Q1 2021 Earnings Call

Company Participants

- Eduardo De Salles Bartolomeo, Chief Executive Officer
- Luciano Siani, Executive Vice President, Finance and Investor Relations
- Marcello Spinelli, Executive Vice President, Ferrous Minerals
- Mark Travers, Executive Officer for Base Metals

Other Participants

- Alex Hacking, Analyst
- Alfonso Salazar, Analyst
- Andreas Bokkenheuser, Analyst
- Carlos De Alba, Analyst
- Christian Georges, Analyst
- David Gagliano, Analyst
- Timna Tanners, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss the First Quarter 2021 Results. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions we'll be giving at the time. (Operator Instructions) As a reminder, this conference is being recorded and the recording will be available on the company's website at vale.com at Investors link. This conference call is accompanied by a slide presentation also available at the Investors link at the company's website and is transmitted via Internet as well.

The broadcasting via Internet both the audio and the slide change has a few seconds delay in relation to the audio transmitted via phone. Before proceeding, let me mention the 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 Mr. Eduardo de Salles Bartolomeo, Chief Executive Officer; Mr. Luciano Siani Pires, Executive Vice President, Finance and Investor Relations; Mr. Marcello Spinelli, Executive Vice President, Ferrous; Mr. Mark Travers, Executive Vice President, Base Metals; Mr. Carlos Medeiros, Executive Vice President, Safety and Operational Excellence and Mr. Alexandre D'Ambrosio, Executive Vice President, Legal and Tax.

First, Mr. Eduardo Bartolomeo will proceed to the presentation on Vale's First Quarter 2020 (sic 2021) and after that he will be available for questions and answers. It's now my pleasure to turn the call over to Mr. Eduardo Bartolomeo. Sir, you may now begin.

Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Thank you. Good morning, everyone. First of all I hope you are all fine. In the first quarter of 2021, we kept our guards off in our operations as the COVID pandemic accelerated in Brazil. We have kept all safety measures and prevention procedures adopt in operations. And I want to reinforce that only essential professionals are allowed in our sites. In April we completed 13 months since the start of restrictive measures against the pandemic and over 25% of our workforce is still working remotely. Safety, people and reparation, these three words have been our priority since 2019 [ph] and they continue to make more sense now in this very critical moment for all of us.

Well, a crisis of this dimension requires the urgency to do what's within our reach in the best way and as a factor best possible. We have been collaborating with governments and communities since the beginning and we continue to focus our efforts on the most critical items in this fight. What is the reason? Vale and other companies have forces to buy and donate 3.4 million medicines for intubation. In contribution to the national immunization plan, Vale allocated resources for the expansion of the vaccine production of the Butantan institute with an estimated production capacity of up to 100 million doses per year and for the donation of 50 million syringes to the Ministry of Health of Brazil. We are attentive so that our support is accurate and effective and that our help directly reach the people in need. This is part of our new pact to society.

As I have been saying at each of our meetings, Vale is the permit to fully repair the damage caused by the Brumadinho strategy. A major step in that direction was the signing of the global settlement in February. The decision the ratified agreement became final at the end of March, bringing another layer of legal certainty for the reparation. One of the fronts that progress is consistently is that of water security. We are working on the commissioning of the construction works for a new water pipeline to supply the metropolitan region of the Belo Horizonte with around 6 million people. At the same time the reparation of individual damage is progressing. Since 2019, more than 10,000 people have been part of civil or labor indemnified agreements with Vale, which sum up to almost BRL2.5 billion. We remain committed to a fair in preparation for Brumadinho and (inaudible).

Talking about then safety, after works to improve stability, we have already removed the emergency level of four structures this year. We hope to reduce or remove the emergence level of another ore structures still in 2021. With stabilization works and actions and respecting the safety of the process by the end of 2025, we hope to achieve satisfactory conditions for all 29 structures which are at the merchant level to date as can be seen in the graph. We remain firm and progressing in the culture transformation towards a safer Vale.

Last April 15, we launched our Integrated Report with the main information on Vale's economic, environmental and social impacts. This is another delivery from Vale as a result of listening to our stakeholders. This document in addition to presenting our ESG performance in detail helps to demonstrate how strongly our ESG strategy is connected to our business. Another important point is that it provides detailed information about our risk management, including our assessment of emerging long-term risks. With that we closed one more ESG gap planned for 2021, totaling 39 gaps since 2019. As can be seen, our ambition is to transform Vale into a reference in ESG practice.

Well, now talking about our operational results, we started 2021 with a performance as expected, with a good improvement compared to the first quarter last year. Our adjusted EBITDA was $8.5 billion, the highest in our history for our first quarter, which is seasonally weaker in volumes. In iron ore, we made progress stabilizing production, resuming the rest of the capacity halted at the Timbopeba site and at the Vargem Grande pelletizing plant. Our beginning of the year was stronger than 2020. We produced in this first quarter which is seasonally weaker the same as we produced in the second quarter of 2020. This give us a lot of confidence in reaching our production guidance for this year. Spinelli will give more details on that later.

In Nickel, we also performed as planned, with a stable operation in Onca Puma and in the North Atlantic refineries, with Long Harbour reaching record production levels in the first quarter. In copper however, we underperformed with a drop of 20% to 30% in volumes of Salobo in Brazil. This is because we are reviewing Salobo's processes aiming to improve the safety of our operations at that site, therefore impacting mine movement. In Sossego, we had longer maintenance due to the difficulty of mobilizing contractors because of COVID-19. On another front in terms of addressing our cash drains, the sale of VNC operations was an important step in the commitment to transform our business. This commitment was made to our shareholders in the end of 2019 and delivered in a very responsible way, with the creation of a local solution that meets the demand of all stakeholders.

We also signed the agreement for the acquisition of Mitsui stake in the coal and logistics operations in Mozambique, an important step towards our divestment in that business, another commitment made to our shareholders. In the sense, another relevant step was the conclusion of the revamp of the Moatize processing plants, which will allow us to achieve a production rate of 50 million tons per year in the second half of 2021. In summary, we continue to take the necessary actions to stabilize our production, ensure growth options and allocate capital in a disciplined way.

And in speaking of discipline and capital allocation, we presented one more evidence of our commitment to returning value to our shareholders with the announcement of the share buyback program this month. We are confident of our ability to deliver our derisking and maximize value creation for our shareholders in the long-term. We believe the buyback is one of the best investments for the company and one that does not compromise the continuity of dividends higher than the minimum set bar of falls.

With that to conclude, summarizing for you. We are making progress with the reparation of Brumadinho quickly and fairly. We continue on the path tribute a culture of safety above. We are working hard to make our operations more stable and predictable. Our ESG commitments and strategy are closely linked with our business. And finally, our capital discipline remains unchanged. Most importantly, I assure you that we are doing everything we can to ensure the safety of the people in our operations, in our communities. I'd like to thank our 70,000 employees, our contractors, suppliers and customers for their resilience in high guard during this critical moment through the COVID-19 pandemic.

Now I pass the floor to Spinelli, who will give more details on the performance of iron ore. Thank you very much.

Marcello Spinelli {BIO 16240257 <GO>}

Thank you, Eduardo. Good afternoon, all. We've been updating about the resumption plan to reach 400 million tons next year. I'm going to use the same slide to facilitate our explanation and start in my left-hand side. So you see the bar today. Today, remember that the concept that won't evolve from now that's the capacity we have for a year. We came from a number the 320 last quarter, now we have the 327. We had an additional capacity in Timbopeba 7 million tons.

Remember that we were running with three lines. We had the start-up of other three lines. So we have the full capacity Timbopeba now, but should be 325. So we have a minus 2 that we already update the forecast of Itabira. Itabira, last call, we said could reach minus 9, we still have this minus 7 as a buffer for Itabira. Itabira, we have a temporary problem there with lack of capacity for disposal of the (technical difficulty) as we evolve during the year, we can update this minus 7, but we already put here the minus 2. So, that's the that the number of capacity today.

I want to highlight also in the right-hand side in the bottom, the information that Vargem Grande. Now we -- now have the start up of the tailing filtration plant, we are not adding yet a capacity here, it will be important in the second half when have the whole picture of Vargem Grande growing, but it's important milestone, that's the first plan of sequence of plants coming from Brucutu and Itabira and it's important milestone to highlight.

I want to emphasize that we are really committed to deliver the production guidance for this year. Our range from between 315 to 335 million tons. What support these formation? Well, firstly, we started this year in a very better way compared to the Q1 last year. As Eduardo said, we added 8 million tons this year compared (technical difficulty). Seasonally the second quarter is better than the first quarter, you know very well that due to the end of the rainy season in the South and the Southeast of Brazil. Even in the north, we still have the rainy season there, but June is usually drier than the other months in the rainy season. So, we are content on there to improve our production and you can affirm that we have our guidance in perspective.

Eduardo already said another information, the last Q2, Q2 last year was the same one last year. So that's another information that we are growing to achieve the guidance. And also we have many actions that I'll follow up with you in the next slide in our roadmap to achieve the 400 million tons. First information in the Southern System of Vargem Grande next week. We are advancing our tests with a conveyor belt. This test is a vibration test, we must check the impact in our upstream dam in that site. Fabrica is already destined the wet processing. We expect to have the final permit from ANM, the national agency mining to keep the operation, we expect to do this in the end of this quarter.

And still in the Southern System in Vargem Grande, we are bringing online Maravilhas III dam, this is a very important asset for second half. We have some civil works there to finish and important information we already have all the permits to start up this asset, only missing the declaration of stability, that's only in the end of the construction we can get.

I also want to drag your attention to the Southeastern System and it's important information, the good news here in Itabira, we are anticipating a partial operation of the filtration plant. This will allow us to offset that buffer, the risk capacity that we have in Itabira, it's a minus 7 that I mentioned, the first we are keeping here, but we are trying to anticipating now already have in our planned anticipation to bring -- to use the filtration and dry stack the tailwind. And I want to update you also about Brucutu site, an important asset then are also coming online that is Torto dam. We are during the middle of the construction, we expect to finalize this construction during this year, but differently from Maravilhas III, we don't have the final permit, so you have to apply and a process of one month to two months. But both processes construction and permit, we intend to have all completed this year. If you have any delay, it's important to say, we have a backup position with the start-up of the filtration in Brucutu. Remember that we have filtration coming in Vargem Grande, Itabira and this is expected to start-up in the first quarter of next year.

I'll be here for further questions in the Q&A session and I pass to Luciano.

Luciano Siani {BIO 15951848 <GO>}

Good morning, good afternoon. Some highlights on the financial results. Starting by cash flows, as you saw they were very strong in a quarter. Working capital had a positive contribution of 550 million, you may have been surprised, but actually the very strong sales of the fourth quarter of last year were collected this quarter, more than 1.4 billion in reduction in accounts receivable. And remember that prices spiked at the end of December, remained strong in January. So that was the reason why working capital evolved positively. Despite also the first quarter being very heavy on other payments like payment to suppliers, inventory build, profit sharing with employees, but still working capital moved positively.

Still on working capital, you may have noticed that the price realization didn't actually move in parallel with the Platts price and why was that? If you look at the fourth quarter, the average iron ore price 62% for the quarter was 134, whereas the provisional price at the end of the quarter was 158 because of the increase in December.

So there was a very strong recording of EBITDA in the fourth quarter on the back of the provisional sales. Whereas in the first quarter what happened was the opposite. The average price for the quarter was 167 and the provisional price at the end of the quarter was still 158, 159 actually, so the opposite like provisional prices dragged down the average price realization for the quarter even more so compared to the fourth quarter we stayed pulled up. And so something to notice is that those sales that were recorded 159 this quarter, they will be repriced at today's prices once ships arrive at ports. So therefore, you could expect a carry-over of EBITDA of maybe about USD300 million from sales from the first quarter towards the second quarter cash and EBITDA.

Talking about costs, C1 costs before third party purchases, we need to look before third party purchase, because the prices have been going up sequentially. They were in line $14.8 per ton compared to $15 per ton in the same quarter last year. However, despite the depreciated Brazilian real and we now can see that for the year 2021 the costs are going to stay like I said in the last call, slightly higher about a $1 higher than last year on average and why is that?

We have about $0.70 of impact from diesel prices, which increased substantially in dollar terms from last year. There is another $0.30 that will come from a shift in the mix because of the very high prices that we are experiencing. We're doing some opportunistic production in sales, especially from the Midwestern System, which is very high cost has costs around $40, $50 per ton, we're increasing sales from there. And although by a small proportion, it does impact about $0.30 the mix as a whole and C1 before third party purchases.

Also on our competitiveness, some words on freight. You saw the recent spike in freight rates towards spot freight rates toward $28 per ton. Under this backdrop, actually the freight rates within Vale they do not increase much from just to $15.7 per ton, but if things stay this way and as we use more spot freight in the second half because of our higher production, we should expect about $1.5 increase on average freight for Vale in the second half, because of that spike in spot freight rates.

Finally, a word on New Caledonia and base metals. Just a reminder from now on, you will not record under the Base Metals EBITDA, the losses of New Caledonia which we're running at around $50, $60 million per quarter. And remember also about a year ago you didn't have Onca Puma also operating. So today as compared to one year ago, we have Onca Puma generating around $50 million per quarter and New Caledonia out saving another $50 million per quarter. So a net $100 million per quarter improvement in results at the same conditions of prices compared to last year. So these things start to make a difference as time builds up.

Finally, on capital allocation, this is no doubt the big questioning, what are you going to do with the money with these higher prices. I want to call your attention, we have had a lot of consistency and things are evolving quite quickly. Just a year ago, we were with a dividend policy suspended, we were in the middle of the first wave of COVID-19, a lot of uncertainty, markets diving, the reparation of Brumadinho not consolidated. And then in the second half of last year, once the first wave ended and reparation advanced, we resumed the dividend policy and we paid over $3 billion. Then in November, prices started to actually -- early December prices started to increase from the level of $120 towards higher prices.

Still, but Brumadinho agreement was still in discussion, so we didn't know what to expect. But finally, February once we reached the agreement and prices kind of situated at a higher level than $120, we decided to pay another $4 billion in dividend despite the burden from the Brumadinho agreement. But prices then were still fluctuating peaked to $170 then down to $145, but after they're stabilized at $160 in April, then we announced earlier this month the $5 billion buyback. And now we are again running after prices which are now at over $190 and naturally it will create more options for cash flow allocation.

So, as you can see the recent story has been of progress within Vale and upward surprises in the market. So what will be our response? There is nothing new in our response. As we have been doing, we will make decisions, we will announce those decisions that we'll prioritize return to shareholders, the story remains the same, we're going to be consistent. It can be an acceleration of the buyback, we can finish the buyback earlier, there could be another increase in dividends above the minimum, it could be both of them.

So you should expect that we will continue to follow this track record of returning consistently money to shareholders. The next question on the balance sheet is it inefficient, that a lot of people started to ask this. First a note here, with low-interest rates, so above 3% on a 10-year bond for Vale, the value of the tax shield if you increase leverage is relatively small. So for example, you should add $10 billion on debt at 3% rates, you're going to save approximately $90 million per year in tax payments for $10 billion additional debt.

So, if you want to a meaningful reposition on the balance sheet in order to really take advantage of our tax shields you should add $30 -- $40 billion in debt to the balance sheet, which obviously in a cyclical industry, you wouldn't do that, right. So these tax savings, they there should be weighted against the opportunities that the financial flexibility that today we have that may bring in the future and that's the calculation we are making.

However, I also note that these $10 billion expanded net debt targets, we established that two, three years ago when prices were around about $80 per ton. And with the expectation of stronger for longer prices, we obviously could increase leverage and we are evaluating that. And most important, if we have the opportunity to deploy the additional capital in a smart way, so that's how we're thinking now about the balance sheet.

And now let's hand over to Q&A.

Questions And Answers

Operator

Thank you, ladies and gentlemen. We will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Alex Hacking from Citi.

Q - Alex Hacking {BIO 6599419 <GO>}

Yeah, good morning everyone and thanks for the time. I guess I wanted to ask about the potential for a base metal spin-off that's creating some headlines this morning. If you could just give us some color on where you are in your thought process there? What kind of transaction you would -- potential transaction you would be considering? What kind of assets you would be considering putting in it, and then what would be the sort of logic behind any potential transaction? Thank you very much.

A - Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Okay, thanks, Alex. Well, let me be clear here with It obviously. We are always analyzing this opportunist, okay, that's a main -- the main -- how can I say driver behind us. What is really pushing us to that situation, I think it's twofold. One is that we are in the midst of the foundation of recovering the business and we believe we are on the right track. And secondly, we undervalued both on Vale as an and a whole and Base Metals story. So it's a clear way to unlock value just on the basis of the multiples. So what we said and I would be clear now to give you where our minds are, it's in the exactly the conceptual phase of analyzing what does that mean. First of all, let's put it this way, we have assets, as you know in Carajas, they are interwind with the iron ore assets we need to find out a way to how we deal with that, that's one issue that we had to deal with. How we organize ourselves in sites, so there are several aspects within the -- how could I say that -- pre-condition to do the business there we are studying that said analyzing. What is important and then I might because now we are in the English [ph], probably I can ask Mike to -- Mark to help me on that.

We have, first of all as I mentioned before, to work on the foundations and on the narrative. The foundations are very clear since the beginning. We need to get the North Atlantic operations for adoptive and operating adequately. We need to replace capacity, so Voisey's Bay Salobo III, Copper Cliff Mine and the sales of VNC, one of the things that triggers us as well as you asked about our mines, where they are is the sale of VNC. It unleashes us to think differently about the business. But I'll ask Mark because he was heading the business and I was heading beforehand as well, what is the narrative? I think Vale has a unique narrative here that we might be able to exploit, but not to be overly repetitive. We are on a phase of studying it, analyzing the possibility. Could you help me on that Mark?

A - Mark Travers {BIO 16687422 <GO>}

Sure, Eduardo, and Alex, I think, Eduardo said out very well and they can the past really is to make sure that we get the optimal value for Base Metals and he spoke about the need to build the foundation. Maybe the narrative or maybe the strategic direction to optimize value I can spend a minute or two on it. So I think more and more we're focusing in on copper and nickel in our business as a key for our participation, decarbonization of the economy, we clearly have lots of opportunities, which we've described in previous calls and on Vale Day around copper, where we have a current pipeline of projects that should bring us to about 500,000 tons of copper per year and in the next few years with Salobo III, Cristalino, Alemao. We also have a number of projects around the Carajas area, which can optimize through synergies with the iron ore business in the current infrastructure in the area, plus some other options for example Victoria project in Canada and Project that can get us up to 900,000 tons. So clearly, even within the internal pipeline, we have significant opportunities for growth.

On the nickel side, we spent a lot of time recently talking about the dynamic of electric vehicles and what is bringing to the industry and clearly we are going down that path of the electric vehicle penetration in the auto industry and the inclusion of nickel in the batteries for those vehicles. Our approach is that we have the products, we have the products that have diversity and quality in form to go into the electric vehicle battery and we have the ESG credentials and we continue to try and build those and those credentials relate to the low carbon intensity of our product coming from well-regulated -- regulated and respected regime such as Canada. So really what we're going to really focus in on is seeing that narrative or opportunity to build in this area. Currently, just by -- just to give a little bit of an update, we have buyers who are very interested in -- interested in the products that we -- that we produce right now in the electric vehicle space.

We current -- we recently signed a significant multi-year contract with an OEM. It will -- it represents about 5% of our Class 1 nickel and we see further opportunities to grow these -- the sale of our Class 1 nickel into this space. We have some other opportunities there in terms of moving our products around, we have some opportunities with maybe some relatively smaller investments to repurpose some of our production lines to get a little bit more out and then we have other opportunities for growth with which we look at.

And we have a, we have a lot of government interest talking to us to try and tease some of these out. So in the end, we're looking to build up to about 30% to 40% of our Class 1 nickel going into the EV space. So Eduardo, I think that's probably the narrative that I would -- I would give in terms of how we increase value within the Base Metals business.

A - Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Yeah. And Alex just conclude. It is a process that as you asked, there are several questions that have to be answered. We are in the initial phase of going back to that view that we had in 2014, but in a much different way. Now we think we have a better foundation, we have still work to do in the foundation. We have a better narrative now and of course, there are several questions that has to be answered as you asked, how would be the potential transaction, we didn't get to that yet. We are just in the beginning phase of analyzing the possibility to unlock that. I hope I have answered your question.

Operator

(Operator Instructions) Our next question comes from Timna Tanners with Bank of America.

Q - Timna Tanners {BIO 6766897 <GO>}

Yeah. Hey, good afternoon and thanks for the color. Wanted to get your perspective on the situation in China. It's been interesting to watch iron ore prices rise, even as China talks about cutting production and yet very little production actually cut as you point out in your release in the first quarter. So just wanted a little bit more of your perspective on what's happening there and what you see happening as the year progresses? And then if

I could, a second question is just on any impact that we should think about or prepare for with regard to the Samarco bankruptcy filing? Thanks guys.

A - Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Go ahead, Chinese [ph] Spinelli.

A - Marcello Spinelli {BIO 16240257 <GO>}

Hi Timna, thank you for the question. Well, China we -- as you said, we are -- now, we have two points or main questions actually. We have a solid demand based on this (inaudible) and based on all trade war problem that started some time ago. China is going really well. All the indicators, you can see coming from properties 7.8 growth rate considering years manufacturing and infrastructure, a lot of new starts last year, they are under construction this year.

So we have the scenario of a fantastic demand coming. The point -- the question that we -- we have opened here for how long we're going to have this (inaudible). In our perspective, we don't see a huge processed to stop this, we see as a smooth process coming on the second half, we don't see this in this half. We are going to face a stronger demand, the next -- in the next quarter, for the rest of the year. We can see something going along in this way.

On the other hand this huge supply as you said, China just after the two sessions with the the party meeting, they came to the world as a country that definitely are going after the government decision. They are really being really strong about this. We (inaudible), as you see.

The second question is, how will be the rollout of these case? We see our market intelligence. We can see that they are, I mean really seriously this time. We can see season try to control this process with three actions that they see, three -- the two or three (inaudible). They say that if you want to cut, cut the guys that didn't do their homework, to swap production or didn't follow the permitted to get something in two years, three years ago. Or they are not compliant to the ultra emissions -- low emissions that they should comply on. And other -- they say that if you are complying to the ultra emission part of the production are going really well this -- in this area you should allow.

So again, what we can see, (inaudible) declining, blast furnace in the very high utilization. So the scenario for instance is to have high prices, you can decline in the second half and mostly high premiums. We can see a support for the premiums for the whole year. If you consider that the utilization of blast furnace will be high, price substitute will be high, margins high. This scenario for our forecast is to have the premiums in this level for the whole year. I will pass to Luciano for Samarco.

A - Luciano Siani {BIO 15951848 <GO>}

Timna, Vale is going to be and BHP as well. We're going to be spectators in the Samarco JR bankruptcy filing. So the company has started to operate, the creditors have got some (inaudible) in their favor,that the company no alternative but to file for JR, the process will take a lease to 240 days by law likely more. The company is generating operational cash flows, those cash flows will be available for distribution to the creditors. This is going to be done through an organized process in court and we don't have any expectation to have residual equity value from Samarco and also there is no expectation whatsoever of any additional capital injections to support operations at Samarco given that the debt is non-recourse to Vale and BHP. So we're going to be at the stance watching what's going on.

Operator

(Operator Instructions) Our next question comes from Mr. David Gagliano with BMO.

Q - David Gagliano {BIO 18927387 <GO>}

Hi, thanks for taking my questions. I just wanted to drill down a little bit more on the capital allocation questions and issues. First of all, have has Vale bought back any of the 270 million shares associated with the buyback that was announced in April?

A - Luciano Siani {BIO 15951848 <GO>}

Okay. David, yes, we have, you're going to see the monthly reports, we're required to file with the Securities Regulator in Brazil. So it's going to be available for everyone. However, just notice that we had blackout period because of these results issued yesterday. And therefore in the 15 days prior to the issue of our results, we were not able to buy back any shares by regulation.

Q - David Gagliano {BIO 18927387 <GO>}

Okay. And then just going forward. Obviously, you mentioned obviously as to regular dividends or CapEx, Brumadinho payments still a lot of cash here. And so the question in terms of a little more detail in terms of how you -- how we should expect from a cadence from a timing perspective and in what form should we expect these incremental shareholder returns over and above the regular dividends, is this something we should be expecting before say for example the next regular dividend payment?

A - Luciano Siani {BIO 15951848 <GO>}

We haven't discussed that. So as you said, the regular payments occurred just in March and September. So the more obvious way to allocate return cash to shareholders in between is through an acceleration of the buyback. But this could be discussed with be upcoming Board, which will be elected if we should or not do something entering.

A - Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Luciano, just to add on that, I think the word keyword here, David, is consistency, right? We don't want to be stuck to the September March dates, but of course we need always to gauge the market that we are in, sometimes over optimist, sometimes under over pessimistic like last year in March. So we did above the buyback in between because it was clear that we had to do it. But normally we would be willing to do consistently, but as Luciano mentioned, we have to talk to the Board. And you should expect of course dividends above minimum payment.

Operator

Our next question comes from Mr. Carlos De Alba with Morgan Stanley.

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

Thank you very much. Good afternoon. I guess on the same topic, Eduardo or Luciano. Are there any, I mean clearly, the company generates a lot of cash flows, it was surprisingly strong quarter on that regard as you mentioned prices are higher. Are there any caps or limits to the amount of dividends especially dividends that you would propose the company or the Board for the company to pay. I guess the regular dividends are very clearly defined by a formula and we can probably look at the growth CapEx growth potential growth projects on Base Metals, but other than that, is there any cap or limit to the amount of dividends the company would consider paying back to shareholders?

And my second question if I may is on the Northeast divestiture process, how can we, what are the expectations in terms of timing or next steps that we should expect from that process? And also Luciano, maybe if you can walk us through how the process incorporation of Moatize or Nacala into Vale's books would look like. I guess you have to increase your debt and your interest payments in the coming quarters. Thank you.

A - Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Okay. Luciano, let me just get the first one, I think there is no gap, there is always a balance of course and again we need to assess market conditions that structure -- capital structure and again as I think you pointed out very correctly, our CapEx is really well behaved, is all up all around platforms of growth. So we -- you shouldn't expect extreme CapEx. So there is nothing in our radar like that. And secondly the question that a lot of people make, so I'll take the opportunity to make it clear, there is no transformation and M&A in our radar as well. So with that said and Luciano mentioned in the beginning, I'm just paraphrasing Luciano, the return is going to go to the shareholders, right, Luciano?

A - Luciano Siani {BIO 15951848 <GO>}

Yeah, on Moatize, so we just finalized the revamp or started to ramp up, we hope it will be quick. We hope by the beginning of the second half we'll be already producing at 15 million tons. By the end of the year, we should receive equipment on-site in order to upgrade the production to 18 million tons. If you consider today's thermal coal prices and Matt coal prices a little higher than that, maybe 130, 140, the business can turn EBITDA positive quite soon be cash flow positive at the beginning of next year without the burden on the project finance and that goes to your following question.

The burden on the project finance was always felt within Vale's financial results through the EBITDA of Coal. So Coal EBITDA is penalized today because the mine pays a tariff for the corridor which is punitive because it needs to be so in order to repay the project finance. So when you watch less 150 million for example, EBITDA for coal about 100 million negative is just a service of the project finance funded through the tariff. Once you purchase Mitsui, what's going to happen is that everything is going to be consolidated and therefore the project finance will become Vale's debt and those 400 million a year, 300, 400 million, they will be seen at the financial statements, part of it as interest and part of it as just debt repayment.

But on the other hand the coal EBITDA will immediately improve by the same amount. And so that's why I'm saying that you don't need much in order to turn coal EBITDA as a business positive, we just need to produce and prices slightly better than what you're seeing today. So and that leads us to the next stage which will be I do have a project finance, which bears Mozambique and risk and higher interest rates, there is obviously the opportunity to refinance at much lower Vale corporate rates and save money with that. That's what we're going to do.

In terms of timing for the divestiture, we already have over 20 NDAs signed with interested parties. Obviously, there is a way to go between people wanting to look at the asset and offering a firm intention to bid. We hope that we're starting to going to have those intentions again by beginning of the second half. Obviously, people were going to do a lot of diligence on that. And if we succeed, hopefully the target would be to try to sign a deal before year-end. Some variables put some risk on that, obviously there is this dispute between China and Australia, which is waiting on met coal prices. Now you have all the COVID-19 situation in India, which is a big importer of thermocol and also good weight on international thermocol prices. So let's see if we're a little lucky I believe we can sign deal still by the end of the year.

Operator

Our next question comes from Mr. Alfonso Salaza with Scotiabank.

Q - Alfonso Salazar {BIO 18358082 <GO>}

(inaudible) and good morning everyone. I want to ask about the outlook of the pellet market. And if you can provide some guidance regarding a production for the rest of the year and in the coming years if you can give us some color on that?

A - Marcello Spinelli {BIO 16240257 <GO>}

Okay, Alfonso. It's Spinelli here, thank you for your question. Well pellet market, let's talk about the demand side, it's split this in blast furnace pallet and direct reduction pellet. The blast furnace pellet is -- it's quite as same as iron ore. We are not in China, China is going really well. It's related to -- to the problem of necessity to improve the use of the -- the blast furnace there.

But the same pattern you see in ex-China, that's our market, very good prices -- steel prices, margins and necessity to improve the production. So from this perspective, you can see a room for sales and premiums. The supply side on the other hand is a limitation -- there is a limitation today and Vale is the key -- a producer and the key opportunity today. We expect the production this year slightly better than the year before, the limitations, the pellet feed production, we have temporary restrictions to disposal our tailings in the main sites, so Brucutu and Itabira. So we don't expect to produce more than this year, but we are targeting to go back to the 60 million tons capacity for next year. I'm not saying that 60 million tons, but we want to be ready to do that. It depends on the -- the demand perspective -- the market perspective to define that.

So as a conclusion, we see market that the premiums with double the premiums in the first quarter compared to the last quarter last year. This current quarter, we again have another piece in the premiums and we expect there is room for some another increase in the premiums as you have -- the demand is really tight -- supply and demand is tight.

Just an update about the direct (inaudible) market is quite a same that I mentioned for blast furnace. We have some two more ingredients here, USA coming really fast and their economy and all the stimulus there are coming, they are -- they produce, they use a lot of scrap, they need pellets to improve their production, direct reduction. And the Middle West is our main market because of the US, the increase of the use of scraps. The price of scrap in Turkey is really high that make our clients -- they can charge higher price to have good margins now. And that definitely there is room again to improve the margins, improve the premiums in this market. So the outlook for this year, the supply is limited and we can see good premiums because of the demand that is strong in place.

Operator

Our next question comes from Mr. Christian George with Societe Generale.

Q - Christian Georges {BIO 1557701 <GO>}

Thank you very much and well done with your medical assistance in Brazil, seem to see very good indeed. I had two questions for you. One of them is, you just said no transformative M&A even as you now have higher prices for longer and large cash flow. Does that exclude also some small M&A on copper because in your statement you seem to be very positive near-term and long-term on copper outlook. So, is this scenario where you make or consider putting some cash in a large cash availability scenario. And on the side of that, would you consider any investment in hydrogen in the context of your customers in steel sector or in trying to move to green steel decarbonized, can you be part of that or is that something which you're just looking at from a distance?

And the second question is on nickel, you're out New Caledonia, you'll see obviously in Indonesia, what's the situation with just to nickel out there moving to, being able to the sulfate and serve the battery market, is it something you're still looking at down there or is it something you're looking at on the doing from Canada and Brazil? Thank you.

A - Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Hey, Christian, first of all thank you for the acknowledgment of the medical assistance, thanks very much with our team. Yeah, so you're right, there is no transformative M&A. We are always looking for copper, it's very hard as you might understand, but we could -- we should not stop. So obviously is one area of interest. Another area of interest is energy and you have a -- we have a very bold goal to eliminate our clean energy to not eliminate, substitute have all or one not matrix for clean, so might happen to have some very small acquisitions on that environment.

And hydrogen specifically, it brings us to another subject, is very dear to our heart because we just announced the scope treat target, one of the few that did that by the way. And we are following up some players that are doing that, but necessary I think more on the watching, how can I say that seat. We are actually working very close to our customers, there has been adequate growth, but I think because of time constraints we wouldn't go there that far. But we are looking to help our clients with high quality iron ore and high quality metallics that will be needed if hydrogen and we believe hydrogen is the best together we have carbon capture best alternatives for the steel industry, but we are watching closely what the Hydrogen since it's happening, but no investments on that, okay?

And I think for nickel, I think it's better to Mark to answer, he will be more short and more objective.

A - Marcello Spinelli {BIO 16240257 <GO>}

Okay. Sure, Christian. In terms of class, sorry the sulfate, you're right, the primary area of focus would be the Canadian nickel, but there are opportunities in Indonesia, the most prominent of which is the Pomalaa HPAL project, that is being studied and being discussed with Sumitomo Metals, that would be a clear -- that product will clearly go into the sulfate market, so that one is right in front of us. The other ones are I would say aspirational or early, there are opportunities but nothing really of significance at that point in time for example, there are HPAL projects that are on the books by others in Indonesia and there are parties that are interested in our alignment for example, but there is nothing significant at this point in time.

Operator

Our next question comes from Mr. Andreas with UBS.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Thank you very much for taking my question. I hope you're all safe and well. Well, two questions, a volume question and then a freight question, that the volume question is kind of two parts. And you talked about it a little bit already, but Vale, obviously has a number of licenses that are kind of required to reach your production goal of 400 million tons down the line. Is there any kind of comfort or clarity that you can give us on these licenses, I mean are they merely a formality, you obviously expect to get them, but is there any kind of stability you can get that they're not going to be significantly delayed at this point in time, either conversation with the state of federal governments on this. That's the first part of the first question. And within that, you obviously have always had a focus on value over volume as Australian peers. One of the things I'm thinking about there is your additional capacity as it kind of materializes out of the Northern System in particular, but Vale's consolidated capacity could be 450 million tons, we're sitting at almost 200 ton iron ore and if ever there was a time to kind of monetize that additional capacity I would think it would be now and basically add additional volumes beyond the 400 million tons with iron ore 200. So how do you think about that strategy value over volume given where prices are and given that you could have additional capacity throughout Vale sits going forward. So that's kind of the first sorry slightly long volume question.

And then the second question is on freight. Luciano, you talked about a bit of freight inflation obviously and how it impacts your second half of the year.

How does that -- if we look beyond the second half of the year, if we look into 2022 and 2023, Vale is obviously going to be putting more volume into the market, that could keep freight rates high like if we're still sitting at $28 a ton by the end of next year, is there additional freight inflation that kind of flows through your P&L or are you still well protected on your freight contracts? So that's just a longer-term view on the freight cost. So those are my two questions. Sorry, if they were a little bit long.

A - Marcello Spinelli {BIO 16240257 <GO>}

No problem, Andreas, Spinelli speaking. Thank you for the question. Regarding the risk to achieve the volumes, obviously is licensees or authorizations lays in our track and then we try to plan with some extra GLA to keep the -- our planning okay. So what you see, if you split the challenges in three, the north we need to keep the license as a rolling process. We just got the license of a pit in Serra Sul in S11D, so it's business as usual, it's going well, we don't see any delay.

In the Southeastern system, we are really close to bridge the gap of the lack of capacity, dams capacity to install the filtration. So it's in our hands. Actually we have final licenses. Yes, we have, but we don't see in a big deal. And I explained about the Torto dam that we used to have to do this, but if you have delay, we have a fallback position for that. We emphasize in that, we are trying to bring in our planning process buffers contingencies to be reliable in the end of the day.

Jumping to your second part -- the second part of your question, Vale revolver is a mantra. So we are ready to bring back the 400 million tons and we are building the extra 50 million tons -- 450 million tons. Why we want to be okay with that, we want to be reliable with our targeted 400 million tons and we can use an extra 50 if the market demands that. So that's our mantra. We're going to decide this as we evolve in the market. So again, but definitely we need to be ready for an extra capacity.

And about freight which I think you can start you can finalize, the freight side we -- I can say that we are less exposed this quarter, this first half Luciano said, second half it's seasonally more exposure to the spot freight, but don't -- you must have in mind that we are bringing an additional 18 Guaiba maxis for this year that will match for the demand of 400 million tons.

And the next for us six Newcastle maxis for our fleet. We are talking about 170 vessels in our fleet today. So, we are growing this natural hedge for the spot market freight. And that's why we consider the inflation today. And the last problem was really related to small vessels to Panamax's that just came the soybean season that make this happen and contaminated the vessels market.

So again, we need to live this, we're not forecasting any big inflation for the spot market and we are working hard to have our own fleet to offset any problem in the market. And the additional point is total fleet today, we have installed all the scrubbers, that's another point that we are not being affected to the gap between the high sulfur and all sulfur also. The shipping business for us is very important to be stable.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

(inaudible).

A - Marcello Spinelli {BIO 16240257 <GO>}

Thanks.

Operator

This concludes today's question-and-answer session. Mr. Eduardo Bartolomeo, at this time you may proceed with your closing statement.

A - Eduardo De Salles Bartolomeo {BIO 15365202 <GO>}

Okay, thank you. Thank you very much for your attention and questions and interest to talk to us. I think we've been repetitive in that way from day one, it's a marathon that we're going through. I think in Vale Day we said the risking, reshaping and rerating. The risking is advancing pretty well, still a lot of milestones to achieve, example we bet on safety, being more assertive on production, but we did strides very good on Brumadinho, capital discipline is zero doubt that we are on that, reshaping VNC, it's a tremendous good example of how to do it, with respect with communities, Mozambique is going to be another one and with rating is going to -- what's going to be our final mark. So we're going to be a more reliable, more safe and a more human organization they will be priced correctly. So thanks a lot. Thanks a lot for your questions because that moves us to the right direction and hope to see you in the next call.

Operator

That does concludes Vale's conference call for today. Thank you very much for your participation. You may now disconnect your line.