT in 2026 as the investments in P15 come online.
- Capex of about R$5 billion per year in the next years, allocated to revamp steel, and expansion projects in mining and cement.
- Dividend payout of about R$2 billion in 2024, R$1.3 billion in 2025, and R$ 1.7 billion.
- Proceeds of R$4.4 billion from the sale of the stake in CMIN.
- No additional acquisitions or asset sales.

Key metrics

Companhia Siderurgica Nacional (CSN)--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. BRL)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f

Companhia Siderurgica Nacional (CSN)--Forecast summary

Revenue	30,064	47,912	44,362	45,438	44,042	46,474	48,636	52,905
Gross profit	13,461	24,293	16,186	15,342	11,997	13,940	14,018	15,875
EBITDA (reported)	8,237	22,758	10,519	8,566	8,748	10,633	10,426	12,037
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	1,738	(2,342)	744	486	(54)	(54)	(54)	(54)
EBITDA	9,974	20,416	11,263	9,052	8,694	10,579	10,372	11,983
Less: Cash interest paid	(2,015)	(2,225)	(2,451)	(3,612)	(5,142)	(5,853)	(5,268)	(4,947)
Less: Cash taxes paid	(543)	(3,062)	(2,506)	(214)	(1,600)	(737)	(1,216)	(1,715)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	7,417	15,129	6,307	5,226	1,953	3,989	3,888	5,321
EBIT	7,633	18,754	9,571	7,075	7,525	9,736	9,265	10,608
Interest expense	2,095	2,181	2,730	3,924	5,140	5,851	5,267	4,946
Cash flow from operations (CFO)	9,494	15,390	2,370	1,355	1,471	5,017	5,279	6,534
Capital expenditure (capex)	1,591	2,777	3,217	4,225	5,000	5,000	5,000	5,000
Free operating cash flow (FOCF)	7,903	12,613	(847)	(2,870)	(3,529)	17	279	1,534
Dividends	309	3,291	3,757	3,981	1,963	1,302	1,176	1,399
Share repurchases (reported)	--	1,516	411	--	327	--	--	--
Discretionary cash flow (DCF)	7,594	7,806	(5,015)	(6,851)	(5,819)	(1,284)	(897)	135
Debt (reported)	35,271	32,508	40,919	44,859	53,385	53,638	53,638	53,638
Plus: Lease liabilities debt	530	612	694	734	765	797	827	856
Plus: Pension and other postretirement debt	280	--	82	80	80	80	80	80
Less: Accessible cash and liquid Investments	(10,423)	(16,908)	(12,263)	(16,086)	(21,828)	(21,285)	(20,232)	(20,214)
Plus/(less): Other	6,080	7,663	7,541	13,164	16,891	14,891	13,891	13,891
Debt	31,737	23,874	36,972	42,751	49,293	48,122	48,204	48,251
Equity	11,252	23,374	21,816	19,685	16,308	17,954	19,615	22,218
FOCF (adjusted for lease capex)	7,386	12,031	(1,492)	(2,943)	(3,723)	(174)	93	1,352
Interest expense (reported)	2,002	2,094	2,595	3,741	5,140	5,851	5,267	4,946
Capex (reported)	1,684	2,865	3,352	4,408	5,000	5,000	5,000	5,000
Cash and short-term investments (reported)	13,728	19,291	13,448	17,579	23,028	22,485	21,432	21,414
Adjusted ratios								
Debt/EBITDA (x)	3.2	1.2	3.3	4.7	5.7	4.5	4.6	4.0
FFO/debt (%)	23.4	63.4	17.1	12.2	4.0	8.3	8.1	11.0
FFO cash interest coverage (x)	4.7	7.8	3.6	2.4	1.4	1.7	1.7	2.1
EBITDA interest coverage (x)	4.8	9.4	4.1	2.3	1.7	1.8	2.0	2.4
CFO/debt (%)	29.9	64.5	6.4	3.2	3.0	10.4	11.0	13.5
FOCF/debt (%)	24.9	52.8	(2.3)	(6.7)	(7.2)	0.0	0.6	3.2
DCF/debt (%)	23.9	32.7	(13.6)	(16.0)	(11.8)	(2.7)	(1.9)	0.3
Lease capex-adjusted FOCF/debt (%)	23.3	50.4	(4.0)	(6.9)	(7.6)	(0.4)	0.2	2.8

Companhia Siderurgica Nacional (CSN)--Forecast summary

Annual revenue growth (%)	18.2	59.4	(7.4)	2.4	(3.1)	5.5	4.7	8.8
Gross margin (%)	44.8	50.7	36.5	33.8	27.2	30.0	28.8	30.0
EBITDA margin (%)	33.2	42.6	25.4	19.9	19.7	22.8	21.3	22.7
Return on capital (%)	17.5	41.6	18.1	11.7	11.8	14.8	13.8	15.3
Return on total assets (%)	13.4	26.3	11.6	8.0	8.0	10.1	9.4	10.4
EBITDA/cash interest (x)	5.0	9.2	4.6	2.5	1.7	1.8	2.0	2.4
EBIT interest coverage (x)	3.6	8.6	3.5	1.8	1.5	1.7	1.8	2.1
Debt/debt and equity (%)	73.8	50.5	62.9	68.5	75.1	72.8	71.1	68.5
Debt fixed-charge coverage (x)	4.8	9.4	4.1	2.3	1.7	1.8	2.0	2.4
Debt/debt and undepreciated equity (%)	73.8	50.5	62.9	68.5	75.1	72.8	71.1	68.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

Liquidity

We expect CSN's liquidity sources to exceed its uses by more than 1.5x in the next 12 months. The company has maintained a significant cash position, but its significant expansion capex and aggressive shareholder remuneration have led to volatility for the liquidity cushion recently. Additionally, the real devaluation has increased short-term debt, although CSN maintains an extended debt maturity profile, with the average weighted debt maturity currently close to four years.

Nevertheless, we expect the company to maintain a liquidity cushion around 60% in the next 12 months. Also, we believe it would reduce dividends or capex if faced with significant liquidity pressure. CSN has good access to both external and domestic capital markets, as well as good relationships with the main banks, so we expect it to continue to be able to refinance its short-term debt and extend its debt maturity profile.

Also, CSN is working on additional liquidity sources, such as the recent sale of a stake in CMIN, which could benefit its liquidity cushion while enabling it to lower its leverage.

Principal liquidity sources

- Unrestricted cash of about R$18.5 billion as of Sept. 30, 2024;
- Projected FFO of about R$5.0 billion in the 12 months ended Sept. 30, 2025; and
- Proceeds from the sale of the stake in CMIN amounting to R$4.4 billion.

Principal liquidity uses

- Short-term debt of R$9.4 billion as of Sept. 30, 2024;
- Working capital outflows of about R$935 million for the 12 months ended Sept. 30, 2025;
- Capex of R$5 billion for the 12 months ended Sept. 30, 2025; and
- Dividend payout of R$1.6 billion for the 12 months ended Sept. 30, 2025;

Covenants

CSN has debt acceleration covenants that require net debt to EBITDA below 4.5x, measured at the end of each fiscal year (Dec. 31).

There are significant differences between the covenant requirements and our adjusted metrics. Our net debt calculation includes Transnordestina's debt, pension adjustments, leasing obligations, asset retirement obligations, tax installments, and iron ore prepayments. Our adjusted EBITDA excludes the proportional contribution from MRS Logistica and some nonrecurrent effects, such as asset sales and the fair value adjustments on the Usiminas shares.

We expect the company to have a comfortable amount of headroom over its financial covenants because we think CSN can only breach them if EBITDA plummets more than 30% from our base-case forecast.

Group Influence

We analyze CSN's broader group by consolidating the direct holding companies that are owned by the Steinbruch family: Vicunha Aços S.A. and Rio Iaco Participações S.A.

The two branches of the family recently agreed to divide their stakes in CSN through different holding companies. The current CEO's branch of the family owns Vicunha Aços and Rio Iaco. The other branch of the family owns another 9.99% through holding company CFL Ana Participações. The agreement states that CFL Ana should vote in tandem with the controlling group for the next five years and that CFL Ana should give preference to Vicunha Aços to acquire the divested stakes on CSN.

Both Vicunha Aços and Rio Iaco are nonoperating companies, and we view the group's credit quality as in line with CSN's.

CMIN is CSN's iron-ore mining subsidiary. We assess CMIN as a core entity of CSN. CSN recently reduced its stake in CMIN as an alternative to raise cash, selling 11% to Itochu Corp. (already a minor shareholder of CMIN). Nevertheless, CSN continues to hold a 69% stake in CMIN and control of its subsidiary.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis of CSN, while environmental and social factors are negative considerations. In our view, decision-making is overly concentrated in a single person--the main shareholder--while decisions historically have increased volatility in CSN's credit metrics. These decisions include ones involving acquisitions, expansion projects, shareholder structure, and shareholder remuneration.

CSN is also exposed to the low-probability, high-impact risks associated with potential collapses of upstream tailings dams. Nevertheless, following new regulations, CSN has deactivated its tailings dams and has two ongoing projects in Casa da Pedra, due in 2028 and 2031.

Issue Ratings--Recovery Analysis

Key analytical factors

We lowered the issue ratings on CMIN's senior unsecured debentures to ‘brAA+’, following the same action on the issuer credit rating. The recovery rating for CMIN's debentures remains '3' (rounded estimate: 65%), reflecting lower debt at the subsidiary and the lack of upstream guarantees.

We analyze CMIN on a going concern basis because we think the company would be restructured following a default scenario, generating higher value for the creditors. Our simulated default scenario contemplates a deterioration in the company's operating performance stemming from low iron ore prices for several years, amid higher raw material and freight costs.

In our default scenario, CMIN's consolidated emergence EBITDA is R$2.7 billion, about 65% lower than the last three-years average. We apply a 5.5x multiple to our projected emergence-level EBITDA, in line with our standard multiple for the mining upstream industry.

Simulated default assumptions

- Simulated year of default: 2028
- EBITDA at emergence: R$2.7 billion
- Implied enterprise value (EV) multiple: 5.0x
- Estimated gross EV at emergence: R$14.9 billion

Simplified waterfall

- Net EV after 5% administrative costs: R$14.1 billion
- Senior secured debt: About R$2 billion (debt covered by real assets, mainly BNDES loans)
- Unsecured debt: R$7.1 billion
- Recovery expectation: 50-70%

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Stable/--
Local currency issuer credit rating	BB-/Stable/--
Business risk	Fair
Country risk	Moderately High Risk
Industry risk	Moderately High Risk
Competitive position	Fair
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb-
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately Negative
Comparable rating analysis	Neutral
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list		
Downgraded; Outlook Action		
	To	**From**
Companhia Siderurgica Nacional		
Issuer Credit Rating	BB-/Stable/--	BB/Negative/--
Foreign Currency	BB-/Stable/--	BB/Negative/--
Companhia Siderurgica Nacional		
CSN Mineracao S.A.		
Issuer Credit Rating		
Brazil National Scale	brAA+/Stable/--	brAAA/Negative/--
Downgraded; Recovery Ratings Unchanged		
	To	**From**
CSN Mineracao S.A.		
Senior Unsecured	brAA+	brAAA
Recovery Rating	3(65%)	3(65%)
Ratings Withdrawn		
	To	**From**
CSN Islands XII Corp.		
Senior Unsecured	NR	BB
Recovery Rating	NR	4(35%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.