

# Vale (VALE3) | Neutral; TP R\$73.00/sh.

## 3Q23 Results

Dividend Announcement as the Main Highlight Amid Neutral Results

Vale reported neutral 3Q23 results, with adj. proforma EBITDA of US\$4.5 billion -1% vs. XPe and -4% vs. consensus (+8% QoQ). With operating figures already reported ([click here](#)), we note iron ore solutions as the positive highlight (adj. EBITDA +13% QoQ), with cash C1/t<sup>1</sup> improving 7% QoQ and, in our view, mitigating part of investors' concerns on the non-achievement of 2023FY guidance of US\$21.5-22.5/t (although we expect it to be closer to the high-end). **Moreover, Vale also announced dividends of US\$2.0 billion** (to be paid on December 1<sup>st</sup>, 2023), which we believe to reflect the company's confidence on FCF generation and on the conclusion of the VBM transaction in the short-term. **We reiterate our Neutral rating on Vale.**

**Financial highlights:** (i) Expanded net debt of US\$15.5 billion +5% QoQ, mostly due to US\$1.7 billion disbursed on interest on capital payments and FCF of US\$1.1 billion (with 0.6x net debt/adj. LTM EBITDA). (ii) Finally, Vale also announced: (a) the distribution of US\$2.0 billion in interest on capital and dividends (~3.5% yield), scheduled for December 1<sup>st</sup>, which we see as a positive sign of cash flow generation confidence and comfort on the conclusion of the VBM transaction; and (b) a new buyback program (~150 million shares), replacing the previous one (which expires tomorrow).

**Iron ore solutions:** adj. EBITDA of US\$4.45 billion (+18% YoY, +13% QoQ), mostly in line with our estimates. We note that C1<sup>1</sup> cash cost/t in 3Q23 improved 7% QoQ, with an estimated sequential reduction of 2-15% in 4Q23E for the 2023FY guidance of US\$21.5-22.5/t to be achieved (which we see as likely, given expected higher fixed cost dilution in 4Q23E, although closer to the high-end of the range).

**Energy transition:** the main lowlight of today's results, with adj. EBITDA of US\$379 million (-9% vs. XPe), mainly due to weaker performance in the nickel division (adj. EBITDA -57% QoQ), with positive evolution from copper operations (adj. EBITDA +14% QoQ).

**Our take:** we believe that today's results partly mitigate the cost concerns for Vale (although we expect C1/t to be closer to the high-end of the US\$21.5-22.5/t range in 2023FY), with the new dividend announcement of US\$2.0 billion reflecting the company's comfort on cash flow generation and the conclusion of VBM transaction, in our view. Finally, given (i) lower expectations for iron ore prices in the future and as (ii) Vale is already pricing-in lower iron ore prices, we reiterate our Neutral view on the shares.

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Vale (VALE3)	Neutral
Target Price (R\$/sh.)	73.00
Current Price (R\$/sh.)	65.30
Upside (%)	11.8%
Market Cap (R\$ million)	296,396
# of shares (million)	4,346
Free Float (%)	62%
ADTV (R\$ million)	1,726

## Vale (VALE3) 3Q23 Summarized Results

Vale - 3Q23 Results	3Q23A	3Q23 XPe	vs. XP	3Q22	YoY	2Q23	QoQ
Net Operating Revenues	10,622	10,755	-1%	9,929	7%	9,673	10%
Adj. EBITDA	4,482	4,534	-1%	4,002	12%	4,145	8%
Adj. EBITDA Margin	42.2%	42.2%	0.0p.p.	40.3%	1.9p.p.	42.9%	-0.7p.p.
Majority Net Earnings	2,836	2,463	15%	4,455	-36%	892	218%

# Vale's 3Q23 Results

Figure 1: Vale's 3Q23 Detailed Results

Vale - 3Q23 Results	3Q23A	3Q23 XPe	vs. XP	3Q22	YoY	2Q23	QoQ
<b>Income Statement</b>							
<b>Net Operating Revenues</b>	<b>10,622</b>	<b>10,755</b>	<b>-1%</b>	<b>9,929</b>	<b>7%</b>	<b>9,673</b>	<b>10%</b>
Iron Ore Solutions	8,862	8,861	0%	7,827	13%	7,776	14%
Base Metals	1,718	1,868	-8%	2,042	-16%	1,871	-8%
Others	42	26	59%	60	-30%	26	62%
<b>Adj. EBITDA</b>	<b>4,482</b>	<b>4,534</b>	<b>-1%</b>	<b>4,002</b>	<b>12%</b>	<b>4,145</b>	<b>8%</b>
Iron Ore Solutions	4,455	4,392	1%	3,773	18%	3,941	13%
Base Metals	379	417	-9%	364	4%	476	-20%
Others	-352	-276	28%	-135	161%	-272	29%
<b>Adj. EBITDA Margin</b>	<b>42.2%</b>	<b>42.2%</b>	<b>0.0p.p.</b>	<b>40.3%</b>	<b>1.9p.p.</b>	<b>42.9%</b>	<b>-0.7p.p.</b>
Iron Ore Solutions	50.3%	49.6%	0.7p.p.	48.2%	2.1p.p.	50.7%	-0.4p.p.
Base Metals	22.1%	22.3%	-0.3p.p.	17.8%	4.2p.p.	25.4%	-3.4p.p.
Impairment on Operating Assets	-122	0	n.m.	-40	205%	-66	85%
Brumadinho-Related Expenses and Others	-305	-110	177%	-336	-9%	-323	-6%
Dividends on JVs	0	21	-100%	28	-100%	105	-100%
D&A	-780	-895	-13%	-775	1%	-779	0%
<b>EBIT</b>	<b>3,275</b>	<b>3,508</b>	<b>-7%</b>	<b>2,823</b>	<b>16%</b>	<b>2,872</b>	<b>14%</b>
EBIT Margin	30.8%	32.6%	-1.8p.p.	28.4%	2.4p.p.	29.7%	1.1p.p.
Equity Income	94	0	n.m.	78	21%	5	1780%
Net Financial Results	-385	-347	11%	2,347	-116%	-157	145%
Income Taxes & Contributions	-127	-686	-81%	-804	-84%	-1,792	-93%
Gains from Discontinued Operations	0	0	n.m.	0	n.m.	0	n.m.
Minorities	-21	-12	70%	11	-291%	-36	-42%
<b>Majority Net Earnings</b>	<b>2,836</b>	<b>2,463</b>	<b>15%</b>	<b>4,455</b>	<b>-36%</b>	<b>892</b>	<b>218%</b>
<b>Balance Sheet</b>							
<b>Capex</b>	<b>-1,464</b>	<b>-1,356</b>	<b>8%</b>	<b>-1,230</b>	<b>19%</b>	<b>-1,208</b>	<b>21%</b>
Iron Ore Solutions	-963	-886	9%	-695	39%	-727	32%
Base Metals	-453	-448	1%	-422	7%	-421	8%
Others	-48	-22	123%	-113	-58%	-60	-20%
<b>Net Debt (Expanded)</b>	<b>15,494</b>	<b>14,671</b>	<b>6%</b>	<b>13,283</b>	<b>17%</b>	<b>14,690</b>	<b>5%</b>
<b>Selected Metrics</b>							
<b>Shipments (mt)</b>	<b>80.6</b>	<b>80.6</b>	<b>0%</b>	<b>77.6</b>	<b>4%</b>	<b>74.4</b>	<b>8%</b>
Iron Ore Fines (mt)	69.7	69.7	0%	65.4	7%	63.3	10%
ROM (mt)	2.2	2.2	0%	3.7	-39%	2.2	0%
Pellets (mt)	8.6	8.6	0%	8.5	1%	8.8	-2%
<b>Iron Ore Reference Prices (62%, China, CFR, US\$/t)</b>	<b>114.0</b>	<b>114.0</b>	<b>0%</b>	<b>103.3</b>	<b>10%</b>	<b>111.0</b>	<b>3%</b>
Iron Ore Fines Realized Prices (US\$/t)	105.1	105.1	0%	92.6	13%	98.5	7%
Iron Ore Average Grade (%)	62.9%	62.9%	0.0p.p.	62.1%	0.8p.p.	62.3%	0.6p.p.
Iron Ore Fines C1 Cash Cost/t (Excl. Third-Party)	21.9	22.7	-3%	19.4	13%	23.5	-7%
Pellets Realized Prices (US\$/t)	161.2	161.2	0%	194.3	-17%	160.4	0%
<b>Nickel LME Reference Prices (US\$/t)</b>	<b>20,382</b>	<b>20,382</b>	<b>0%</b>	<b>22,063</b>	<b>-8%</b>	<b>22,308</b>	<b>-9%</b>
Nickel Shipments (kt, Nickel Division)	39.2	39.2	0%	44.3	-12%	40.3	-3%
Nickel Realized Prices (US\$/t)	21,237	21,237	0%	21,672	-2%	23,070	-8%
Nickel EBITDA Breakeven (US\$/t)	18,570	18,756	-1%	17,003	9%	17,060	9%
<b>Copper LME Reference Prices (US\$/t)</b>	<b>8,333</b>	<b>8,333</b>	<b>0%</b>	<b>7,761</b>	<b>7%</b>	<b>8,424</b>	<b>-1%</b>
Copper Shipments (kt, Salobo and Sossego)	61.8	61.8	0%	52.9	17%	52.7	17%
Copper Realized Prices (US\$/t)	7,731	7,731	0%	6,663	16%	7,025	10%
Copper EBITDA Breakeven (US\$/t)	3,924	3,751	5%	4,185	-6%	3,091	27%

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