Q3 2013 Earnings Call

Company Participants

- Carlos de Alba, Analyst
- David Moise Salama, Investor Relations Manager
- Geraldo Morais, Commercial Officer for Mining
- Luis Fernando Barbosa Martinez, Commercial Officer
- Unidentified Speaker

Other Participants

- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, thanks for waiting and welcome to CSN's conference call regarding the results for the third quarter 2013. Today we have with us, the executive officers of the company. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. Next we'll start a Q&A session and further instructions will be given. (Operator Instructions)

I would like to inform you that we have simultaneous webcast and this may be accessed by www.csn.com.br/ir where you will also find the slide presentation. The slide presentation will be controlled by you. There will be a replay service for this call on the website.

I would like to inform you that due to the large number of participants, the company will answer only up to two questions per participant, but with no right to reply. Therefore we kindly ask you that all the questions be noted at once as soon as the line is opened by the operator.

Before proceeding, let me mention that forward-looking statements have been made under the Safe Harbor Securities Litigation Reform Act of 1992. Forward-looking statements are based on the beliefs and assumptions of the CSN management and/or information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect future results of CSN and could cause results to differ materially from those expressed in such forward-looking statements.

Let me now give the floor to Mr. David Salama, CSN's Executive Investors Relations Officer who will present the company's operating and financial highlights for the period. Please, Mr. Salama. You may start.

David Moise Salama {BIO 17456021 <GO>}

Good afternoon. Thank you very much for attending CSN's conference to talk about the results of the third quarter of 2013. We have with me CSN's executive officers.

Let's start with slide number three where we see the results for the third quarter of 2013. CSN posted a record net revenue of 4.7 billion in 3Q13, 15% up over second quarter of 2013, mainly due to higher revenues from mining sector. Vis-a-vis the third quarter of 2013, the results are up by 23% basically due to the increase in revenue from mining and steel industries.

We must emphasize that year-to-date net revenue came to 12.4 billion, a 15% increase over the same period of 2012. Consolidated gross profit totaled 1.4 billion in 3Q13, up 35% for the second quarter from the second quarter of 2013, with a gross margin of 30% in (Technical Difficulty)

Investments in the third quarter totaled 838 million. In that, 234 were to the steel industry, 216 to the mining industry and 367 to logistics. As we continue to consolidate Transnordestina project in the third quarter of '13, that 301 million was the cost only to this venture.

Adjusted EBITDA totaled 1.7 billion in the third quarter of 2013, 51% up on the 1.1 billion reported in the second quarter of 2013. The net margin is the largest since the fourth quarter of 2011, an increase of 7 percentage points compared to the second quarter of 2013.

Let's move on to slide number 4 where we see the results broken down by segments. The steel segment accounted for 60% of the net revenue and 39% of total EBITDA in the third quarter of 2013. Mining, on the other hand, reached 31% of net revenue and 51% of EBITDA.

Now let's go to slide number five, showing the detailed results for the steel segment. Let's start with the left hand corner. 1.5 million tons of steel sold in the third quarter of 2013 was 3.5% below the second quarter of 2013. You must remember that the second quarter of 2013 was the second best quarter in steel sales in company's history.

From total sales, the domestic market accounted for 77% share, 20% through our overseas subsidiaries and 3% export. Total steel sales in YTD amounted to 4.7 million tons, 8% up year-to-year result. Still on top, now on the right hand side, net revenue from the steel operations area reached a record amount of 3.2 billion in the third quarter of 2013, 2% up on 2Q13 basically fueled by higher pricing this quarter. The average net revenue per ton in the third quarter of 2013 was 2.043, an increase of 5% over R$1,944 posted in the second quarter '13. YTD, net revenue of 9.3 billion from steel operations is also a record, 17% over the same period of 2012, which were the highlights for the volume sold in the period. Bottom part of this slide will talk about the EBITDA. EBITDA adjusted for steel in the third quarter was 672 million, up 9% from the second quarter whereas the adjusted EBITDA margin increased 1% and reaching 21%.

On the next slide, we have the same breakdown focusing on mining. We'll once again start on the top left hand side of the slide where we can see that mining sales, iron ore sales, in the third quarter reached 7.7 million tons, 20% up from those seen in the second quarter, reaching a total of 4.8 tons traded by CSN and 2.9 million tons by NAMISA.

Also we'd like to highlight that the volume of iron ore shipped in Itaguai port, which reached a record of 8.3 million tons in the third quarter, due to the startup of our new port capacity in Tecar, which reached 45 million tons a year. In addition to sales to our customers, CSN additionally consumed 1.5 million tons of iron ore in the Presidente Vargas Steelworks in the third quarter of 2013.

Still on the top side of the slide, now the right hand side, we see that the third quarter net revenue from mining reached a record level of 1.6 billion, which represents 67% higher than the previous quarter, reflecting primarily higher sales volume and also higher prices.

Our average price of CSN reached $105 per ton in the third quarter as compared to $89 per ton charged in the second quarter, which means an increase of 18%. In the third quarter, EBITDA totaled 872 million, which was a hefty 119% increase on the previous quarter. The adjusted EBITDA margin reached 53%, 13% up from the second quarter of this year.

Now coming to slide 7, we will present the evolution of the EBITDA comparing the second and third quarters of 2013. The EBITDA of 1.7 billion in the third quarter recorded a significant growth of 51% compared to the previous quarter. Positive impact was a significant amount of sales of higher price of mining ore, depreciation of the dollar against the real, as well as higher prices of steel production. On the other hand, there was a slight decrease due to the lower sales volumes in the steel industry.

We'll now move to slide number 8 where we have our net debt. The net debt over EBITDA dropped from 3.9 at the end of the second quarter to 3.6 times at the end of the third quarter. Net debt at the end of the third quarter was at -- the net debt actually at the end of the quarter was at 17.8 billion, an increase of 0.9 billion as compared to the end of the second quarter with a gross debt of 31.1 billion and a cash position of 14.4 billion. The total gross debt at the end of September, 64% share was dominated in reais and 36% in foreign currency, namely US dollars, and disposition, 89% of the debt is long term and 11% short-term.

CapEx for the third quarter totaled 800 million. Disbursement for that charges of 700 million, the payment of dividends and interest on shareholders' equity of 400 million and an increase in working capital of 500 million. In addition to other effects of 200 million, which contributed to the increase in net debt, which were partially offset by EBITDA, an EBITDA level of 1.7 billion.

That is the end of my presentation. We can now move on to the Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. We will now start the Q&A session for investors and analysts. (Operator Instructions) Mr. Marcos Assumpcao from Itau BBA would like to ask a question.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon. First question regarding the Transnordestina project. Could you give us an update regarding the project? And also what do you think recent changes may impact in terms of future results? And please, if Martinez could talk a little bit about the Steelworks, the increase, the average increase of 5%, could you please give us some color as to what is the exchange rate, what is increase in price? And also, if you could tell us about the negotiations with the automotive industry regarding higher prices for the fourth quarter or for the beginning of next year?

A - David Moise Salama {BIO 17456021 <GO>}

Good afternoon. I am going to ask Martinez to answer the second question first regarding the steel market and then I'll go back to the first question.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Good afternoon, Marcos. As to the market conditions, it's important to remember that in spite of the very good years that we've experienced in 2013 regarding steel, we have a GDP increase of 1.1 to 1.3% for way below what we consider to be something reasonable, which would be 3% to 4%. In spite of that, the expectations for next year are to work with a GDP increase of around 2% comparing to 2012, which was minus 0.8%.

And now talking about the automotive industry, the perspectives are good. In terms of steel consumption, we project a good year with 14.7 million tons, which would mean an increase of 4% regarding last year.

As to the several different industries, starting by the automotive industry, we expect a total growth of 6% and the expectations for next year are around 5% with special highlight to the truck industry, which has increased 11% to 14% in 2013, and automobile, the sales are stable although at the end of the year we saw a rise in inventories as the dealerships.

Another important highlight, we got the area of agricultural machineries, which should post an increase of 15% and an industry that has not picked up yet, which is the civil construction industry. This year, it should grow at around 2% only in spite of all the announcements regarding infrastructure construction work for the World Cup and for the Olympic Games, We had an 8% increase regarding commercial and industrial work and also the increase of steel regarding this portfolio.

As to pricing, what we can see here YTD, it's 11.5% year-to-date, I mean. In the distribution area, we consider an increase of 10% to 12%. For the industry as a whole, this increase has already been factored in, but there is still some deals going on regarding the automotive industry and we should come to a conclusion by the end of this month. Part of the increase that we see in the rise in the net revenue has to do with a better mix, which was around 2% to 3% in the case of CSN.

You also asked about the prices with the automobile industry. I think that was it, right? And the exchange rates. When we talk about exchange rate, it's very important talk about the premium that we have for imported materials vis-a-vis domestic. We are working with a 2% premium for the imported material.

A - David Moise Salama {BIO 17456021 <GO>}

Let's talk a little bit about the Transnordestina project. Even though the documents have been signed, they were signed on September 20 of this year, the main objective was to balance of the concession that we have, the economic balance. So what we have now with our documents, which have been signed, and which will have an important impact on our numbers. So I'll try to summarize to you what the agreement entails. We have a proportional team-up in TSA. What we have is the old grade with existing grades and the new grades, which will be built in the coming years. Basically, when we talk about the old grade, CSN's stake is basically the same. There won't be any major changes.

The big news concerns the newer grades where we will basically have a reduction in CSN's participation basically due to a conversion, which would be made involving debentures and also a natural dilution arising from the physical evolution of the work up until the end of the work.

In fact that conversion is mandatory and will take place at the end of the construction, which is scheduled for the end of 2016. The new timeframe for conclusion is 36 months. So we should finish those works in October 2016, and there was also an expansion in the concession timeframe for the new grades, which were postponed up until 2017.

The CapEx for the project has also been reviewed. As you know, their previous CapEx was 5.4 billion. In fact, that figure has been reviewed upwards to R$7.5 billion. Those numbers have been updated and they may reach up to 8 billion in updated terms. So basically you can see that starting now, this will have an interesting impact on the company's balance sheet.

Once CSN -- we no longer have control of the new grades, so this will have a sizable effect especially when we have the spin-off, which is scheduled to happen in the last quarter of this year. So then we'll be able to see all the effects of all those impact in terms of the consolidated leverage level of the company.

Operator

Mr. Ivano Westin from Credit Suisse would like to ask a question now.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon. Congratulations on the results. My first question is about tax litigation. You reported an amount of 2 billion after the year 2009. I'd like you to give us some color on the estimated amount for 2012, and in your assessment, do you plan to participate in the REFIS, the fiscal recovery program?

And the second question is, you have not been returning volumes for third-party. What is the status of that negotiation? What is the level of product that you are buying in reais and the price that you are selling it in foreign currency?

A - David Moise Salama {BIO 17456021 <GO>}

Thanks for the question. Daniel will answer your second question and then I will go back to the first one.

A - Unidentified Speaker

Good afternoon, Ivano. As you know, we like to announce the consolidated numbers for NAMISA, in case of iron ore, but what is happening today here in Brazil is that because of delay in terms of forward capacity, we have managed to do our homework, but we have been facing a very favorable condition to explore the ore in the state of Minas Gerais. We have been tapping that opportunity and it has contributed significantly for our result.

A - David Moise Salama {BIO 17456021 <GO>}

And in what concerns contingencies arising from profits raised overseas, we need to look at the broad picture. In October 2013, tax authorities in Brazil launched a program to break down fiscal debt, known as REFIS, based on Law 865 and that was changed by a provisory measure at the beginning of this week, which basically deals with income tax on the profit achieved by control companies overseas. And the date for people -- for companies to adhere to the program and the deadline is the end of this month, the end of November. So under this new tax recovery program, debt which matured until December last year can be repaid now in two basic different phase. A cash payment with a deduction of 100% of penalties and the second option is a payment in 180 monthly installments with a 20% down payment, a reduction of 60% interest rate, 80% in penalties and 100% in legal charges.

It's important to emphasize that in this past -- in this installment option, both penalties and up to 30% of the principle will be able to be settled through tax loss credits. So it is a quite complex issue that MTE, it was just launched, as I said, this week as provisory measure and we are still trying to understand it and we will submit it to the company's Board as soon as we have a more thorough analysis of the problem. And it will be up to the company's Board to choose which way to go.

And this will also depend on Brazilian companies' competitive level. So that's basically what I can say to you right now. The numbers announced have been announced before. We have nothing else to add in terms of those figures, but as soon as we have new numbers or new decisions made by our Board, we will inform the market.

Operator

Renato Antunes from Brasil Plural would like to ask a question.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon. Thank you for the opportunity. The first one about mining. We see a very strong fall in the (inaudible) and the expenses of 45 million, which is scheduled for next year. So I would like to know how the projections are, if you are going to spend as there is more availability? And the second one about NAMISA. If you are reaching an agreement in terms of capacity expansion, and if you could give us some color on how these things are going?

A - David Moise Salama {BIO 17456021 <GO>}

Let us first talk about NAMISA -- about NAMISA's issues. Basically what I've noted is that the parties want to reach an agreement badly and our expectation is that this agreement will be reached by the beginning of 2014. And we're aiming for a conversion of proposals. So in terms of percentages of participation, and this is basically what we're discussing now, but we have very positive expectations. We see that the two parties are willing to reach this agreement. And as soon as we have more news, we will get back to you. Now I will give the floor to Daniel to talk about the other question.

A - Unidentified Speaker

We've seen a very important recovery along the year and this can be seen by the figures. This recovery has to do with our efforts in terms of exploring this expansion project and installing the forward capacity, which was as said a little while ago and we've very successful in our increase in production.

And this is indeed a consequence of the expansion of they were -- they reaching their final phase in the past, we decided to change strategy and have some lines in production. We had a problem with the ore retakers and we have three new processing areas and we now have some leeway, so we are keeping up and we are trying to keep base and recover for the time loss and so we are ready working at full capacity.

So our change in strategy was a very positive one. And this year with the work to prepare the mine so that next year we have all the conditions required to have our installed capacity at the port, we've made lots of investments in terms of Casa de Pedra. This is a large construction job that's now about to finish. We are finishing an important class revision in Casa de Pedra where we are going to have stable capacity to fulfill our production program long-term.

We also bought a very large set of mining equipments. We already have two new loaders working this month and lots of assembly the equipment. At the beginning of next year, we'll have the mine, the deposit and the rejects or the waste area, everything prepared to operate at full force capacity. We are undergoing a very important phase finishing the work. As I said on the last call, we are finishing the critical processes. And next year we are going to have a pumping line to the rail terminal and we'll finish the expansion work with the railway loading capacity. So we're at the end of this construction of Casa de Pedra, and by the end of the year, we'll be working at full port capacity.

Operator

Andrew Ren [ph] from BTG Pactual would like to ask a question.

Q - Unidentified Participant

Good afternoon. Congratulations on the results. Could you please explain that number of EBITDA moving to 392 million in the third quarter whereas NAMISA's volume was about the same quarter-on-quarter? And the second question was about suppliers. There was a drop in 460 million. So I'd like to understand why this was. And let me talk about third-party are mining suppliers. If you have a better condition in terms of negotiations with those third-party suppliers.

A - David Moise Salama {BIO 17456021 <GO>}

I will start with the second question. If you could perhaps later explain the first question a little more thoroughly, but basically, we have an increase in working capital of around 500 million basically due to a decrease in the account for suppliers in the amount of 1.5 billion at the end of the second quarter, down to 1 billion at the end of the third quarter.

Part of that adjustment was due to the fact that we were still consolidating Transnordestina within our balance sheet that had a significant impact on our balance sheet in the order of 300 million, 200 to 300 million, and the remainder value can be attributed to a natural adjustment arising from our purchase strategy, especially coal. And this had an additional impact of around 240 million. So basically that explains that decrease in the balance account for suppliers, which was 1.5 billion in the end of June and it's now at 1 billion. I'd like to -- if you can, today, you could perhaps forward me your first question and then I can try and understand your question better and then get back to you.

Operator

Mr. Thiago Lofiego from Merrill Lynch would like to ask a question.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good afternoon. I have two questions, the first concerning the port. If you could give us the average price for iron ore in the third quarter. What's the fee you are charging at the port for third parties? And if you have separate EBITDA for Sepetiba port, I'd like to have that too.

And then second question went back to Martinez. If you could comment a little bit on the competitive environment, if you see competitors gaining market share in the short-term or if that's not the case, and if that premium from 7% to 12% is sustainable from your standpoint.

A - David Moise Salama {BIO 17456021 <GO>}

Okay. I'll ask -- Thiago, sorry, I'll ask Geraldo Morais, our Commercial Officer for Mining to answer the first question and then the second question will be addressed by Martinez.

A - Geraldo Morais

The price for iron ore in the first quarter was $105 per ton, was our best price in the year. We managed in this quarter to capture a significant part of our sales because we were exposed to a different index, but we managed especially in August to sell some loads on the spot market at a fixed price and that allowed us to capture the market at the right moment.

When you look at the whole year, when you compare the first half to the second half of the year, we can see that the volatility of price decrease significantly. In the first half, the monthly average, the spread between the highest and the lowest average was $40. In the second half, that spread is around 10. So that volatility decreases and we think that is due to a reduction in inventories in China.

We think following capacity from Australia, this is also in the pipeline for next year, but as inventories are very much reduce, China keeps on buying, they are on the verge of breaking production records on an annual basis in terms of steel. So we believe ore prices should remain at the level where they are, maybe slightly lower because of other competitors coming to the market, but we do not share the vision that coming into the market, that prices will plummet, we do not share that vision. We think prices tend to be slightly lower than what they are today, but still very good for our operations.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

Thiago, good afternoon. This is Martinez speaking. I'll talk about the competitive environment a little bit and then I'll address the premiums on imported materials. We have five points I'd like to mention, I mean, which are important to understand the steel business of our company. The first one is supply and demand of steel in Brazil, you have three mills producing steel in Brazil and they are operating at a relatively high capacity. In the case of CSN, we are at the full capacity, something close to 98% allotted to the internal market. So my maneuvering space is very restricted in terms of volume.

So what does CSN try to do? What I've been saying throughout the last three years, the company's focus is working on the domestic market and that's our intention to still maintain those 98% level for the internal market, also benefit from our important product portfolio and deliver to the market, a package with a high added value, that brings along an interesting service package as well.

Something which is also very important is that we are trying to, instead of concentrating our sales on retail and on increasing our customer base, what arises from there, even though I am at full capacity in Volta Redonda and working at a capacity of 5 million, what we did was we converted our mix of the lowest added-value to a higher added-value mix.

So just to give you an idea, if I am not wrong, I might be wrong in my numbers here, but not too much, but basically 45% to 47% of our output today is linked to lying products, which makes you stand out in the market and that will allow us to seize good prices at the right moment, but it will also reflect on our average price through a very interesting improvement in terms of added value mix, mixes of product.

Something else, which is important and which is linked to the premium, if we think of a BQ today at $540, I didn't get the right number here, and if I bring this BQ to Brazil with a dollar at 2.30 or 2.35, we have a premium of around 7%. That premium, I believe, if we're talking about $540 price, so I mentioned 2.35 or 2.30 actually, 2.30. In the case of lined materials, because it brings along a service package, we are able to have better premiums. In the case of the zinc and flat sheets, that premiums hover around 12%.

I believe that level encompassing 7% to 12%, and when you take into consideration, the supply and demand situation that we have right now, the sector's competitiveness, I think, those numbers are sustainable. When we analyze the foreign exchange rate, it is even more sustainable because the foreign exchange rate as is very bad. So that as it is, I think it is the symbol because the market is not very sure in terms of importing material.

Another important point, which tends to benefit CSN, the level of indirect imports because of programs launched by the government, such as the Inovar Auto parts, it will decrease the level of steel in products that arrive in the country via imports. So this might take some time to happen, but I believe that as early as the beginning of next year, some of the products which were coming to Brazil through indirect imports will be converted into made-in-Brazil products, and I mean, 100% made in Brazil, not just the assembly of imported parts.

So the steel will be totally processed in Brazil, which is a very positive situation for our market so that premium I mentioned ranging from 7% to 12% within this is quite viable, quite feasible and CSN will carry on its strategy of investing in higher added value products and increasing our market platform, increasing our customer base.

And on top of that, in the beginning of the year, our client base will be expanded because our new plant will be put into operation, so our client base of around 3,000 clients when you compare to 10,000 clients in our cements client base. So those clients with cement base will help us in that we won't have our eggs on the same basket. We will be participating in several markets and hitting a different range of customers in different segments.

Operator

Leonardo Correa from HSBC would like to ask a question.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon. Thank you very much for the opportunity. The first question is about the negotiation with (inaudible) We haven't had any news about that. Is there anything going on, any deals, have you finished or have you closed any deals?

Now the SG&A, we saw an expressive drop in the semester in SG&A. So can you give us some color on what's being done? Are the initiatives that are using -- promoting this decrease in expenditures?

A - David Moise Salama {BIO 17456021 <GO>}

Thank you very much for your questions. Regarding the M&A transaction, I wouldn't like to comment. We don't want to disclose deals. The CSN is always evaluating operations that would add value to our shareholders and the only thing I'd like to be clear is that as we have already had in the past, as we already said in the past, we won't do anything that is not economically sensible. We're only trying to add value to the shareholders, provide return to our shareholders. So what I can tell you at the moment is that there are no binding operations. In fact, we are all trying to close deals that will add value to our shareholders.

I am not sure whether you remember, in the last quarter, we said that we are currently holding a very extensive program to reduce cost and expenditures in the company. And this is something that being rolled out very strongly, more specifically in certain business segment. We are trying to gain efficiency and this has already translated into some results, as you've seen in the figures that we showed. This will go on being so in the next quarters. We'll have more efficiencies and we also have a program for maintenance to recover adjusted units. So all these measures added will lead to better results quarter-after-quarter.

Operator

(inaudible) would like to ask a question. You have the floor. We have a question -- Carlos de Alba from Morgan Stanley would like to ask a question.

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

Thank you very much. Could you comment a little bit about the guidance for next year in terms of CapEx volumes of iron ore, if you can distinguish between what would be capital paid on NAMISA, but if not at least in total as well as what's your view in terms of the volumes for the steel operations?

And the second question is, if you can give us a little bit more color as to how the negotiations with the auto steel makers are going? Do you feel that given the good growth that we are seeing in that industry combined with a weaker currency, we can see a price increase between 5% and 10% to the auto sector? Thank you.

A - David Moise Salama {BIO 17456021 <GO>}

Thank you very much for your questions, Carlos. Regarding, well, explain just -- just to summarize what you ask, first question regards to the CapEx and the projections for 2014. The second question is about the automotive market. And this second question will be answered by Martinez.

Right now we are working in 2014 budge. We are reviewing the figures for CapEx and for results projections. And the figures will be submitted to our Board. As soon as we have the approval, we'll disclose these figures, both CapEx and projections in terms of volumes for next year, we'll disclose them as we do every year. Now Martinez will answer the question regarding the automotive market.

A - Luis Fernando Barbosa Martinez {BIO 7187744 <GO>}

When I talk about competitiveness of the productive team, in addition to cost exchange rate and for the client events, of course, these are the factors that we are always observing, how competitive would the steel be in the supply chain. The automotive industry, in spite of all the discussions surrounding it, for the last two or three years, the automotive industry hasn't had any price increases in Brazil. Quite the opposite actually. If you noticed, the reductions and the adjustments in terms of IPCA in the last three years, you see that automotive industry has had a drop of 25% to 30% in prices in the last three years.

So the market especially see since then has seen more than in for the market, it has been solitary with the growth of the market in Brazil. Not only the light vehicles industry, but also commercial people as the light trailers, trucks. So there comes a moment when we need to sit down to discuss pricing vis-a-vis what happened in the last year. So we are negotiating with all the automobile industries and this is being done very professionally. We won't be very faster to be benefiting. They want to sell cars, I want to sell steel.

So I believe that by the end of this month, we should strike a deal, not only with the automakers, because there is also a second tier and other areas in the industry, which are part of the same package. This then will most certainly a privilege in the portfolio of products, we are talking about pre-painted materials. We have a plant Porto Real, which is really state-of-the-art, ready to meet the needs of this industry, and with the extension that we have made, we still have idle capacity. So if all the conditions required for a happy ending for the industry of by the end of this year.

Operator

We have one more question from the English room. Please, Mr. Roy. Carry on. (Operator Instructions) Thank you. This concludes the Q&A session. I'll give the floor back to Mr. David Salama, IR Officer for his final remarks.

A - David Moise Salama {BIO 17456021 <GO>}

I'd like to thank you all for joining us today in this audio conference. I would like to emphasize that our IR team will be available to answer questions that may -- eventually may not have been answered today. Once again, thank you and have a nice day.

Operator

Thank you. CSN's results audio conference is now over. Please disconnect your lines and have a nice afternoon.