COMPARTILHAR ACOMPANHAR

Type what you want to search Search

07/29/2020

A+ A-

Vale's Performance in 2Q20

"We are moving in our path to de-risk the company even in a very complex second quarter of 2020, facing the challenging times brought by the COVID-19 pandemic with responsibility, discipline and sense of urgency. We continue to make progress on the reparation of Brumadinho, on the assurance of the safety of our dams and on the stabilization of our iron ore production. As another important step in the capital allocation front, we are also announcing the resumption of our dividend policy", commented Eduardo Bartolomeo, Chief Executive Officer.

Click here for full report.

Since March 2020, Vale had to adjust the way to operate amid the pandemic scenario, combining the initiatives on the reparation of Brumadinho and the ramp-up of iron ore production to the strong measures to protect our employees and support communities.

Reparation of Brumadinho

The reparation of Brumadinho is a priority for Vale. The works on that front have been continuously adjusted amid the COVID-19 pandemic to ensure their continuity. Actions to prevent and contain the COVID-19 spread were guided by care for communities and included financial resources and equipment for hospitals and local health units, the donation of more than 920 thousand PPE[1] and 55 thousand rapid test kits, and investments for the production of fabric face masks by local, small businesses and social projects.

In an active listening process, Vale has been working on an Integral Reparation Plan, which will lead its actions in the coming years to deliver structuring projects able to promote lasting positive impacts for the affected communities. Some of these projects are already being implemented, such as the Ground Zero, a pilot for environmental recovery in Brumadinho, while others are at an early stage, such as the Córrego do Feijão Memorial, a permanent facility to honour the victims and support territory re-signification.

The indemnification process continues, with the signing of civil agreements related to more than 600 people since the publishing date of the 1Q20 results. To date, such agreements refer to more than 7,600 people, while labour indemnifications relate to more than 1,600 people.

Since January 2019, approximately R$ 3.9 billion[2] have been paid in indemnities, including the monthly emergency assistance. In total, Vale has disbursed approximately R$ 11.5 billion[3] in initiatives related to the reparation of Brumadinho and the decharacterization of its dams.

Safety of our dams

We continue to develop our as is project and our decharacterization plan, advancing with the decharacterization works at Fernandinho dam and the construction of the backup dams.

We are also evolving with the decharacterization of other structures in Brazil:

. Doutor and Campo Grande dams and three drained stacks are in engeneering phase.

. Pondes de Rejeitos, a Base Metals dam, will be concluded in December 2020.

. Other upstream structures, such as dikes and water dams, are also being decharacterized.

We had two structures concluded in the first half of 2020 and a third one will be concluded in December 2020.

Stabilization of iron ore production

The major milestones towards the resumption of operations in 2Q20 were:

. Improved safety measures to fight the pandemic, reducing the contingent of workers at operation sites as much as necessary to allow for safe distancing, applied the test-trace-treat protocol, mass testing and quarantining workers that tested positive and those that have been in contact with positive cases.
. In the Southeastern System, Timbopeba dry-processing operation resumed in June and is shifting to wet-processing production after the temporary authorization by ANM to dispose tailings at Timbopeba pit. Additionally, Conceição plants are using tailings filtration and tailings disposal at the Onça and Periquito pits, after the ramp-up in 1Q20, as a short-term alternative for the Itabiruçu dam stoppage.

. In the Southern System, Vargem Grande Complex implemented alternative solutions to partially debottleneck logistic capacity at the site and partially resumed wet processing with tailings filtration, using the Maravilhas I dam and Cianita waste dump as a preliminary solution for tailings disposal. At Fábrica site, TAS[4] railway terminal resumed operation, after vibration tests, enabling inventory movement.

. In the Northern System, Vale obtained in June the preliminary license for the expansion of the Serra Leste mine, which represents the first stage within the licensing process. After the installation license is issued, Vale will resume its operation with 6 Mtpy capacity.

For more details, please refer to our 2Q20 Sales and Production Report.

Resumption of dividend payments

Following the reduction of uncertainties related to the pandemic, with risks of a second wave in China mitigated and the stabilization and decline in COVID-19 cases, especially in the northern states of Brazil (e.g. Pará), Vale assesses that the worst is likely behind us and decided to resume its Shareholder Remuneration Policy, which requires that the minimum dividends calculated based on 1H20 results to be paid in September. Additionally, the company is taking steps to repay part of its revolving credit facilities in the near future and, therefore, the Board has decided for the payment, on August 7th, 2020, of the interest on capital of R$ 1.41 per share approved on December 19th, 2019.

Vale ESG approach
Climate Change:
Vale moved further on its climate change agenda and quantified its ambition announcing a target, aligned with the Paris Agreement, to reduce 33% of its scope 1 and scope 2 emissions by 2030, with 2017 as a baseline. Investments of US$ 2 billion will be made in renewable energy over the next ten years to support and bring solutions to the low carbon economy. To prioritize the most cost-competitive initiatives, a marginal abatement cost was drawn up through a roadmap that analyzes more than 35 projects and considers renewables, energy efficiency, biofuels, electrification and breakthrough technology, using an internal carbon pricing[5].

Governance:

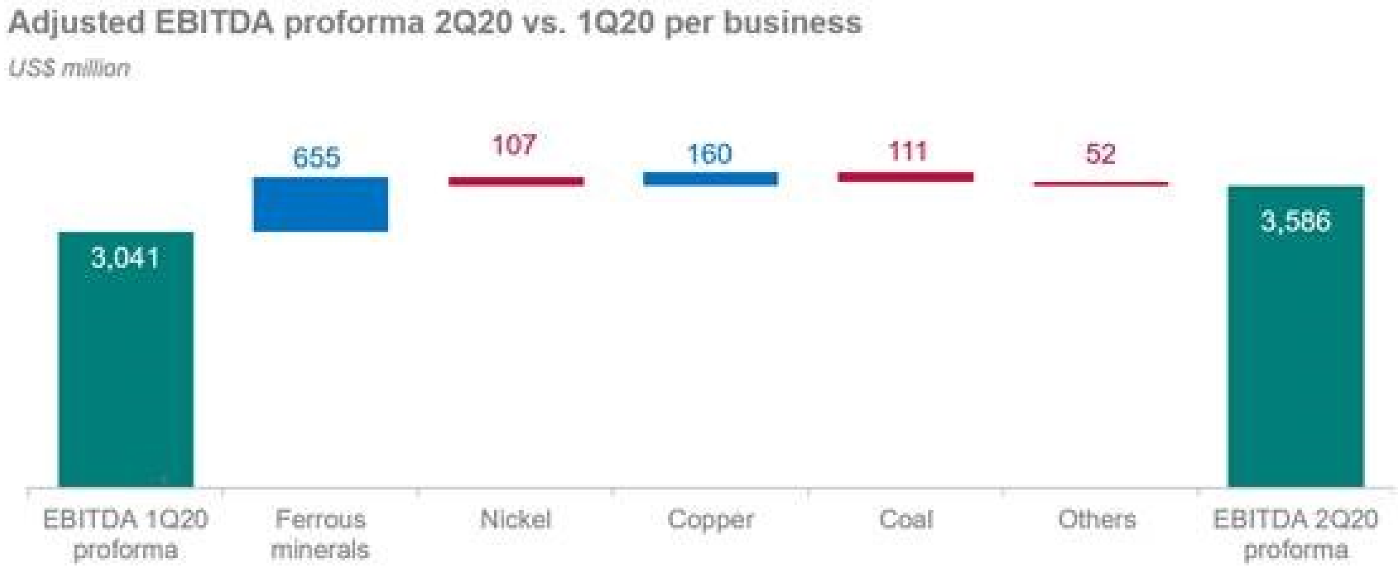
With the current Shareholder Agreement expiring in November, Vale's Board of Directors has decided to establish the Nomination Committee, with the role of proposing improvements related to the structure, size and skills of the Board, as these are essential to define the nominees to the 2021 Annual Meeting of Shareholders. The Committee was announced in July, with a majority of independent members and reputable names and backgrounds.

Risk:

Overseeing the third line of defense, Vale announced the Chief Compliance Officer, who will be responsible for the compliance office, including Integrity, Internal Audit and the Whistleblower Channel, which are directly subordinated to the Board of Directors.

Vale's performance in 2Q20

In 2Q20, proforma adjusted EBITDA, excluding US$ 130 million of expenses related to Brumadinho and US$ 85 million of COVID-19-related donations supporting initiatives to fight the pandemic, totaled US$ 3.586 billion, US$ 545 million higher than in 1Q20. After those effects, the adjusted EBITDA was US$ 3.371 billion in 2Q20.



Ferrous Minerals EBITDA of US$ 3.502 billion in 2Q20 was US$ 655 million higher than the US$ 2.847 billion recorded in 1Q20, mainly due to (i) higher realized prices, reflecting the healthy demand coming from China; (ii) higher iron ore fines sales volumes, following a quarter of stronger production volume; (iii) the positive effect of the Brazilian real devaluation; and (iv) lower freight costs, which were partially offset by higher iron ore fines C1 cash costs.

. Vale's realized price CFR/FOB totaled US$ 88.9/t, an increase of US$ 5.1/t compared with 1Q20, mainly due to higher 62% Fe reference price, higher forward price curve and higher premiums for Vale's low alumina products.

. The quarter-on-quarter devaluation of 21% of the average Brazilian real improved iron ore fines C1 cost by US$ 1.7/t. Nevertheless, iron ore fines C1 cost increased to US$ 17.1/t in 2Q20 from US$ 16.2/t in 1Q20, mainly due to effects anticipated in 1Q20 report, such as the consumption of inventories with higher average production costs from 1Q20 (US$ 1.1/t), higher volumes and prices of third-party purchase (US$ 0.7/t) and COVID-19 additional employee benefits and operational safety measures (US$ 0.3/t), and one-off effects, such as higher demurrage costs (US$ 0.5/t). Considering the lower end of the production guidance as the most likely scenario and the current foreign exchange rate level, C1 cash cost is expected to be close to US$ 14.5/t in 2H20. (please refer to the Ferrous Minerals section of the report for C1 cost build-up and details).

. Unit maritime freight cost per iron ore metric ton decreased US$ 3.6/t, totaling US$ 13.5/t in 2Q20, better than the expectation of at least US$ 3.0/t decrease driven mainly by lower bunker oil fuel costs. For 3Q20, freight cost may increase due to the seasonally higher exposure to spot freight prices.

The Nickel business EBITDA of US$ 243 million in 2Q20 was US$ 107 million lower than the US$ 350 million in 1Q20, mainly due to lower PGMs by-product credits, especially palladium and rhodium, and higher stoppage expenses related to the care and maintenance at the Voisey's Bay mine, which were partially offset by the positive effects of the nickel hedge positions Vale unwound in March 2020 and copper by-product realized prices.

The Copper business recorded an EBITDA of US$ 320 million in 2Q20, US$ 160 million higher than the US$ 160 million in 1Q20, mainly due to (i) higher realized prices, as LME prices trended higher toward the end of the quarter and provisionally-price-based invoices were either settled or marked-to-market with higher prices, and (ii) the favorable effect of the Brazilian real devaluation on Salobo and Sossego costs. Salobo unit cash cost after by-products credit remained negative for the second quarter in a row.

In the first six months of 2020, the impact of COVID-19 pandemic in Vale's costs and expenses was US$ 112 million, of which US$ 85 million in expenses with initiatives to fight the pandemic, such as donations of rapid test kits and personal protection equipment to the Brazilian and state governments and support of hospitals and local health units, and US$ 27 million in the increase of costs in operations.

Vale posted a net income of US$ 995 million in 2Q20, US$ 756 million higher than 1Q20, mainly due to:

. Higher EBITDA in 2Q20;

. The improvement of net financial results, as in 1Q20 this line was heavily impacted by derivatives expenses related to the Brazilian real devaluation;

Partially offset by:

. Impairment charges in Nickel assets of US$ 314 million, following the announcement in May 2020 of the exclusivity to the negotiate the sale of VNC with the Australian company New Century Resources Limited;

. Additional provisions of US$ 566 million for expenditures with Renova Foundation, following the update of its business plan and funding requirements to fulfill its commitments.

In June 2020, Vale signed, together with Sumitomo Metal Mining Co., the definitive agreements for sale of a 20% stake of PT Vale Indonesia Tbk ("PT Vale"), which is one of the requirements to be fulfilled in order for PT Vale to be entitled with the extension of its license to operate beyond 2025. For its stake, Vale will receive approximately US$ 290 million in cash upon closing of the transaction, which is expected to happen by the end of 2020, after the satisfaction of standard regulatory approvals.

Vale generated US$ 277 million in Free Cash Flow from Operations in 2Q20, US$ 103 million lower than in 1Q20, mainly due to the higher working capital needed to support stronger CFR sales in 2Q20 concentrated in June, which carry longer collection lead time than FOB sales. Vale expects its free cash flow to improve substantially in 2H20, following the increasing volumes and the gradual normalization of its working capital.

In July 2020, Vale issued US$ 1.5 billion in notes due 2030 bearing a coupon of 3.75% per year, representing an extremely successful return to the international debt capital market, from which it was absent since February 2017, with a 9x oversubscription and lowest-ever yield for Vale's 10-year benchmark. With such additional liquidity, Vale intends to repay a portion of its revolving credit facility during the third quarter of 2020.

Selected financial indicators

US$ million	2Q20	1Q20	2Q19
Net operating revenues	7,518	6,969	9,186
Total costs and other expenses	4,901	4,818	5,743
Expenses related to Brumadinho	130	159	1,532
Adjusted EBIT	2,564	2,067	2,132
Adjusted EBIT margin (%)	34%	30%	23%
Adjusted EBITDA	3,371	2,882	3,098
Adjusted EBITDA margin (%)	45%	41%	34%
Proforma adjusted EBITDA[1]	3,586	3,041	4,630
Iron ore - 62% Fe reference price	93	89	100
Net income (loss)	995	239	(133)
Net debt [2]	4,697	4,808	9,726
Capital expenditures	967	1,124	730

[1] Excluding expenses related to Brumadinho and COVID-19.

[2] Does not include leases (IFRS 16).

US$ million	1H20	1H19	%
Net operating revenues	14,487	17,389	-17%
Total costs and other expenses	9,719	10,923	-11%
Expenses related to Brumadinho	289	6,036	-95%
Adjusted EBIT	4,631	679	582%
Adjusted EBIT margin (%)	32%	4%	28%
Adjusted EBITDA	6,253	2,446	156%
Adjusted EBITDA margin (%)	43%	14%	29%
Proforma adjusted EBITDA[1]	6,627	8,482	-22%
Net income (loss)	1,234	(1,775)	-170%
Capital expenditures	2,091	1,341	56%

[1] Excluding expenses related to Brumadinho and COVID-19.

More information

Media Relations Office
imprensa@vale.com
Click here to see our contacts