Q1 2017 Earnings Call

Company Participants

- Guilherme Melo, Operating General Manager
- Ronald Seckelmann, Chief Financial Officer and Investor Relations Officer
- Sergio Leite de Andrade, Chief Executive Officer, Comercial Vice-President Officer and Technology and Quality Vice-President
- Tulio Chipoletti, Industrial Vice-President Officer

Other Participants

- Bruno Giardino, Analyst
- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Gabriela Cortez, Analyst
- Humberto Meireles, Analyst
- Ivano Westin, Analyst
- Jon Brandt, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Milton Sullyvan, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Usiminas' Conference Call to discuss the earnings of the First Quarter 2017.

At this time, all participants are in listen-only mode. Later on, we'll conduct a Q&A session, when further instructions will be given. (Operator Instructions) As a reminder, this conference call is being recorded.

I would like to mention that this conference call is being webcast live on the company's Investor Relation website, www.usiminas.com/ri. The earnings release and a slide presentation are also available on that website. Participants who are listening to the conference in English may also ask questions directly to the speakers.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking statements, as a result of macroeconomic conditions, market risks and other factors.

With us today are Usiminas' Executive Board, Mr. Sergio Leite, CEO and Technology and Quality Vice President Officer and Commercial Vice President Officer; Ronald Seckelmann, Finance and Investor Relations Vice President Officer; and Subsidiaries Vice President Officer; Tulio Chipoletti, Industrial VP Officer; Takahiro Mori, Corporate Planning VP Officer; Guilherme Melo, Operating General Manager of Mineracao Usiminas; Heitor Takaki, Managing Director of Usiminas Mecanica; and Cristina Morgan, Head of IR.

First, Mr. Leite will make his initial comments and then Mr. Seckelmann will comment on the first quarter 2017 earnings. Then, the management will be available for a Q&A session. Now, we are going to turn the call to Mr. Leite.

Sergio Leite de Andrade {BIO 6771322 <GO>}

Well, thank you very much. Good morning to each one of you for (inaudible). Ladies and gentlemen, first of all, I'd like to thank you all for joining us in this conference call.

Today is a very special day for Usiminas team. One hour ago, I met Usiminas team of all our companies and we are presenting to you positive results for the company, that represents the work of Usiminas' team in the past 12 months.

And the main indicator of the results that we are presenting is EBITDA. In the quarter, we reached BRL533 million and in 12 months, we were past BRL1 billion, which is really important as a result, Notably, if we consider that one year ago, when we presented the first quarter of 2016 and the accumulated results of the previous 12 months, April 2015 to March 2016, we had negative EBITDA.

Usiminas team worked very hard in the past 12 months. Our main focus was to seek for results. And these are the results that we are going to discuss with you next.

First, I would like to talk about the next steps. In Usiminas, we are going to continue with this intense work of focusing on results, reducing our costs, and making the company more and more competitive, coping with the challenges of the Brazilian market and the Brazilian economy, an economy that's already hit the bottom and is showing the first signs of recovery.

It's still small, but in our vision, we believe that we are going into a positive curve for the Brazilian economy. It's still at a very slow pace. We are going to focus our work -- the work of our team on pursuing good results.

We are starting the second phase of the Group of 10. If you remember, we created that in May 2016. The Group of 10 in this new phase has strengthened its work. We have three more new executives for the Group. And one year ago, when we created the Group of 10, we had a single target and you will remember that we commented about that, which was a management target, that is to reach BRL100 million a month of EBITDA as our average.

In the third quarter of that year, we showed that Usiminas teams worked very hard and we did close that quarter with BRL308 million in our EBITDA. We are going to continue that job and we are adding to the work of the Group of 10 also people management, to work very intensively, to mobilize those that are responsible for our results, the Usiminas team, focusing on three points.

Basically first, effective and productive use of the time of our people; second, incentives and valuations to our talent; and third, synergy, which is also very important for our team to reach better and better results. So we have great challenges, but in our opinion, we -- at Usiminas, we have a team that is prepared to cope with the coming challenges.

Now, I'm going to turn the call to our Finance VP to present the results, and then will come back.

Ronald Seckelmann {BIO 3722329 <GO>}

Well. Thank you, Sergio. Good morning, everyone. You know, that you have our presentation on the website, and I'm going to start with some volumes results.

We had an increase in sales volumes quarter-on-quarter of 4%. If you see a breakdown, we have of iron ore, a slight drop, and we have all [ph] -- an expressive increase in our adjusted EBITDA reaching 533 million in the first quarter, with consolidated margin of 23% and a reversal of losses from the previous quarter of 195 million negative to 100 million positive -- 108 million positive.

On the next chart, we have a quarter evolution, since the beginning of last year in sale of steel in the domestic and foreign markets. You can see that in the domestic market, quarter-on-quarter, we had an increase of 1%, almost stable, and an increase in exports of 48% which led to the total of 4% increase in sales volumes.

The next slide shows the evolution of our EBITDA and EBITDA margin for steel. And again here, we are comparing the reported EBITDA -- adjusted EBITDA of this quarter of 465 million with a margin of 21% in steel, but also we show what our EBITDA would be in terms of recurring EBITDA, that is outside of the non-recurring events like the sale of energy, sale of assets and other provisions. And again, we can see that we had an important development comparing to previous quarter reaching 488 million. It is this column in blue to your left that shows what I'm saying.

The next slide shows the quarter evolution of our sales volume in iron ore. Again sales -- Usiminas, sales to third-party, domestic market, basically the producers that we work with and exports. You see sales to Usiminas quarter-on-quarter did have an increase of 5%.

We had a decrease in the domestic market and we did not have much exports. In fact we haven't had any since the second quarter of last year.

The next slide shows again the evolution of EBITDA and EBITDA margin in iron ore. You see a margin reaching 48% going back to our historical levels, it's still a bit below, but recovering our historical levels of the past.

And finally, EBITDA and EBITDA margin, again adjusted numbers in steel transformation, basically we're talking about Usiminas solutions that had a strong evolution from 2% to 7%. This is the Usiminas distribution art, when we work with smaller clients in the market, showing that the improvement that we had in steel also followed -- was followed by improvements in our distribution sector.

As mentioned in our release, the next slide shows the evolution of our results in Usiminas Mecanica, weak results, but that reflects the lack of investments that we have in Brazil right now. We do not have investments in infrastructure. Oil and gas is almost at a halt, the same for naval construction. So the results of Usiminas Mecanica, which is the largest capital goods company in Brazil reflect the moment we are going through.

On the next slide, we show our EBITDA and EBITDA margin adjusted to our consolidated numbers. So the two last columns to the right show 533 as our reported number, with margin of 23%, but again excluding all non-recurring impacts [ph], the sales of energy and provisions, we reached 559 million of what we call recurring EBITDA or clean EBITDA in the quarter. Not, very different from the adjusted EBITDA. So we had few non-recurring events, but still higher than our reported results.

The next slide shows how we are controlling our G&A. We are keeping strict control over our expenses and we show very low indicators in this type of expenses compared to our net revenues.

Next slide shows our working capital, again a substantial and constant increases since the first quarter last year, that has to do with the prices of raw material but also reflects a normalization at a new level of our inventories for semi-finished products, processing products and finished products.

So you can see the evolution of our steel inventories. Remember that inside our steel inventories, we have also the inventory of slabs that are necessary for the roll -- hot and cold rolling of Cubatao.

So I would say that this level that we have a bit more than 60 days that we had in the last two quarters will reflect more suitably the new normalized level of steel inventory that we are going to have in the next quarters, especially because we have to have a higher inventory of slabs for the rolling process in Cubatao.

On the next slide, we have our cash position and indebtedness, again with favorable evolution, our cash position increased from one quarter to the other. Our growth that went down, basically because of devaluation of the Brazilian reias, and therefore our net debt decreased. We have a length of 51 months on average for our debt, both in reais and in dollars.

And finally, the evolution of our CapEx quarter-on-quarter, and here I would reinforce once again something that we have said in previous conferences. Our expected level of CapEx should be about BRL300 million or a bit higher.

These were the comments I had to mention. And now I am going to open for your questions. We're here to answer them. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) We kindly request that members of the media direct their questions to Usiminas Media [ph] Relations Department at 31 3499-8918 or by email, imprensa@usiminas.com. Our first question comes from Felipe Hirai, Bank of America Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hello, good morning everyone. I have two questions. The first is with regard to prices. We saw that average prices in the first quarter, compared to the fourth quarter grew by 9.5%. And I would like to know how much you would believe you're going to have residual increases for the second quarter, and any discounts that may -- that are being practiced in distribution.

And for costs, I would like to understand the dynamic of the impact of the cost of coal in the first quarter, if you had an impact and if you are going to have some for the second quarter?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Hi Felipe, good morning. As for prices, first, we'll still have an impact of price movements engaged in the first and second quarter. So in the second quarter, we are going to have an average price, 3% to 5% above that of the first quarter. As for discounts, right now, we have no discounts in place.

Felipe, as for costs, specifically, with regard to the cost of higher coal prices, we did have an impact in the end of the first quarter. But because it was in the end, it didn't have much impact in this quarter as a whole.

We are going to have a greater impact in the second quarter and by the beginning of the third quarter, that is going to be a bit more normalized. But the impact for the second quarter is going to be 7% to 8% and then in the third quarter 2% to 3%, so altogether about 10%.

That's not considering the increase of coal prices due to the cyclone in Australia, and that's because, we are trying to keep out of the impacts of that cyclone, moving some coal accounts from Australia to the United States and trying to cancel some shipments that were already scheduled from Australia. But so far, these are the impacts that we are going to have.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Thiago Lofiego from Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning. Congratulations on results. Sergio, I have two questions. First, I would like you to talk a bit more about the prices that you mentioned to Felipe. So you said 3% to 5% in the second quarter compared to the first quarter.

So you'll have a residual increase for the automotive industry I suppose, but is your assumption of a flat price in distribution? And again, if we do the math with your premium, I could calculate about 25% of premium in the domestic market compared to the imports. Is that the idea to attract imports to the country?

And my last question with regards to exports, what is normalized level of exports per quarter or per year that you consider from now on? And then thinking of your products, is this more galvanized, and cold rolled products? Are you going to continue with this line of products?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Well, Thiago. First, referring to the first point that you mentioned, prices. And as I mentioned the impact of one quarter to the other are from 3% to 5%. The main factor here is the following. First of all, as we all know, the prices for the automotive industry regard yearly agreements, and for the Japanese car makers, we have increases upto -- from April to March. And therefore, we had the new increases on the 1st of April. That's why the increase of 5 -- 3% to 5%.

You also talked about distribution and prices in distribution. With regard to distribution, prices in the domestic market follow the references of the international market.

And when we consider those reference prices of the international market, China has a very big impact as a reference for these prices. So the first point is what you mentioned with regards to price differentials that you call premium.

And you mentioned premium of 25%. Depending on how you calculate that, exchange rate price considered and et cetera, you're going to have a different premium. Of course, we also calculate premium.

But I would say that this premium for the main product is between 20% to 30%, which is a high premium, I agree. We always say that with regards to the premium, the balance rate would be from 5% to 10%. When you start to have more than 20, then you increase the risks of imports.

Now this level is influenced by the exchange rate, and by the international prices. The exchange rate will not change much as we believe in the coming weeks, but international prices are going down for you to have an idea of the prices in -- from BK [ph] in China, we had a significant drop in recent weeks, it was $500 a ton, and now it is $435 per ton. So it was a quite significant variation in a short period of time.

We are monitoring the variations of international prices. We believe that there is room for an increase in international prices.

So right now our position is the following, we are monitoring and analyzing prices in the international market, the impacts in Brazil, the premiums.

As I mentioned, we haven't made any decision with regard to discounts. So we are basically following what the market is going to do in the coming weeks. But of course, if it just stays at 20%, 30%, this is not a level that is sustainable in the long-term.

You also asked about exports. You should have noticed and we mentioned that last year, because of all the anti-dumping process in the United States that hit hot rolled, cold rolled and the heavy plates market, what happened is that we made a movement towards Europe. Today, we are exporting to Europe more than 50% of our total exports.

So Europe, the product that is being more competitive is cold rolled product. And in HDG [ph], we are present in the United States. We have the anti-dumping of HDG but Brazil is not part of it, it's out of it. So for the US it's basically HDG, but our market now is mostly Europe with cold rolled products.

As for export levels, we are going to be more or less at the same level that we are today, at 30,000, 40,000, 50,000 tons a month. I hope, Thiago I have answered all your questions.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. It's very clear. Thank you very much.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Thank you.

Operator

Our next question is from Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning, everyone, Sergio, Ronald. Thanks for taking my questions. First, I would like to talk about sales volumes in the domestic market. I would like you to break down per product.

If you think of heavy plates, you had a substantial decrease quarter-on-quarter and year-on-year. We have a new player in the market and the demand perhaps will not grow as much to offset the volumes of the competitor.

So I would like to know what you expect for heavy plates, if the drop that you had in the quarter is going to show in the remainder of the year?

And for the other products, hot rolled, cold rolled and galvanized, you have a substantial increase in the domestic market year-on-year. And Sergio, in the beginning you talked about an ascending curve of our economy at a slow pace, but positive. This volume that you had in the first quarter was even better than we expected.

So the delta of volume, is it market share that you're taking from competitors in hot rolled, cold rolled and galvanized, or is it due to a recovery of demand?

And as for volume also, if you allow me with regard to cash flow, if you have the line of payable, do you have the positive impact of 150 million. I would like to know what your strategy was for the first quarter, and what we should expect from now on. Thank you very much.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Good morning. With regard to the domestic market, you first mentioned about heavy plates. Well, in heavy plates, we were the only player in the domestic market -- domestic maker, of course there were imports. As we had the second player last year, of course, it's going to have a position in the market.

So the drop that we saw, compared to the fourth quarter was basically the same drop that we saw when we compare it to the first quarter '16. And the trend is to keep at this level. We do not see a reaction in the consumption of heavy plates.

And because, we have a new player now, we are going to position in the coming months at more or less the same levels that we saw in the first quarter.

As for sales, overall, if you compare the first quarter to the fourth quarter, we increased hot rolled, we decreased cold rolled and increased galvanized. What we see in the Brazilian economy is what we have mentioned before.

We hit the bottom and we are starting an ascending curve. The first recovery is going to be small, and we believe that in 2018, we are going to have a larger recovery. But in terms of volumes for the domestic market, this is the level we are working with, with slight growth.

You've also talked about market share. Today, we do not have market share available to the whole of the market. What we see is that it's basically stable, we are not increasing or decreasing market share, it is stable.

What is affecting the market share of the volume as a whole is the volume of imports.

If you compare imports with the previous quarter, there was an increase of about 10%.

But if you compare to the first quarter of last year, you have an increase of 160%. So the penetration of imports have an impact to all players. It impacts us and all the players in the market.

You've also asked about the impact of our cash flow in the increase of (inaudible) operations. Well, the level that we had in the end of the fourth [ph] quarter is a bit more normalized.

When you compare to the level of the last year, we have the same seasonal effect that we had in other lines, including sales. Remember that last year did not close on the 31st of December. It closed on 18, 19 of December. So we had some seasonal characteristics of the month of December that reduced the balance of our operations in the end of the year, now they're going back to normal in this quarter and they should be kept at this level.

Q - Ivano Westin {BIO 17552393 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning. Congratulation on your results. Sergio, I have a question about your internal goals. Now that you've reached the goal of BRL100 million of EBITDA a month, what would be your new target from now on?

And my second question is with regards to the sales of energy, with the recovery of stock prices, what do you think this line is going to behave like from now on?

And finally, if you allow me, your CapEx for the first quarter was quite low, compared to any other periods. What do you think this number is going to be like in 2017? Are you going to keep a level that is even below that of 2016?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Hi, Marcos. With regards to internal goals, management goals, to mobilize our Usiminas team, in the Group of 10, we are now discussing what our main internal targets are going to be like to really work with the whole of Usiminas team.

Last year, as you know, we had the target of the BRL100 million of EBITDA as our monthly average. When we determined the target, people thought that was crazy. But the Usiminas team responded quite effectively. We established the goal on the 30th of May and the next quarter, we already reached 308 million of EBITDA. For this year, well, of course the pursuit of better EBITDA continues. But we are discussing what our internal management targets are going to be. And we are expanding this range of goals, because today we are at a better level than we were last year.

Last year, we had a negative EBITDA, and to recover the company we had to generate results. What recovered the company is the generation of results. Now we are at a different position with the results that you saw in the first quarter and even in the last 12 months, we are at a level in which we can expand as a company and we can expand the work of the Group of 10.

We want to have five targets. One, for safety, one for EBITDA, that remains. Also one for cost, revenues and customer focus. So this is basically what we are focusing on. But we are still discussing our new goals for the Group of 10 and I'm waiting for their feedback to move on.

I'm sure that, later on, we are going to be able to comment on the management goals, that really represents all the effort of the Usiminas team.

A - Tulio Chipoletti {BIO 1653607 <GO>}

Good morning, Marco. This is Tulio from the Industrial area. And to answer your question about energy, as you know, the price of energy in the spot market went up slightly, because of the rain period, which was not as wet as expected, especially those rains that are associated to generation of energy.

So this bias that we see in the spot market is upwards. So possibly we are going to have results that are no longer negative for the coming quarters, because of this offset that we can sell. We can sell the left-overs of our energy in a market that has an upwards trend. This is what we see in the short-term. So today, I would say that we are not going to have losses there.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

And Tulio, does it make sense, if we think of a breakeven price for energy at BRL180 per megawatt hour?

A - Tulio Chipoletti {BIO 1653607 <GO>}

Well Marcos, our cost of breakeven is a bit higher than what you mentioned. I would say that our average would be closer to 200 than to the number you mentioned. We have two different contracts. So you have to consider the average, and also we are consuming a bit more energy.

So we have consumption of energy that leads to a lower leftover and therefore we have lower sales when we are able to sell energy.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, and you talked about CapEx.

A - Tulio Chipoletti {BIO 1653607 <GO>}

Well the CapEx of the first quarter is low. It's going to increase in the coming quarters and we probably are going to reach in the year, BRL300 million which is a bit higher than last year.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you very much Sergio, Tulio and Ronald.

Operator

Our next question is from Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hi. Good morning everyone and thanks for taking my questions. I think you covered the main points, but I would like just to go back to a few points. So distribution, we saw the number of your solutions. They were strong numbers as they can look at in the data, we see a weaker level, with inventories still high, absolute numbers going up and then with a scenario of a very high premium and some discounts for the future. We might see a reduction of the pace of purchase.

So first talking about distributors, I would like you to comment on that, and also imported product.

In some previous calls, you were not so much concerned with import levels, because of a series of factors, including credit and the financial standing of several distributors.

What is going on in this aspect and what is your expectation in terms of levels of import at this new levels of business. Are we going to continue seeing levels above 100, 150 tons a month?

And also, I would like you to comment about the sustainability of your results. I think this is the main topic today. The first quarter was strong. There was a certain mismatch of price and costs.

You clearly mentioned that the costs are going to increase in the second quarter. There is going to be an increase of prices. So I would like you to help me with this math of sustainability. You have your EBITDA margin, you still have 21%. My question is how sustainable is that because of the correction of prices of an up of 15% in China.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Hi, Leonardo. Well, the business dynamic is quite impressive, and you deal with variables that are more or less volatile all the time. The first point that you mentioned is distribution. Well, today we have data reported from industry, that shows still high inventory levels of 3.4, 3.5. Our inventory in sales solution is balanced, about 2 to 2.5.

As for premiums, we already approached the issue. We are basically following how international prices are going to evolve, because I'm not -- I do not have a question about the exchange rate, but the international prices, we still don't know.

And as I mentioned in this call, when you have premiums of 20% to 30%, well they are not sustainable in the long term.

As for imported products, I'm going to get just the first quarter of 2016 and the first quarter of '17. In the first quarter '16, we had the import volumes of 118,000 tons, with a penetration rate of 5.5%.

Now in the first quarter '17, this volume is past 300,000 tons, about 311,000 tons with an average of 100,000 a month, and a penetration rate of 12%, almost 13% as we see it. We consider the penetration of imports very high.

Our target is to work with a penetration rate of 5% to 10%. And last year, in the first quarter, we had a very positive rate of 5.5%. And the level that we see right now, I have to admit is high. If the present conditions are maintained, our imports are going to continue at a 100,000 tons a month, keeping the market conditions today.

A positive thing that we have is an ongoing process with the Federal Government and the Ministry of Industry, Foreign Trade and Services, which is the anti-dumping, including hot rolled products from China and Russia. We are going to have a final definition of this process in the beginning of the second half of '17 and that would certainly be an inhibiting factor for imports.

So what we have to do is what we always do, which is to monitor the different variables inside the business dynamics and work to neutralize those that prove to deteriorate our results.

As for sustainability of results, what I can tell you is the following, Usiminas team is going to work very hard to keep positive and robust results for the company. And obviously, we will have to face difficult challenges, I just mentioned imports premium, but we are really willing to work and to ensure the company's sustainability.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you very much, Sergio.

Operator

Our next question comes from Thiago Ojea from Citibank.

Q - Thiago Ojea {BIO 17363756 <GO>}

Hello. Good morning everyone. Thanks for taking my call. My first question goes back to costs. You had mentioned about the impact in the next quarter of 7% to 8% because of coal.

Do you see any gains of cost with any other measures that you are taking? What is the situation in Cubatao like? And do you have a run rate that is ideal, do you have a stabilized cost. So if you could talk a bit about that? And if you have any measure in progress in Ipatinga?

A - Tulio Chipoletti {BIO 1653607 <GO>}

Thiago, this is Tulio. Well, obviously Usiminas has a competitiveness plan for both plants to improve its efficiency and reduce costs. It is important to understand when we talk about reducing costs that we work on different variables, KPIs of efficiency, talking about losses in consumption, improvements of productivity in our lines, ton per hours. So these couple of variables that you can work with, and little by little you improve our results.

It is important to understand that we have this plan in place, it is implemented. Both in Cubatao and Ipatinga, we have very clear targets to have transformation costs, dollar per ton in each product, in each rolling line and also with our slabs, but quite often these variables cannot offset an increase in coal at the levels that we had.

It's important to understand that we are working at a level of detail, but you cannot overcome or offset a brutal increase as we have in coal this time. So we do have plans in place. They are working for both plants in Cubatao and in Ipatinga to improve our KPIs. This is pursued daily, weekly, monthly. We have teams to monitor them. But sometimes, the magnitude of the increase really is something that we cannot offset with our initiatives. And that's basically it.

Q - Thiago Ojea {BIO 17363756 <GO>}

Tulio, if you allow me, can you estimate what is the gain of decrease of fixed costs with an increase in volume, as I know every 5%, how much you can dilute in your cost per ton?

A - Tulio Chipoletti {BIO 1653607 <GO>}

I don't have this number Thiago, I'm sorry -- to share with you. It's very hard to say that because today the production reality of Usiminas, you have to understand, we have one plant producing steel and rolling product, and the other plant buying slabs and rolling. So if you think of percentages in such difficult and different processes, it's too complicated. So I really cannot provide those information to you.

Q - Thiago Ojea {BIO 17363756 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Bruno Giardino from Santander.

Q - Bruno Giardino {BIO 15974970 <GO>}

Hello, good morning, everyone. Congratulations on your results. I would just like to understand this increase that you had in court deposits, if you could talk about that. And second, the potential sale of assets, if you see it as a possibility and if this pick-up of our economy that you see, although gradual is a motivation for you to have a greater asset in -- a greater value in assets that Usiminas wants to sell.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Hi Bruno, good morning. I am not going to be able to answer the court deposits question, because I do not have this information right now. It went down from 50 to 40 [ph]. No, it went up, I do not have those numbers. I'm taking a look at our balance sheet, but I cannot explain what this is.

So if you contact our IR team, they are going to give you more color on these lines. As for the sale of assets, as you mentioned, there is an expectation that things are going to get better in the business environment, but this is still not concrete, it's not fully materialized.

So we haven't seen any signs that would tell us, that we are going to be successful in the sale of non-strategic assets for the next quarter.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. Thank you very much.

Operator

Our next question is in English by Jon Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

EBITDA generation was very strong, margins were very high, 48%. And I think there was some discussion about you potentially increasing iron ore production going forward.

I'm wondering, if you could comment a little bit about the strategy, if that's no longer the case given the iron ore prices have come down over the past few weeks.

And secondly, I just wanted to ask about the media articles from earlier this week, it implied that March was loss making.

And I know you have this target of BRL100 million in EBITDA per month. I'm wondering if you can give us a little bit of clarity as to how the EBITDA generation worked out on a monthly basis. And then sort of related to that, if you could provide a little bit of clarity on exactly why the media articles appeared, if this was done on purpose or if this were results that were leaked to the press, and if you expect any ramifications from CBM [ph]. Thank you.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Mr. Brandt, could you please repeat the beginning of your question?

Q - Jon Brandt {BIO 5506998 <GO>}

Yeah, so the first question was related to the mining and iron ore production. I think, there was some discussions that you might want to increase iron ore production. I am wondering what the strategy is on the mining side and if that's -- the increasing production is no longer the case given that iron ore prices have come down over the past few weeks?

A - Guilherme Melo {BIO 18100663 <GO>}

Hi, this is -- John, Guilherme speaking. With regards to your question about prices and increase of production in pig iron, today, at the current prices that we have at 315 and sea freights at 14, 15 per ton, exports are still competitive.

So we are thinking of a reconnection of plant that today is not operating. It has a good product, and it has good acceptance in the market. So we have a plan and people in place that maybe would lead us to resume production in three to five months.

Of course that will depend on market variables and we are paying attention to all the variables that are taking place. But the idea is to resume production.

As for your second question, thinking of the monthly evolution of results, first, I would like to say that we had a terrible event, where there was a leakage of information regarding the second quarter of this year.

This leakage referred to a precise information of January, February and then the whole of the quarter.

As Sergio mentioned, this leakage is being investigated deeply by the company. So we are not going to make comment as we never made about the monthly results.

We always discuss quarterly results. So all the information that we talk about with regard to evolution of prices, demand and costs, refer to quarterly period of the company.

And we do not make EBITDA projections either. All projections of volumes. The only future guidance that we give is for our CapEx.

Q - Jon Brandt {BIO 5506998 <GO>}

Okay. And just to follow-up on that, I mean do you expect any penalties or anything from CBM regarding the leakage?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

No, I cannot say that for sure, with regard to any penalty from CBM regarding the leakage of information. Of course the CBM has contacted us. We are providing all the information and clarification that we could. But it's still too early to comment on any penalties to be imposed to the company.

Q - Jon Brandt {BIO 5506998 <GO>}

Thank you.

Operator

Another question in English from Carlos de Alba from Morgan Stanley.

Q - Carlos de Alba {BIO 15072819 <GO>}

Yeah, good afternoon everyone and good results. My question has to do with cost, and we could see that a cash cost per ton of rolled products increased 14% quarter-on-quarter.

However, COGS per ton remained stable. So do you expect to see an increase in COGS per ton of around 14% in second quarter given the inventory movement and the delay in perhaps higher costs moving from inventories to your P&L. And if this 14%, 15% is a good reference.

And second, could you please remind us how much of your coal is purchased on the spot and how much is purchased under contract? And more or less, how many months of coal inventories do you keep? Thank you.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Hi, Carlos. You asked first a question about costs, and you were comparing the cost of production in the first quarter that has an increase of 15%, compared to the previous quarter.

And the COGS or Cost Of Goods Sold, that was basically stable, compared to the previous quarter. As you were talking about two very important indicators but that should not be compared directly.

Of course, you have a time difference between the COGS that relates more to stocks, to inventory and the cost of production.

The cost of production basically indicates a trend for the COGS, but it is not a direct relation. And also there is a difference in the mix of products in a given quarter, you produce a product mix that is different from what you're selling in that same quarter or in the following quarter.

So an increase in the cost of production is in line with what I mentioned with the increase of the cost of products sold in the coming quarters, but not at the same level. I mentioned 7% to 8% in the second quarter and then a remainder increase 2% to 3% in the third quarter, with the prices of coal that we know today, except for that increase of prices that we had with the cyclone in Australia, so I mentioned that before.

And you also asked about the proportion of the buying of the coal in contract and the spot market. I would say the ratio is 70% to 30%.

Q - Carlos de Alba {BIO 15072819 <GO>}

Okay. Thank you, and just to clarify then the 7% potential increase in the second quarter, and 3% in the third quarter is on COGS per ton then?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Yes, that's exactly what it is. COGS, Cost Of Goods Sold, yes, you're correct.

Q - Carlos de Alba {BIO 15072819 <GO>}

Great, thank you very much.

Operator

Now your next question comes from Gabriela Cortez from Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

I would like to ask you about reconnecting your mining plant. Today you have an annual capacity of 12 million tons. If you restart this plant, what capacity are you talking about? And would you have enough CapEx for that? Thank you.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

This plant has a capacity of 4 million a year. If we were to restart, we would be generating 80,000 tons. As for CapEx for us to conduct all activities we don't need much. We don't need much CapEx in this plant, basically would be labor and hiring employees.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Milton Sullyvan from XP Management -- XP Gestao.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Good afternoon. Thanks for your questions. My first question is the slab market, what do you see in this domestic and international market due to the changes that we are seeing in the market and premium levels? And also working capital, in addition, the line of suppliers is coming -- is going down? And I would like to know what kind of models we should use from now on?

And finally, I would like to know from mining, if you could give us a bit more color to restarting the mining plan, because you said, if you make the decision today, the plants would start production in three to five months? What is the period of ramp up? And also you said at prices you have today you would be still operating at a profit. So I would like to know what your breakeven would be. Thank you very much.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Hi, Milton. First, with regards to the world market of slabs, we are monitoring the market because today the slab is essential for our operations in Cubatao. What we see is that there is a firm demand in the international market, which has been affecting prices. So we have significant drop in the price of BK [ph], and I talked about China. It went from 500 to 435, but the price of the slab in the international market did not follow those references that we had with prices in Beijing.

In our view, is what we believe that we are going to have a recovery in Chinese prices. And then we have to see what the slab prices are going to be like. But this is the point that is requiring our attention.

As for suppliers, the line of suppliers has to be seen together with forfeit [ph] levels. When we include the accounts of some suppliers in our forfeit operation, you decreased the balance of suppliers and increased forfeit or vice versa. You have to see those two lines altogether, because forfeit operations basically are used for suppliers of raw materials and slabs.

And as for mining, if we decide to restart the plant, we would have from four to five months of work to restart production. This production would have a ramp up close to three months.

In the fourth month, we would reach our capacity, and then you asked about breakeven, in the current situations in the market, we would have a breakeven between $55 to $60 per ton.

Q - Milton Sullyvan {BIO 19085202 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Humberto Meireles from Goldman Sachs.

Q - Humberto Meireles {BIO 16541842 <GO>}

Good afternoon. My question is with regards to the conciliation of operating cash and EBITDA. In the first quarter of '17, we had a generation of operational cash of BRL180 million versus EBITDA of BRL530, that without considering the CapEx, that you would mention a 100 million a year.

So even with the EBITDA, the investment over 500 million, the generation of cash would be close to zero, if you have BRL100 million of CapEx.

Could you help us conciliate these numbers of operating cash and EBITDA?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Hi, Humberto I am not going to be able to do it now in this conference call. I'm sure that you can have this information with our IR team, but remember that we have a very heavy interest account. We have approximately BRL230 million for the payment of interest.

In the consolidated numbers, you have a not so relevant, but not that irrelevant line of the payment of taxes. And so I think that the IR team is going to be more fit to provide this information to you later on.

Q - Humberto Meireles {BIO 16541842 <GO>}

Okay. And just to be clear, as for your CapEx slide, could you reiterate your CapEx guidance for this year, and how much we should work -- with third quarter from now on?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

I already mentioned that the guidance for this year is approximately BRL300 million. That means that the CapEx for the coming quarters is going to be above that we recorded this quarter.

Q - Humberto Meireles {BIO 16541842 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Thiago Lofiego from Bradesco BBA.

Q - Thiago Lofiego {BIO 16359318 <GO>}

I have two very quick follow-ups. Sergio, did you mention a number for the expectation of increase of demand in steel? I do not recall if you did.

And second is the cost of goods sold that you mentioned. Could you say that again? You said that the cost of goods sold should increase by 7% to 8%, is that right?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Thiago, I didn't mention about our expectation of the growth of demand in slab paint for 2017, but the number today that we know is 3% to 5% of growth for Brazil [ph].

Q - Thiago Lofiego {BIO 16359318 <GO>}

And based on what you see in the market is what you are expecting?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Yes, we are expecting that. As for COGS, what I said is that we are going to have growth quarter-on-quarter of 7% in the second quarter, and 2% to 3% in the third quarter.

Q - Thiago Lofiego {BIO 16359318 <GO>}

This is cost of production?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Yes. Cost of production of steel.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, thank you.

Operator

Our next question comes from Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi, Ronald. I have a question about your liability management. With this improvement in result, expectation of cash generation [ph] from now on, do you see there is room for decreasing your debt? Are there any restrictions that are imposed to you today for the issuance of new debt, because of your debt renegotiation agreement.

How can we see Usiminas benefiting from a scenario of better cash generation and reduction of net financial expenses?

A - Ronald Seckelmann {BIO 3722329 <GO>}

Well, with regards to our debt renegotiation agreement, it hasn't turned one year yet. And it still have some stages to be completed before it is considered -- concluded, and there are several restrictions to renewing that business. So it is very early for us to talk about liability management in Usiminas.

Now one thing is undeniable, the chart of the Brazilian basic interest rate has direct effect on the cost of our debt, regardless of any liability management. This will reduce in the coming quarters, if the trend for the decrease of interest rate is concerned and also our better cash generation gives us a bit more financial reserve.

So we probably are going to have an improvement in our net expenses with interest. As for liability management, I believe that this is going to be clear as the next year. Then we are going to know what conditions we will have to improve our indebtedness profile basically with regard to cost, because in terms of times we are okay now.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Thank you very much, Ronald.

Operator

Since there are no further questions, we are now closing this conference call. If you have any questions please contact our IR team. We thank you very much for joining us, and wish you a very happy holiday.