

Gerdau S. A.

4Q23: weak as expected, focus on signs of inflection

Maintain Rating: NEUTRAL | PO: 23.00 BRL | Price: 21.40 BRL

EBITDA of R\$2.0bn misses BofA and consensus

Gerdau reported 4Q23 adjusted EBITDA of R\$2.039bn (down 39.1% q/q and 43.8% y/y), 3.0% below Bloomberg consensus and 5.8% below of our estimates. Compared to our model, the miss was mostly driven by weaker results in all segments, except Brazil, mostly on lower volumes and prices. Brazil division's EBITDA was the only division above our estimate, given better realized prices. North America EBITDA was slightly below on realized prices 2.5% below us, partially offset by lower cash opex/t. South America EBITDA of R\$135mn dropped significantly, given the Argentine peso deprecation. We maintain our Neutral rating on Gerdau as we still expect its profitability to be pressured in the near term but see it at an attractive 4.5x 2024E EV/EBITDA.

2024 capex of R\$6.1-6.2bn, including Gerdau Next

Gerdau also announced they expect 2024 capex to be at R\$6bn, above 2023's R\$5.7bn. This capex figure does not include investments in Gerdau Next, which were around R\$500mn in 2023. Our understanding is that in 2024, Gerdau Next investments should be lower and range between R\$100-200mn. Therefore, Gerdau's 2024 capex should be of R\$6.1-6.2bn in 2024, slightly above the R\$6bn we were expecting (including Gerdau Next). We estimate Gerdau FCF at R\$1.6bn, given a relevant working capital release this quarter. Net debt ended 2023 at R\$5.5bn at a 0.4x Net Debt/EBITDA ratio. Gerdau announced a R\$0.10/sh dividend to be paid in Mar 12 and ended 2023 with a 43.7% payout.

Continued on page 3...

Estimates(Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	8.43	7.08	4.37	2.52	2.88
EPS Change (YoY)	533.8%	-16.0%	-38.3%	-42.3%	14.3%
Consensus EPS (Bloomberg)			4.43	2.89	2.90
DPS	2.98	3.37	1.53	1.01	1.44
ADR EPS (US\$)	1.56	1.37	0.89	0.51	0.58
ADR DPS (US\$)	0.55	0.65	0.31	0.20	0.29
Valuation (Dec)					
P/E	2.5x	3.0x	4.9x	8.5x	7.4x
Dividend Yield	13.9%	15.8%	7.2%	4.7%	6.7%
EV / EBITDA*	2.0x	2.2x	3.5x	5.1x	4.5x
Free Cash Flow Yield*	21.0%	28.6%	19.5%	5.8%	5.4%

* For full definitions of *IQmethod*SM measures, see page 5.

20 February 2024

Equity

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Stock Data

Price (Common / ADR)	21.40 BRL / 4.31 USD
Price Objective	23.00 BRL / 4.90 USD
Date Established	24-Jan-2024 / 24-Jan-2024
Investment Opinion	C-2-8 / C-2-8
52-Week Range	20.52 BRL - 29.36 BRL
Market Value (mn)	37,436 BRL
Free Float	99.2%
Average Daily Value	41.40 USD
Shares Outstanding (mn)	1,749.3 / 1,749.3
BofA Ticker / Exchange	GGBUF / SAO
BofA Ticker / Exchange	GGB / NYS
Bloomberg / Reuters	GGBR4 BZ / GGBR4.SA
ROE (2023E)	15.7%
Net Dbt to Eqty (Dec-2022A)	15.4%

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 2.

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Timestamp: 20 February 2024 09:25PM EST

iQprofileSM Gerdau S. A.

iQmethodSM – Bus Performance*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	28.0%	22.8%	13.9%	8.0%	8.7%
Return on Equity	41.1%	27.9%	15.7%	8.4%	9.2%
Operating Margin	26.2%	21.5%	15.7%	9.1%	10.1%
Free Cash Flow	7,874	10,719	7,312	2,164	2,033

iQmethodSM – Quality of Earnings*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.7x	1.2x	1.7x	1.8x	1.6x
Asset Replacement Ratio	1.1x	1.5x	1.8x	1.7x	1.7x
Tax Rate	24.0%	26.1%	20.6%	20.0%	20.0%
Net Debt-to-Equity Ratio	16.9%	15.4%	9.2%	7.7%	8.8%
Interest Cover	14.3x	11.9x	7.5x	3.9x	4.5x

Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	78,345	82,412	69,854	64,414	67,432
% Change	78.8%	5.2%	-15.2%	-7.8%	4.7%
Gross Profit	23,476	21,613	14,212	9,755	11,024
% Change	178.5%	-7.9%	-34.2%	-31.4%	13.0%
EBITDA	23,221	21,506	13,627	9,317	10,547
% Change	202.0%	-7.4%	-36.6%	-31.6%	13.2%
Net Interest & Other Income	(948)	(1,892)	(1,273)	(377)	(522)
Net Income (Adjusted)	15,098	12,372	7,641	4,408	5,045
% Change	533.2%	-18.1%	-38.2%	-42.3%	14.5%

Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	14,900	12,372	7,388	4,408	5,045
Depreciation & Amortization	2,659	2,862	3,044	3,430	3,719
Change in Working Capital	(7,372)	(1,868)	1,171	327	(561)
Deferred Taxation Charge	407	670	119	0	0
Other Adjustments, Net	306	975	1,050	(35)	80
Capital Expenditure	(3,026)	(4,292)	(5,460)	(5,966)	(6,250)
Free Cash Flow	7,874	10,719	7,312	2,164	2,033
% Change	121.5%	36.1%	-31.8%	-70.4%	-6.1%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(5,339)	(5,892)	(2,677)	(1,763)	(2,522)
Change in Debt	(4,642)	(1,095)	(517)	474	315

Balance Sheet Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	6,787	5,435	7,302	8,170	8,017
Trade Receivables	6,101	5,789	5,930	5,862	6,137
Other Current Assets	19,753	20,034	17,491	17,072	17,535
Property, Plant & Equipment	18,742	20,423	23,019	25,555	28,086
Other Non-Current Assets	22,432	22,119	23,499	23,499	23,499
Total Assets	73,815	73,799	77,241	80,158	83,274
Short-Term Debt	1,766	3,091	2,076	1,876	1,973
Other Current Liabilities	12,270	10,371	9,141	8,982	9,158
Long-Term Debt	12,273	9,486	9,909	10,447	10,983
Other Non-Current Liabilities	4,689	4,552	4,967	4,967	4,967
Total Liabilities	30,999	27,500	26,092	26,272	27,080
Total Equity	42,816	46,298	51,148	53,887	56,193
Total Equity & Liabilities	73,815	73,799	77,241	80,158	83,273

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Steels

Company Description

Gerdau S.A. is the largest long steel manufacturer in South America. The company produces crude, long, specialty, rolled and drawn steel products. Gerdau manufactures its steel primarily in mini-mills. The company operates in Brazil, Uruguay, Chile, Argentina, Europe and North America. Gerdau currently has nearly 17M tons of crude steel capacity, with half located in Brazil.

Investment Rationale

We rate Gerdau as Neutral. Gerdau is the least exposed on the long side to iron ore prices of LatAm steelmakers, while we also see operational challenges from weaker demand in its segments, especially Brazil and North America. We continue to like Gerdau's geographical diversification and high-quality asset base and see long-term positive fundamentals from the \$1.2tn infrastructure investment packages in North America.

Stock Data

Average Daily Volume	9,547,440
Shares / ADR	1.00

Quarterly Earnings Estimates

	2022	2023
Q1	1.71A	1.44A
Q2	2.48A	1.31A
Q3	1.77A	1.01A
Q4	0.91A	0.60E

EBITDA missed on weaker divisions, except for Brazil

Brazil steel volumes of 1.3Mt missed our estimates by 0.6% but were offset by realized prices in the region above our model, which led to a divisional revenue of R\$6bn, 1.6% above our forecast but down 9.1% q/q. The higher revenue was partially offset by higher-than-expected cash opex/t in the division and drove segment EBITDA of R\$512mn, -41% q/q but 2.7% above our model. North America steel volumes of 885Kt were 0.7% above our estimates and dropped 6.2% q/q, which combines with realized prices 0.3% below ours and led to segment top-line of R\$5.9bn, 1.8% below our forecast and down 6.4% q/q. The weaker revenue drove a divisional EBITDA of R\$1.1bn, 0.5% below our forecast. South America EBITDA of R\$135mn dropped 73% q/q and was below our model given the Argentinian FX depreciation, while special steels EBITDA of R\$340mn missed our forecasts mostly on realized price below ours.

Exhibit 1: Gerdau – 4Q23 review (R\$mnn)

Adjusted EBITDA came in at R\$2,039mn, 5.8% below BofAe and 3.0% below Bloomberg consensus

R\$mnn	4Q23A	3Q23A	q/q	4Q22A	y/y	BofAe	Act vs Est	Cons	Act vs Cons
Revenue	14,716	17,063	-13.8%	17,964	-18.1%	15,653	-6.0%	15,499	-5.1%
Adj. EBITDA	2,039	3,349	-39.1%	3,630	-43.8%	2,164	-5.8%	2,102	-3.0%
EBITDA Margin (%)	13.9%	19.6%	-577bps	20.2%	-635bps	13.8%	3bps	13.6%	29bps
Adj. Net Income	732	1,592	-54%	3,022	-76%	1,042	-30%	893	-18.0%

Source: BofA Global Research estimates, company reports, Bloomberg

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Exhibit 2: Gerdau – 4Q23 operational review (R\$mnn)

All divisions except Brazil missed our forecast

R\$mnn	4Q23A	3Q23A	q/q	4Q22A	y/y	BofAe	Act vs Est
Total Revenues	14,716	17,063	-13.8%	17,964	-18.1%	15,653	-6.0%
Brazil	6,034	6,635	-9.1%	6,877	-12.3%	5,940	1.6%
North America	5,927	6,332	-6.4%	6,472	-8.4%	6,033	-1.8%
South America	326	1,566	-79.2%	1,561	-79.1%	1,326	-75.4%
Specialty Steel	2,580	2,771	-6.9%	3,274	-21.2%	2,574	0.2%
Eliminations	(151)	(241)		(220)		(221)	
Sales volume (Kt)	2,736	2,838	-3.6%	2,728	0.3%	2,738	-0.1%
Brazil	1,269	1,260	0.7%	1,150	10.3%	1,276	-0.6%
North America	885	943	-6.2%	887	-0.2%	879	0.7%
South America	243	290	-16.2%	290	-16.2%	254	-4.2%
Specialty Steel	339	345	-1.7%	401	-15.5%	330	2.8%
Realized prices (R\$/t)	5,379	6,012	-10.5%	6,585	-18.3%	5,716	-5.9%
Brazil	4,755	5,266	-9.7%	5,980	-20.5%	4,655	2.2%
North America	6,697	6,715	-0.3%	7,297	-8.2%	6,867	-2.5%
South America	1,342	5,400	-75.2%	5,383	-75.1%	5,225	-74.3%
Specialty Steel	7,611	8,032	-5.2%	8,165	-6.8%	7,803	-2.5%
EBITDA	2,039	3,349	-39.1%	3,630	-43.8%	2,164	-5.8%
Brazil	512	868	-41.0%	757	-32.4%	499	2.7%
North America	1,135	1,555	-27.0%	1,824	-37.8%	1,140	-0.5%
South America	135	502	-73.1%	354	-61.9%	205	-34.3%
Specialty Steel	340	475	-28.4%	525	-35.2%	352	-3.4%
Eliminations	(83)	(51)		170		(33)	
EBITDA margins	13.9%	19.6%	-577bps	20.2%	-635bps	13.8%	3bps
Brazil	8.5%	13.1%	-460bps	11.0%	-252bps	8.4%	9bps
North America	19.1%	24.6%	-541bps	28.2%	-903bps	18.9%	25bps
South America	41.4%	32.1%	935bps	22.7%	1873bps	15.5%	2591bps
Specialty Steel	13.2%	17.1%	-396bps	16.0%	-286bps	13.7%	-50bps

Source: BofA Global Research estimates, company reports

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Price objective basis & risk

Gerdau S. A. (GGBUF / GGB)

Our BRL23/share (US\$4.9/ADR) price objective reflects a 50/50 blend of DCF and EV/EBITDA analysis. Our DCF factors in a 10.8% WACC. Our EV/EBITDA analysis uses a 5.5x 2024E multiple, below its historical average and global peers given peak earnings.

Upside risks to our price objective are: 1) stronger-than-expected demand in N. America and Brazil, 2) stronger-than-expected improvement in global macro outlook, and 3) higher-than-expected steel prices in the Brazilian market.

Downside risks to our price objective are: 1) higher costs, leading to weaker margins, 2) weaker-than-expected demand in the US long steel market, 3) weaker-than-expected demand environment in Brazil, and 4) lower-than-expected Chinese steel prices.

Analyst Certification

We, Caio Ribeiro, Guilherme Rosito and Leonardo Neratika, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Latin America - Natural Resources Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	3R Petroleum	XPXXF	RRRP3 BZ	Leonardo Marcondes
	Alpek SAB de CV	ALPKF	ALPEKA MM	Leonardo Marcondes
	CSN	SIDHF	CSNA3 BZ	Caio Ribeiro
	CSN	SID	SID US	Caio Ribeiro
	Dexco SA	DURXF	DXCO3 BZ	Leonardo Neratika
	Empresas CMPC SA	XEMCF	CMPC CI	Leonardo Neratika
	Enauta Participacoes S.A.	QGEPF	ENAT3 BZ	Leonardo Marcondes
	Orbia	MXCHF	ORBIA* MM	Leonardo Marcondes
	Petro Rio	HRTPF	PRI03 BZ	Caio Ribeiro
	Petrobras	PBRQF	PETR3 BZ	Caio Ribeiro
	Petrobras	PBR	PBR US	Caio Ribeiro
	Petrobras PN	PBRA	PBR/A US	Caio Ribeiro
	Petrobras PN	PTBFB	PETR4 BZ	Caio Ribeiro
	PetroReconcavo	XPXYF	RECV3 BZ	Leonardo Marcondes
	Suzano	XXRTF	SUZB3 BZ	Caio Ribeiro
	Suzano S.A.	SUZ	SUZ US	Caio Ribeiro
	Ternium	TX	TX US	Caio Ribeiro
	Usiminas SA	USNZY	USNZY US	Caio Ribeiro
	Usiminas SA	USSPF	USIM5 BZ	Caio Ribeiro
	Vale	VALE	VALE US	Caio Ribeiro
	Vale	VALEF	VALE3 BZ	Caio Ribeiro
	Vibra Energia SA	XUBRF	VBBR3 BZ	Leonardo Marcondes
NEUTRAL				
	Bradespar	BRDQF	BRAP4 BZ	Caio Ribeiro
	Companhia Brasileira de Alumínio	XZUDF	CBAV3 BZ	Leonardo Neratika
	CSN Mineracao	XZRAF	CMIN3 BZ	Caio Ribeiro
	Ecopetrol S.A.	XESSF	ECOPETL CB	Caio Ribeiro
	Ecopetrol S.A.	EC	EC US	Caio Ribeiro
	Gerdau S. A.	GGBUF	GGBR4 BZ	Caio Ribeiro

Latin America - Natural Resources Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Gerdau S.A.	GGB	GGB US	Caio Ribeiro
	Metalurgica Gerdau	MZGPF	GOAU4 BZ	Caio Ribeiro
	Ultrapar	XLRUF	UGPA3 BZ	Leonardo Marcondes
	Ultrapar Pa-ADR	UGP	UGP US	Leonardo Marcondes
UNDERPERFORM				
	Empresas Copec SA	PZDCF	COPEC CI	Leonardo Neratika
	Grupo Mexico	GMBXF	GMEXICOB MM	Caio Ribeiro
	Klabin S.A	XLWDF	KLBN11 BZ	Caio Ribeiro
	Klabin S.A	KLBY	KLBY US	Caio Ribeiro
	Southern Copper	SCCO	SCCO US	Caio Ribeiro
	YPF SA	YPF	YPF US	Leonardo Marcondes
	YPF SA	YPSF	YPFD AR	Leonardo Marcondes
RSTR				
	Braskem SA-A	BAKAF	BRKM5 BZ	Leonardo Marcondes
	Braskem SA-ADR	BAK	BAK US	Leonardo Marcondes

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

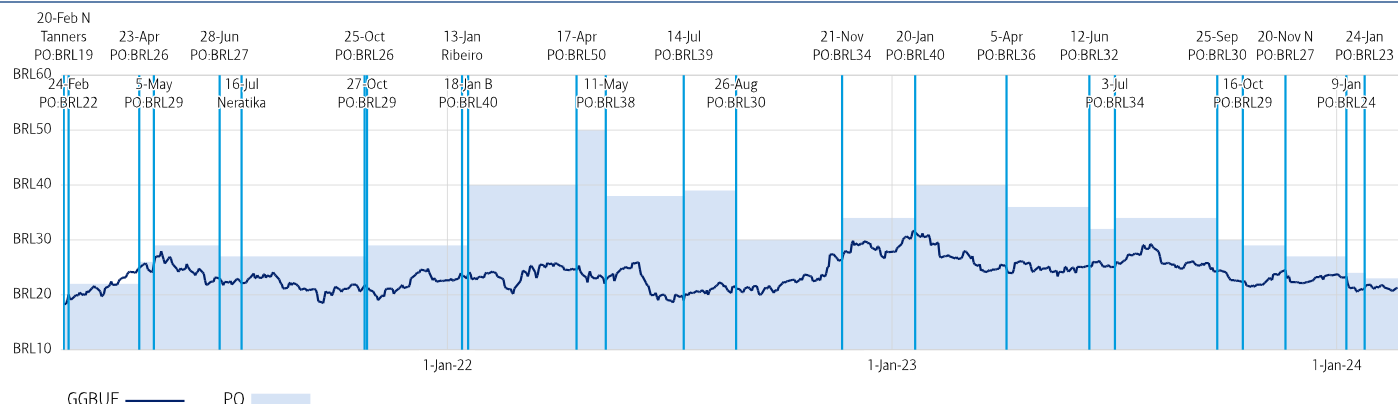
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Disclosures

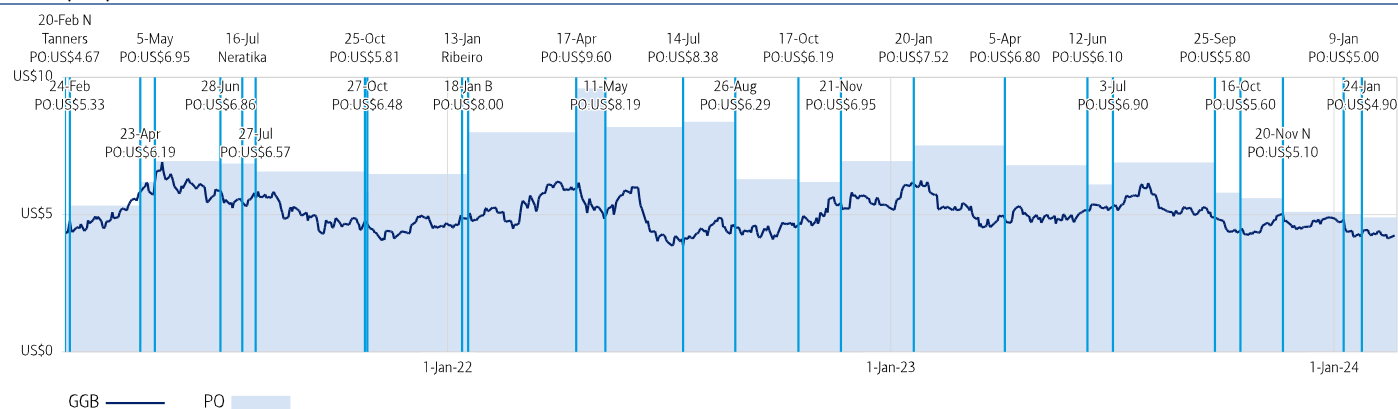
Important Disclosures

Gerdau S. A. (GGBUF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Gerdau S.A. (GGB) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	14	43.75%	Buy	9	64.29%
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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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