

**Rating Action: Moody's upgrades Usiminas' ratings to Ba2; stable outlook**

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16 Nov 2021

New York, November 16, 2021 -- Moody's Investors Service ("Moody's") has today upgraded Usinas Siderúrgicas de Minas Gerais S.A's. ("Usiminas") corporate family rating to Ba2 from Ba3. At the same time, Moody's upgraded to Ba2 from Ba3 the rating of the \$750 million senior unsecured notes due 2026 issued by Usiminas International S.à r.l. and fully and unconditionally guaranteed by Usiminas. The outlook for the ratings is stable.

Ratings upgraded:

Usinas Siderúrgicas de Minas Gerais S.A.

- Corporate Family Rating: to Ba2 from Ba3

Issuer: Usiminas International S.à r.l.

- \$750 million Gtd Senior Unsecured Notes due 2026: to Ba2 from Ba3

The outlook for the ratings is stable.

**RATINGS RATIONALE**

The upgrade of Usiminas' ratings to Ba2 reflects the strengthening in the company's liquidity position and leverage ratios observed since the beginning of 2021, which provides the company more cushion to withstand future volatility in operations and mitigates the risks associated with upcoming investments. The favorable industry conditions for both steel and iron ore during 2021 led Usiminas to become net cash in Q2 2021 because of an accumulated free cash flow generation of BRL3.4 billion since October 2020. The company's adjusted gross leverage also fell to a historical low level of 0.7x in the twelve months ended September 2021 from 3.1x at the end of 2020 on the higher EBITDA stream. Even though Moody's expects that the favorable market conditions will gradually moderate over the next 12-18 months, the cash Usiminas generated during the last year creates a lasting buffer to net leverage metrics, covenant compliance and liquidity, all of which reduces the company's overall credit risk.

Usiminas' consolidated EBITDA increased to BRL10.3 billion in the twelve months ended September 2021 from an average of BRL2.4 billion during 2017-20, supported by: (i) higher steel prices in Brazil, (ii) a sharp recovery in domestic steel consumption after a trough in April 2020, (iii) cost saving initiatives implemented during the pandemic and (iv) strong iron ore prices that supported a very strong performance of the company's mining operations. For 2022, Moody's expects Brazil's domestic HRC and 62%Fe iron ore prices to moderate but to remain higher than historical averages. Such price levels, combined with a still favorable demand environment for steel in Brazil, will translate into still strong EBITDA and cash generation for Usiminas in 2022, which will support further cash build-up ahead of investments and the associated working capital needs in 2022 and 2023. The company's gross leverage ratios will remain strong at around 1.0x in 2022 before gradually returning to a normalized range between 1.5x-3.5x through commodity cycles, but net leverage ratios will remain stable overtime based on a sustainably higher cash position.

Usiminas' main investment for 2022-23 relates to the BRL2.1 billion revamp of a blast furnace (BF#3) at the Ipatinga mill, which responds alone for approximately 60% of the company's total crude steel production. The company's total capex will amount to BRL1.5 billion in 2021 and Moody's estimates that investments will be even higher in 2022-23. Usiminas will also need to build a large slab inventory through 2022-23 (about 700 thousand tons) to maintain its rolling capacity running ahead of the furnace shut down in April 2023. In this sense, the liquidity buffer Usiminas created during the last year coupled with Moody's beliefs that the risk of a cash burn coming from operations is muted in the near term provide comfort that Usiminas will have the ability to sustain its credit quality during the execution of its investment plans.

Usiminas' Ba2 ratings continue to reflect the company's solid position in the Brazilian flat-steel market and its history of quickly adjusting operations to market conditions in Brazil. The ratings are also supported by

Usiminas' good credit metrics and liquidity through economic and commodity cycles, and its enhanced financial flexibility to withstand the volatility in its main end markets. Usiminas has been able to pull levers to prevent cash burn and maintain covenant compliance in the recent past, which reduces potential liquidity risks in tougher operating environments.

The ratings are mainly constrained by Usiminas' exposure to the volatility in the automotive industry in Brazil, given its concentration in flat-steel production in the country, and by the execution risks related to the revamp its main blast furnace in 2023. Usiminas' concentration of operations in two plants introduces event risks and is an additional negative credit consideration, although the ability to downsize provides Usiminas with flexibility.

## LIQUIDITY

Usiminas has a good liquidity profile, with a total cash position of BRL7.3 billion at the end of September 2021, sufficient to cover total reported debt by 1.2x, a comfortable debt amortization schedule, with virtually no debt maturities until October 2023, and significant buffer under financial covenants. About BRL2.7 billion in cash is available at the parent level, with the remaining sitting mostly at the mining subsidiary, Mineração Usiminas S.A. [MUSA], and only accessible to Usiminas via dividend upstream, which require approval from MUSA's minority shareholder, namely Sumitomo Corporation (Baa1 stable). The company's normalized annual cash flow from operations is sufficient to cover non-discretionary cash outflow such as maintenance capital spending (around BRL1.0 billion) and net interest payments (about BRL300 million). The company's dividend payments are usually capped at the minimum required by Brazilian law (25% of net income).

Usiminas' current net cash position and Moody's expectations that the company will continue to generate positive free cash flows in the next 12-18 months are important mitigants to the execution risks of current investments plans. Going forward, Moody's expects Usiminas to maintain its conservative financial approach to leverage and liquidity, matching future expansion investments (i.e. investments at MUSA, new rolling lines) to its internal cash generation, thus preserving its creditworthiness.

## RATING OUTLOOK

The stable outlook incorporates Moody's assumptions that Usiminas will maintain good liquidity and adequate credit metrics in the next 12-18 months to mitigate execution risks on upcoming investments.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Usiminas' ratings would require further strengthening in the company's capital structure through gross debt reduction or an improved business profile that would reduce Usiminas' exposure to the volatility of the flat steel market in Brazil. Quantitatively, an upgrade would also require sustainably strong operating performance and market fundamentals, with adjusted leverage sustainably below 2.5x and interest coverage of at least 3.5x (EBIT/interest expense). An upgrade would also require the maintenance of strong liquidity and cash flow, which provides Usiminas with buffer to withstand the volatility in its end markets.

The ratings could be downgraded if the company's performance deteriorates significantly with no prospects for improvement, with its leverage increasing to more than 4.0x, its EBIT/interest declining below 2.0x, if liquidity contracts meaningfully or if market conditions deteriorates. A downgrade of Brazil's (Ba2 stable) sovereign rating could also result in a downgrade of Usiminas' ratings.

The principal methodology used in these ratings was Steel Industry published in November 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1296098](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1296098). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## COMPANY PROFILE

Headquartered in Belo Horizonte, Minas Gerais, Usiminas is the largest integrated flat-steel manufacturer in Latin America, with nominal production capacity of 5.0 million tons of crude steel and 6.9 million tons of sales capacity for flat rolled steel products, and consolidated net revenue of BRL31.2 billion (\$5.8 billion) in the twelve months ended September 2021. Usiminas also owns iron ore mining properties, steel distribution and capital goods subsidiaries in Brazil. In the nine months ended September 2021, Usiminas produced 6.7 million tons of iron ore, of which 5.2 million tons were sold to third parties.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections

Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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