MOODY'S
RATINGS

Rating Action: Moody's Ratings downgrades CSN to Ba3; changes outlook to stable

12 Feb 2025

New York, February 12, 2025 -- Moody's Ratings (Moody's) today downgraded Companhia Siderurgica Nacional (CSN)'s Corporate Family Rating (CFR), CSN Resources S.A.'s Backed Senior Unsecured Notes and the Backed Senior Unsecured Notes of CSN Inova Ventures ratings to Ba3 from Ba2. The outlook for these issuers was changed to stable from negative.

RATINGS RATIONALE

The downgrade to Ba3 reflects the company's weak credit metrics over the last twelve months and our expectations that metrics will remain pressured in the next 12-18 months because of weaker market conditions in the steel and iron ore segments. CSN's adjusted EBITDA decreased to around BRL10 billion in the 12 months that ended September 2024 from BRL11.5 billion in 2023, reflecting lower prices, and the company's adjusted leverage increased to 5.5x (around 5.0x excluding non-cash items) from 4.0x during the same period. We expect CSN's adjusted leverage ratio to remain within 4.5x-5.0x over the next 12-18 months based on lower steel and iron ore prices, but to strengthen to 4.0x-4.5x over time based on the price scenario of $80-$110 per ton for iron ore (62% Fe) and normalized profitability on steel operations. However, unless CSN is able to accelerate deleveraging through asset sales, capex reduction or proactive debt reduction, the company's credit metrics and free cash flow generation will be more commensurate with a Ba3 rating category in the next 2 years.

CSN's Ba3 ratings reflect the company's position as a leading manufacturer of flat-rolled steel in Brazil, with a favorable product mix that is focused on value-added products, and as a major producer of iron ore (the second-largest exporter in Brazil). Historically, the company has reported a strong Moody's-adjusted EBITDA margin of 20%-35% (22.0% in the 12 months that ended September 2024), supported by its solid domestic market position, wide range of products across different segments and globally competitive production costs for both steel and iron ore. CSN's ratings also incorporate an improvement in the company's liquidity, driven by several measures implemented over the past three years.

CSN's ratings are constrained by the company's track record of aggressive financial policies, including a highly leveraged capital structure, an appetite for growth and dividend distributions. Additional credit concerns include CSN's exposure to the volatility in the steel business in Brazil and iron ore prices, its concentration in a single production site in the mining segment and potential overhangs related to ongoing judicial disputes.

The company has reduced its leverage rapidly in 2020 and 2021 because of a higher EBITDA stream coming from the strong performance of the iron ore export business and better-than-expected performance of steel in 2021. The company's steel and iron ore operations have been softening since 2024 after the peak performance in 2022 and 2023 but profitability will remain adequate based on still higher-than-historical price levels, despite weakness in the Brazilian steel market coming from competition from imports. CSN generated significant free cash flow (FCF) in 2022 and 2023, but the company directed proceeds for acquisitions and dividend payments. The acquisitions and dividend payments do not jeopardize CSN's credit profile and liquidity substantially, considering the significant buffer the company has built under credit metrics, but it does highlight CSN's appetite for growth and its capital allocation strategy, which does not prioritize debt reduction. Accordingly, the company's total debt and leverage increased in the last 2 years and CSN will still need to build a track record of conservative financial management, either through the maintenance of a robust cash position or through the acceleration of gross debt reduction.

LIQUIDITY

CSN's cash position was BRL19.5 billion (BRL20.5 billion, including Usinas Siderurgicas de Minas Gerais S.A.'s shares) at the end of September 2024, of which BRL14.5 billion is at CSN Mineração. The company's cash position increased as a result of the FCF generated since mid-to-late 2020 and the company's liquidity-enhancing initiatives, such as the BRL4 billion initial public offering (IPO) of its mining subsidiary, the monetization of BRL1.3 billion related to Usiminas' preferred shares and will improve further with the additional sale of 10.7% stake in the mining subsidiary in the fourth quarter of 2024. CSN's debt amortization schedule also improved sustainably with liability management initiatives that reduced debt costs and increased debt tenors.

We expect CSN to maintain a recurring cash position close to BRL15 billion, and CSN has stated its target to maintain net leverage below 3.0x. Such milestones increase visibility into CSN's ability to maintain solid credit metrics and liquidity while the company continues to invest in growth, although the company still lacks a track record of adhering to such targets.

RATING OUTLOOK

The stable outlook reflects our expectation that CSN's credit metrics will remain adequate for the Ba3 rating category in the next 12-18 months and that the company will maintain a good liquidity.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

CSN's ratings could be downgraded if the company's performance does not improve over the next 12-18 months, such that its leverage remains above 5.0x and EBIT/interest remains below 1.5x on a sustained basis. Evidence of more aggressive financial management, such as large acquisitions or dividend distributions, or a deterioration in the company's liquidity would also trigger a rating downgrade.

CSN's ratings could be upgraded if the company exhibits conservative financial management over an extended period, or builds a track record of financial flexibility, either through a strengthened cash position or a lower debt balance through commodity cycles. An upgrade would also require total leverage to recover below 4.0x total adjusted debt/EBITDA and an interest coverage ratio, measured as EBIT/interest expense, above 2.5x on a sustained basis.

COMPANY PROFILE

With an annual capacity of 5.6 million tons of crude steel, Companhia Siderurgica Nacional (CSN) is a vertically integrated, low-cost producer of flat-rolled steel, including slabs, hot and cold rolled steel, and a wide range of value-added steel products, such as galvanized sheet and tin plates. In addition, the company has downstream operations to produce customized products, pre-painted steel and steel packaging. CSN sells its products to a broad array of sectors and industries, including automotive, capital goods, packaging, construction and home appliance. CSN owns and operates cold rolling and galvanizing facilities in Portugal, along with long steel assets in Germany, through its subsidiary Stahlwerk Thüringen GmbH. The company also has a long steel line (500,000 tons capacity) at the Volta Redonda plant. CSN is a major producer of iron ore (the second-largest exporter in Brazil), with a sales volume of 43.0 million tons in the 12 months that ended September 2024. The company has operations in other segments, such as cement, logistics, port terminals and power generation. CSN reported revenue of BRL43.7 billion ($7.9 billion) in the 12 months that ended September 2024, with an adjusted EBITDA margin of 22.0%.

The principal methodology used in these ratings was Steel published in November 2021 and available at https://ratings.moodys.com/rmc-documents/356428 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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Carolina Chimenti
Vice President - Senior Analyst

Marcos Schmidt
Associate Managing Director

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653
