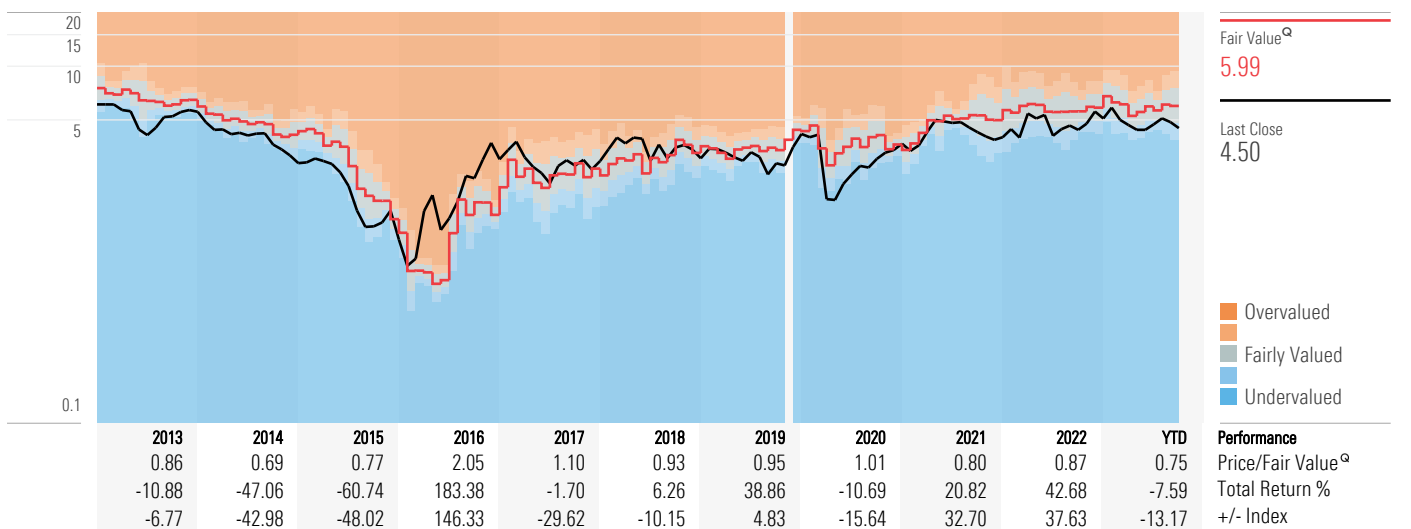


# Gerdau SA XGGB ★★★★★ Q 27 Sep 2023, 22:36 UTC

<b>Economic Moat</b> <sup>Q</sup>	<b>Uncertainty</b> <sup>Q</sup>	<b>Price/Fair Value</b> <sup>Q</sup>	<b>ESG Risk Rating Assessment</b> <sup>1</sup>	<b>Trailing Dividend Yield %</b>	<b>Market Cap</b>	<b>Investment Style</b>	<b>Sector</b>	<b>Industry</b>
None	Very High	0.8	6 Sep 2023 05:00, UTC	12.76	7.8984 Bil	Large Value	Basic Materials	Steel



As of 27 Sep 2023 | Index: Morningstar Brazil GR BRL. Fair Value data as of 27 Sep 2023, 22:36 UTC.

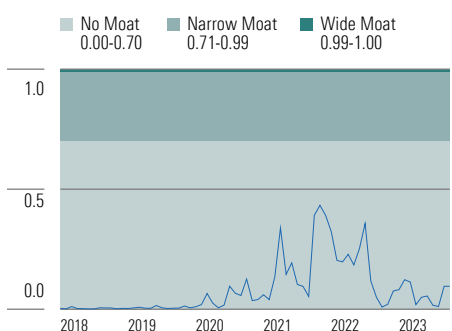
<sup>1</sup>The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating. Lee Davidson, Chief Analytics Officer for Morningstar, Inc, oversees the methodology that supports Quantitative Fair Value Estimates and Quantitative Star Ratings. Mr. Davidson is guided by the Morningstar, Inc. Code of Ethics in carrying out his responsibilities. For information regarding Conflicts of Interests, visit <http://global.morningstar.com/equitydisclosures>.

## Key Metrics as of 26 Sep 2023

Metrics	Value	Percentile in Sector
Earnings Yield (%)	21.4	96.0
Sales Yield (%)	171.1	82.0
Book Value Yield (%)	114.8	74.0
Return on Assets (%)*	12.6	93.0
Revenue(Bil)*	15.4	96.0
Market Value (Bil)	8.4	93.0
Enterprise Value (Bil)	10.0	93.0
EV/MV Ratio	1.2	71.0
Volatility TTM (%)	24.5	21.0
Drawdown TTM (%)	25.2	27.0
Volume (Mil)	10.9	95.0

\*30 Jun 2023

## Economic Moat <sup>Q</sup> History as of 27 Sep 2023



## Business Description

Gerdau SA produces steel and steel products. The company operates in civil construction, agriculture, automotive, iron ore, exports, research and development, and home steel products sectors. It offers products such as nails, rebar, columns, billets, slabs, tribar tutor, mechanical construction bars, reinforced steel locks. The company's geographical segment includes Brazil Operations; North America Operations; South America Operations as well as Special Steel Operations. It derives most of the revenue from the Brazil Operations segment.

## Valuation <sup>Q</sup> as of 28 Sep 2023

Gerdau achieves a 4-star quantitative star rating based on Morningstar's equity model. This reflects the company's valuation and uncertainty scores under this assessment system.

The Quantitative Fair Value estimate is 5.99, above the previous closing price of 4.50. The stock has been trading between a 28.37% and 5.56% discount to its quantitative fair value over the past year. The stock's current valuation rating sits at the 58th percentile in the coverage universe and 76th percentile in the basic materials sector (higher percentile indicates more undervalued).

The quantitative uncertainty rating for Gerdau is Very High.

Our quantitative star rating last differed from the current rating on 09/13/2023; the uncertainty rating last differed on 08/08/2023. The previous ratings were 3 and High, respectively.

The main drivers of the company's valuation and uncertainty are its earnings yield and drawdown. The earnings yield of 21.41% falls at the 95th percentile in the equity universe and the 95th percentile in its sector. The trailing 12-month maximum drawdown of 25.17% corresponds to the 42nd percentile overall and the 26th percentile in the in-

dustry.

## Economic Moat <sup>Q</sup> as of 27 Sep 2023

With a Morningstar quantitative moat rating of None, the quantitative moat score for Gerdau falls at the 11th percentile in the basic materials sector and at the 12th in the equity coverage universe. The company has maintained its None quantitative moat rating for the last year.

We also assign a Moderate quantitative financial health rating to Gerdau. The company's raw score on this metric, termed Distance to Default, ranks at the 52nd percentile overall and 63rd in the basic materials sector. Furthermore, this financial health rating has stayed Moderate over the last year.

Supporting these ratings are the company's book value yield and enterprise value-to-market value ratio. The book value yield of 114.75%, ranks at the 75th percentile in the covered equity universe and at the 74th percentile among its peers. Meanwhile, its enterprise value-to-market value ratio of 1.19, falls at the 62nd percentile in the universe and the 71st percentile in the basic materials sector.

## Fundamentals as of 27 Sep 2023

The earnings per share for Gerdau is 5.25. The company earns a return on invested capital of 16.45%, falling at the 93rd percentile in the basic materials sector. The firm maintains a dividend yield of 11.81%. We calculate the above figures over a trailing 12-month period.

Examining valuation further, we find Gerdau holds a price-to-earnings ratio of 4.56, a figure greater than 11% of its sector peers. The company's price-to-free cash flow ratio is 8.62, greater than 34% of its sector peers. These values are calculated using the stock's price at last market close.

# Gerdau SA XGGB ★★★★★ Q 27 Sep 2023, 22:36 UTC

<b>Economic Moat</b> <sup>Q</sup>	<b>Uncertainty</b> <sup>Q</sup>	<b>Price/Fair Value</b> <sup>Q</sup>	<b>ESG Risk Rating Assessment</b> <sup>1</sup>	<b>Trailing Dividend Yield</b> %	<b>Market Cap</b>	<b>Investment Style</b>	<b>Sector</b>	<b>Industry</b>
None	Very High	0.8	6 Sep 2023 05:00, UTC	12.76	7.8984 Bil	Large Value	Basic Materials	Steel

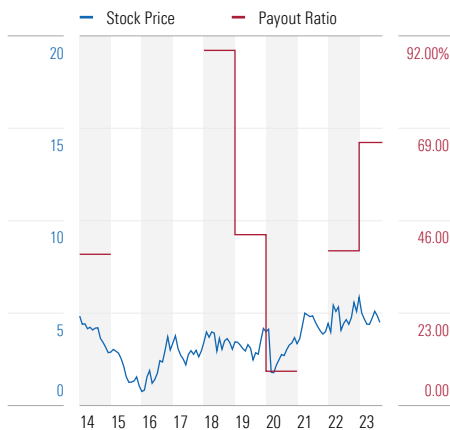
## Earnings as of 26 Sep 2023

Earnings	%	Percentile in Sector
Dividend Yield*	11.8	94.0
Payout Ratio*	65.5	76.0
Price to Earnings	4.6	11.0
Price to Cash Flow	8.6	34.0
ROIC**	16.5	93.0

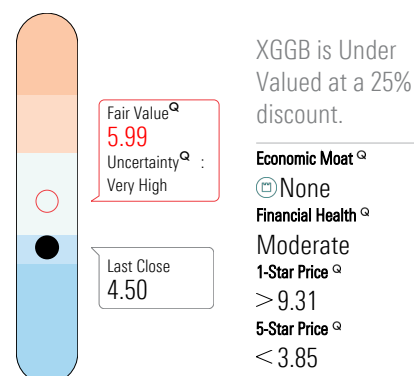
\*31 Aug 2023

\*\*30 Jun 2023

## Dividends as of 27 Sep 2023



## Valuation <sup>Q</sup> as of 27 Sep 2023



## Contact

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<https://www.gerdau.com>

## Financials as of 27 Sep 2023 (Fiscal Year End 31 Dec 2023)

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	Fiscal
40	43	44	38	37	46	40	44	78	82	37	Revenue (Bil)
2.70	2.50	1.81	1.35	2.04	4.46	3.22	5.52	20.02	16.60	6.59	Operating Income (Bil)
6.77	5.88	4.14	3.59	5.53	9.67	8.13	12.59	25.55	20.14	17.75	Operating Margin (%)
1.58	1.40	-4.55	-2.89	-0.36	2.30	1.20	2.37	15.49	11.43	5.34	Net Income (Bil)
0.89	0.78	-2.56	-1.62	-0.20	1.28	0.67	1.31	8.61	6.19	3.04	Diluted Earnings/Share
4.10	2.57	7.16	3.52	2.08	2.00	1.64	6.41	12.52	11.15	5.18	Operating Cash Flow (Bil)
-2,757	-2,409	-2,451	-1,378	-911	-1,262	-1,847	-1,805	-3,192	-4,481	-2,243	Capital Spending (Mil)
1,342	162	4,711	2,138	1,165	737	-204	4,603	9,325	6,669	2,938	Free Cash Flow (Mil)
1,792	1,792	1,773	1,790	1,794	1,802	1,795	1,797	1,799	1,847	1,760	Avg Shares Outstand(Mil)

## Valuation as of 27 Sep 2023

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Current	Calendar
0.86	0.69	0.77	2.05	1.10	0.93	0.95	1.01	0.80	0.87	0.75	Price/Fair Value <sup>Q</sup>
0.83	0.40	0.19	0.47	0.59	0.54	0.82	1.06	0.66	0.45	0.57	Price/Sales
25.05	11.45	—	—	—	44.78	22.70	30.10	3.57	3.75	4.53	Price/Earnings
7.28	5.87	1.41	4.90	14.27	9.39	9.45	11.56	6.37	2.25	4.26	Price/Cash Flow
1.10	0.53	0.23	0.67	0.85	0.91	1.23	1.34	1.13	1.02	0.85	Price/Book

## Operating Performance as of 27 Sep 2023 (Fiscal Year End 31 Dec 2023)

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q3	Fiscal (%)
2.85	2.31	-6.84	-4.64	-0.68	4.54	2.29	4.04	22.63	15.48	2.86	Return on Assets
5.5	4.49	-14.25	-10.38	-1.51	9.33	4.57	8.18	42.18	25.76	4.38	Return on Equity
4.72	4.24	-6.41	-3.79	0.99	7.41	4.23	6.46	30.43	20.4	3.64	Rtn on Invested Capital

## Dividends as of 27 Sep 2023

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Current	Calendar (%)
0.22	0.24	0.21	0.05	0.05	0.36	0.27	0.30	2.92	5.61	0.57	Dividend Per Share
—	2.67	5.28	0.44	0.6	2.63	1.43	1.34	—	12.46	12.76	Trailing Dividend Yield
—	—	2.64	0.57	0.0	0.63	0.29	—	—	—	1.83	Buyback Yield

# Appendix

**Economic Moat** <sup>®</sup>History as of 27 Sep 2023 (No Moat: 0.00-0.70, Narrow Moat: 0.70-0.99, Wide Moat: 0.99-1.00)

Year	January	February	March	April	May	June	July	August	September	October	November	December
2023	0.08	0.12	0.11	0.02	0.05	0.06	0.02	0.01	0.10	—	—	—
2022	0.32	0.20	0.20	0.23	0.18	0.25	0.36	0.12	0.05	0.01	0.02	0.08
2021	0.06	0.04	0.14	0.34	0.14	0.19	0.10	0.10	0.05	0.39	0.43	0.39
2020	0.01	0.02	0.07	0.03	0.01	0.02	0.10	0.07	0.06	0.13	0.04	0.04
2019	0.00	0.01	0.01	0.00	0.00	0.02	0.01	0.00	0.00	0.00	0.01	0.01
2018	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.00	0.00

## Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

### Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

- i. **Quantitative Fair Value Estimate:** Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to <http://global.morningstar.com/equitydisclosures> for information about Fair Value Estimate Morningstar's equity analysts assign to companies.
- ii. **Quantitative Economic Moat:** Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.
  - Narrow** – assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
  - Wide** – assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
  - None** – assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

- iii. **Quantitative Star Rating:** Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, Quantitative Uncertainty Rating, and momentum. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

★ – the stock is overvalued with a reasonable margin of safety.

*Log (Quant FVE/Price) < -1\*Quantitative Uncertainty*

*Micro-Caps: Log (Quant FVE/Price) < -1.5\*Quantitative Uncertainty*

★★ – the stock is somewhat overvalued.

*Log (Quant FVE/Price) between (-1\*Quantitative Uncertainty, -0.5\*Quantitative Uncertainty)*

*Micro-Caps: Log (Quant FVE/Price) between (-1.5\*Quantitative Uncertainty, -0.75\*Quantitative Uncertainty)*

★★★ – the stock is approximately fairly valued.

*Log (Quant FVE/Price) between (-0.5\*Quantitative Uncertainty, 0.5\*Quantitative Uncertainty)*

*Micro-Caps: Log (Quant FVE/Price) between (-0.75\*Quantitative Uncertainty, 0.75\*Quantitative Uncertainty)*

★★★★ – the stock is somewhat undervalued.

*Log (Quant FVE/Price) between (0.5\*Quantitative Uncertainty, 1\*Quantitative Uncertainty)*

*Micro-Caps: Log (Quant FVE/Price) between (0.75\*Quantitative Uncertainty, 1.5\*Quantitative Uncertainty)*

★★★★★ – the stock is undervalued with a reasonable margin of safety.

*Log (Quant FVE/Price) > 1\*Quantitative Uncertainty*

*Micro-Caps: Log (Quant FVE/Price) > 1.5\*Quantitative Uncertainty*

After the initial calculation for the star rating, there is a final filtering step based on the momentum of the company. We rank the companies based on their 12-1 month momentum, then restrict those below the 30th percentile to a maximum of 3 stars.

- iv. **Quantitative Uncertainty:** Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

**Low** – the interquartile range for possible fair values is less than 10%

**Medium** – the interquartile range for possible fair values is less than 15% but greater than 10%

**High** – the interquartile range for possible fair values is less than 35% but greater than 15%

**Very High** – the interquartile range for possible fair values is less than 80% but greater than 35%

**Extreme** – the interquartile range for possible fair values is greater than 80%

- v. **Quantitative Financial Health:** Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

**Weak** – assigned when Quantitative Financial Health < 0.2

**Moderate** – assigned when Quantitative Financial Health is between 0.2 and 0.7

**Strong** – assigned when Quantitative Financial Health > 0.7

### Other Definitions

- i. **Last Close** – Price of the stock as of the close of the market of the last trading day before date of the report.
- ii. **Quantitative Valuation** – Using the below terms, intended to denote the relationship between the security's **Last Price** and Morningstar's quantitative fair value estimate for that security.

**Undervalued – Last Price** is below Morningstar's quantitative fair value estimate.

**Fairly Valued – Last Price** is in line with Morningstar's quantitative fair value estimate.

**Overvalued – Last Price** is above Morningstar's quantitative fair value estimate.

**Overvalued – Last Price** is above Morningstar's quantitative fair value estimate.

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Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk

Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit [sustainalytics.com/esg-ratings/](https://sustainalytics.com/esg-ratings/)

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