Q3 2016 Earnings Call

Company Participants

- Benjamin Steinbruch, President, Chairman and Chief Executive Officer
- Daniel Santos, Director of Mining
- David Moise Salama, Investor Relations Officer
- Luis Fernando Barbosa Martinez, Director of Nacional Minerios
- Unidentified Speaker

Other Participants

- Carlos Alba, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Good morning, and thank you for standing by. Welcome to CSN's Audio Conference for the Presentation of the Company's Results concerning the Third Quarter of 2016. Here with us, we have Company's executives. I'd like to inform you that this event is being recorded and all participants will be connected in listen-only mode, during the Company's remarks. After that we will start a Q&A session, when further instructions will be provided. (Operator Instructions).

Today's event is also being broadcast simultaneously over the Internet and may be accessed at the following URL, www.csn.com.br/ri. The respective slide deck can also be found at the same address. You will be able to control the slide presentation as well. A replay will be available right after the closing.

Before moving on, would like to make clear that possible forward-looking statements made during the conference call concerning the Company's business outlook, operating and financial projection and targets are based on the Company's beliefs and assumptions, and also on information currently available. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions, because they refer to future events and therefore also depend on circumstances that might or may not materialize.

Investors should have in mind that economic conditions of the country, of the industry and other operating factors might affect the Company's future performance, thus leading to results that will differ materially from those expressed in these forward-looking statements.

I'd like to turn the floor over now to Mr. David Moise Salama, IR Officer. He will be making the presentation and talking about the Company's operating and financial highlights in the period. Please Mr. Salama, you have the floor.

David Moise Salama {BIO 17456021 <GO>}

Good morning, everyone. Thank you for participating in our audio conference. Here with me today, we have Mr. Benjamin Steinbruch, CEO and Chairman of the Board and other colleagues from the C suite.

We would like to start on slide number three. We will start today's call talking about the restatement of the financial statements of 2015. The need to restate the statements of 2015 and the ITL [ph] results for the first quarter of 2016 and second quarter 2016 also may change in interpretation of the CPC '15 which is equivalent to the IFRS 3 concerning business combination.

This interpretation was identified during recent discussions that we had with our independent auditors about questions that were made by the SEC about the accounting procedure for the presentation of the non-controlling interests of the subsidiary Congonhas Minerios in the Company's consolidated financial statements. The new interpretation led to a need to restate the attribution to the non-controlling and controlling interests and the gains coming from the restructuring of the logistics and mining operations, which took place on October, 30th. More specifically in the combination of business through which the Asia consortium acquired through primary issuance of shares, acquired 12.48% of the shares. And that changed from the 40% interest that they had.

In the presentation of the financial statements of 2015, the gains coming from those business combination were attributed both for the Asian consortium and for CSN proportionally with respective share, 12.48 for the Asian consortium and 87.54 CSN. According to the new presentation, CSN is allocated everything without a 12.48% attributed to the Asian consortium, the restatement of the financial statements for 2015 does not change the consolidated results for the company, nor does it change its consolidated equity, it's an allocation between lines as we can see in the following charts.

Let's move on to slide number four now, where we see that the difference presented and the company's profit resulting from the adjustments made by the statements in 2015 was up 360 million. That amount was left [ph] into the legal reserve profits to be arise and also statutory reserves. And it will be considered only for accounting purposes and not for other purposes, especially in terms of corporate interests.

The company's audit committee has revealed the proposed adjustment and the independent auditors are now issuing an opinion without reservations about those numbers for 2015. On occasion, or when the time comes on a timely basis, we will deliberate on the matter on a special meeting of the shareholders. That's what I had to say, to share with you concerning the restatement of the financial results.

Now we're going to move on to the next slide, where we have the operating and financial highlights for the third quarter of 2016. In the third quarter, we can highlight an increase of 45% of the company's EBITDA, which reached 1.2 billion with a margin of 26%. The EBITDA for steel showed an increase of 49% when compared to the second quarter of 2016 with BRL552 million coming from an increase in the average price of steel, which sat around 8% when compared to the second quarter. On top of that, we had an improvement in our domestic markets in terms of steel sales, moving from 53% to 62% in the quarter in terms of iron ore or mining.

In mining, we saw an increase of 10%, which reached 10.2 million tons in the third quarter for the sales of iron ores. Another important point was the recovery of the average prices for iron ores, which reached $39 in the third quarter. In other words 31% higher than our average for the second quarter. Total EBITDA sat at 600 million, 64% up from the second quarter with an EBITDA margin of 46%.

Now moving on to slide number six. In the third quarter, the net revenue sat at 4.4 billion, an increase of 2% when compared to the second quarter of the same year. Gross profit increased 42% sitting at 1.3 million, 39% up from the same period of 2015. The adjusted EBITDA sat at 1.2 million, 45% above from the second quarter 2016 and also up from this third quarter of last year, especially coming from the best results or better results in steel and mining sectors.

The net debt and cash remained flat in the third quarter when compared to the previous quarter posting 25.8 billion and 7.5 billion respectively. The net debt adjusted EBITDA ratio came down to 7.4 times when compared to 8.3 times on March 31, 2016. That's the second quarter in a row where we have a drop in our leverage level because of an improvement of our company's operating results.

We'll now move on to slide number seven. On this slide, we see a buildup of results from the third quarter. Starting from an adjusted EBITDA to the net loss of the year, we had a net loss of a 100 million down a 139 million in EBITDA for the controlled companies, a 153 for tax provision with a negative financial result of 780 million. Besides the financial result of joint -- jointly controlled companies, active result [ph] and depreciation.

On the next slide, you see the results broken down by business segment. In the third quarter, the steel revenue reached BRL2.9 billion, mining BRL1.3 billion, logistics BRL405 million, cement a BRL140 million and energy BRL68 million. The consolidated revenue totaled 4.4 billion, 60% coming from steel, 27% from mining, 8% from logistics, 3% from cement and 1% from energy. As for EBITDA, the steel segment participated with a 41%, mining 45% and logistics 12%.

We now move on to slide number nine. On this slide, we have a detailing of the steel performance. In the third quarter, the total volume of sold steel was 1.2 million tons, 6% below the previous quarter. EBITDA reached 552 million in the third quarter, up 49% from the previous quarter with a margin of 19%, arising from an increase in the volumes sold domestically because of a better mix, which reached 62% and also an improvement in the average price at 8% when compared to the second quarter of 2016.

We now move on to slide number 10. On slide number 10, you see the third quarter, coated products accounted for 59% of our flat steel sales, 44% internally and the remaining in the external market. The controlling sales, 46% were for distribution, 30% for home appliance, 15% for automotive, 14% is packaging and 13%, civil construction. And on the right, we can see the profile of our sales in the foreign market.

We'll now move on to slide number 11. On slide number 11, we have a drop of our costs, a slab of 7%, we reached $321 per ton. In the third quarter, the total revenue -- net revenue reached BRL2,447 as EBITDA per ton was 471. That is an important number which is 60% better than that of the previous quarter. Still on that pie chart, we have a breakdown of the slab production -- slab production cost in the third quarter.

We'll now move on to slide number 12. As for the mining segment, CSN presented an increase in it's sold volume of 10% in the third quarter, reaching 10.2 million tons. It's worth mentioning an increase in net revenues up 29% reaching 1.3 million in the quarter. That was mainly due to the higher volume of sales, aligned with an increase of average price, which moved from $31 per ton in the second quarter to $39 per ton in this quarter. EBITDA sat at 64% above 600 million with a margin of 46%.

We now move on to slide number 13. Concerning the mining cost, at China, Congonhas registered a cost of $32 per ton coming from an increase in average freight, which moved from $11 in the second quarter to $13 in this quarter, and also because of the depreciation in the third quarter. The mining showing strong growth also in its performance, an increase of 61% in EBITDA per ton sitting now at $18.

We now move on to slide number 14. In the third quarter, we will see now the performance of cement for the third quarter of this year. In the third quarter with the ramp up of the Arcos cement operations, we managed to increase our sales volume by 43% reaching 850,000 tons, as for net revenues, we saw an increase of 29% in the third quarter reaching 140 million.

We'll now move on to slide number 15. On slide 15, we see the Tecon performance, it showed an increase of 7% in terms of containers. As for the net revenue, we saw an increase of 12% sitting now at BRL15 million. EBITDA was 9 million with a margin of 80%.

We'll now move on to slide 16, where we have our CapEx. In the third quarter, we totaled BRL382 million in CapEx. The highlight for steel where we invested 133 million and mining with 56 million and a 154 million in cement. That amount was allocated to the conclusion of our Congonhas Minerios.

Now moving on to slide 17, where we have our working capital picture. Working capital remained stable when compared to the previous quarter, but it's important to highlight that our average term for payment to suppliers increased by 7 days. Our inventory level -- levels remained stable when compared to the previous quarter.

Now moving on to slide 18, where we have our debt amortization schedule. We are now working in terms of extending the terms for the coming years. On September 30th, our average term was 6.6 years, with an average cost in national currency of a 170% of CDI [ph], in foreign denominated currency 5.8% a year.

Now we have a debt profile and currency exposure on the next slide. On this slide, we see our debt profile for the company for the third quarter, 62% of the company's debt is denominated in domestic currency, 50% of our revenues and 52% of EBITDA will be generated in the domestic market. So 48% of the EBITDA came from the foreign market, which represents a natural hedging of the company's operations.

And now, I now close my presentation. I'd like to give the floor to Mr. Benjamin Steinbruch, President of the Board and -- Chairman of the Board and CEO.

Benjamin Steinbruch {BIO 1499059 <GO>}

Good morning, everyone. Thank you. I'd like to start by saying or making some comments that are deemed important for those of you who are honoring us with your presence here as we present our results for the third quarter 2016. First of all, I'd like to emphasize the company's stability [ph] in terms of indebtedness. Despite an increase in working capital, in other words, we are now with our full production and with our cement over [ph] number two also in full use as well as all other -- all other production lines, which are running at full capacity. And we have managed to maintain a good level of indebtment.

As for the sales of assets, we've continued to sell some assets, but we will do it in a very intelligent smart way. In other words, we won't be selling anything under pressure in a precipitated way, we are very aware of the value of those assets. We're talking about good assets, which are generating EBITDA. So this has to be carried out in a very careful manner. Even though I emphasized our continued concern about bringing debt levels down, so our sale, which will be optionalized by the end of the month of metallic, we are still considering the sale of other assets.

But again, we'll do it in a very cautious, intelligent manner, looking to maximize those amounts. I'd like also to emphasize that we are working to control our costs and our expenses. We are doing whatever we can, the possible and the impossible to achieve production gains. All of them through an aggressive reduction in costs and a continued concern in bringing expenses down.

So we have a very detailed control over everything and the edge [ph] to also grant the company a higher level of competitiveness. Also the CapEx deserves a comment, we will reduce CapEx by half this year, in other words, we will have around 780 million in CapEx without considering spare parts. So we are prioritizing whatever has to do with safety of our associates, the safety of our equipment and also focusing on quality gains in production and margins, and in high value added products. Of course, we are open and we are also flexible to considering diligent marked [ph]proposals, in terms of investments. But at first, the approved budget sits at 6 -- 780 million for next year, in other words, half of what we had for this year.

I'd also like to emphasize the significant improvement in our EBITDA as a whole. In other words, at every quarter, we have been improving our margins, our EBITDA and that has been a continued trend. And when we see this reduction of this debt-EBITDA ratio that reflect the previous year, so that drop (inaudible) ratio now that is taking to a -- company to account the 12 previous months. So our concern is to bring that number down as fast as we can. As for the improvement in margins, if we look forward, the reduction is even more significant. In other words, if you consider 12 -- the 12 months ahead of us, that reduction is very important and it is sitting at a very favorable level.

I'd also like to mention the effort in bringing mining costs down when compared to the evolution of the prices that we saw, we sold in the first and second quarters where we had a certain level of uncertainty in terms of pricing, so we didn't want to take the risk of incurring losses. So we worked with closed prices, but starting the second quarter, those prices are open to variations. We have already explored that variation positively and this is probably a trend for the coming quarter.

We believe that with the effort which was made in terms of increasing the amount of mining and a reduction in costs. So the results that we had with over 46% in third quarter, will be even more significant in the fourth quarter.

The same thing goes for the cost of steel and the evolution of steel prices and the domestic and foreign markets. With the ramp -- with the return of one of our -- once we have a reduction in our fixed costs. So a reduction in the fuel costs as a whole and with the evolution of prices and as you know sat at 35% for the past month for the domestic market and with a perspective of a price [ph] increase as of January, we are thinking about 25% for the automotive industry and 10% for the market as a whole. So we believe that that margin will also resume more positive levels.

And then along with this effort to bring costs down, we believe we will resume a good pricing path, which will allow us to present very good historical positive results as further reduction of coal prices, our all commodities are suffering that and we'd like to emphasize that because of the fact that CSN sells 32 million tons of iron ores and because of the fact that iron ore has increased its prices significantly in the past months. And that's a trend in commodities. As I said, the coal prices then to be minimized in our case because we have an integrated operation, of course, that because of an increase in commodities.

We are now in way able to pass on those increases to the market both internally and internationally because there was an increase in the prices in China, US and Europe. So we believe that price recovery will be present and will be more permanent both domestically and internationally. We are very optimistic about the future. We are, of course, realistic, at the same time, we think that the economy is getting better. We see positive signs of recovery, we understand that the government needs to make that real to improve more explicit through companies and this will have to take the shape of a reduction in interest rates and we prioritize employment rates. We have not had to fire people, 30% of our sales are now taking place through our subsidiaries abroad. We will be able to take advantage of the election of Mr. Trump in the US. So we do not see that as a risk to Brazil. We don't think things will be easier, but the perspective now is better than before. And we are, as I said, optimistic, realistic, we know that problems are present, but we are very optimistic in overcoming those difficulties.

I will now be with our colleagues here and available for questions and comments. Just in closing, I'd like to emphasize that all improvements we've seen is the result or are the result of very hard work of the team. We've had to make very difficult decisions. We negotiate contracts, payment terms, inventory analysis, so we have done everything which was possible in operational terms. And so I have to acknowledge the work of all of our associates, our executive team, so that's how we managed to improve margins and gain more market share.

Thank you all for participating in the call. We'll now move to the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions for investors, analysts. (Operator Instructions) Mr. Leonardo Correa from BTG Pactual has a question.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good morning, everyone. Thank you for taking my question. My first question has to do with iron ore. Clearly, we are going through a much more optimistic scenario in terms of prices. If you could talk a little bit about your volume projection going forward for the next two years, if you may? And if you see anything different or given the new scenario, it wouldn't make sense to buy from third parties, for example. So how does that volume equation play-out in this steel pricing scenario? Are you thinking about increasing exports, for example?

And a second question for Mr. Martinez. Martinez, many things changing recently in the world, coal prices going through the roof, of course, many variables are also changing, currency and so on. And so my question is if you could tell us where negotiations stand with the automotive industry? I know those are complex negotiations, but if you could give us some color, we know that there are -- or there is a 30% to 40% disconnect in prices. So what can you tell us about the automotive industry, such an important segment for you?

And also if you could estimate the necessary adjustment level to offset that strong uptrend in coal? So those questions. The first one about coal volumes in coal and secondly, price negotiations with automotive industry and also a third question about the necessary price increase to offset the inflationary pressure that we are seeing now? Thank you.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Leonardo, thank you for your questions. I'll give the floor over to David, he will be talking about mining and then Martinez will address the question about steel.

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

Good morning, Leonardo. As for volume for next three years as you asked, for next year, we have plants which are completed, we are now discussing the final phase of the budget plan. So for next year, we allocate 35.5 million for railways, 3.5 million coming from this trading with third parties and Minerios and 32 million from our own production. We will sell 5.5 million internally, domestically, basically for volatile redundant [ph] and we should be shipping around 30 million tons or slightly above for the next years, depending on how the scenario consolidates, especially by starting the second quarter of next year, if we continue to invest, we will be able to reach a level of 37 million in the second year.

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

Hi, Leonardo. Good morning, this is Martinez speaking, actually we had an increase of 10% in April, 10% in May, 10% in June and now on November 1st, we had a 5% increase. We expect another increase for January. We might have to anticipate a part of that to December at around 10% for distribution. And for the automotive industry specifically, we are now asking for 25%, not 30% to 40% of disconnect, as you mentioned because we have more stable prices in that segment.

Today, the premium that we have when we compare to imported products starting from a Chinese product price of $460, we're talking about a range of 5% to 11%. But we cannot forget that to make a ton of gusa [ph], it takes 600 tons of coal and 1.5 million tons of iron ore. So a slab for our competitors will cost something close to 500, so that increase of international prices is favorable to us. So increasingly, we will be more competitive, especially internationally because of that increasing prices abroad.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you very much.

Operator

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

Q - Ivano Westin {BIO 17552393 <GO>}

Good morning, everyone. Thank you for taking my questions. Martinez, I have a question for you first. If you could comment on demand for 2017, in terms of volume? And also if you could talk a little bit about a breakdown of demand per segment, so we could understand where that demand is coming from for 2017, so where we could expect a better sales delta for next year? And the second question David, if you could comment on the debt rollout, which you mentioned at the beginning of the call? You mentioned that you have started negotiations, so what would be the amount of debt you are considering rolling at this time?

And also what would be the strategy for this investment in the past? You have brought to the table possible divestments from Tecon, it's apparently on hold at the moment, so I'd like to have a better picture of your position. So you wouldn't be divesting Tecon, would that make sense today that's the bottom-line question?

A - Unidentified Speaker

Ivan, thank you for your questions. Martinez will answer the first one and then I'll ask Mr. Benjamin to tackle the second question.

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

Ivano, good morning, As for demand, our volume guidance for next year shows 6.2 million tons. For the domestic market, we are estimating 3.9 million tons, 1.7 abroad. For controlled companies, 0.3 direct exports and long steel 0.3 as well. So the apparent consumption for next year, will probably show a growth of 3.4, 3.5. As Benjamin mentioned, we are very optimistic and also realistic, but I think I'm even more optimistic. Why? Because the inventories in the value chain are very favorable and I'm talking about our intermediary clients' inventories. So it would take at least three months to replace those inventories.

Now as to where demand is coming from, I'd like to emphasize two sectors. Automakers, last year, we read that couple of car makers expect to grow 10% next year, especially in the second half of the year, 10% minimum. I'm talking about GM, which is the company that lost the least this year. And also civil construction, we see a few measures being introduced. 1,100 works will be resumed and that will probably help us. And the so-called reforma (inaudible) or a renovation card which will stimulate that industry. So confidence level is better, demand is expected to grow with this civil construction segment and that's what I could share with you in terms of demand for now.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

As a complement to what was said by Martinez, we business leaders are all expecting an improvement and we are more optimistic than the government, I think. But economic activities are -- is very minimum level right now. And there were cuts across the board. I'm talking about small, mid-size and large-size companies. There was an adaptation effort across the board, cuts were made and we are now working at a very, very low level of activity from hand to mouth, if you will, that is to survive the moment.

So what we see now is that the private sector, already seeing an improvement in the economic scenario is now positioning itself in a more favorable -- favorable light. We are doing our share of that, we are, of course, still waiting for the government's next step. As I said, we expect that to happen in the fall [ph] of a drop in interest rates, a recovery of credit lines, which will, of course, do better employment and a more balanced fiscal situation. But all-in-all, we're already seeing the economy show gradual steps forward. So it is a recovery, which we do believe might turn out to be better than anticipated.

But that happens, as I said, because we are now going through a very low level of activity. We see no intermediate inventories, just to give you an example. So we are -- this is a realistic point of view, but at the same time, very optimistic with an eye to a more positive future in terms of employment specifically that is fundamental for the company or for the country's recovery.

As for the sales of assets, I have mentioned that but I will re-emphasize that. We have not given up on any of our assets, we are analyzing all possibilities. We are talking about potential buyers, but we are very -- we are being very, very cautious. The idea is, as I said, to maximize the value of those assets. We have no bad quote-unquote assets. So we're not going to sell anything to stop losses. We have excellent assets, but which are peripheral to our activities that could be sold in order to bring our debt levels down. That's what we are looking at.

So we're trying to recover margins on the one hand, and with that we'll improve results. And on the other, we are trying to work, to look at possible asset sales. And we are working also in the sales of -- as I said, other assets. But as I said, I'd like to emphasize we're very -- we are being very, very cautious, very surgical, if you will, in trying to assess that demobilization of a few assets.

As for mining, your other question, we already have the participation of a consortium at Congonhas. We have also a very strong participation there. And with improvement in commodity prices, we might go back to discussing that. In that looking to reduce our participation in mining, but still remain in the segment. Just as a complement, our amortization schedule, we are now at 5.5 million, which will mature in 2018 and 7.3 billion maturing in 2019. So we are focused in renegotiating those terms, also looking to achieve a better balance.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you, Benjamin. Thank you, David. Thank you, Martinez. Just one final question, if I may, Benjamin. Could you give us some guidance in terms of estimates for the total amount of divestments you were thinking about by the end of next year?

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Yes, yes. I can. We'd like to have something around 8 billion. That's the number or the figure, we are focusing on or aiming at, if you will, in terms of deleveraging 8 billion. Of course, as I also said, we're also at the same time assessing an important improvement in the company's margins. If we have a drop in interest rate starting next year, we believe that at least debt reduction could fit at around 0.5%. If you have a sequence of those drops that would be also a way for us to bring that leveraging level down in terms of what we pay.

Now we have this constant concern in terms of bringing that debt levels down. We do have, as I said, good peripheral assets, which could be negotiated, just as we also consider a possible sale of 20% to 30% of our mining operations, should that up trend in commodities persist. And because of the Pedro mine is an excellent business for example, so there are companies interested. So if those commodity prices remain at favorable level, I'm sure other interested parties will emerge, so we are paying close attention.

But again, we want to maximize those values. People have this idea that I do not like to sell, well, I don't. Our tradition is to buy, not to sell, but we have broken that assumption, when we sold some of our assets. And we are paying attention to other opportunities with an eye to reducing our debt levels. Okay, okay. Thank you, Benjamin. Thank you.

Operator

(Operator Instructions) Mr. Thiago Ojea from Citibank has a question.

Q - Thiago Ojea {BIO 17363756 <GO>}

Good morning, everyone. Thank you for taking my question. I'd like to confirm with Martinez about the premium. You said 5% to 11%, are you factoring in this new 10% increase from the distribution segment, Martinez? That's the first question. And a second question about the US with the new President, a few measures are already being negotiated. There seems to be some protectionist measures in the horizon, what does that mean for you? We know that anti-dumping measures were being considered, is that positive or negative for the company, to CSN, those protectionist measures in the horizon with the new President in the US?

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

Good morning, Thiago. The premium does not include that 10% increase, it does not. And the US dollar there is also at 3.20, so you need to do the math. As for the US, 80% of what we sell to them, 80% is basically coated products, there is no dumping today and we do not expect any protectionist measures in this market because the US is a net importer for that products. The products we send or we ship to the US are specific products. So I do not believe and I do not see any type of retaliation, if you will, to Brazilian coated products or galvanized products. So the scenario remains the same and our plan is to maintain an export level of 300,000 directly and 1.7 for non-controlling company, including 500,000 from LLC [ph].

Q - Thiago Ojea {BIO 17363756 <GO>}

Okay. Thank you.

Operator

We have a question from the conference in English. Mr. Carlos Alba from Morgan Stanley would like to ask a question.

Q - Carlos Alba {BIO 15072819 <GO>}

Yes, good morning. Thank you very much. A question has to do [ph] if you could mention again the guidance for steel volumes next year? And also what are the prospects of the --

have you already -- at what stage is the company in the renegotiation of the debt that is maturing in 2018 and 2017 -- sorry '19 and '18?

And also in the event that the company does sell a stake in the mining business, is it fair to expect that CSN will remain a controlling shareholder or remain or keep the majority of the equity in that business? And also if you could be a little more precise and tell us what is -- up to what size -- or up to what stake will the company be divesting in the mining business? Thank you.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Carlos, thank you for your questions. I'll start by the second question and I'll give the floor over to Martinez to address your other concerns. As I said, we have already started the renegotiation of that for 2018 and 2019. They are ongoing as we speak. And as we move ahead, we will be updating the market.

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

As for the mining operation, we are talking about a minority sale. We are going to keep control. Casa de Pedra is one of the vast mining assets in Brazil. So again, we will sell a minority stake, we will remain as majority controllers. The number 6.2 million total for guidance, 3.9 domestically, 300,000 tons in long steel and the remaining in the external market 1.7 for the foreign market and 0.34 direct exports.

Operator

We have another question from the conference in English. Mr. Peter (inaudible) from Barclays would like to ask a question.

Hi, guys. Thanks for taking my question. First, I was wondering, given the rally in iron ore -- I mean, it's almost $78 today. Are you guys thinking on putting some hedges or kind of what your thought process on that?

Operator

Ladies and gentlemen, please hold. CSN's conference call will be resumed momentarily. Thank you. You may carry on gentlemen.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Peter, we had a technical glitch, but we're now back with the call. I'll give the floor over to Geraldo [ph] from our mining commercial department, who will address your questions.

A - Unidentified Speaker

Thank you, Peter. As Benjamin mentioned before, we are exposed to an index that we changed in the end of the year -- in the beginning of this year. So we will capture, if you will, that price trend on a timely basis. So we will -- this is what is in terms of the physical part. But in terms of financial part, we are considering the possibility of working with derivatives and explore that momentum of height of uptrend in the market.

Operator

(Operator Instructions) Mr. Ivano Westin from Credit Suisse would like to ask a question.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you for the follow-up. Still about mining. Daniel, if you could comment on what you expect in terms of the evolution of the cash cost for 2017, 2018, I'd appreciate that? And once again congratulations on a good third quarter results. And as for cement, if you could talk about the outlook for volume and profitability? Thank you.

A - Daniel Santos {BIO 5990682 <GO>}

Good morning, Ivano. We made a significant effort in bringing costs down starting in June 2014 when we realized that the crisis would be more serious than was anticipated. So we implemented a plan, which started with the change in our operating model, trying to maximize the production at Casa de Pedra without risking the operations' sustainability in the long run.

And with that we started a process, right after that, a process of renegotiating contracts, reducing inventories, discussing with all suppliers at all levels and we are now maintaining those actions. They are part of the company's every day procedures. And we hope to be able to maintain that cost levels we have achieved.

And our objective will always be to rank among the industry's third lowest costs. So we -- our aim is to be close to our main competitors. Thus, maintaining our competitiveness level. Casa de Pedra is an asset, which allows us a considerable flexibility. So the idea is to, as I said, to be among the companies with the lowest cost level.

Ivano, as for cement, the Brazil market reached close to 75 million. Today, we are talking about 54 million. CSN with the new oven in Arcos will be operating at levels of 4.2 million tons. In other words, we will become an important player in the industry, since we are localized in the Southeastern region of Brazil, Sao Paulo, Rio and Minas, basically the industry saw a total drop in the year of 13% where we grew 20%. As for profitability, I believe that with the price increases, we increased prices in August by 8%. There is a new increase scheduled for December, so this is the moment to recover profitability in the cement segment. We were in the ramp-up of product [ph] of operations, so we had -- we incurred higher costs. But we do believe in this business, we do believe in this industry, it integrates well with our other businesses and it's part of the company's natural call for civil construction.

Our long steel and cement products are very much in line with what civil industry -- civil construction industry needs. As was just said, we have a very important stake in the Southeastern market for cement. We are doing very well this year. As Martinez said, we are now talking about 4.2 million tons for next year. We have now both ovens operating, of course, we aim at increasing our market participation, especially Southeastern. And we now -- are now focusing on price recovery.

The newest asset in the industry is ours. We're looking at a cost of per ton -- a 100 per ton. And we should be expecting that level to come down, and our challenge -- we -- is to become more stable in the Southeastern market and then to try and explore other markets. But the focus now is to reach 20% market share in the Southeastern with better improvements [ph] -- better prices, sorry.

So -- and that will reflect an immediate improvements in our margins. There was a cost for us to enter that market. Now that we have entered and have stabilized our operations, we expect for next year to have significant better in terms of prices.

Q - Ivano Westin {BIO 17552393 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Thank you. There are no more questions. I'll give the floor over to Mr. Salama, IRO, for his closing remarks.

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

Before I close, I'd like to give the floor over to Mr. Benjamin, who will start by making his final remarks.

A - Benjamin Steinbruch {BIO 1499059 <GO>}

Thank you all for participating in our call. I'd like to thank our personnel for the great effort they've been making, so that the company can show better results. As I said, we are being very fortunate in this effort. Since every quarter, we see things improving. And they have been improving at significant levels. We are -- we have high expectations for this final quarter of the year.

We do believe it stands to be the best quarter in the year and we are ready to produce more. We are working hard towards a positive future, but we maintain our feet on the ground very cautiously, nothing is easy, but that's the time where we can show the quality of our people and the quality of the assets that we have in the company.

I do hope that all the work, which was carried out, in terms of reducing costs, of reducing capital, of reducing investments, all of that with an eye at preserving liquidity, improving results, reducing indebtedness and being able to resume a more positive situation, which we've enjoyed historically. So whatever could be done internally was done and if we enjoy improvement in the market, we'll see our results multiplying by two because of the very high capacity we have to respond to those variations in the market.

As Furthermore, the broader economic scenario, of course, we depend on our internal market.

We are also working hard to gain market share in all segments. And with the recovery of prices in commodities, we are encouraged. We feel encouraged to improve our margins internally as well. And I'm sure, we'll have more positive numbers going forward.

Once again, thank you very much for participating in the call. Your participation shows the level of confidence that you have in our company, in our people and I'm very happy about that. I'm sure the fourth quarter will be a very positive surprise to everyone. We are working hard to make that happen. And as I said before, we are quite committed to reducing leverage and with divesting some assets. Thank you all.

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

Okay. Thank you all for participating. Our IR team remains available for any questions or comments you may have. Have a nice afternoon. Thank you again.

Operator

Thank you. This concludes today's CSN's earnings conference call. You may disconnect your lines at this time, and have a nice day.