Q3 2020 Earnings Call

Company Participants

- Benjamin Steinbruch, President, Chairman & Chief Executive Officer
- Edvaldo Rabelo, Cement Business Director
- Luis Fernando Barbosa Martinez, Executive Officer & Member of Executive Board
- Marcelo Cunha Ribeiro, Chief Financial Officer & Investor Relations Officer

Other Participants

- Caio Ribeiro, Analyst
- Carlos de Alba, Analyst
- Daniel Sasson, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for holding. At this time, we would like to welcome you to CSN's conference call to present results for the third quarter '20. Today, we have with us the Company's executive officers. We would like to inform you that this event is being recorded and participants will be in listen-only mode during the Company presentation. Ensuing this, we will go on to the Q&A section when further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through CSN's Investor Relations website where the presentation is also available. The replay of this event will be available for the period of one week. Once again, you can flip through the slides at your own convenience.

Before proceeding, we would like to state that some forward-looking statements made herein are near expectations or trends based on the current assumptions and opinions of the Company management. Future results, performance, and events may differ materially from those expressed herein as they do not constitute projections. In fact actual results, performances, or events may differ materially from those expressed or implied by forward-looking statements due to several factors; general and economic conditions in Brazil and other countries; interest rates and exchange rate levels or prepayment of debt denominated in foreign currencies; 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 would now like to turn the conference over to Mr. Marcelo Cunha Ribeiro, Investor Relations Executive Officer, who will present the Company's operating and financial highlights for the period. You may proceed, Mr. Ribeiro.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

A good day to all of you. Once again thank you for participating in our conference call for CSN. We're going to first of all go through the presentation and upon the close of the presentation, we will hear from the Chairman and then go on to the Q&A session. We begin the presentation on Page 2 to speak about our result. And it is important to celebrate we were able to go through a quarter that is still being impacted by the pandemic, but with very little impact on our operations. As you can see from the results and from the viewpoint of the health of our employees, we have a favorable situation. We have had only six active cases at the plant at Volta Redonda and of course this points to the assertiveness of our precautionary measures that are still valid. And we intend of course to continue to obtain these excellent results. On Page Number 2, to speak about the highlights. We begin with our excellent results. We prepared for the worst, but we had something better.

We had an accelerated growth in all of the markets. But we faced the market much better with boldness in terms of cost and expense, working in all of the item lines of our balance, and we were able to achieve the best adjusted EBITDA of BRL3.5 billion in our history. This gave way to strong cash generation, a lengthening of liabilities, new prepayment reinforcing liquidity, and an improved debt profile. And what is very important once again although our indebtedness is high, this quarter we have reduced our debt to BRL2.5 billion with the best reduction in leverage in the last five years with a drop of 1.5 times and we will refer to this during the presentation. On Page Number 4, we show you the EBITDA evolution during the quarter. An improvement of 82% and compared to the previous year 264% taking us to historical profitability with a margin of 39% achieved and 70% of margin in mining showing you the strength of the business at CSN.

We had a growth at all units; in steel 70%, in mining 90%, in cement impressive 264%; and we have good news in all of our business lines. A moment of record revenues because of cost, of prices, and a good operational performance. And if you look at SG&A, you will see that we continue to cut down on this. On Page Number 5, we have our cash generation. First of all we begin with CapEx, very aligned with the BRL1.5 billion for the year and this quarter continues to follow that direction. And the net working capital was significant and helped us in cash generation. We had a significant reduction in inventory especially in the steel business where we had a high volume because of the situation in the second quarter. We were able to reduce finished stock inventory being produced and we came down to the lowest level of inventory in slabs. And in terms of net working capital, we generated almost BRL1 million with a very good receivables terms, in line with our history.

And our suppliers once again working according to the proposals made before the pandemic. We have the double of the adjusted cash flow. And as you can see on the next page, this was essential to reduce our indebtedness. We obtained what had not been possible in previous quarters and despite a relative improvement of our indebtedness because of our net debt EBITDA ratio, we did have an absolute debt that was growing.

Now this quarter we were able to revert this trend reducing the indebtedness by BRL2.5 million and leading our leverage to 3.5 times if we consider the average dollar rate. But there is still a great deal to do. This area needs to be strengthened and we continue with our goals of net debt EBITDA of 3 times for the end of this year and a more aggressive goal for 2021 to reduce this to 2.5 times net debt EBITDA ratio. And what is more important is to cut our debt by another BRL7 billion. This will be possible through financial initiatives that will complement the reduction of leverage.

We continue it wasn't only cash generation that allowed us to accumulate this liquidity of BRL6 billion, we also had other important efforts. We continued to lengthen our indebtedness with Brazil Bank and Tasha [ph] and now with private creditors. We had a payment extension of about BRL600 million, prepayment about BRL150 million, and we now work with rates that are higher than our short-term debt that represents BRL4.5 billion. And of course we're going to continue to address our short-term debt. Our priority in the coming months will be to prolong these bank extensions up to 2023. We continue and we will now speak about the results of each business beginning with steel. From the viewpoint of volume, the volumes grew very strongly, 27% year -- compared to the second quarter. We're back and we do apologize for this. We began to speak about steel. We had a growth of volumes of 27% in the quarter.

And as part of this growth, most of this was sold to the domestic market, 50% higher and this shows how the strategic planning of CSN has worked well. We're working with clients and industries in that sector and with a mix of products that allow us to work with added value. This allowed us to grow more than the market. We also had a strong foreign market with a few problems of seasonality and with a significant increase vis-a-vis last year. So in the year 2020, we have accrued volumes equivalent to those of 2019, something that was unthinkable a few months ago when we felt we would have a drop of 20%. We now observe stability and growth for the year 2020. In revenues, a growth of 33% also aided and abetted by a price readjustment and the exchange rate of course And with this, the EBITDA grew 70% and EBITDA margin of 12%, already good evolution vis-a-vis the previous quarter.

In the following slide, you can observe perhaps what is the most relevant element in this performance, which is our operational performance. Even by disconnecting blast furnace 2, we had significant activity from blast furnace 3. Last year we went through our worst moment at productivity of 6,000 tons. We now produce 50% more, 9,500 tons, which guarantees improvement in fixed costs and we have come to a very efficient cost structure, something we did not have for years. And this of course gives us a unit profitability that is different to what we observed and quite sustainable EBITDA per ton of more than 431. Now to speak about mining performance. We were able to attain the volumes of last year and this was the recovery that we expected despite the rainfalls and delays, but in the third quarter we had volumes equivalent to the third quarter of the year 2019, BRL2 million sales, very good production. And of course taking advantage of this excellent moment of sales, dollarized sales, and a much more competitive cost.

As you can observe, fixed costs and we depend less on the iron ore accounts of third parties and this has increased our EBITDA margin by 60%-some and 90% in terms of nominal EBITDA. Lastly, not less important, we speak about the cement performance that has gained relevance that it did not have in the past thanks to the market. We show you the inflection point of the market that is impactful because of the pandemic and the growth that we were able to obtain up to September. The market could get to a growth of 9%. And if we annualize the growth we see in the third quarter, we go back to the peaks that we had in 2014. But of course supply has limitations and this has taken us to a balanced supply demand situation that is favorable for us. Our volume grew by 16%. We had a growth of 51% in net revenue and EBITDA increased fourfold to BRL100 million and an EBITDA margin of 39%. Once again, highly sustainable figures in this third quarter.

With this, we would like to end the presentation and I give the floor to Benjamin Steinbruch, our CEO and Board Chairman, to begin the Q&A session.

Benjamin Steinbruch {BIO 1499059 <GO>}

A good day to all of you and thank you for participating in the call. I would like to highlight a few elements that have already been mentioned previously, but we would like to underscore once again -- always underscore them. The team has attained this favorable result and a favorable outlook going forward. We have the reduction of costs. We began the year with a very strong program to reduce expenses encompassing all of our businesses and all the possibilities that existed to in practice cut down our costs and become ever more competitive for a year that seemed to be very challenging. We prepared the Company as a whole for a very bad poor market. In truth, we prepared CSN for a war. And what we wanted to do was to obtain the greatest competitiveness and resistance and resilience to go through a year that we imagined would be very difficult. Our forecast and that of everybody of course beginning in the second quarter, things began to improve.

And especially beginning in the third quarter, things did not comply with our expectation of a market that we had deemed to be lacking began to depend on the production of all of our products. Now this work, as I mentioned, was carried out in all of the business segments of the Company, all of the areas of the Company. We're still lagging behind in terms of the steel and cement results. In the steel business, we're making investments in the coke and centering area and with the return of blast furnace 2, we once again will begin working full steam in the second fortnight of November and we will be able to have a greater decrease in fixed costs. And cement had some timely problems in production leading to a cost increase, but we do believe that this will return to normalcy because of cost and production. In mining, we were able to continue on with the work we were doing, gaining in production and presently we're working very close to what we can truly produce.

Therefore, the most important result obtained was thanks to the preparation of the Company to face a very difficult year. As you know, at present the Company as all large companies are working through their production to ensure that we are able to replace our stocks and we're all ready for this. In-house as well as externally simply to give you an idea, we have used all of the intermediary inventories of the Company. This includes our emergency stock that we hold for eventual problems in production. All of this inventory has been consumed. Our inventory level is very low. We're producing full steam and we believe that as of the fourth quarter, that issue of supply and demand will balance out. We are convinced that with a full steam production in all of our segments and as we have the need for regulatory stocks in the supply chain, this lack of products will be adjusted in the first quarter and the market should return to normalcy beginning in the second quarter of 2021.

Now this favorable condition for the domestic market vis-a-vis the foreign market and with a reduction of cost and an increase in price because of a positive market is a very good result and this is what we are presenting to you. We think that this year is a given. We have all of our products in all of our lines and we're running after a good production. And I think that next year we will have a better balance beginning in the second quarter. And from the viewpoint of the measures that have been put in place, we will ever more harvest the good results of this preparatory work. When it comes to our capital structure, we're also working for quite some time decreasing leverage and deploying enormous efforts to improve our results. And we now have a leverage that allows us to consider the Company at a satisfactory level when it comes to the net debt EBITDA ratio. We have gone back to selling assets, streaming operations, prepayment operations.

The lengthening of the debt that was done in the domestic market with the banks will continue and the issuance of bonds because of the good market movement, this will allow us a good window and will enable us to lengthen our capital structure. This is what we're seeking basically. These are my comments. This third quarter was very important for us. It shows that regardless of the market and the market improvements, we're working in the right path. CSN begins to show its potential when it comes to working in a favorable market and we're making the very best of this so that as part of that priority that we all have and that we set forth at the beginning of the year will allow us to attain the reduction of leverage and an improvement in our net debt EBITDA levels allowing us to go back to being a very balanced company and to make the most of the opportunities in the market.

These are my comments and I am at your entire disposal for your questions. Thank you very much for participating.

Questions And Answers

Operator

Thank you. We are now going to go on to the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Thiago Ojea from Goldman Sachs. You may proceed, sir.

Q - Thiago Ojea {BIO 17363756 <GO>}

My first question refers to the situation of domestic shipment in Brazil for the steel company. It seems that the market is extremely active. Some clients are referring to a lack of product. If you could speak about this issue of supply and if there is the potential for a new price increase in the coming weeks, which is the parity level that you would consider and if you're concerned with the exchange rate. If this new increase would be at risk or not because of this?

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

Hello Thiago. Good morning. Now the first question that you made about supply and demand. In terms of supply simply to give you an idea, Usiminas and Arcelor are working with all of their blast furnaces. We will resume in the second fortnight of November. In April, we sold 500,000 tons per month went to 600,000, 800,000 in August; and September 900,000 to 1 million tons. I think this shows the advance we have in the domestic market in terms of supply. When it comes to demand, if we put together all the capacity of Usiminas and include CSN, the capacity is 1.2 million tons. There is no possibility at all that there will be no steel in the market. We're working with all of our lines. Another very important aspect that has helped us in our day-to-day in the domestic market are the imports. We had a drop of imports of 60% or 70%, 80,000 tons per month and I have to be careful because I'm a leader and of those 80,000 tons, 50,000 tons have been put in place.

So, that idea of having a lack of supply has to be totally discarded. An important data that sustains the Brazilian market in the China side is that in China, they're working with 90% degree of new and China itself is importing slabs from Brazil and Russia. So, this is a very important equation. When it comes to the parity that all the accounts that we always work with, the Chinese BQ will drop. It will be around $500. I could put $510 or $520, but the prime is negative in -- 5% to 6%. So, this does allow us to go on to a new price increase and we have already announced this for November, 10% in November and 7% for the galvanized product. You spoke about the market situation and what will happen going forward. Simply to give you an idea and Marcelo already referred to this, our domestic sales accrued at the present grew 6% vis-a-vis 2019. The market had a drop of minus 9%. It shows you that our momentum is to win in the domestic market. In the long steel market, the market grew 1%, CSN grew 8%.

Now to speak about the value chain. We imagine that flat steel for the year will have a drop of 5% in the market and long steel will grow 1% to 2%. In terms of the market, we can speak about distribution. Without of doubt, it will grow a minimum of 3%, perhaps 5% because all of the distributors are selling to the production chains. The inventory is lower than two months and there has been a recovery of this market. In civil construction and this has a direct impact on CSN, everything is positive. We have new residential construction and the good news is that there is a resumption of investments in infrastructure, the real estate market especially. In packaging, which is a very important business for CSN, where we have a huge margin of $1,300 per ton, we grew 30% quarter-on-quarter. Why? There's a clear movement to replace plastic by steel. This is well known and it happens especially in the food segment.

The food segment working full steam and we're also accompanying the growth of civil construction. In the automotive market, a drop of 30% which is positive as it was opposed to be 45%; production, 2 million units; inventories are low; and they are resuming production. The white line because of the habits of consumers who want to have more comfort at home is also progressing full steam and the outlook is very good for the end of the year because of festivities. And finally, the truck market, agricultural machines, and other machines; they're growing as there is a greater capacity for trucks and the idea is to grow from 5% to 10%. So this is scenario that we have for this quarter, this semester. And for the first quarter of 2021, we think this scenario will also prevail.

Q - Thiago Ojea {BIO 17363756 <GO>}

Martinez, thank you. If you could refer to the increase, you spoke about a price increase of 10%. For flat and long steel, you had mentioned 13%. And have you begun a negotiation with the automotive market for price increases?

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

Something important in terms of prices, Thiago, simply to clarify what we are doing to give you an idea in distribution and to eliminate confusion. Until August, we had a 40% increase in distribution, large networks and minor segments of industry. We had a new increase in October that went from 11.75% to 13.5% and this is also for distribution and some industrial chain. In November, 7.5% and 10%. So, this total 40% and we should have a price carryover of 12% to 13% in the fourth quarter and in the fourth quarter, this will be the average price increase for CSN. Automotive, we have initiated negotiations. As you know, this is not the main sector for CSN. We have a small share compared to our peers. But if we observe the increases done in other production chains, we can't imagine less than 30% or 35% increases for the automotive chain. To produce 1 ton of steel, I need 1.6 ton of iron ore and 4.6 ton of coal. If you consider the dollar rate in January of this year in iron ore and coal, at present if we do our calculations, the cost increase that we had was about 55%. So therefore, it's no longer about supply and demand, it's simply about a reduction of cost for the automotive market.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you Martinez. Thank you very much.

Operator

The next question comes from Thiago from Bradesco BBI. You proceed.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good day, Martinez. If you could further explore that vision that you have for 2021. If you look at the risks that you can see for the very strong demand that has surprised everybody, which is the main risk that you foresee for 2021? If we have any problems in demand or if you can continue to be enthusiastic as you are presently in the short term and if this enthusiasm can extend throughout 2021? And if you could comment on the cement market. I think construction is very strong in the retail segment. Therefore -- and you have a direct exposure to the construction market in the retail segment. I would like to confirm what you think of this in the first and second quarters of 2021? If this could perhaps smooth out the situation?

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

Well, when it comes to the market, we're extremely optimistic. And when I speak about optimism, it's because of the orders. I have an order list that extends until February. The pillars that we're speaking about, supply and demand, are positive. And even though there's a small drop in December and January, we need to have at least one more month to replenish our inventories and we have already spoken about this. All of the value chains without exception have to replace their intermediate and finished inventory. If we imagine the worst scenario in the first quarter, we're not going to work with a good market and with replenishment, but with a good supply. When it comes to imports, well, we don't want the imports to come back to Brazil at the speed that we observed in the past. We're being more selective in the increases. Now wherever there is a higher risk, we modulate this to cut imports. And the coming year, the growth should be 10%. The close of the market will be close to 12 million tons and the next year we imagine 13 million tons for the flat market.

In the long steel market, we're all sold out. I'm selecting who to sell to. We're adding value. We're selling more than normal. And this is the motivation that we have for next year. The only factor that has still not awakened to the growth is the automotive sector and there is a possibility of a growth in the truck segment, which will require a great deal of steel. Now when it comes to cement, to give you an idea, the market capacity is 100 million tons -- the theoretical capacity. At present, the capacity that is available to the market is of 75 million ton and if we analyze the third quarter of 2020, we have gotten to 70 million tons. So in cement, we're balancing supply and demand. What happened in cement? We have a competitive cost and we truly recovered our prices and we had a record EBITDA, BRL100 million, only in the third quarter. And the trend for cement is highly positive, construction continues on and commercial and residential construction will continue. So, I foresee no problem for the first quarter in the cement sector. I don't know if I forgot anything.

Q - Thiago Lofiego {BIO 16359318 <GO>}

No. I don't think you forgot anything. Simply another question if you allow us for confirmation. You have already announced an increase in long steel for November?

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

Yes, absolutely. Long has to accompany the construction sector as well and it is not possible to import long steel. The parity is very close to zero and we need to explore the ability to have more fragmented product to work along with cement in this segment as a whole.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Very good. Thank you. Thank you, Martinez.

Operator

The next question comes from Daniel Sasson from Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning to all of you and thank you for taking the question. Congratulations for your results. My first question is for Martinez. If you could help us to reconcile the increases that you announced during the third quarter with that average price increase that we had in the domestic market of 3% and the coded products and what happened with the automotive sector? We would like to gain a better understanding why these prices did not increase more during this quarter, Martinez? And you said that you would have a carryover of 12% to 13% in the third quarter. My second question, I don't know if Eneas is there, about cement. We also saw a significant increase in prices for cement and we follow up on cement and it seems to us that the price in the Brazilian market is quite below that of the international price that we see in dollars in other markets in Latin America, $110, $120 per ton. If you could comment therefore which is the impact of this combined effect? With the figures improving, perhaps civil construction will have higher prices and you have a more normalized EBITDA. So, what is your view of this scenario in terms of the results of this operation? Thank you very much.

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

Okay, Daniel. Something important is that the net revenues of CSN increased 33% and the equation is price and volume. Another important thing is doubling the EBITDA. Now regarding the price, this is an account. What happened in the third quarter? We increased sales 165% for the automotive market and the white line. There was no price increase for the industry. So, this represented less than the market in the second quarter. We had a worsening in the mix and in the second quarter, the increase was 7% although the market had been stable. This is the reason of the difference in the third quarter. In the fourth quarter, we will speak about the increases and there should be about 12% to 13% increases. Increase in industry will lead to carryovers in civil construction and distribution. Now to -- up to September, our increases were 40% in hot drawn steel. Now we have a new increase in distribution that was done in October 3%, in the hot rolled 11.5%, and a new increase announced in November that will be applied in November and December of 7% in galvanized and 10% in hot rolled.

So, we're catching up with the increases made in distribution and we're waiting to correct the prices for assembly lines and others in January. When it comes to cement, our cost has decreased, but we have recovered in terms of prices. We're not a sectoral leader in the Southeast; we have 15% to 20% for Sao Paulo, Rio, and Minas and 6% share in the rest of Brazil. So, we're heading towards optimizers to service the 20,000 clients we have in our portfolio. And when it comes to price, you're right. In the market of Colombia, Ecuador, and Dominican Republic, the price is $110; in Europe $95; Canada $96. And when you come to Brazil, we're speaking of BRL260, BRL270 per ton. According to the present exchange rate, the price is below international prices. Now cement is a basic raw material and we have to be coherent between supply and demand and the customers' capacity to buy. Basically, this is it.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you very much, Martinez. So as confirmation, nowadays even with a richer mix and with higher added-value products that you sell to the automotive market, the average price to that automotive market is lower than the one you are practicing with distribution?

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

Yes, that's it. Now what exists is a contract with assembly lines that last for a year and luckily enough, we don't have that many contracts. The price has remained fixed and this is not only with the automotive market. This also exists in the white line where the prices have to respect a certain periodicity, whether it is quarterly or every six months. So, imagine the avalanche we will have in the fourth quarter and beginning of 2021. We're going to consolidate the prices given to civil construction and distribution and a simultaneous recovery of all of the industrial chains. And I'm going to give you a model for you to calculate this easily.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you very much.

Operator

The next question comes from Caio Ribeiro from Credit Suisse.

Q - Caio Ribeiro {BIO 18420483 <GO>}

A good day to all of you. And my question is to Martinez. You have had four increases this year beginning in July and once again, the automotive chain is working with prices well below those of others. Now how can you generate a stronger restocking movement among assembly plants? And it seems that the stock is lower than usual as you mentioned. Now perhaps if you work with a hedge in the iron ore prices. And finally, in terms of cement, wouldn't this be a good time once again to practice some price increases?

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

Hello Caio. Good morning. We truly cannot work with an inventory for assembly plants for servicing the entire sector and trying to supply them justly. We try to supply all the production chains. We have put all of our eggs in the same basket. We supply distribution white line in all of the sectors. Now another important point for CSN. In the third quarter, we sent 150,000 tons of galvanized material to the USA. We're going to continue with that strategy of complying with our quote in the US market of 300,000 tons. There is no opportunity of creating a stock for CSN at present and the best thing is to service all of the other production change. And with the hedging, we work with tonnage that only represents 5% of our Company. This is not the rate for the Company, but it's important when it comes to protecting our cash flow and guaranteeing a strong cash flow. But we're not going to work on this in a relevant way. This was done in September, October, and November in the past; but we're no longer doing this. When it comes to the offer of shares, we're in a quiet period and we truly cannot comment on this unfortunately.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Thank you, Martinez.

Operator

Our next question is coming from Mr. Carlos De Alba. Mr. Carlos, you may proceed.

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

Thank you very much. I mean a lot of the questions have been answered. But maybe what can you talk about the aspects of your forecast for cost, particularly on steel and maybe cement in the coming quarters? Clearly pricing has been something that is going on for -- has been going on well for you and volume seems that you continue to be quite constructive at least until the first quarter of next year. But what about cost and what the implications are for margin expansions? Thank you.

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

Thank you for the question, Carlos. As mentioned by Benjamin, we have focused strongly on all of our business units and we're now harvesting the results and these are not timely results. We will have good news to show you in the upcoming quarters. In steel, this refers to the renovation of the blast furnace as well as other activities. So, we're going to continue to see an increase in the cost levels and once we -- because of blast furnace 2, we have a marginal cost that is somewhat higher, but we have diluted our fixed cost and we continue to be very efficient. In terms of mining, in the first semester we had an atypical situation with low volume. We have now increased the volumes and with the appreciated exchange rate, the cost will be $14 or $15 quite efficient. And in terms of cement, we have Edvaldo here responsible for the unit.

A - Edvaldo Rabelo {BIO 18024264 <GO>}

Good morning, Carlos. This is Edvaldo. Basically in cement, what is happening is the following. We have significant exchange rate pressure. About 40% of our costs are for fuel that is imported from the USA. But we have been able to mitigate these effects in the cost of fuel through changes and enhancements we're making in the process and with relatively low CapEx and simple projects that are enabling us to have a better fuel mix that is more efficient and has a lower cost for the operation. So, we think we will continue to operate with a cement cost -- stable cost that we have maintained so far.

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

Thank you.

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

Are there any further questions, Carlos, or -- any further questions?

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

No. I mean -- sorry, sorry, yes. The follow-up question is on working capital or cash flow generation in the fourth quarter maybe for Marcelo. How do you see that playing out, Marcelo, as you close the year in terms of working capital and the impact on cash flow generation?

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

Marcelo?

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

Once again, I'm back in the call. I have been able to connect again.

Operator

Ladies and gentlemen, due to technical reasons, we had a very short pause in our conference call. We now have a question from JPMorgan. You may proceed, sir.

Q - Unidentified Participant

Good morning to all of you. And I think we have thoroughly discussed the quarter. I would like to ask a question to Benjamin, the Chairman. In the introduction, you spoke about your focus which is to continue to generate cash for the Company and to prepare the Company to participate in new opportunities for the future. Let's speak about this future and which are the opportunities that you would like to have. And what do you imagine for CSN in the future?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Well, in truth, we have been speaking about this for quite some time. We foresee a possibility for organic growth in those sectors in which we are already working with a view not only to increase quantity, but mainly the quality and diversity. We have accrued during all of this time only very good assets and we have already faced very challenging growth programs beginning with mining and we had a material fact where we presented a new guidance for mining with significant and very aggressive growth of 3.5 times our capacity using our own resources. So, this is an in-house growth as part of what we already have as well as in cement. As you know, we have two plants that we acquired, one in Europe and one here, and we have foreseen the opportunity of consolidating the sector because of the very difficult times that cement went through and this continues vis-a-vis the international scenario.

So, we believe there will be a significant change in terms of consolidation as the idleness that we see is not real in truth. There is a great deal of nominal capacity that is not feasible in terms of cost. If we analyze this, we believe that there does exist that possibility for organic growth among the assets that we have and eventually the opportunity for mergers and others. Now in the steel sector, our work is to ensure that we have ever more quality and greater diversification in the marketing of products and in clients and investment for productivity gains. And still we have an enormous potential that we can still explore. And basically this is what we are working on when it comes to the Company's growth in the coming years. Now along with this leverage program, we have to bring these two together. In mining for example, we have self-sustainable investments. They can -- they become feasible per se.

And although we have very attractive funding lines, especially from the Asian market, so we are considering in taking them. We're going to make investments in mining as well as in cement to make the most of that capacity of self-generation and the funding and we will maintain the Company deleverage. Now perhaps the only thing that is a novelty and that we're beginning to explore and move in are the alternatives that will arise in terms of natural gas. First of all, this is a very important raw material for us. We are large consumers of natural gas and gas per se. And beyond this through the increase in the supply of gas, we believe that there will be a change in the Brazilian energy model and we can use this product for other purposes. And as far as we are concerned, we're thinking about the change in legislation, thinking about the alternatives, and we're going to also serve investment alternatives in this area. Basically this is what we are planning.

Operator

Thank you. As we have no further questions, we would like to return the floor to Marcelo Ribeiro for the closing remarks.

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

Very well. We would like to celebrate of course the excellent results during these very difficult and unexpected moments and we continue to have very positive expectations for the upcoming quarters. I would like to end by thanking all of you for your participation. See you again soon. Thank you.

Operator

The results conference call for CSN ends here. Thank you for participating and have a good afternoon.