

Ternium

4Q23: EBITDA beats on higher prices

Maintain Rating: BUY | PO: 50.00 USD | Price: 37.47 USD

Adjusted EBITDA (ex-USIM) above BofA and consensus

Ternium reported 4Q23 results this evening with EBITDA coming in at US\$651mn (-7% q/q, +115% y/y). This was the second quarter that Ternium consolidated Usiminas into its financial statements after increasing its stake in the company in early July 2023. While we started consolidating Usiminas into our model, we will exclude Usiminas from the Ternium reported figures to i) get a clearer picture of Ternium's performance and ii) Usiminas' 4Q23 results were polluted by one-off items. Therefore, excluding Usiminas numbers, TX delivered an EBITDA of \$586mn (-16.8% q/q; +93.7% y/y) which came 2.8% above our estimate and 10.1% above Bloomberg consensus. Compared to our model, the beat was mostly driven by higher realized steel prices (5.8% above BofAe), partially offset by higher cash cost/ton (3.6% above BofAe). FCF came in at \$276mn, given a \$320mn working capital release. Ternium's net cash position decreased to \$1.9bn, from \$2.4bn in 3Q23, the decrease is explained by the \$216mn dividend payment, as well as lower fair value of Argentine securities. Separately, TX announced a \$3.30/ADR annual dividend (including the \$1.10/ADR interim dividend previously announced) to be paid on May 3. We maintain our Buy rating given attractive valuation at ~2.2x EV/EBITDA 2024E (including Usiminas) and we see upside to consensus EBITDA and expect positive earnings revision throughout 2024.

EBITDA guided to increase in 1Q given prices and costs

Ternium guided EBITDA to increase q/q in 1Q24, given both sequentially lower steel cost/t, as well as higher prices, especially in Mexico and the US. Volumes in the USMCA region were guided to be slightly higher q/q, but the increase should be offset by lower shipments in Argentina next quarter. Ternium anticipates lower volumes in Argentina due to the ongoing macroeconomic reforms in the country. In 2H24, Ternium expects to increase volumes in Mexico, given the downstream project in Pesquería, as the 550Kt/yr new pickling mill and the first lines of the new service center should startup. Ternium has also increased their estimated capex in the Pesquería downstream and upstream expansions by \$280mn to \$3.5bn.

EBITDA beats on higher realized prices

Total steel volumes of 2,999Kt (ex-Usiminas and Brazil) dropped 3.3% q/q and were 4.4% below our estimates. Realized steel prices dropped 1.8% q/q to \$1,212/t and were 5.8% above our forecast, leading to a top line of \$3.7bn, down 6.6% q/q but 1.5% above our estimates. The higher revenue vs our model was partially offset by total cash cost/t above our estimates but down 0.7% q/q and led to an EBITDA of \$586mn, ~2.8% above us. Mining volumes of 894Kt were ~6.2% above 3Q23 and our model. Realized iron ore prices were above our forecast, which coupled with the shipments beat led mining revenue of \$192mn, above our estimates.

20 February 2024

Equity

Caio Ribeiro
Research Analyst
BofAS
+1 646 855 4051
caio.ribeiro@bofa.com

Leonardo Neratika >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4200
leonardo.neratika@bofa.com

Guilherme Rosito >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4363
guilherme.rosito@bofa.com

Stock Data

Price	37.47 USD
Price Objective	50.00 USD
Date Established	24-Jan-2024
Investment Opinion	C-1-7
52-Week Range	35.22 USD - 45.81 USD
Mrkt Val (mn) / Shares Out (mn)	7,356 USD / 196.3
Free Float	0%
Average Daily Value (mn)	5.99 USD
BofA Ticker / Exchange	TX / NYS
Bloomberg / Reuters	TX US / TX.N
ROE (2023E)	5.0%
Net Dbt to Eqty (Dec-2022A)	-6.4%

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Timestamp: 20 February 2024 09:17PM EST

Exhibit 1: Ternium – 4Q23 financial and operational review (US\$mn)

EBITDA of US\$586mn (ex-Usiminas) beat Bloomberg consensus by 10.1% and BofAe by 2.8%

US\$mn	4Q23A	3Q23A	q/q	4Q22A	y/y	BofAe	Act vs Est	Cons	Act vs Cons
Ex-Usiminas								4,90	
Revenue	3,569	3,810	-6.3%	3,546	0.6%	3,588	-0.5%	2	-27.2%
Adj. EBITDA	586	702	-16.6%	303	93.7%	570	2.8%	532	10.1%
EBITDA Margin	16%	18%	-200bps	9%	790bps	16%	50bps	11%	560bps
Adj. Net Income	218	(705)		40	448%	348	-37%	203	7.5%
Total Revenues - Ex-Usiminas	3,569	3,810	-6.3%	3,546	0.6%	3,582	-0.4%		
Steel	3,718	3,982	-6.6%	4,126	-9.9%	3,662	1.5%		
Mining	192	114	68.4%	96	100.0%	112	71.9%		
Eliminations	(341)	(286)	19.2%	(96)	257.0%	(192)	77.8%		
EBITDA - Ex-Usiminas	586	702	-16.6%	303	93.7%	570	2.8%		
Volume (Kt) - Ex-Usiminas	3,893	3,943	-1.3%	3,911	-0.5%	3,979	-2.2%		
Steel	2,999	3,101	-3.3%	3,020	-0.7%	3,137	-4.4%		
Mining	894	842	6.2%	891	0.3%	842	6.2%		
Price (US\$/t)	1,190	1,229	-3.1%	1,174	1.3%	1,142	4.2%		
Steel (ex other products)	1,212	1,234	-1.8%	1,153	5.2%	1,146	5.8%		
Mining	215	135	58.6%	108	98.9%	133	61.9%		
Cash cost/t (US\$/t)	995	1,002	-0.7%	1,074	-7.4%	960	3.6%		
EBITDA/t (US\$/t)	195	227	-13.8%	100	95.0%	182	7.5%		

Source: BofA Global Research estimates, company filings, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

Ternium (TX)

Our price objective for Ternium of \$50/share is based on a 50/50 blend of DCF analysis (with a WACC of 15%) and a 4.0x 2024E EV/EBITDA multiple valuation approach, in-line with its historical average.

Upside risks to our price objective are: 1) a benign outcome from the USMCA agreement, 2) a smooth Argentine economic recovery, 3) multiple re-rating, 4) better steel prices than our forecast, 5) better demand conditions than we forecast, and 6) removal of Section 232 tariffs/quotas against LatAm.

Downside risks to our price objective are: 1) worsening economic conditions in Argentina, 2) a negative outcome from the USMCA agreement for Mexican exports, 3) sustained or heightened tariffs on steel, 4) any operational disruptions, and 5) worse prices than we forecast.

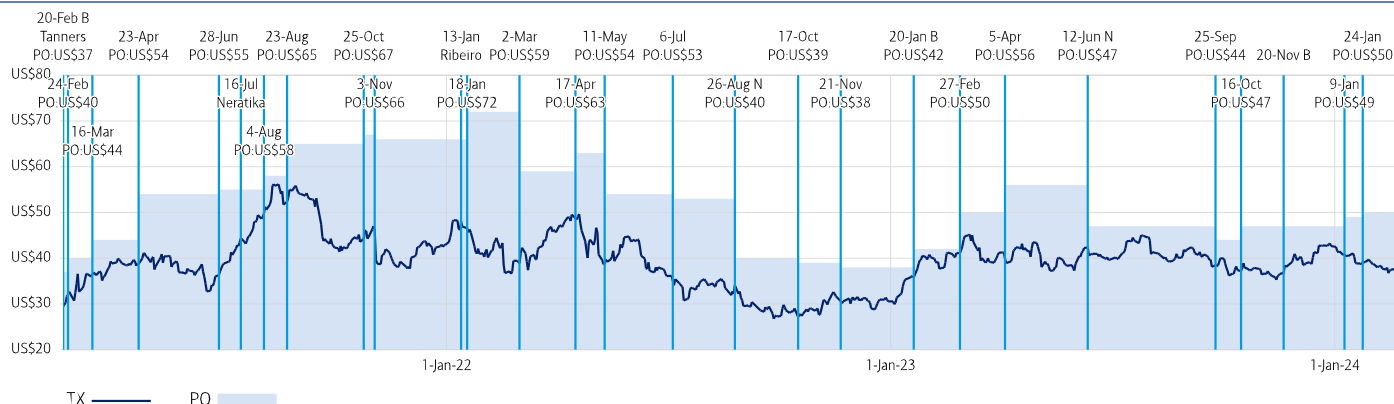
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Ternium (TX) Price Chart



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Hold	12	37.50%	Hold	7	58.33%
Sell	6	18.75%	Sell	3	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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