Q3 2019 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman & Chief Executive Officer
- Luis Fernando Barbosa Martinez, Executive Officer
- Marcelo Cunha Ribeiro, Chief Financial Officer & Investor Relation Officer
- Pedro Gutemberg Quariguasi Netto, Executive Officer
- Unidentified Speaker

Other Participants

- Antonio Heluany, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- Leonardo Correa, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Thank you for holding. Welcome to CSN's Earnings Conference Call to present the Results for the Third Quarter '19. Today we have with us the company's Executive Officers. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company presentation. Ensuing this, we will go onto the question-and-answer session when further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through CSN's Investor Relation website at www.csn.com.br/ir where the presentation is also available. The replay of this service will be available for a period of one week. Once again, please feel free to flip through the slides at your convenience.

Before proceeding, we would like to state that some of the forward-looking statements here are mere expectations and trends based on current assumptions and opinions of the company's management. Future results, performance and events may differ materially from those expressed herein, which do not constitute projections. Actual results, performance or events may differ materially from those expressed or implied by forward-looking statements as a result of several factors such as general and economic conditions in Brazil and other countries interest rates and exchange rate levels, future rescheduling or prepayment of foreign currencies pegged, protectionist measures in the US, Brazil and other countries, changes in laws and regulations, and general competitive factors at global, regional or national basis.

We will now turn the floor over to Mr. Marcelo Cunha Ribeiro, the Investor Relations Executive Officer, who will present the company's operating and financial highlights for the period.

You have the floor Mr. Ribeiro. You may proceed.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

First of all, a good morning to all of you, and thank you very much for your presence, especially those who are here with us. During this quarter, we have changed our format, making it more interactive. We do apologize due to the logistics complexity which you may face, but it is for a good reason. Most of the market participants are here face-to-face and we also thank those participating through the conference call. We will as usual make an initial presentation which we hope to keep very brief, signaling the highlights for the period. Our CFO and Chairman of the Board will join us, make his comments on the period on the Company's strategies, and ensuing this, we will open the floor for your questions. And of course we will answer all the necessary questions and we thank all of you for your patience.

We may begin with the presentation therefore. For those who are accompanying us through the webcast, we begin with the highlights of this period on Page number 2, where we present to you the different fronts where we have focused our efforts, that is to say, operational results and acceleration of deleveraging and financial liabilities.

Now this was a transitional quarter. We have BRL1.6 billion. Although we have gone through the most acute phase of a very important event of the company, which was the blast furnace number three maintenance with an impact not only on steel, but mining because of unsold product and cements because of the higher costs now. Despite having had the mining prices impacted by these one-time factors and increase in freight and others, despite all of this, we did have a strong EBITDA of BRL1.6 million, but we were affected by the foreign exchange variation. Our debt had an increase, and also by very timely events.

Now what has happened to our results, increasing our debt is now returning. Once again, this has been a quarter of transition. We acknowledge this, but we have achieved good results. Another highlight besides the lengthening of the debt is this new bond that we have issued with the support of capital markets to support the quality of our debt. As we will see in the presentation, we have several other initiatives underway.

And in the third place were also with several initiatives underway to reduce the size of our debt. This quarter what we delivered was one more prepayment from Glencore, but we have also focused on other initiatives, the sale of assets, as well as other most structured financial initiatives to reduce the dimension of our debt. Once again, these are the highlights of the quarter.

We now go on to the main financial and operational indicators on page number 4 with greater detail in terms of our EBITDA, which is the most significant or visible financial indicator. In perspective, you'll see the sequence of our results this quarter vis-a-vis the second quarter. Well, we may call it a certain disappointment because second quarter was the best in the year of the stars lined up in mining. We also had very good results in the steel industry. We had an exceptionally low freight, very high volumes, which means that everything contributed to this. It was a true flyer now during this quarter as you can see some factors were against us hampering our performance. But despite this, we delivered this BRL1.6 million with a 25% margin, very similar to what we have delivered in the past and that enables us to foresee for the year-end EBITDA of BRL7.5 million, which is part of our guidance and is an expectation for a better fourth quarter. By doing our calculations, we do hope that part of these effects that have hampered the steel industry and mining will be reverted and we hope the fourth quarter will be even better. When we compare this to the second quarter, we will see what happen business by business and still in the internal market, everything remain the same, cost, margin and volumes. And what made that difference were the volumes in the foreign market as we will see further on, that is why we had a drop in our EBITDA.

In mining, we have said and we'll continue to reiterate the realization of prices and volume. When we look at the business unit separately, we did not sell 700 tonnes of iron ore, and of course, this also had an impact on mining and they should be reverted in the fourth quarter. In other businesses, we have both positive and negative aspects. In cement, a new drop in EBITDA.

What is relevant is that we had a great reaction in terms of volume. The civil construction market has presented us with good news. We have had a double-digit growth. The result was not stronger simply because the cost of cement was impacted by the cost story. We have now a more expensive processing and this has affected our results. Despite this, we got to that BRL1.6 million. We hope this will be the pre-loot for even better figures in the fourth quarter.

On Page number 5, you will see the CapEx. Our cash flow CapEx is quite aligned with what we have planned. A peak in this quarter of BRL600 million, because of the efforts devoted to the maintenance of the blast furnace number 3. It involves other areas such as centering and this represents disbursements and services that obtains BRL603 million, in accordance with our guidance, that is approximately BRL2 billion. This CapEx is extremely welcome. It will allow us to have a cost of slab that will be BRL300 lower per ton already in the fourth quarter after the renovation of the blast furnace and the production volumes as well.

By the pre-renovation, we had a bottleneck. We were limited to a production of 330 tons, 340 tons of steel. With this renovation, we should be able to reach 400 million tons and this is a peak, but the payback will take place in some months And once again this is higher because of the filtering dam projects that are doing very well. Thank you. We already have the results and record in mining production as we will see. That is why we have attained those BRL2 billion. The coming year, the key picture is somewhat lower.

We continue on with working capital. This was a quarter for normalization. We have gone back to the 51 days. In the second quarter, we had higher stocks and higher periods for trace receivables and the concentration of sales at the end of the quarter. Now all of this has been normalized in this third quarter as the Platts price was more stable. And we have not had a concentration of sales. Trade receivables have dropped, and as planned, our inventories were reduced as we roll the slabs spot from third parties. Along with our management of suppliers, we had a reduction in these three items. Suppliers and others of $1.2 billion, quite significant to show you the cash flow that is positive in BRL389 million. It hasn't been stronger, because we had a significant cash disbursement in terms of income tax, it was an effect lagging after the second quarter, and of course there -- all of this has been offset. We have a cash flow of BRL389 million. If we look going forward with our profitability normalized, the cash flow for the fourth quarter will be much greater.

We continue on to page number 6. Now this cash was important but insufficient to avoid an increase in our debt. The indebtedness we reached BRL26 million, and the great villain here is a foreign exchange devaluation, representing BRL1.3 billion increase in our debt. Our debt is 60% pegged to the dollar, which is very good for us because of our sale abroad. Now this was the main effect.

And then the other effect was the payout of dividends. We now have a policy of paying our dividends every quarter always in line with the minimum mandatory amount of 25% for the period. This was done this quarter. And because of the dividends of minority shares, this amounted to BRL603 million, because this net debt did not drop. And the net debt/EBITDA ratio stood at 3.8 times. And the comment here is that we are very confident that we will obtain our goal of 3 times net debt/EBITDA at the end of the year, very close to that. And in the medium-term, we will have a net debt of BRL20 million. Once again, none of this has stopped being a priority for the Company and a cash flow with the sale of assets will enable us to obtain what we have informed the market.

On Page number 7, the other dimension of our efforts in term of the balance, which is the quality of our debt. The average term that has been addressed, not only through the capital market, this quarter, we had one more emission of the 2023 retap lengthening our bond for 2019. This was paid on September 2019 and have lengthened the debt for another four years. This with the support of significant foreign banks like the Bank of China and local banks such as Bradesco that have extended our debt for a period going beyond four years, and the focus of course is the capital market. If we compare our balance with other companies in the sector, we have a very strong concentration on banks and we would like to diversify avoiding the -- well, taking advantage of the low interest rate and our next incursion will be in debentures taking advantage of improvements in our rating as well.

To continue on with the highlight, we go on to Page number 9 that refers to our steel performance. Once again, this was a atypical quarter where steel represented a very low amount our total EBITDA and we are the National Steel Company, the National Mining Company, and steel has always represented 60% of our results. Therefore, this quarter is abnormal repeating what happened in the second quarter with a very low EBITDA. The volumes were very similar in the domestic market, because of slabs at a price BRL300 more per ton.

By looking forward, we think we have -- we'll have an enhancement in all fronts. There should be a resumption of volumes. There is good news from civil construction and packaging, capital goods, and other sectors. And with this economic recovery, perhaps, we will no longer have discounts on imported products now. Both of these elements should help, but especially the cost. After the maintenance of the blast furnace, the cost per slab should drop and this will represent a BRL100 million per month in terms of costs when we return to normalcy. What was different this quarter was a weaker sector. Once again due to seasonality, the blast furnace in Germany with a stock down. Of course, these are not fully comparable, but in the US and Portugal, we had lower prices for brick [ph] and we held back our sales. This is what has led to having lower results in the foreign market. It has been a transitional quarter. We hope to repress this in the fourth quarter.

in terms of the mining performance on Page 10. We look at the results, the second best in history vis-a-vis the second quarter of '19. This is an excellent moment for mining. We can celebrate some of our figures, such as the production volume, which has been a historical record. It shows that we were right in investing in filtering and dry stacking. However, this semester this has not translated into larger sales, because we sold a lower amount to UPV because of the blast furnace, and of course, this has also helped us to reduce our revenues and that is why the results are different from the second quarter.

The main reason that we see in the last page, on Page number 11, was the price change. The revenues had a drop due to volumes, but mainly because of prices. Now the explanation here is the Platts as an average index remain stable or dropped too, but our realization dropped 13%. Now where does this drop come from? First of all, due to the basket of quotation periods, these are sales that we carry out through a provision based on the spot price of Platts. Now when the iron ore gets to China, this price may have either increased or decreased.

In July, for example, the prices were extremely steep, but there was a big drop in August, because of this we had a provision of quotation periods with an impact of $8 vis-a-vis the reference. Well, we're aware of what happened with quality, this is a one-time issue, and this has nothing to do with the granulated ore and others. And this also refers to the offer of concentrated products in China where we will see a reduction in coming months and the use of these low contaminant iron ores. All of this has had an impact, but we think that this will be temporary. What is also temporary is the freight that reached $29, almost $30. We are now returning to $18 or $19. In terms of price realization, this had an impact and it should be mitigated in the fourth quarter and this explains the reduction of revenue in mining.

With this, we get to the end of the presentation, and I would like to offer the floor to our CEO and Chairman, Benjamin Steinbruch, before we go on to the questions.

Benjamin Steinbruch {BIO 1499059 <GO>}

A good morning to all of you, and thank you very much for the presence of analysts. I would like to begin by stating that I don't want to sound overly positive, but the results of the third quarter were good and all of the drops can be justified. They're not abstract conceptual issues. There is simply numerical issues and you and the investors can come to their own conclusion. It was to be a much better quarter to continue on with what we had shown you in the previous quarters were it not for those highly justifiable events or factors.

From the viewpoint of commitment to reduce our debt, the commitments remains unaltered. We did have the impact because of the blast furnace number 3. We have an impact in the purchase of slabs. We paid 30 days. Our cycle is normally a 180 days. And in December, we should be able to recompose our cash. We had the payout of dividends. As you know, the depreciation of real that was quite strong with a one-time impact. This is diluted through time, but it does have an impact and that issue in mining.

As we sold two-thirds going forward and one-third in the past, the sales of the consortium and the sale of iron ore to Japan and Korea are based on the previous quarter, and two-thirds refer to spot sales to China and that carried out with the prices open for the coming month. We benefited from the increase of the sale of these two-thirds of our volume. When there was a reduction of price, we were hampered of course. This was the impact of the previous quarter. And as of this moment, we have the advantage of the one-third and there is no longer a penalty, because the price has already been updated with the two-thirds that we sell in the spot market and the future markets for sale to China.

Along with this, the price of freight reached $29 were back to $19. We purchased freight month after month and the average price was very competitive. This year, we've got it right in future sales in freight. This adjustment had to take place, it did. We're now closing freight deals for the end of the year at $18 or $19 and we believe we will be at $90 and with this we will end the year in mining that will be exceptional. We will sell 40 million tons, 33 million tons we will produce ourselves at a competitive price and with the right quality. So our mining business has been structured for the good times and the bad times as well.

We are covered when it comes to dams. Environmentally, we are fully updated and we are aware of all of our dams and what is happening. We have been living and working with them for the last 30, 40 years. There are no novelties. We think that we have full control over this. And when it comes to the cost structure, we are ever more competitive. In terms of iron ore, we have equalized the quality. And with the good market, we will gain a great deal, with a bad market, we will also gain.

In steel, we have that problem with blast furnace number 3. This is the heart of steel and not being able to produce slabs has led us to buy slabs from third parties at more than 500. Nowadays, we purchase slabs at 360. And we're going to go in with a good average price for the fourth quarter when it comes to slabs, and once the blast furnace is operational, we have resolved the problem of cost. We think that the market allows us to be optimistic. It hasn't been easy, it is difficult, but we see market enhancements, and I'm going to pressure Martinez to end the year without an inventory.

We do observe a resumption in terms of civil construction. The FGTS, the 13 salary [ph], the decrease in interest rate, allow us to think that we will have a good fourth quarter in terms of consumption, and this will enable us to have a good replenishment of inventory in the first quarter of 2020. Despite all of the difficulties, we look upon the Brazilian economy with optimism.

Now the issue of interest. The drop in interest rate has been very positive for us. We have plans for the domestic market and foreign market. We're expecting a revaluation of rating companies. We had dropped 7 levels in six months, and then in the last two years we have been able to recover three of these levels. As always, the rating agencies allow you to drop a great deal, but the return to normalcy is difficult and we're waiting for this before issuing our debentures. We have the debentures for energy, for the port and we're going to use that artifice of incentivated debentures to obtain better rates. And the issue of cement will improve because of the resumption of civil construction and we're betting on the following that everything has been done.

When I say that the results of the third quarter (inaudible) we don't need to change anything. Everything is doing well. We had those one-time issues that can easily be explained, but our direction, our path is the same decisions are at the same they have been made. And as part of what we offered in terms of commitment, we have the debt reduction and a great part of this will be obtained in the fourth quarter with or without the sale of assets. This is a priority. One of our greatest concerns. If I have to pay, so part of the mining to reach a more comfortable position, I will do this. 8% will be readily available for sales and this is one of my desires. It's not the market, it's not due to analysts, otherwise, it is a desire that I have. It's not because of 8% of mining that I will not be able to have the tranquility and begin to go on perennially. This is a minor effort compared to all of the gains that we will have and this will be done one way or another.

Notwithstanding this, I hope to live very long, and I know that everything has a right time and we're waiting for that right time to come about. But CSN, from the business viewpoint has done very well. We have nothing that we would like to change. I do believe we're on the right path. We are going to deliver. While we have promised, I'm very insistent in terms of this and the fourth quarter will have to be much better and recover part of what happened in the third quarter. We are optimistic and we believe that the fourth quarter '19 will mirror or achieve everything we did not achieve in the third quarter and we are prepared to continue on with our commitments in the year 2020. We want to have a more deleveraged company with the benefit of that potential for growth which means we can grow in steel and mining and cement and infrastructure as well as in energy. We are prepared for this. We haven't done so yet, because we have the commitment of delevering.

As soon as we obtain an adequate level, once more, we will be prepared to resume our growth. The lengthening of the debt has been done in the holding as well as in the Company and the dividends were significant, because of this, we could not have a Company with the lengthening of debt and feel pressure at the holding. This was a sacrifice that we did, because we did analyze this, we were able to lengthen both. We are in a more comfortable position at present. We should have greater ease going forward.

This is what I wanted to mention and we now offer you the floor. All of the Executive Directors are at your disposal, including myself. I do highlight once again that the events in the third quarter are easily justifiable. The impact on prices were extremely short period of time. We will recover in the fourth quarter and present better results.

Thank you very much.

Questions And Answers

Operator

We will now go on to the question-and-answer session for investors and analyst. (Operator Instructions) Our first question will be in English and comes from Carlos De Alba from Morgan Stanley.

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

Hello, good afternoon -- good morning, everyone. Thank you very much. The first question is on iron ore sales. Could you help me understand why we saw a drop in volumes. I understand the comments that Marcelo made regarding the fact that you sold last to Volta Redonda, but the maintenance, the stoppage of the blast furnace had been scheduled for some time and presumably the company would have planned these ahead of time and still be able to sell those volumes to third parties. So could you please help us understand if there was any issues with availability of sheets or something at the port or just -- the market wasn't there for the company to keep the 10.1 or 10 point something million tons of shipments in the quarter.

And second, if I may ask, just on the progression of the lower steel cost. I think Marcelo mentioned the expectation of a BRL300 per ton decline in slab cost. Is this something that you expect to see already in the third quarter or is going to -- sorry in the fourth quarter or is it going to be a smooth delivery of these -- of these lower cost?

And then finally, if I may. What are the trends that you expect on working capital? We saw a big decline in receivables in the third quarter. Inventories remain high. I suppose that inventories will decline in the fourth quarter due to the normalization of the steel business takes place, but what about receivables, a huge benefit in the third quarter. How do you see that going forward? Thank you very much.

A - Unidentified Speaker

Carlos, good morning and thank you very much for your question. This is (inaudible). Allow me to explain what happens in terms of production and volume. This is a quarter where we had strong production. We used 500 million tons to 600 million tons. We reduced our purchase volumes. As a result, we had 600 million tons, which is a challenge that will be transferred to the fourth quarter. Now the result of this level of operations is due to timely logistic problems and the market volatility, and because of this, we were not able to sell out this product and this will be done with greater challenges in the fourth quarter.

So to confirm our expectation of 40 million tons in sales, the fourth quarter will offset the lower sales volume in the third quarter. We would like to clarify that we have had no problems in selling iron ore. The demand exists. It is a commodity. We always have a market for it. It's simply price and availability issue.

We're going into the fourth quarter with a very good inventory. We're going to pressure Luis Martinez to deliver zero inventory and OMS [ph] will also have to deliver a zero inventory. We have orders. We have the port. The product has been stopped. So we should have an excellent fourth quarter when it comes to our profit and because of the inventories that will enable us to offset the third quarter.

A - Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

A question about the cost of slabs this is Pedro Gutemberg Carlos, thank you for the question. We think the cost of slab will be BRL300 lower vis-a-vis this last quarter and versus price of iron ore BRL1,107 [ph] per ton. This is a preliminary estimate that will be confirmed with the data from our input.

A - Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

And Pedro Gutemberg knows we are buying slab at $340. We're not traders, we're an industry. This is the market benchmark and Dr. Gutemberg will have to make efforts to get to that price in terms of cost. We simply have to comply with this. He refers to 300. We're going to pressure to obtain more than 300 and the market serves as a guidance for us. And as part of that guidance and effective purchasing prices in one way or another, we have to get to the reality. We cannot buy at a lower price and we produce and so we are going to try to achieve this level, discounting the fiscal credits that some Brazilian plants benefit from.

Another important issue to enable you to produce your models. Let's imagine a cost of slab of 1,850, a conversion cost of $60 from BQ to slab, we will get to $520 with BQ. The average price without (inaudible) is $615. $615 minus, $520 will be $95 per ton in the BQ which is not bad at all, and this will put us back at a reasonable level if we do not have a price correction.

Now a better scenario. The other half that I sell our coated products, 63% of our portfolio and we have average prices of 3,550 pre-painted tinplate zinc, with 321 without PIS/Cofins, it would represent $805 net minus $660, which is the cost for the galvanized product. I have $150. A $150 plus the $95 of the BQ gives us a $136 per ton versus 300,000 per month, $40 million times four $160 million, which would be the results we are projecting for the quarter. Now this account -- now these are expectations.

Now projections. No, this is not a projection. This is the reality. I can guarantee the price. At cost of a $1,850, there is not very much we can do. The price of BQ has hit rock bottom and we're going to guarantee facts and data. $95 in the BQ and another products where we have 53%, our margin is $200 higher. By giving the right cost and by working with production levels that are 10% or 15% greater, we're going to be delivering 160 million. This is not a forecast. It's an exercise that we're working on all together, and this would also extend to the coming year 2020 when we will capture some of these benefits. While Martinez will be the Phoenix of CSN, he will arise from the ashes.

Now simply to complement what was said by Martinez. With the renovation of the blast furnace, we will have a significant increase in production, 20% to 30% in 2020. This is why we renovated the blast furnace and this will recompose the steel EBITDA.

Another question from Carlos refers to working capital and trade receivables. In the fourth quarter, we expect stability and the effort, of course, is to increase sales. Our inventory will help our working capital and possible strategies. To offset this when it comes to slabs. What we see is an upside risk when it comes to cash generation.

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

Thank you.

Operator

Our next question will be in Portuguese and it comes from Thiago Lofiego from Bradesco BBI. You may proceed.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning to all and thank you for the call. I have two questions. We go back to the leveraging. Cash generation BRL380 million normalizing. This is a simple account even with the iron ore price quite the better $100, which will be the evolution of your cash generation ex sale of assets and the leverage of iron ore at lower prices, which is the operational variable where you can have an enhancement to sustain cash generation and the leveraging. Will CapEx be sufficient or will you work on another variable?

And as part of this question, if you could also refer to your investments, more specifically what is happening with working capital? And if you could speak about the steel market in Brazil, Martinez. What have you seen in terms of demand? If there is any room to improve the price and what you foresee for the very short-term or the next year in terms of price increases. And of course, there has been a retraction in China, which is a reason of concern?

A - Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Martinez, would you like to begin?

Thiago, when it comes to the premium, simply to review this, if you want to show the graph, we're beginning from a very adverse situation of Chinese BQ of $450, BF at $290 and there is a curve -- price curve that was never that low. We're getting to a negative peak when it comes to market prices. Now if we base ourselves on those prices and think about the prices in the domestic market, the premium for BF and BQ is approximately 2%, for galvanizeable [ph] products 11%, and for other coated products varying between 8% and 10%. There is no possibility in my understanding of importing products with a lower added value, and it's not about imports. Imports have dropped, but have had an increase in the galvanized products and we need to be careful with that.

Now when it comes to the CSN price strategy, we are imagining that until the end of the year, the scenario will be of price stability. Now periodically, there would be room for a price hike, but I prefer to say that we're going to work with a stable scenario until the end of the year. When it comes to cost, we have hit rock bottom. Once again, we're ready for a resumption. We're going to work at full steam. And as Benjamin mentioned, this is what we're doing. We're destocking and we're going to go through the end of the year with the lowest inventory level of finished products at CSN in the last five years.

Now our inventory with added value is very strong 53%. We continue to have 6,000 clients in our customer base. We don't have all of our eggs in the same basket. We're working with assembly plants and other industries, and there are some scenarios such as civil construction and cement. Our cement business grew 12% in volume in the third quarter vis-a-vis the second quarter, which clearly shows a resumption in the civil construction segment, very shy when compared with the potential that we will see with other concessions and infrastructure construction.

Now if we look at what is happening at present, there is a drop in automotive industries and in the truck industry. At the beginning of the year, it was positive. For the year 2020, if the GDP reaches 2.5%, 3%, there should be a growth of 7% to 8%. Our scenario as a whole therefore is positive. I think there is a general confusion around the world in terms of the price of scrap and iron ore from China and the USA, and the trend is for stabilization and this will favor CSN. We will be able to compete on equal footing. When it comes to cash flow, we're not expecting too many changes. This of course has been a special year with a very robust EBITDA, but the steel industry is an anchor. Once the steel industry enhances, the EBITDA will not change very much. We will have a positive evolution in CapEx and lower interest rates. This will generate a 1.5 cash flow, and this is what we're hoping for and what we delivered last year and this year.

Q - Thiago Lofiego {BIO 16359318 <GO>}

At which price level, Marcelo?

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Well, there is a consensus when it comes to the Platts. The Platts will be of approximately $80 for the year 2020. This is what we have established through a consensus. Thiago when it comes to volumes, it's obvious that the volumes we're producing are not the ones we used to producing. They should be higher.

Now another important side of this coin that refers to the market. Simply to give you an idea of what this quarter was and this year was, we bought from Usiminas 160,000 tonnes, I don't know if you're aware of this. From our seller, BQ 40, and 600,000 tonnes of slab. Now besides maintaining our market share, we practically did not lose market share. I feel then the pockets of competitors, which is not desirable, were not used to doing this. We're going to recover this. We're going to bring everything in-house. It makes no sense to buy so much material to service the market. And when this stops, we will go back to our previous results.

I believe there was a question on WT -- SWT. When it comes to SWT, we consider that the business is still alive and kicking, moving forward, and one step ahead. We cannot say more than this -- this M&A issues. Well, we never know about the timing and the possibilities for success. We have been discussing this for mostly a year and this is a serious business. It is moving forward. This is all we can say at present.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, Martinez. Thank you for your responses.

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Thank you.

Operator

We are now going to go on for the question-and-answer session for the analyst present at the call. Now please give us your name and company before posing the question and speak very close to the microphone to guarantee optimum sound quality. Please wait while we pull our questions.

Q - Leonardo Correa {BIO 16441222 <GO>}

Yeah, good morning, and thank you. I'm Leonardo Correa from BTG Pactual. The first question to Martinez, an easier question. There is a thesis of a struggle for market share specifically in the fourth quarter. The blast furnace coming back into operation and there is a thesis that competition will become harsher and there will be a price drop. You spoke about stability, but I would like to speak about the competitive scenario, which is still very difficult with scenario of compress demand and the expectation is that everything will improve in the first or second quarter of 2020?

The rest of my questions are to Benjamin. We have seen CSN with an evolution in terms of EBITDA for two years, a net debt coming to a halt, the CSN has had difficulties in deleveraging net debt and has been paying dividends is a challenging. You were quite assertive at the beginning about the positive sale of Casa de Pedra, 8% of mining. Are there any conversations underway? Anything in the radar or is this something that could come about in 2020?

The second question, we understand the issue of the holding. The holding is leveraged and you also have leveraging at the operating plant. My question is, if you would consider selling a part that CSN to pay the debt of the holding, so you don't depend so much on the flow of dividends from the operating company to the holding. Would you sell part of their share of CSN and perhaps suspend the payout of dividends for two or three years?

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Leo this -- it's not very simple in a very hostile scenario, and where the blast furnace under renovation. When you buy material from third parties, it's not simple to maintain your prices. And what you are looking on is what happened with prices on the average, but we don't live only from the market of low added value. In packaging based on 2018, we're at 114 for packaging. In the industry, we were at 100 In 2014 [ph], we're at 104. And there is a minor correction in the distribution market. We have to make this restatement of correction. There will not be that price struggle, because we have reached at a very low point. Nobody is making money and the blast furnaces of our competitors are also attempting to optimize cost and for this they reduce production, they use less pellets to maximize costs, not output, this is given. And the outlook for prices that we have for 2020 imagining that the market will have a slight resumption is a recovery already in the first quarter. I truly -- thanks to our portfolio in this fourth quarter, do not think of a harsher competition. December is a seasonal month. There is no price flexibility and we will have equivalent volumes. So I believe the scenario will be stability. We will work ever more on a stronger portfolio in the galvanized products. Our projects that has been mentioned frequently is working full stream. We're going to create that galvanization line in Sao Paulo with an investment of BRL2.5 billion. Presently, we're defining the location and value to Paraiba, very close to the markets.

And we will have a CSN portfolio going from 51%, 52% to 63% of coated products, for the coming two years, perhaps in the short-term. And when it comes to the premiums, it is important to observe that the price in China. At present, if you look at the cost of raw material, coke and other, the Chinese in the steel mills, your company have a negative EBITDA. I don't believe that this situation will be maintained for very long. And the USA is going through typical moments due to the scrap prices that had a higher drops in iron ore. It's below $200 or less. And as the market resumes, we should have a better point to balance. This is what I believe will happen to prices for the end of the year and for the year 2020.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Leo, thank you for what you did last night and I would like to say that you're going to be happier and work more in this coming quarter.

Now to respond to your question. Objectively, we are negotiating the assets in Germany, it's simply an issue of price. Now if we have had a year of negotiation is because there is interest on the part of the buyer side as well as on ours as the seller side. There is interest and the difficulties will converge and were reaching the final stages. Not surprisingly, we could sell this in a week or two weeks or not have any business at all. We are now at a very conclusive stage. When it comes to the possibility of selling off our asset in Germany, this is what is happening.

Regarding those 8% from mining. We have 88%, the Asian consortium has 12%. As you know, during the entire year, we negotiated the streaming. We came very close to working on an operation that was 5% equivalent to the sale of a streaming operation. Now because of the novelty in terms of iron ore, this was lengthened and the operation still has not come out. We're also interested in mining. It is not difficult to sell a good asset with a high EBITDA.

Now this is the crux of the issue. You have to do your pounds. The market demands from us a mobilization, but -- what we have in Europe could represent 60 million EBITDA or in euros. This is significant because of the business in itself. It is a positive business with a positive EBITDA. It is not difficult to manage and it does contribute to results.

And we could do the same when it comes to mining. Mining will give us 6 billion in terms of EBITDA this year or something very close to that. So if you do your accounts with this 8% of the 6.5 billion, you will be servicing deleveraging, but you will be giving away significant EBITDA, and this will be sustainable through time. As we discussed here, as part of this curve. We're not doing any miracles. in terms of prices, it could be $80 or more for the forecast of 2020, $80, $90. But with $80, we will have a very strong EBITDA and we also we believe that EBITDA will come back constantly in accordance to what we have always delivered.

CSN has always been a company known for its very high EBITDAs and we would like to go back to an increase of 30%. We can now work with less than an EBITDA of 30%, and this is what we are seeking and we will obtain that figure. And I feel somewhat comfortable in terms of our deleveraging because of EBITDA. I'm not a dreamer. We are going to deliver 7.5 billion or 8 billion in EBITDA, something that is very consistent. Few Brazilian and non-Brazilian companies are able to deliver such a positive EBITDA in the unstable situation we see throughout the world and in Brazil. Therefore CSN speaks for itself.

If you compare what the market most values nowadays compared with CSN, none will deliver the EBITDA. We will deliver and we're still being strongly penalized because of the past, but not because of the present, and not because of the future. A company with the EBITDA that CSN has had constantly and because of the assets we may have a drop in mining, but an increase in steel and cement. So we have diversity of very good assets that can present good figures and they enable us to have this stability, this constancy in terms of our EBITDA.

I understand. I do not agree with this, but I have thought that idea of the market as deleveraging. This is a commitment we have made and we're going to honor it. If we have to sell those 8% of mining considering the proportionality of EBITDA, it will simply be to offer me some comfort to be able to work with a less leveraged company as an entrepreneur, as a businessman, and as I have always done, I began by owing everything that I bought from CSN. We bought 7% from CSN leverage and we have gotten to that 60% at present deleverage, I could say.

Now you have expressed the concern with the holding. Now the CSN dividends policy is regardless of the holding. We're going to deliver the minimum dividends every quarter constantly. Now the issue of the holding and the lengthening of our maturities, we're going to resolve with an increase in our price share. My challenge is to increase the share of CSN, not to pay dividends, and I believe we can do this in the short-term. A great deal of what CSN suffered was due to its high indebtedness. Now with a reduction, this appreciation in the share will come very speedily.

I do not believe that we have to sell the share of the holding. This is not necessary. If we have to reduce it, we have a great deal of room to do this by selling shares from CSN. And once again we have to do this calculation, see if it is worthwhile. Of course, indebtedness is no longer attractive. I am 66 years old. I do not want to die indebted, I do not want to die at all, but certainly not as an indebted person. But I am fully convinced, as I said that this year, we would reduce the net debt/EBITDA ratio to less than 3 times. We will only not comply with this if something happen, such as foreign exchange or something different, otherwise we will be delivering these results.

And in the year 2020, we will deleverage down to 2 times, without taking into account the sale of assets and keeping in mind the price curve. Once again, prices of iron ore and steel based on what the market wants. So despite seeming to be a high leverage and although this seems to be an immediate necessity, everything is given as I mentioned formerly. We have a delivery of results out of the curve, an outlier, because of practical results that are well known. We can detail them and you will be able to calculate this in the fourth quarter. We're going to refer to what happened in the third quarter and our commitment and our delivery will be towards a deleveraging for a net debt/EBITDA ratio of 3 times or below. And with this dividend policy being given, we're not going to stop paying the 25% mandatory minimum, but we're not going to pay over this either.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, and thank you for the question. Daniel Sasson from Itau BBA. When it comes to the net debt/EBITDA of 3 times at the end of the year and EBITDA at 7.5 billion, you would have to reduce your debt by almost 5 million between the third and fourth quarter. What are you expecting in terms of sale of assets, cash generation and reduction of debt? Thanks to foreign exchange appreciation. As part of this question for Benjamin, if the end of the year will be 3 times net debt/EBITDA ratio, which will be the level of tranquility that you mentioned at the beginning of your address?

The second question referring to CSN investments, if we could have more color and ranking of priorities, Martinez, referring to your new galvanize line, the expansion of mining, what is it that the company will do first? Can you do all of this simultaneously? Has the line of galvanized products then approved at board level and which is the status and the timing that we could work with in terms of these investments? Thank you.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

We'll begin with the ratio. We expect 3 billion from financial initiatives, M&As and our new iron ore deals, 500 million of reduction based on foreign exchange, the rest will come from the business.

A - Luis Fernando Barbosa Martinez {BIO 17456025 <GO>}

Now which are the investments, which is a very broad question. In mining, there is an expansion project that has been approved and is underway with 10 million tons, that will begin to be built in 2020. And of course, this is different from the plant of galvanized products. The government in the state of Rio and Sao Paulo are supporting us. In Sao Paulo, we have a memorandum of understanding that is quite advance, but we need to be able to reach the right conditions in terms of funding, but we do have support for this.

(Technical Difficulty) what is sustainable, what is comfortable, because of our type of business would be two times net debt/EBITDA, less than this would not be very intelligent. I find this comfortable. EBITDA of 3.5, net debt ratio is comfortable, because of the capital intensive activity that we have and the diversification of commodities and products.

I have already mentioned this I went abroad and I was surprised with the market demand and the lack of stability. Now this account of 3.5 for a stable or predictable market would be comfortable, but because of what we see worldwide in terms of political economic instability, and because of those certain oscillations make people request a lower indebtedness, a lower ratio. That is why I have made a commitment to deliver this reduction 3 times this year and the coming year 2 times, and ensuing that, we will have a certain comfort.

It would not be intelligent on our part to abuse the market and another trend that we're working on is to move away from bank credits and obtain this from the market. Now if we do this abroad or locally, the terms will be much longer. Therefore, when I speak about this net debt/EBITDA ratio of 2 times, this will be with the lengths and period, which gives us even greater comfort and moving away from commercial bank loans in the short-term. This is what we're working towards and I believe we can comply with the strategy at the end of the year 2020.

Q - Unidentified Participant

Good morning. Gabriella from Bank of Brazil. Martinez, I have a question regarding the price scenario for the coming year. You are pointing towards scenario that is somewhat discrepant towards what we have. We have a global de-acceleration and we think this will have an impact on demand and prices. You have proven to be more positive. So what is it that you are thinking about these two factors.

Now for NAs [ph] in terms of the pricing of iron ore from CSN, what do you expect for the fourth quarter? Are you expecting a discount for silica, lower freights, what is it that we can expect in terms of prices? Benjamin, well, we had somebody that was 93 years old this year, so you will do have a great deal of time.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Simply to conclude and the issue of investment is important for analysts and for the market. CSN has investments underway that our -- investments that will bring a significant return in a very short-term, operational adjustments and all of this has been done and we annualize some in terms of the return for the company. We're always attentive to opportunities. Any large investment that you do in steel, in mining or cement in the best of hypothesis. If everything works out, you have 18 or 24 months for approval. So when we speak about a possible new galvanized plant or a new cement plant, if we speak about the expansion of Casa de Pedra to be able to do this environmentally and in fiscal terms, we cannot make this happen before those 18 months or 24 months.

And this is something I would like to clarify. My sister, for example, who is a shareholder called me yesterday it was said in the newspapers in Aracaju that we were investing in a cement plant, because there was a public hearing for the environment.

And I culture back and I said, in the best of hypothesis, if everything works out, it will take us 18 months or 24 months to begin. And of course, in that case, if we deliver what we have committed to this year and the coming year CSN in 2021 will have that net debt/EBITDA ratio of 2 times, allowing us to begin moving forward. Now we have to begin doing all of this before and you should know that nothing expressive will be happening before that 18 month period, production adjustments, intelligent investments with a large return there, yes, we will continue doing but nothing that may cause a concern financially.

Gabriella to speak about the prices from now on to the end of the year, a scenario of stability. We're beginning to negotiate a price increase for automotive assembly plants for 2020. We're renegotiating all of the contracts of car parts, the automobile industry, and some companies where we have six months contracts, the wide appliances, some industrial sectors, where we maintain our prices for specific periods. For the year 2020, we will be able to capture increases and the enhancement of the results in CSN will come from cost and not due to a re-composition of price as happened in 2018.

If we look at a sector as a whole, if you look at the balance of distributors, we cannot live in a sector without profitability as a whole, not even the plant or the distributors are making money, and we have lost the market logic. Everything is wrong. We seem to resume towards something that is more coherent, something with reasonable profit -- profitability and a more sustainable value chain. Therefore prices can no longer drop. In the coming year, there will be a positive trend in industry and distribution. The buyers [ph] are great deal of BQ and BS.

The premium is negative. We have never had a negative premium. Perhaps 17 years ago it was much lower as a premium. Nowadays and theoretically, we should be at 5%, no longer 20% as we had in the past. 5% would be reasonable. It will depend on demand, on the exchange rate, and on the performance of industrial chains. But I think that the greatest profitability leverage for CSN will be the cost and we'll do it, whatever possible in this field.

Now the composition of cost at CSN is important, which is our basket for sales, 20% for Europe, 20% Japan and Korea, with a semester lagging, and 60% to China on the date of -- arrival of the ship. We had a drop of $30 in iron ore and this impacted us on this third quarter and freight. We had freight of $29, $30, whilst the expectation is to have a reduction in freight. For the fourth quarter, we expect a Platts with an increase in prices possibly, while iron ore at a $120 has motivated several plans to go back to production in China. All of the iron ore companies have a loss. So there is a trend for an adjustment. A Platt price with a lower freight cost, premiums coming back, this is what we hope for the fourth quarter. A large volume of sales, this is a challenge. So the expectation within the scenarios to have better results in terms of prices.

Q - Unidentified Participant

Good morning. Gabrielle [ph] from Credit Suisse. I have two short questions. The first referring to investments. In the investments, which will be the timing and execution of your sale of stake at Usiminas and what is happening in terms of your project and which are the necessary disbursements for CSN?

The second question goes to Benjamin. You mentioned that you have rolled the holding debt. I would like to know what this represents, because year after year, you have been rolling the amortization of the debentures, and I would like to know if this debt rolling means a better negotiation or if you're postponing these installments for the coming year for 2020? Thank you.

A - Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Regarding Usiminas, there are no secrets. It's a market issue and the market isn't there. So this will not be happening in the short term, but it is there as an asset that we would like to sell off and it will help us in the deleveraging.

In terms of the Nordestina product, it is a commitment of CSN through a constructive negotiation with the government. We plan to re-initiate works, create employment and services with an investment of BRL250 million ,and CSN is ensuring that this will happen in the short-term to be able to reestablish public funding that up to recently had come to a standstill. So what CSN did was this gesture to reestablish the funding that had already been contracted and had come to a standstill. This is what we have negotiated with the government.

In terms of the holding, well, Marcelo refer to Usiminas, I'd love to sell Usiminas. Unfortunately, I have to await the right price. The same with Germany. If we get the right price, we will sell it. And Usiminas is no longer part of the company's strategy. At the right time, we will dispose of this asset. When it comes to the holding, Marcos his here, we have lengthened this for 22-23 [ph] or 21-22 [ph] what happened there. Seven years, two of grace period, five of principal and semester payments to pay the interest rates.

For those who did not hear this, that debenture is a debenture. It's a mission. Works with (inaudible) on the site, (inaudible). This is where you will be able to find all of the details on this debenture. It is a definite lengthened debenture with an interest rate grace period of two years.

Now from the viewpoint of the holding, this was something definite. When I said that we had resolved the situation, because this separates anything from the holding, the controlling company and the controlled company in Transnordestina we're putting forward this gesture of goodwill, we would like to re-initiate the works we have offered BRL2 million to get to Paes Landim and Piaui where regardless of going forward, we would already be able to obtain cargo in Paes Landim and Piaui. And we will conclude that stretch to Piaui and then begin to work on that stretch to Ceara and up to Fortaleza. Once again, this is a gesture of goodwill and we have the commitment of the government.

From Sudene and the Bank of the Northeast is to make allocations in this work side and we will hold this conversation in a timely way with the government, once again to work with our resources and those coming from the government as well.

Q - Antonio Heluany {BIO 20614129 <GO>}

Antonio Heluany from Bank of America. The first question to Marcelo. In the last quarter, you had some questions from the analyst when it terms to your cash reconciliation. You had additional costs and some questions on your cash generation and the question in terms of your CapEx for 2020. If you could give us more color? What do you have budgeted? What will come from steel, from mining and expansion?

And the last question to Pedro. Regarding the blast furnace renovation, which were the surprises when you began this work and which will be the blast furnace ramp-up going forward?

A - Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

In terms of the difference, we have a definition of working capital associated to the business, which is inventory, suppliers and trade receivables, and a broader line of CSN that involves all of the current asset lights. The first had a gain of BRL1.2 billion, especially trade receivables, with a drop in inventory. What impacted cash was BRL400 million lower, BRL715 million approximately. Now this difference can be explained by two lines, a BRL115 million, an amortization of the prepayment deliveries that we do to Glencore, where we have already received the cash in the past. I pause here, because this is temporary, because new prepayment operations will be done in the core short-terms. And a BRL115 million of taxation credits temporary differences. For example, for the acquisition of slabs that we bought in the local market with our credit of ICMS. There is a balance that will be subsequently consumed. These are the main differences in terms of working capital.

Now it's a premature to speak about the CapEx for 2020. It will be 10% or 15% below the one-off this year. We still do not have a complete breakdown for this.

A - Pedro Gutemberg Quariguasi Netto {BIO 19803245 <GO>}

Antonio, good morning. Regarding the blast furnace question, when you carry out renovations in the blast furnace, you have some alternatives. One of them is when you have a outflow of the pig iron in the blast furnace and you have this alternative. What happened is that we have a higher volume of residues and it was more difficult to carry out the cleaning to be able to reconstruct this area. Our decision therefore when faced with this decision was to transfer that into an opportunity. We saw that this blast furnace would have a delay in maintenance. We made the most of the opportunity carried out other low cost works that were very important in our centering machines and in the steel mill. And the greatest cost was the cost of opportunity of not having production. I think this was a decision that we took when we discovered that there were more residues than expected in the blast furnace.

Regarding the ramp-up, if everything goes according to plan, between Sunday and Monday, we will restart the blast furnace. There is a 10-day curve where we have an increase of production a gradual and controlled increase. We have to be very cautious with this. And on November 10th or 15th, we do believe we will return to a normal production, a higher production as mentioned than the one we had before the blast furnace stoppage. Now this is what we have planned for the start up again of this blast furnace number three.

Operator

Thank you. As we have no further questions, we would like to return the floor to Mr. Ribeiro, the CFO and IRO Officer for his final remarks. I give the floor to our Chairman for closing remarks.

A - Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

I would like to thank all of you. We will repeat this model, which we think is very propitious. It enables us to meet, to speak prior and subsequently to the call, perhaps at a different schedule. 8:30, 9 o'clock, you can have breakfast with us, we can hold a conversation, present results, and everybody can return to work at 10:30. This is the ideal model. And with excellent figures, I truly hope to be here, I will be here to present what we have set for us to present annually and for the quarter. We are on the right path. We have taken the right decisions. You always have difficulties, one time problems and we need to resolve them and continue moving forward.

Our intention is to have a modern and transparent company with state-of-the-art technology, producing diversified added value products. This is our quest. This is our day-to-day to guarantee that all of our directors and employees are working in an attuned way CSN set itself aside in the market. We should have a profit of BRL26 billion with an EBITDA between BRL7.5 billion and BRL8 billion, and I think this speaks for itself. Everything that might seem somewhat hyperbolic or overly optimistic we are delivering.

If you look at the billing of CSN, it has always grown in the last few years. We work fully. We do not have layouts. We have continued to work despite the market difficulties and difficulties in working capital, paying the expressive interest rates of Brazil. We have never laid off employees. We have had consistent EBITDA. This is what motivates us and propels us forward so that we can have a more streamlined company geared to the market to favor both its shareholders and employees. Thank you very much. And until January of 2020, perhaps February or March, well, the better the result, the sooner our call next year. Thank you very much.

Operator

Thank you. The conference call for the earnings for CSN ends here. Have a very good day.