



## RATING ACTION COMMENTARY

# Fitch Upgrades Usiminas to 'BB'; Stable Outlook

Thu 17 Jun, 2021 - 15:56 ET

Fitch Ratings - New York - 17 Jun 2021: Fitch Ratings has upgraded Usinas Siderurgicas de Minas Gerais S.A.'s (Usiminas) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-', and its National Scale rating to 'AA+(bra)' from 'A+(bra)'. In addition, Fitch has upgraded Usiminas' senior unsecured notes due in 2026 issued by Usiminas International S.A.R.L. and are guaranteed by Usiminas to 'BB' from 'BB-'. The Rating Outlooks for Usiminas' international Foreign and Local Currency IDRs and its National Scale rating remain Stable.

The rating upgrade reflects Usiminas' low absolute and relative debt levels, manageable debt amortization profile, and performance despite the pandemic, and maintenance of a sound operating profile in the aftermath amid a positive steel environment in Brazil.

## KEY RATING DRIVERS

Low Leverage: Fitch projects Usiminas' net leverage will fall to 0.2x in 2021 from 1.0x in 2020 and 1.9x in 2019. The company's EBITDA is forecast to grow to BRL6.5 billion in 2021 from BRL2.6 billion in 2020. FCF will reach BRL1.7 billion due to rising capex, working capital, taxes and dividends. Fitch's projections assume 8.7 million tons of iron ore sales, average iron ore prices of USD160/ton, BRL1.5 billion of capex and an increase in steel EBITDA/ton to USD132/ton. Catch-up investments, realignment and preparations for a rescheduled blast furnace 3 stoppage by mid-2023 are key reasons for the increase in capex to BRL1.5 billion from BRL800 million in 2020.

Feedback

**Solid Steel Backdrop:** Usiminas steel sales are forecast to grow to 5.3 million tons in 2022 and 5.5 million tons by 2023 from 3.7 million tons in 2020. Steel prices remain high in Brazil amid supply constraints. During 2020, production volumes in Brazil dropped by 4.5%, while apparent consumption rose by 1.2%. Flat steel consumption in January-April 2021 has been 45% higher than a year ago, according to Aco Brasil. This is very supportive for Usiminas given its large share in the flat steel used in automobile and white goods production. Usiminas closed two blast furnaces during April 2020 due to weak demand but has restarted them ever since.

**Elevated Iron Ore Prices:** Usiminas' performance has been bolstered during the past two years by elevated iron ore prices globally. This has allowed the company to fund capex with strong cash flow and to continue to buttress its liquidity position. High iron ore spot prices are driven by strong demand from China, which has left the market in deficit. Supply constraints are expected to ease in 2022 and Fitch is using USD100/ton in 2022 and USD80/ton in 2023 and beyond for its financial forecasts.

**Country Ceiling:** Fitch measures the relationship between cash flow generation in a given country or region relative to hard currency gross interest expense over a three- to five-year time horizon in determining a company's applicable Country Ceiling. If Brazil's 'BB' Country Ceiling were downgraded, Fitch would continue to rate Usiminas at 'BB', as the company's cash flow generated through exports would allow it to comfortably cover its hard-currency debt service.

## DERIVATION SUMMARY

Usiminas' business risk is similar to that of peer Companhia Siderurgica Nacional (BB-/Positive), as both are highly exposed to the local steel industry in Brazil. While CSN has greater business diversification, with larger mining operations and operations in the cement industry, Usiminas' robust business position in its niche markets and solid operating margins are a competitive advantage.

Both Usiminas and CSN have a much weaker business position compared with the other Brazilian steel producer, Gerdau S.A. (BBB-/Stable), which has a diversified footprint of operations with significant operating cash flows from its assets abroad, mainly in the U.S., and a more flexible business model that allows it to better withstand economic and commodities cycles.

From a financial risk perspective, CSN has launched noteworthy liability management exercises including bank debt renegotiation and the listing of assets but Usiminas benefits from much lower overall gross debt, more manageable cash outflows to

maintain its capital structure and a better debt maturities ladder than CSN, which are all factored into the one-notch differential between the companies' ratings. Gerdau has the lowest financial risk of the three, and has been able to maintain positive FCF, strong liquidity and no refinancing risks over the last few years of recession in Brazil, as reflected in its investment-grade rating.

## KEY ASSUMPTIONS

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

- Benchmark iron ore prices average USD160/ton in 2021 and USD100ton in 2022;
- Iron ore costs rise 75% in 2021, following the increase in prices, and fall -5% in 2022;
- Brazilian steel volumes increase 35% in 2021 and then 5% in 2022;
- Capex of BRL1.5 billion in 2021 and 2022;
- An exchange rate of BRL5.20/USD1.00 at YE 2021 and BRL5.00/USD1.00 at YE 2022.

## RATING SENSITIVITIES

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

- Net debt/EBITDA leverage ratios consistently below 2.5x would be a consideration for a potential upgrade;
- Consistent FCF generation;
- Additional diversification in products and geography.

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

- Maintenance of net debt/EBITDA leverage ratios above 3.5x;
- Negative FCF;
- A significant change in industry dynamics or an increase of steel imports into Brazil.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## LIQUIDITY AND DEBT STRUCTURE

Low Refinancing Risk: Usiminas had BRL6.3 billion of debt as of March 31, 2021. The debt consists of BRL2 billion of Brazilian real-denominated debentures that mature in 2023, 2024 and 2025; a USD750 million (BRL3.8 billion) note that matures in 2026; and BRL821 million of short-term forfaiting transactions Fitch includes in its debt calculations.

Usiminas had BRL4.6 billion of cash and marketable securities at the end of March 31, 2021. About BRL407 million of the company's reported cash is held in foreign bank accounts. The company does not face principal amortizations on its debt between 2020 and 2022. The debentures begin to amortize in 2023 year-end, when a BRL703 million payment is due.

## ISSUER PROFILE

Usiminas is the largest domestic supplier of cold rolled and electro-galvanized steel products and holds approximately 35% share of the flat steel market in Brazil. The company has a robust position within the local automotive industry. Usiminas has a large exposure to the Brazilian domestic steel industry.

## SOURCES OF INFORMATION

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com). For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

RATING ACTIONS				
ENTITY/DEBT	RATING		PRIOR	
Usiminas International S.a r.l.				
● senior unsecured	LT	BB	Upgrade	BB-
Usinas Siderurgicas de Minas Gerais S.A. (Usiminas)	LT IDR	BB Rating Outlook Stable	Upgrade	BB- Rating Outlook Stable
	LC LT IDR	BB Rating Outlook Stable	Upgrade	BB- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

Feedback

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**APPLICABLE CRITERIA**[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub. 30 Apr 2021\)](#)**APPLICABLE MODELS**

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 ([1](#))

## ADDITIONAL DISCLOSURES

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EU Endorsed, UK Endorsed

Usinas Siderurgicas de Minas Gerais S.A. (Usiminas)

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