Q1 2019 Earnings Call

Company Participants

- Benjamin Steinbruch, Chairman and Chief Executive Officer
- Luis Fernando Barbosa Martinez, Executive Officer & Member of Executive Board
- Marcelo Cunha Ribeiro, Chief Financial Officer and Investor Relations Director
- Unidentified Speaker

Other Participants

- Caio Ribeiro, Analyst
- Gabriela Elerati Cortez Joubert, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for holding. At his time we would like to welcome everyone to CSN Conference Call to present Results for the First Quarter 2019. Today we have with us the company's Executive Officers.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the company's presentation. Ensuing this, there will be a question-and-answer section when further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through the Investor Relations website at www.csn.com.br/ir where the presentation is also available. The slide presentation maybe downloaded from the website and the replay of this call will be available for a week.

Before proceeding we would like to state that some of the forward-looking statements are mere expectations or trends and are based on current assumptions and opinions of the Company's management. Future results, performance and events may differ materially from those expressed herein, which do not constitute projection.

In fact actual results, performance or events may differ materially from those expressed and implied by forward-looking statements as a result of several factors such as general and economic conditions in Brazil and other countries, interest rates and exchange rate levels, future rescheduling or prepayment of debt pegged in foreign currency, protectionist measures in the US, Brazil and other countries, changes in laws and regulations and general competitive factors at global, regional or national basis.

We will now turn the 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>}

Hey, good morning to all of you. And once again, thank you for participating in our call for the first quarter 2019 for CSN. I would like to give the floor to our Chairman, Benjamin Steinbruch for his initial remarks.

Benjamin Steinbruch {BIO 1499059 <GO>}

Good morning, and a good day to all of you. Thank you for your participation. We are presenting the results and I would like to invite analysts to carefully look upon the results of CSN and spend some time with our IR team. As always the secret lies in the details. And I'm convinced that we had an exceptional quarter and this is not fully reflected in the figures that are presented. All of this is reflected [ph] as part of good performance of the mining segment and the not so bad results of the steel works. And I would like to mention some additional points that lead us to reflect and once again, our IR team is at your entire disposal to clarify details or comments that you may have.

We will begin with mining that was the crown jewel during the quarter. We had an improvement in terms of price, quality and as you are aware we're working at full steam. We have a significant inventory of iron ore both at the mine and at the port, and this year was a very good production, that we have been able to have in the last few months. And I would like to mention that the figure of 82 [ph] does not the reality of what our earnings truly are. We're selling for the future and our reference price as you know, will be in May.

We were able to dispatch each share at the end of March. And we still have not received from this, and for the coming months, we have three additional ships that have been contracted, two for use in May, one in June and we're seeking other alternatives to be able to share a greater amount of product, because as I mentioned in terms of quantity and quality, the production is very good.

When it comes to the prices, that we are practicing in Asia we're lagging behind three months. The price has had a reaction -- a rather delayed reaction when it comes to the shipment and of course this price will receive and this will be reflected in figures that are much closer to the reality themselves that have been practice in the market about around $92 or $95.

Now when it comes to this price, and as well as to the amount and the qualitative part of the iron ore, I truly believe that it is worth spending some time to gain a full understanding and to be able to anticipate what will be collected in terms of results for the second quarter.

Regarding the steel works, the steel plants if you analyze the figures I think that neither the qualitative nor quantitative part, the amount and the prices invoiced were not good. They were foreseen because of the minor fluctuation that 2% in the amount quarter-on-quarter. Quantities are are lower at the moment, and the prices were not good. They were foreseen because of the minor fluctuations to the amount, quarter-on-quarter. And very little in terms of prices, because of the product mix.

And later we will explain what happened in terms of price and quantity. There hasn't been a marked improvement, prices continue to be the same and through prices, we have a 10% opportunity for recovery, depending on the type of product. We are going to implement this price rise and we're firmly convinced of resumption of demand. So what had been foreseen during the last quarter of 2018 still has not materialized in the domestic market.

We're awaiting this improvement and invoicing and demand per se are due to the weakness of inventory that we had at the end of the year due to the consumption. But it is our understanding that there will be a repositioning in the second quarter along with price changes. And if you analyze prices and amount they're doing well. Our problem referred to the cost. We're not performing well when it comes to the steel work production, especially due to blast furnace number 3.

As you are aware there will be a scheduled stoppage in the month of June to carry out a minor overhauling that will take 60 days approximately with an investment of 200 and some million. In 2001 when the last reform of this blast furnace was carried out the magnitude was much greater and the cost was steeper. We believe that this overhaul will be done without any problem and when it starts up again, it will have a better productivity, an increase in productivity. We're doing everything not only through increased productivity but also quality.

And in September, as forecast, we should have very good figures when it comes to cost. 19 years, the campaign of this blast furnace we're somewhat surprised with the end of this campaign.

We did not expect these difficulties but because of the natural difficulties of the operation at the end of the campaign and policy, we're having only timely problems in terms of production. Blast furnace number 2 is operating normally. Now this increase in cost was a surprise, had not been foreseen and the purchase of slabs that we carried out since the beginning of the year allow us to be prepared for their scheduled stoppage at an average price that is much lower than that of the blast furnace.

We believe that in the second quarter, we will have a significant enhancement in terms of prices as well as mix. We're quite optimistic in the resumption of the economy. We believe that this redemption will come. It has not materialized so far. The entire country is awaiting this improvement. Not only the approval of the social security reform but we believe that other measures will be put in place to favor employment consumption and the growth in demand. Unfortunately, none of these activities have improved. But we do believe that they will very soon allowing for a improvement in domestic demand.

When it comes to the cement we're working full steam. This should enable us to have a lower cost. And that's part of the costs that are being leveraged. We do believe we will have good results.

From the accounting view point we had a significant cash consumption once again due to the increase in the slab inventory. We we're getting prepared for the overhauling holding of the blast furnace and the price of the Usiminas shares had a slight trough, once again reflecting the performance but do believe that we will go back to normal levels with the market improvement that we're expecting. This market improvement will be both in Minas Gerais and ourselves and we do believe such a situation will be better for the entire steel placement.

Now that timely issue of the blast furnace has caused some confusion when it comes to the results of the steel work. I suggest that you deal with this as a one-off effect, as something that has a defined period for recovery and beginning in the third quarter, there will be figures that reflect the truth both in quality and production. The topic of the hedge account will be used offering us greater benefit in terms of net income.

The net income should have been higher and has not been so a problem, not of course of performance but perhaps an imbalance between the mining activity from -- and the rest, and once again that accounting issue of the currency for the coming quarter. We're optimistic, we're quite eager. We do believe it will be the best quarter in the history of CSN not because of any specific changes. But simply because we will be able serve prove, what we have been practicing since last year. This is a deleveraging.

Working at full capacity and for me, working with a full restatement or correction of prices, if you analyze the results of mining based on 92 [ph], as I mentioned previously. It is very different from the reality of 95 and we will get there. These are futures sale and we will have an update in prices, of course. As I mentioned, they are lagging behind.

In terms of mining, we are convinced that this will be the best month in the history of CSN, in terms of quality, quantity, as well as price. And when it comes to the steel work we believe in an improvement in demand and an improvement in the price levels, as we're already implementing some price raises this month. In terms of costs we're already working with a better cost level and in May and June, if everything continues as present, we will have a reduction of the cost until the stoppage of the blast furnace.

Basically, these are my initial comments. I do not want to convey false optimism. We truly are optimistic. We believe that the steel work market will be better, we believe in mining. We believe in cost improvement and better margins for cement. This is a given. We're not mentioning anything novel and it is up to you to become updated through our team and receive this information because this is already happening. And we're working towards this.

Our commitment is the $2 [ph] billion of EBITDA and $5 [ph] billion of net debt. Something that we have been mentioning since the beginning of the year. We already do have some reductions in terms of our leveraging. Net debt to EBITDA is 4.07. It could have gotten to

3.90 but we preferred to leave the good news for the coming quarter. So in terms of our commitments and with the additional aid of a market boost and a price enhancement, until the end of the year we will be able to deliver, everything that we have set forth to do.

Thank you once again for your presentation. And after Marcelo's presentation, we are at your disposal to respond to any questions. Once again, thank you for participating in our conference call.

Marcelo Cunha Ribeiro {BIO 4997029 <GO>}

Thank you, Benjamin. A very quick presentation on our consolidated indicators, our main business and then we will go onto Q&A. We are accompanied by Luis Martinez, Pedro Gutemberg and Mr. Coelho [ph] who are at your disposal to respond to questions. We begin with page number 2, with the highlights of the quarter in the three axis that we have selected as being necessary to recover our financial health and excellency, improving operational results, reprofiling financial liabilities and acceleration of deleveraging with excellent news during this month.

As Benjamin mentioned, in terms of EBITDA, we have the best result for the first quarter in the company's history. We will speak more about the future in a few seconds. When it comes to our debt, lengthening of the debt we have had a very significant lengthening, showing the new company status in the capital markets. We have issued $1 billion in bonds, once again significantly lengthening that debt.

And in the third place, perhaps what is more important, reducing the relative indebtedness to 4 times which is more sustainable. And we're on the path to attain our target, which is 3 times.

In terms of EBITDA, this quarter also aided by good news which is iron ore, I go on to page number 4 where we are observe a consistent and continuous enhancement of our quarterly EBITDA. We have a 40% growth practically between the first quarter of 2018 and the first quarter of this year, with a growth of five percentage points in the margin, thanks to the greater share of the mining business, which during this quarter had margins above 60%, margins that used to be 30%. We also had a growth of 11%, mining, more than 40% and offset, by a drop in the steel works that has already been mentioned. At this point in time, we're quite comfortable with our guidance of BRL7.5 million, during this year with the results obtained in the first quarter and what we see in the short term.

We go on to page number 5, financial indicator regarding investment CapEx, it was BRL313 million for the quarter, a considerable increase vis-a-vis the last quarter, as we have important projects in steel works, the reform of blast furnace 3 and the tailing dam that -- enabling us to be completely free of these. And we're also aligned with our guidance of BRL1.5 billion for the year.

In terms of the financial cycle, we had an increase, finally, increase of 48 to 68 days. This was a great impact on the cash flow during the period. Stock prices increased BRL500,000 due to the slot that we purchase, and when it comes to receivable something very timely, the sale of several tons of iron ore in the last phase of the quarters and we still have not received the BRL700 million, that in April will already be reported.

This led us to a negative cash of almost $500 million but simply a transition situation. In the last 12 months, we show you our generation closer to BRL3 billion supported by the sale of our assets in the US.

Even with the negative cash generation, as we see on page 6, we do have good news when it comes to leverage and liquidity. A drop in net debt, a drop in gross debt, and a cash increase, thanks once again to the pre-payment of iron ore that we have announced and executed in the period of BRL2 billion, good liquidity and what helped us was a trough of the relative leverage dropping to 4 times. As Benjamin mentioned that's not where we are stopping. In half a year we will reach 3.5 and at the end three time and Benjamin' s personal goal is to reach leveraging of two times

We will attain this with the operating enhancements, and with the initiatives that we have communicated to the market. We are working on screening the potential sale of assets abroad. New prepayments, that is to say, a series of alternatives that will allow for an operating enhancement, allowing us to attain this leverage.

On page number seven, we show you that this rapid deleveraging has already helped the company to gain access to new credit with greater quality offering greater confidence to the market as a whole and the capital market. These are all of the initiatives that we have carried out, beginning with some banks and important debt issuance. This is a new phase at the company. More than BRL9 billion have been pushed from 2018 to 2020, removing that liquidity pressure in the short term, enhancing the term of debt and allowing us to have our credit ratings recognized, S&P and Moody' s shows that we are on the path to new ratings thanks to the initiatives that we will announce very briefly.

I go on to page number 9, a very quick comment on our main businesses. We begin with the steel works performance that will also be mentioned in greater detail. We grew more than the market 4% growth year-on-year when the market was practically stagnated. In export products, we had a growth. What happened was a drop in EBITDA once again to costs and volume, lower productivity of blast furnace 3 and the increase in the price of raw materials, especially iron ore. And the weaker demand that does not allow us to transfer these price increases to our prices.

The good news is that this is a provisional situation and we hope to return to our normal levels in slab cost and profitability in mid-August and September. And this will be fully reflected in the fourth quarter of this year.

We go on to page number 10, the unit was our best performance. Mining where all variables contributed a growth year-on-year of sale and a significant enhancement in production since the end of the year. We have eliminated the bottleneck associated to the use of the dam. We are carrying out the dry stacking. We went from 27 million tons to 32 million tons enabling us to have more protection. And this helps us in our cost dilution.

All of this in terms of quality premium a recovery of prices, lower freight prices because of the supply of iron ore in the market contributing to multiply EBITDA $0.04 year-on-year, reaching BRL1.3 million, coming from a margin of 31% to 61%. Now we still have more news, as we can see on page number 11, we do have a situation where quotational periods are benefitting. We're very attentive to the price situation in this environment of a continuous increase in the FOB and CFR prices and greater volumes. All of this will lead to a positive variation of our quotational periods, now along with quality premiums that are between $1 and $2, our price realization is excellent.

These are the main indicators that we wanted to share with you. And we will now go on to our Q&A session.

Questions And Answers

Operator

Thank you. We will now go on to the Q&A session for investors and analysts (Operator Instructions) Our first question is from Leonardo Correa from BTG Pactual. You may proceed, sir.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning to all of you and thank you. My first question to Martinez. Looking at the evolution of EBITDA, because in the steel business we clearly see a sequential difference and by following up on the evolution through years, we see that the results are somewhat low. Is due to costs, and non-recurring events. Now the EBITDA generated in steel was BRL600 million or BRL700 million per quarter, closer to the BRL700 million per quarter. This quarter, the result has fallen practically 50%. At the beginning Benjamin mentioned an improvement in the 3rd and 4th quarters after the maintenance is carried out?

Nevertheless, I would like to attempt to understand the performance of the second quarter? It seems that prices are about to be raised. There will be a sequential improvement and how can we imagine the performance of steel works in the second quarter, still under pressure of course, but I would like to hear from you, what will happen in the second quarter and what to think about the second semester.

Now if we talk about another issue. It's always difficult to look at net revenues, for liquid tons [ph], Martinez. I'm not going to speak about this, I'm going to speak about the mix. I imagine there was a worsening, in the mix but I would like to hear from the price trend domestically, the activities have had a slowdown. So, which is your perspective of the price evolution?

And finally, a question to Benjamin, Benjamin, there is always that doubt in the market that the company will sell its assets and they question, the urgency that will exist at CSN when it comes to the sale of assets. If scenario is favorable, the cycle is positive thing, the metrics are positive, and there is a certain impatience in the market, in terms of what has already been discussed and has not come to a final process of definition. Therefore what are you thinking in terms of the sale of assets in this more benign or positive scenario? These are my questions.

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

Hello Leo. This is Martinez. And allow me to give you an outlook of what happened to better explain what will happen in the second quarter and to speak about the second semester more importantly. At the end of last year, the economic atmosphere was very positive, with great expectations for stronger growth at the beginning of 2019. This has not materialized, as mentioned by Benjamin.

And then speaking about facts and data, and now the market opinion distribution increase inventory. We got to inventory of 4.3 according to the data from INZA [ph]. Now this is data that we can find in the market. Now another market that we have some contracts with the Whiteline home appliances and the automobile market, both factors we are aware that there would be an increase beginning in January 1.

What happened was an anticipation of purchasing, and we had a sensational fourth quarter 2018. The first quarter 2019 began and what happened? The impact that we had, CSN saw the same volume in the first quarter 2019 as in the fourth quarter 2018, 1,175 compared to 1,182 and what happened in these domestic market and I'm not minimizing this is that our volume dropped from 835 to 811, 30,000 tons that we lost in terms of galvanized material that the automotive market and the Whiteline markets did not purchase. The galvanize represented 51% of our portfolio. it dropped to 48% with an impact on price and EBITDA.

Since prices will be better explained, but this will also undergo an evolution in the second quarter. What will happen in the second quarter? We had a price increase of 10% implemented in distribution and civil construction and the data in the industry that these prices are also being implemented. We cannot deviate too much from these prices, it would not be sustainable. So in the second quarter, we do have a re-composition of inventory in distribution, resumption of some export clients, thanks to the foreign exchange trough [ph], the agricultural sector, the automotive sector in terms of trucks had a positive sales volume. They have now consumed their inventories and they're going to come back with better levels compared to the first quarter.

As Benjamin mentioned there hasn't been a worsening, the trend for CSN still improved regardless of what happens in the market. In civil construction, we follow-up on an improvement in launches, but not sufficient to leverage the market as a whole.

Now, what we're doing now strongly is the import of galvanized at a 180,000 for the quarter. We are referring to 50,000 per month that CSN can capture. Also due to the appreciation of the dollar and this is what we will pursue in the second quarter and on the second semester.

In terms of our sales strategy, as I always tend to say we're working at full steam despite our maintenance problems, added value continues, MI reached 86%. This is a significant data, the trend is for it to come closer to ninety and we will occupy the space of import somewhat. And we're very well positioned in the market. We are not all in the same basket, we have the ability to better manage there.

In terms of the guidance given in the last call, I referred to 3,300 tons in the domestic market. Nothing has changed and I think I can do this quite simply in the domestic market this year. The problem is, where it's a start-up, we have had a price raise, market raise and we have to understand what is happening in the worldwide economy. The cold rolled products at present is negative 4%. We would have to increase the prices 10% now to regain our margins. On this is Ben Jeremy mentioned. We need to have a greater focus on profitability.

We expect an improvement at FHO [ph] in the second quarter, but those BRL600 million to BRL700 million that we had already achieved, without a doubt will be obtained in the second quarter. Now this is the market situation.

And Leonardo, regarding your question of the mobility, and mobilizing this well, this -- all these words are not part of my vocabulary losing higher input tools to sell assets.

What I can say is that we're devoting ourselves solely to the operations $500 million. We're attempting to continue the prepayment with Grand Corn [ph] and were also working arduously to achieve an operating improvements. So what you said about emphasis and urgency well on that there's been focused on an improvement of operating performance, the EBITDA will go from 28% to 34% in the coming quarter. And this will award the efforts being carried out at the company and that began in 2018. As I said, all of this has not been fully reflected in the accounting figures that we are presenting.

Now, the issue of Germany, yes, we have not focused on that so far. It's coming very close to a conclusion. We are discussing this issue step by step, as was done in the United States. To be able to materialize this we have to look upon the market favorably, when it comes to the price of this transaction. Now, we carried out a very surprising transaction in the United States, something that will stand at the right time, by assessment and we're also working so that in the specific case of Germany, we can repeat this performance.

We continue with our conversation. We're very close to coming to a conclusion, a closure. But we are now discussing prices, we exclude sales hurdle. If we do reach appropriate price without that, we will sell this asset in Germany.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you Benjamin and thank you Martinez. Thank you for your responses. Please wait while we poll our questions.

Operator

Our next question comes from Mr. Jonathan Brandt with HSBC. You may proceed.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi, good morning. My first question for Marcello. I just wanted to ask about working capital. I know there was a pretty big outflow this quarter which you explained as being more of a one-off in the build up in stock inventories. And then the annual volumes concentrated at the end of the quarter. Should we expect that to normalize in the second half and is the normalized working capital level back at that BRL6 billion to BRL6.5 billion. In another words, I'm wondering if we should see a pretty substantial working capital release in the second half.

And my second question, for Benjamin, I think you had mentioned the leverage target of three times by the end of year or maybe potentially in early 2020. But you also mentioned that you would like to go to two times, that's your personal target. I'm wondering how M&A depends on that [ph]. I mean should we expect, no more M&A and so you hit that two times leverage. Can you talk a little bit about sort of the three year strategy of the company where you get to -- what the strategy is, after you hit that three times. Is it continue to delever till you get to the two times, is --there are different strategy on our, say more of a medium term outlook. Thank you.

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

Very quickly, and thank you for your questions. A question about our three year strategy that is more interesting and I will allow Benjamin to answer this. In terms of working capital. It will return to normal levels throughout the year. In the second quarter we will have BRL600 million. In terms of accounts receivable, there will be an inflow, but the levels will continue to be high and will become more normal at the end of the year.

This is our commitment and with this we will comply our guidance of free cash flow of BRL3 billion a year. Now Jonathan when it comes to the deleveraging we propose to deliver at the end of the year as a company, a net debt EBITDA ratio of three times which would be attained with the screening operation -- prepayment and the sale of assets. And of course an enhancement in our operating result. Now we continue as a company to be committed with that figure.

And when I was in the United States, the last time when speaking to the investors about the launch of our bank, I took the personal commitment and the challenge of reaching a -- delivering of 2.5, that is to say 2.5 net debt-EBITDA ratio and this 2.5 would be repeated twice, for EBITDA -- twice for EBITDA and 5 times net debt. That jointly would allow us to have this 2.5 net debt-EBITDA ratio.

Now this 2.5 times, this is a personal challenge and there to be able to face that demand that we received from friends in the market to have the company obtain the triple A rating. The idea therefore is to truly achieve this at the end of the year and to deliver these figures.

I believe that if you analyze, as I suggested that you analyze the evolution of the results of the company. You will observe that it should not be a surprise to anyone to see the figure that we will present in the second quarter given and a part of a reality, something that the market so far has not understood.

As I mentioned, we're working, based on three different pillars; screening, the pre-payments and the operating results. Because it is these operations themselves that we're in the pursuit of, the company has always took aside in terms of the margins that they presented to the mining market and the steel market, and it is mandatory until the end of the year to recover these historical margins.

Now, if you will observe that combination of the operational part, the screening, the prepayment and the sale of assets, we can fulfil that challenge that was set forth by the company and personally by myself.

In terms of the coming three years, this year we would like to definitely end with that capital reinforcement, the capital reinforcement, the capital structure of the company, we believe that we have been able to accrue very good assets during this time and once they are able to have a better performance and we no longer have that weight of the payment of interest imposed upon us in the last 3 years, and when we can work with normal interest rates, as in Brazil the interest rate for completely atypical areality that set itself aside from the world.

The world's working with negative real interest rates, and here our interest rates were very high in the year 2015, 2016 and 2017. We had an improvement in to 2018 and a better one in 2019. As far as a return of lower inflation and real interest rate as I mentioned, we're going to work arduously until the end of the year on that net debt-EBITDA ratio. We're going to invest in productivity gains in the steel work, so the (inaudible), and blast furnace returns.

Once again, we're going to have our own mining warrant but purchased from third party. And shipments through third party, the port has reached maximum capacity and will take at least 18 months to be able to dispatch 40 million tons. And invest of course in opportunities that are very close to us, the generation of energy is one example. This has always been a differential for us, the possibility of being self sufficient in energy production and with the growth that we have had, in the long steel, in mining and steel work.

We will become energy buyers and we want to escape that with investments that are not very high and we of course will see new business opportunities. Our motto will be the issue of leveraging so that we can harvest the fruit of our positive assets and not detour from now other businesses by paying interest rates. I do believe we will have growth, moderate growth from the organic viewpoint and then the year 2021,2022 a strategy of maintaining the company with a low leverage, with the assets that we have and by performing well, we will have operating results above any expectations from the market, shareholders, and the value of our equity and our bonds will increase. At least this is my vision for the coming three years.

Q - Jonathan Brandt {BIO 5506998 <GO>}

All right. Thank you very much. Very helpful.

Operator

(Operator Instructions) Our next question is from Gabriela Cortez from Bank of Brazil. You may proceed. Brazil of Brazil, you may proceed with your question.

Q - Gabriela Elerati Cortez Joubert

Yes. Can you hear me now? Yes. Hey, good day, and once again, thank you for taking my question. First regarding mining there was a drop in sales of 50% [ph] and a drop quarter-on-quarter. I would like know if these movements come from the increase in inventory and the working capital that you will spend on slabs but is also due to the mining -- iron ore, I am sorry. Now, when it comes, cement, there has been an advance of 3% year-on-year.

Now in terms of sales the performance was 7%. Could you give us more detail in terms of what happened? And which is your outlook for the second quarter, when it comes to the 3rd-party volumes to complement the first question, what can we expect for the second quarter?

A - Unidentified Speaker

Gabriel, this is Rene [ph]. The sales volume in the first quarter was a million tons below the fourth quarter 2018, because of a lower volume of purchases, and we had heavy rainfalls, decrease in the pace of shipments and did not allow us to fully export our production during the semester. We have had an expressive reduction in the inventory during the year. Now we have to outflow all of this and because of this, we have closed 3 different shipments, 2 leaving in June and then -- excuse me, 2 leaving in May and another leaving in June. And in terms of 3rd party is of course difficult we have increased, the expectation is to have a reduction. We have had a lower [ph] of our suppliers thanks to the high levels of production. We will have a significant net growth in sales with higher profitability in 2019. You had a question on slabs, I believe. The slabs were purchased simply because of the forecast of the stoppage of blast furnace 3. Gabriel, this is evolving and in terms of cement, we're active in the Southeastern region where there was a trough of approximately 2% in the market.

We had a price repositioning to improve profitability and we have a period that we to carry out maintenance and we're well positioned for April and to recover what we have lost during this period. For the second quarter therefore, we should have it in double figures. Yes, this is the expectation and of course would depend on the resumption of the market as we mentioned at the beginning, something that has not happened.

But we're content it will.

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

This is Martinez CSN grew 6% in the cement market in the last 12 months. In the last two years the growth was practically 60%. Once again, we're working at full steam. There is no different between cement and steel. What happened in the first quarter, this holds true to all the cements plant is that we carry out maintenance. We're also concerned with profitability.

This sector is very depressed in terms of prices. So we're working toward improving our profitability through prices. In the second quarter, we're working with levels of BRL340,000 per month. In the second quarter, we should reach 1 million, 1.1 [ph] million tons and this will remain going forward.

Q - Gabriela Elerati Cortez Joubert

Thank you.

Operator

Our next question comes from Gustavo from Santander Bank. You may proceed, sir. Mr. Gustavo Allevato from Santander Bank your phone is muted. Could you please turn it on? You may proceed, sir, from Santander Bank.

Our next question is from Caio Ribeiro from Credit Suisse. You may proceed.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Hey, good day to all of you and thank you for taking my question. I would like to know if you could speak about your transition, and if you are going to comply with this process until the end of the year? And in mining what is happening with the operation and how much you can further reduce your costs, based on the initiatives that the company is implementing and the possible expansion in terms of galvanized products that you mentioned in the past.

Are you still considering this or has anything changed? At the beginning of the year, we see somewhat weaker figures in the automotive sector. So if you could please give us some outlook in terms of these three areas?

A - Unidentified Speaker

Caio this is Rene. The tailing dam, the first is full, the construction of the second dam ends in June. And so a ramp-up. Until December we should become fully self sufficient. The works are proceeding well and this will set us aside. When it comes to the cost, the cash cost of iron ore in China it reached BRL35.9 per ton. The curve is 62 and the cost was BRL35.9 per ton.

Our production is strong. In the second quarter, we will continue to offer strongly. We're going to reduce the cost through our production and the outlook is very good going forward.

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

Caio, this is Martinez. When it comes to the galvanized line, is that the point of the conclusion of the project we're going to build something and now that is back to back. We're going to put the line in place and under operation full of customers and contracts. This is important and we are at the completion stage.

Another important point is that in terms of the galvanized products and our capacity in Brazil, we can easily use this one more line. We're speaking of investments of BRL1 billion, $350 million for a galvanized. We're final stages of sizing the line and finding a location. I have no doubt that those who get there first will be awarded and we are going to build this line, simply to complement those are blast furnace 3 and 4 will enable us to increase our production by 400 million ton increasing the production of slabs for this galvanized line maintaining at value. So the magnitude, the production at the galvanized line would be 500 million tons.

Yes. This is what Pedro will acheive in terms of production with the reform of blast furnace. So we will have added value we're going to maintain the same portfolio of other products but increasing the coated products.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Thank you. Thank you very much.

Operator

The next question comes from Thiago Lofiego from Bradesco BBI. You may proceed sir.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning. I have 2 questions. In terms of iron ore are you using your own iron ore or is that our 3rd parties this year. And how do you see the competition of iron ore in the Mexican market given the situation of supply that we see. My 2nd question refers to the accumulation of inventory in the first quarter. Are you betting on higher prices or are you simply using this as a protective measure using the iron ore in the domestic market? As there has been a decrease in production of iron ore in Brazil.

A - Unidentified Speaker

Thiago. Good morning. this is Renee. Our production has overcome our expectation and we hope to have a significant increase in growth with higher profitability. And all of these factors are aligned luckily and there's a great deal to explore in this especially in the second quarter. And what happened was the inventory we had a bottleneck at the mine and we're now undoing this bottleneck where are in the full production process and the outlook is very good.

We have a large volume of material to shape. This will be done at the end of the quarter, 2 shifts in May and another in June. Going forward, we should have a very good production outlook. The volume of iron ore sold will always be greater than those in 2018 and decreasing the volume of material that we purchase due to the accident.

So expectations are very good in terms of margins that we will obtain with our own iron ore, with significant figures until the end of the year.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Could you give us guidance of sales for iron ore this year Renee?

A - Unidentified Speaker

Going beyond 38 million I would say.

Q - Thiago Lofiego {BIO 16359318 <GO>}

And above 38, what will go into long?

A - Unidentified Speaker

Well, for 3rd parties perhaps 5 million or 6 million, I am sorry. Our main goal still now are bottleneck [ph] at present, is to ship this material out

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you Renee.

Operator

Thank you. As we have no further questions I would like to give the floor to Mr. Marcelo Ribeiro, Executive Investor Relations, Director for the closing remarks.

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

I give the floor to Benjamin for the closing remarks.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

I would like to thank all of you for participating in our conference call and state that we continue to be confident and optimistic when it comes to the second quarter and the full year of 2019. Well the situation is given. What we have to do is materialize everything that we have done in terms of mining and other areas

And we're looking forward towards June with a trend of stability and an increase in price in iron ore and an increase in quantity, of course maintaining quality. In a few words there is that outlook of resumption in terms of price and volume and a cost reductions. We're working focus on cost at present in production and with the starting of the blast furnace beginning in June with the reform of coking and centering that will be done hand in hand, and allow the company to produce more and better during the second semester.

We understand that the economic resumption has not arrived. Yet we are betting on this, but we're quite optimistic in terms of the performance of our company. We're well positioned to present excellent figures this year. And we reiterate our commitment that with deep leveraging as part of the assumption of the company to end up with a net debt EBITDA ratio of 3 times. I personally will try to improve this ratio to position the company who to take advantage of the opportunities that may appear in terms of 2020 opportunity in the domestic and international markets.

Once again, thank you for your participation and I return the floor to Marcelo.

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

thank you very much. And the IR team is at your entire disposal. Thank you. And we hope to see you at our next call. Thank you.

Operator

The earning results conference call for CSN ends here. You can disconnect your lines and have a good afternoon.