UBS

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Chief Investment Office GWM
Investment Research
For investors outside of the US

Gerdau: Steel strong

Emerging market bonds

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- Gerdau is a leading producer of long steel products in the Americas. Besides Brazil, the company carries operations in the US, Canada, Mexico, Argentina, Uruguay, and Peru, with an aggregate installed capacity of over 25 million metric tons of crude steel per year. The company is the largest recycler in Latin America, as scrap represents over 70% of the main raw materials used to produce steel.
- Gerdau reported mixed 4Q24 results, as strong performance in Brazil was offset by ongoing challenging pricing conditions in North America. Year-over-year and quarter-over-quarter comparisons were negative, but credit metrics, including a relatively low leverage ratio of 1.1x, continue to lie well within robust and sustainable territory. In addition, its balance sheet is liquid, and refinancing risk over the foreseeable future looks low.
- All in all, we regard Gerdau as a strong credit with a robust capital structure. We find Gerdau's bonds suitable for a hold-to-maturity investment strategy and currently favor the USD-denominated 4.25% due in 2030 (ISIN USU4034GAA14), which at an indicative price of 95.227 as per Bloomberg Services offers a yield-to-worst of 5.367% (to maturity date 21 January 2030). For investors looking for shorter-dated bonds, we suggest the 4.875% due in 2027 (ISIN USG3925DAD24), which at an indicative price of 100.104 as per Bloomberg Services offers a yield-to-worst of 4.83% (to maturity date 24 October 2027).

Source: Getty

Fig. 1: Gerdau – Credit risk flags

CIO credit outlook	CIO credit risk flags			
	0 - 2years	2 - 5 years	5 -10 years	> 10 years
Stable				

Source: UBS, as of 13 March 2025

Leading industry position
Gerdau is a leading producer of long steel products in the Americas. Besides Brazil, the company has operations in the US, Canada, Mexico, Argentina, Uruguay, and Peru, with an aggregate installed capacity of over million metric tons of crude steel per year. The company is the largest recycler in Latin America, as scrap represents over 70% of the main raw materials used to produce steel. In 4Q24, Brazil accounted for approximately 39% of net revenues, followed by North America with about 36%, and South America and Special Steel with around 10% and 15%, respectively.

Mixed 4Q24...
Gerdau posted mixed 4Q24 results, in our view, as strong performance in Brazil was offset by ongoing challenging pricing conditions in North America. Net revenues and EBITDA declined 3% and 0.5% year over year in USD terms respectively, but profitability improved as the quarterly EBITDA margin widened 40bps, from 13.8% in 4Q23 to 14.2% in 4Q24. Quarter over quarter, net revenues and EBITDA declined 8.1% and 24.8%, respectively, mostly on the back of ongoing predatory imports in Brazil and seasonality factors in North America, and the quarterly EBITDA margin narrowed 320bps relative to 17.4% in 3Q24.

For the whole year, net revenues and EBITDA declined 9.9% and 25.6%, respectively, and the annual EBITDA margin tightened 340bps, from 19.6% in 2023 to 16.2% in 2024.

Table 1: Gerdau – Quarterly financial data

	4Q23	3Q24	4Q24	y-o-y	q-o-q
Net revenues (USDmn)	2,969	3,133	2,880	-3.0%	-8.1%
EBITDA (USDmn)	411	544	409	-0.5%	-24.8%
EBITDA margin (%)	13.8	17.4	14.2	+40bps	-320bps

Source: Company reports, UBS as of 13 March 2025

Table 2: Gerdau – LTMs financial data

LTMs as of:	12/2021	12/2022	12/2023	12/2024
Short-term debt (USDmn)	317	590	370	119
Long-term debt (USDmn)	2,203	1,795	1,874	2,090
Total debt (USDmn)	2,520	2,385	2,244	2,209
Cash (USDmn)	1,218	1,028	1,101	1,341
Net debt (USDmn)	1,302	1,357	1,143	868
Total assets (USDmn)	13,249	13,961	15,432	14,062
Equity (USDmn)	7,685	8,759	10,147	9,423
Net revenues (USDmn)	14,515	15,948	13,796	12,427
EBITDA (USDmn)	4,302	4,162	2,703	2,010
Interest expense (USDmn)	265	293	280	280
EBITDA margin (%)	29.6	26.1	19.6	16.2
EBITDA/Interest (x)	16.2	14.2	9.7	7.2
Debt/EBITDA (x)	0.6	0.6	0.8	1.1
Net debt/EBITDA (x)	0.3	0.3	0.4	0.4
Debt/Capital (%)	24.7	21.4	18.1	19.0

Note: LTMs = last 12 months
Source: Company reports, UBS as of 13 March 2025

Sound leverage...

Owing to flattish year-over-year operating cash flow generation in 4Q24, debt ratios held stable, and remained well inside sound and sustainable territory. Leverage (total debt divided by 12-month trailing EBITDA) as of 31 December came in at a relatively low 1.1x, unchanged versus September, above a very low 0.8x in December 2023 and an even lower 0.6x in both December 2022 and December 2021, but the ratio remained below 2.3x in December 2020, and 2.8x in pre-COVID-19 December 2019. We note that over the last 10 years, Gerdau's year-end leverage ratio, which ranks among the strongest within our Latin American corporate debt coverage, has ranged between a low of 0.6x (December 2021 and December 2022) and a high of 5.4x (December 2016).

... and liquid balance sheet

In addition, we continue to regard refinancing needs over the next 12 months as relatively low. As of 31 December, Gerdau reported a little over USD 1.3bn in cash, USD 119mn in short-term debt, and about USD 280mn in gross annual interest expense, while 12-month trailing EBITDA generation was running at a little over USD 2bn.

Stable IG status

The most recent credit rating actions have been favorable, and Gerdau is now rated investment grade by all three major rating agencies. On 8 June 2022, Fitch upgraded Gerdau from BBB- to BBB, with a stable outlook. On 2 October 2024, Moody’s upgraded Gerdau from Baa3 to Baa2, with a stable outlook. On 16 October 2024, S&P upgraded Gerdau from BBB- to BBB, with a stable outlook.

Table 3: Gerdau – Credit ratings

	Moody's	S&P
Outlook	Stable	Stable
Senior unsecured	Baa2	BBB

Source: Bloomberg as of 13 March 2025

Risk factors

Risk factors for Gerdau include a competitive and cyclical industry, volatility in scrap and steel prices, and potential for protectionism in major export markets.

Our bottom line

All in all, we regard Gerdau as a strong credit with a robust capital structure. We find Gerdau's bonds suitable for a hold-to-maturity investment strategy and currently favor the USD-denominated 4.25% due in 2030 (ISIN USU4034GAA14), which at an indicative price of 95.277 as per Bloomberg Services offers a yield-to-worst of 5.367% (to maturity date 21 January 2030). For investors looking for shorter-dated bonds, we suggest the 4.875% due in 2027 (ISIN USG3925DAD24), which at an indicative price of 100.104 as per Bloomberg Services offers a yield-to-worst of 4.83% (to maturity date 24 October 2027).

12-month rating history

None

UBS CIO risk views

Credit risk flags

CIO attaches a credit risk flag to the instruments under its coverage. Credit risk is assessed based on the remaining tenor and / or instrument type. The flag indicates the likelihood that a holder of the instrument will not receive a coupon or principal payment when it comes due. For subordinated and hybrid instruments, which are usually callable and have a remote or no fixed maturity date, we apply one uniform credit risk flag per issuer and instrument type. The idea is to reflect the possibility of contractual trigger events or regulatory intervention occurring. Either can impose losses on bondholders regardless of the remaining term of the instrument or a specific issuer default event. Credit risk flags only indicate our view of the riskiness of a particular instrument. Credit risk flags should not be seen as recommendations to buy, hold or sell. In fact, any combination of risk flags and relative value recommendations is possible.

Very low credit risk

We believe that the probability of debt payments not being made when they come due is very low (cumulative probability of less than 2%).

Medium credit risk

We believe that the probability of debt payments not being made when they come due is low to medium (cumulative probability of non-payment between 2% and less than 20%).

High credit risk

We believe that the probability of debt payments not being made when they come due is at least one in five cumulatively.

Issuer credit outlook

We complement the instrument-specific risk information of the credit risk flags by indicating our outlook for the credit quality of an issuer over the next 12 months. Depending on instrument pricing, all combinations of an issuer credit outlook and relative valuation recommendations are possible.
Improving: We expect the credit profile of the issuer to improve, to an extent that may result in upgrades by rating agencies.
Stable: We do not expect the credit profile of the issuer to change meaningfully.
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Note that the credit views in this report are those of UBS Financial Services and may differ from those of other parts of UBS regarding the same issuer.

UBS CIO valuation views

Relative value bond recommendations

Our relative value bond recommendations are based on an average investment horizon of six to 12 months. They reflect our assessment of a bond's attractiveness relative to comparable instruments under CIO coverage. Comparable instruments typically exhibit similar credit quality, are denominated in the same currency, and belong to the same segment of the bond market.
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Attractive Bonds seen as “attractive” are expected to generate a total return exceeding the average return of comparable instruments. Our recommendation can stem from a positive view on the issuer’s credit profile not fully reflected in the price, unduly high risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

Fair Bonds seen as "fair" are expected to produce a total return broadly in line with the average return of comparable instruments.

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Sell recommendations

Sell A Sell recommendation is assigned when the risk of an adverse outcome for an instrument exceeds what is reflected in its current valuation. Such situations can include those in which the instrument appears likely to post negative total returns until redemption, either due to a highly negative yield to maturity or an imminent call at a price below market valuations.

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While terminology might differ due to technical limitations, the definitions of the UBS valuation methodology apply.

UBS bond recommendation	Credit Suisse channels
Attractive	Buy
Fair	Neutral
Expensive	*no equivalent in CS channels*
Sell	Sell

For more information about our present and past recommendations, please contact ubs-cio-wm@ubs.com.

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For details please see "Understanding bonds: A guide to CIO's credit offering", published 16 April 2021.

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Credit / bond* rating	**Investment grade**	AAA	Aaa	Issuer / bonds have exceptionally strong credit quality. AAA is the best credit quality.
		AA+ AA AA-	Aa1 Aa2 Aa3	Issuer / bonds have very strong credit quality.
		A+ A A-	A1 A2 A3	Issuer / bonds have high credit quality.
		BBB+ BBB BBB-	Baa1 Baa2 Baa3	Issuer / bonds have adequate credit quality. This is the lowest Investment Grade category.
	Non-investment grade	BB+ BB BB-	Ba1 Ba2 Ba3	Issuer / bonds have weak credit quality. This is the highest Speculative Grade category.
		B+ B B-	B1 B2 B3	Issuer / bonds have very weak credit quality.
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