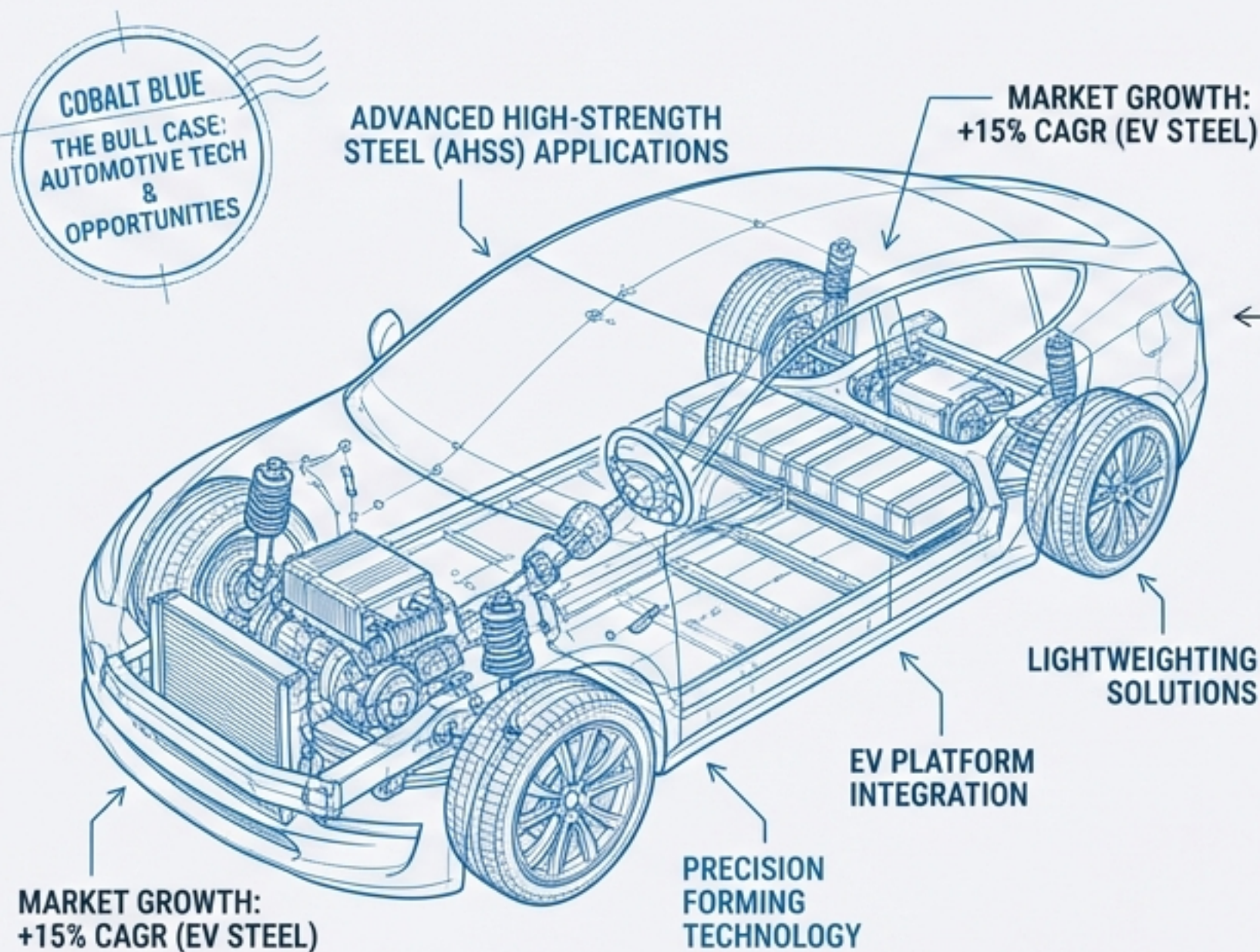
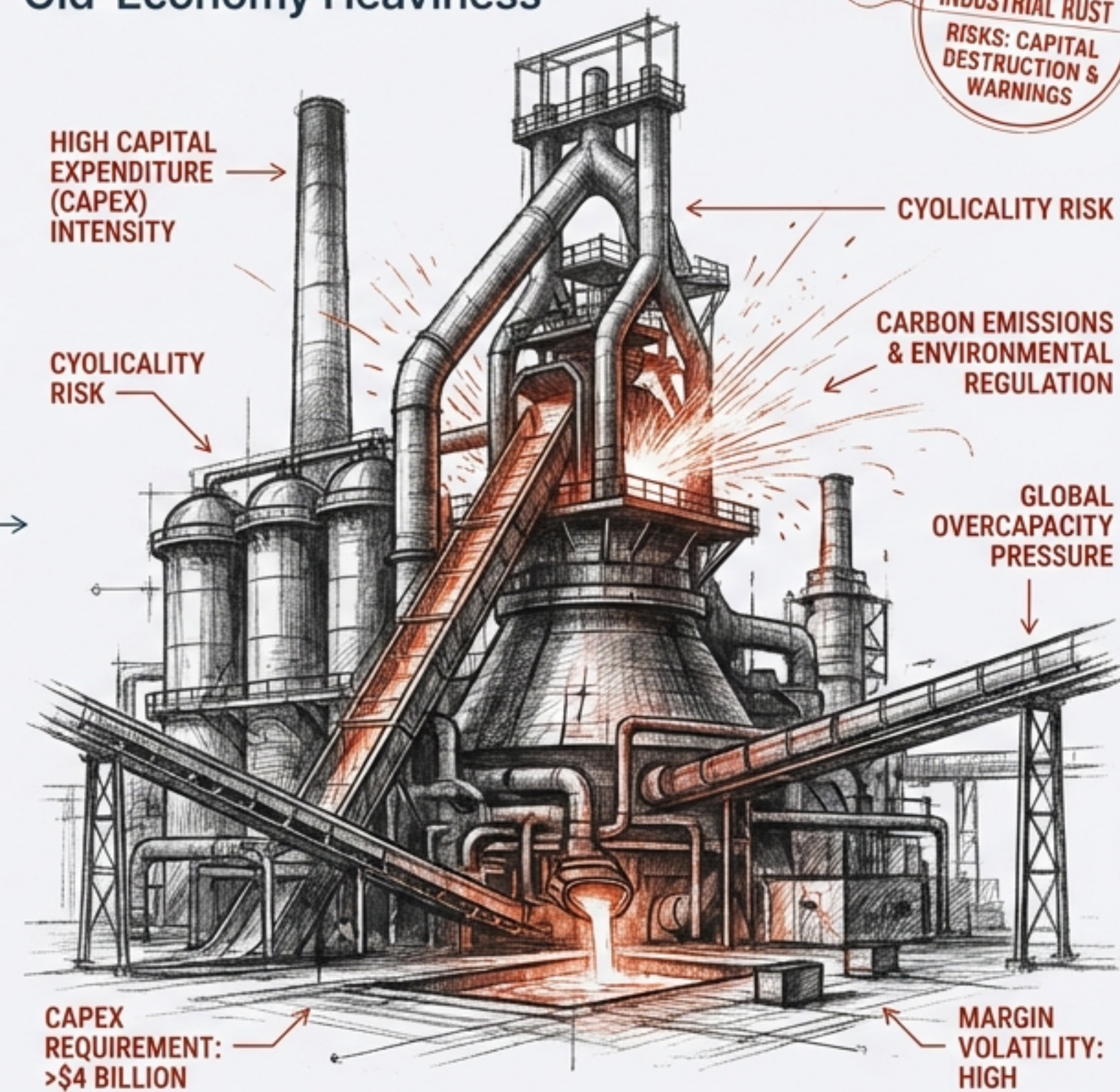


TERNIUM S.A. (TX): THE \$4 BILLION BET ON NORTH AMERICAN STEEL

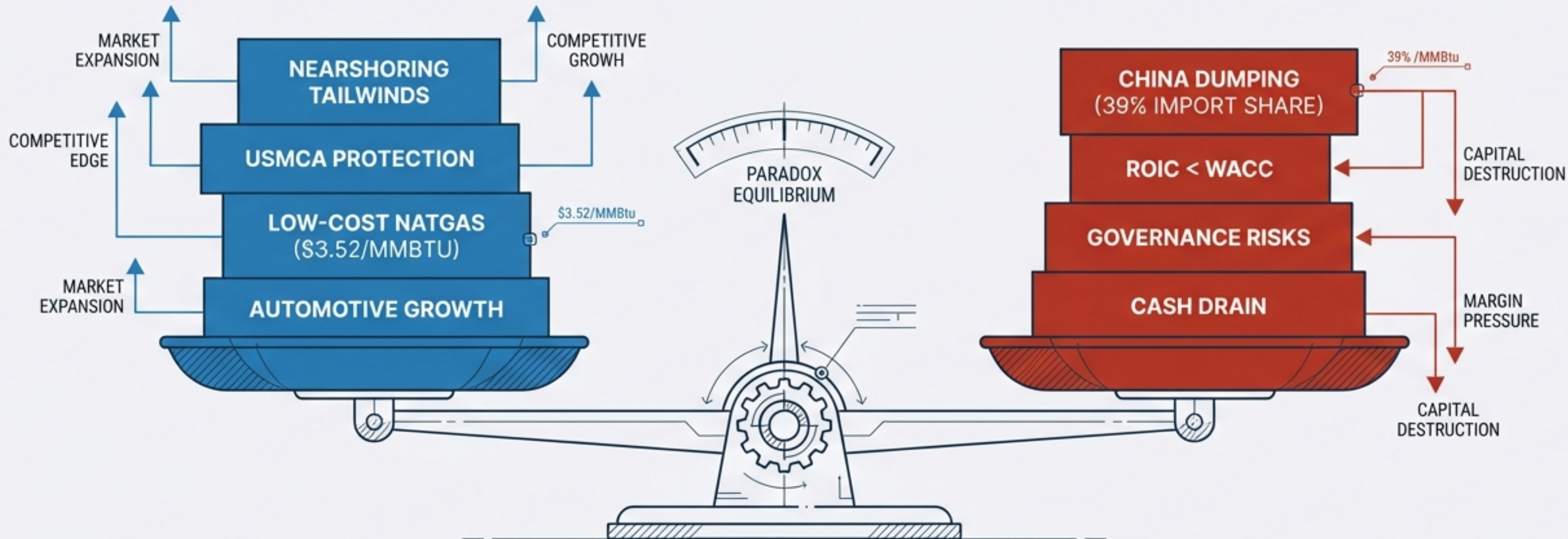
A forensic analysis of competitive advantage, capital allocation, and the nearshoring reality.



Capital Intensity & Old-Economy Heaviness



THE INVESTMENT PARADOX: REGIONAL DOMINANCE VS. STRUCTURAL FLAWS

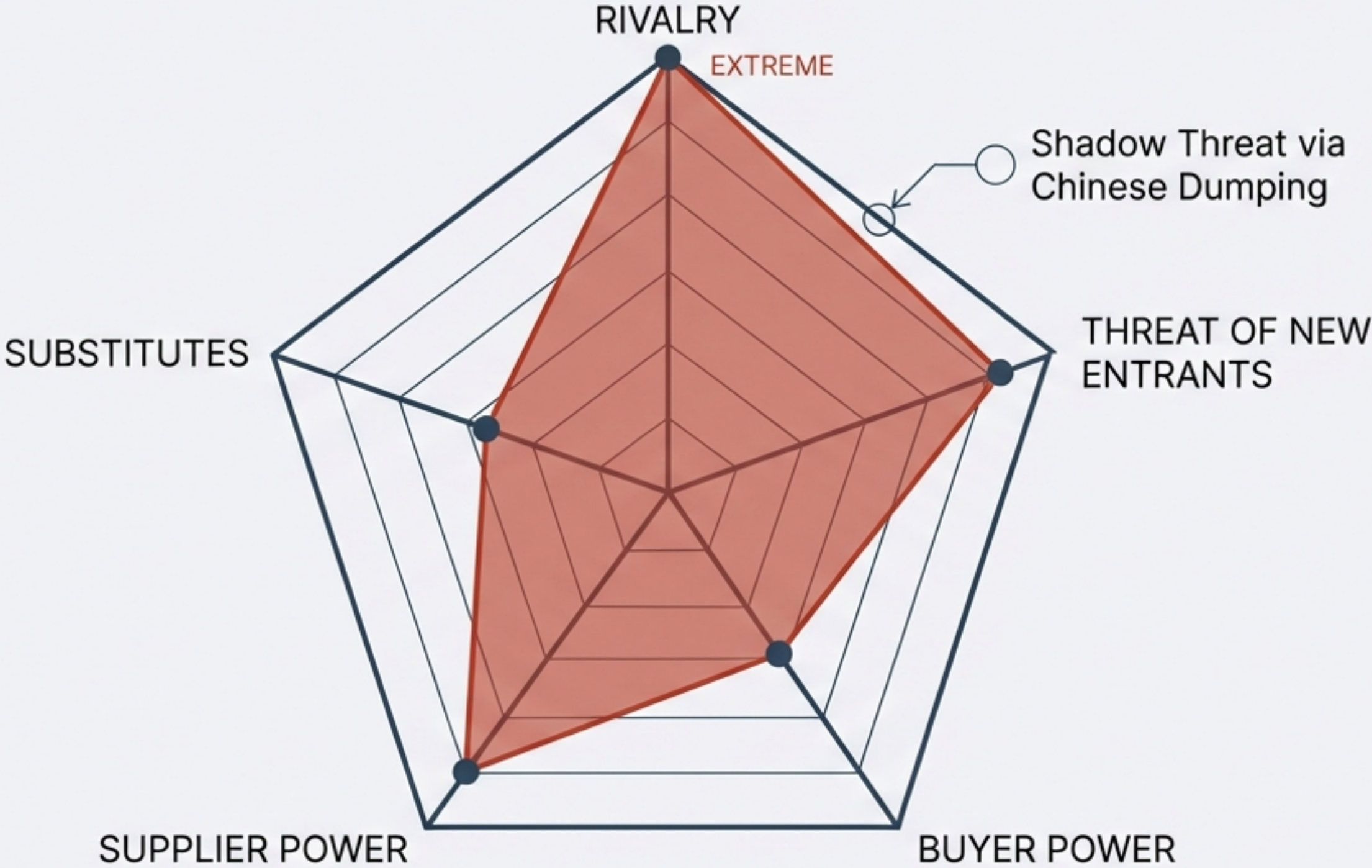


KEY INSIGHT

THE THESIS: TERNIUM IS A COMPETENT OPERATOR TRAPPED IN A HOSTILE INDUSTRY. THE INVESTMENT CASE RESTS ENTIRELY ON THE 2027 TRANSITION TO A "MELT & POUR" POWERHOUSE IN MEXICO.

THE BOTTOM LINE: CURRENT VALUATION (5.0X EV/EBITDA) REFLECTS A "CONTROL DISCOUNT" AND EXECUTION RISK. 2027 IS THE YEAR OF TRUTH.

OPERATING IN HOSTILE TERRITORY: THE FIVE FORCES ANALYSIS

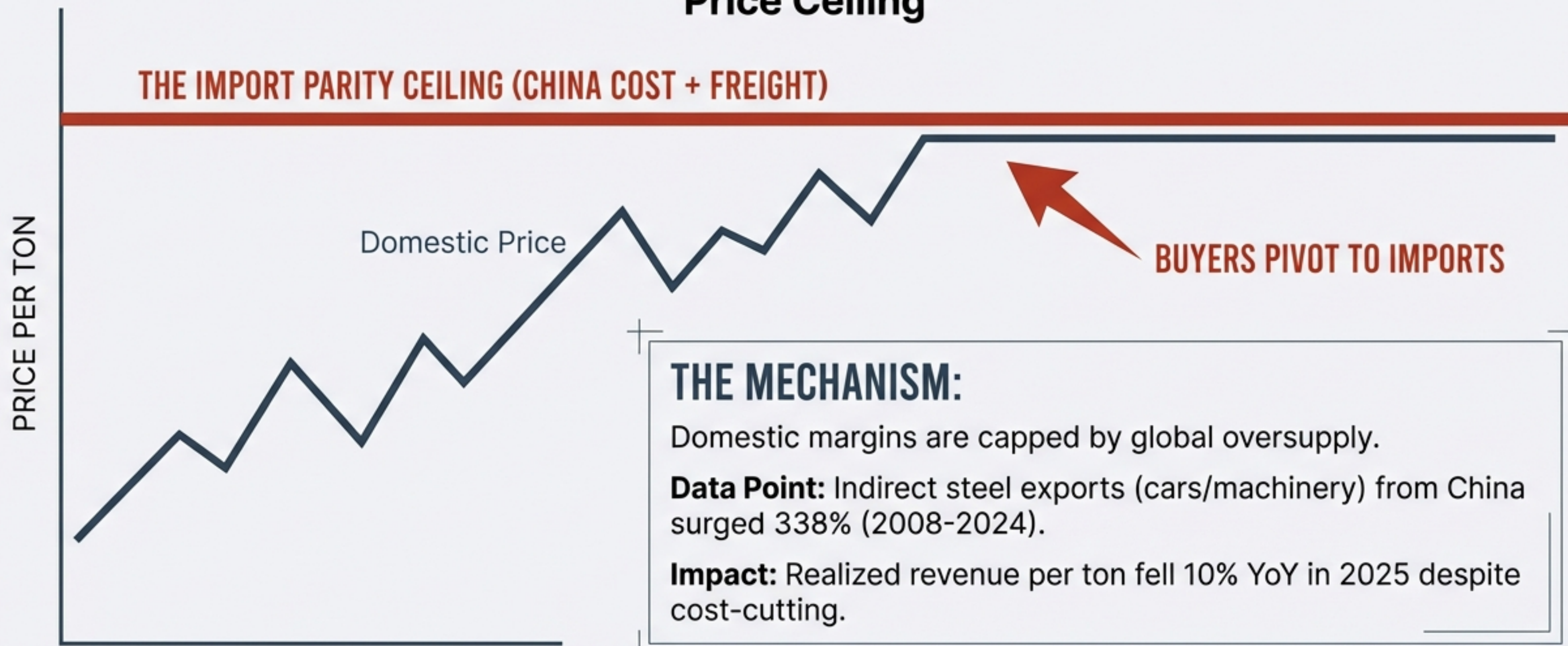


THE INVASION DATA

- Metric:** Chinese exports of finished/semi-finished steel to LatAm grew **233%** in 15 years.
- Insight:** **39%** of LatAm steel consumption was imported in 2024.

THE ANTAGONIST: A STRUCTURAL IMBALANCE IN CHINA

Price Ceiling



NEARSHORING: A TALE OF TWO MEXICOS



SECTOR A: THE BOOM (Automotive & Industrial)

Record FDI: ~\$41 Billion (Q3 2025)

New Investments: Jumped to \$6.5 Billion



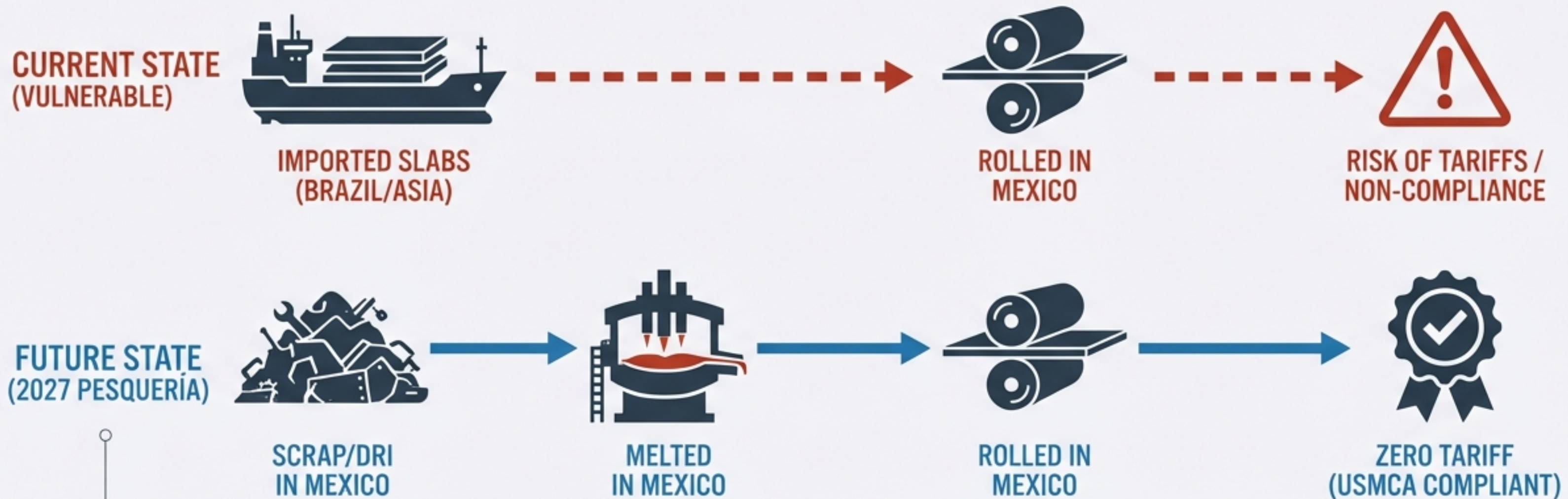
SECTOR B: THE DRAG (General Economy)

GDP Stagnation: 0.8% - 1.3%

Construction Activity: Down 2.7%

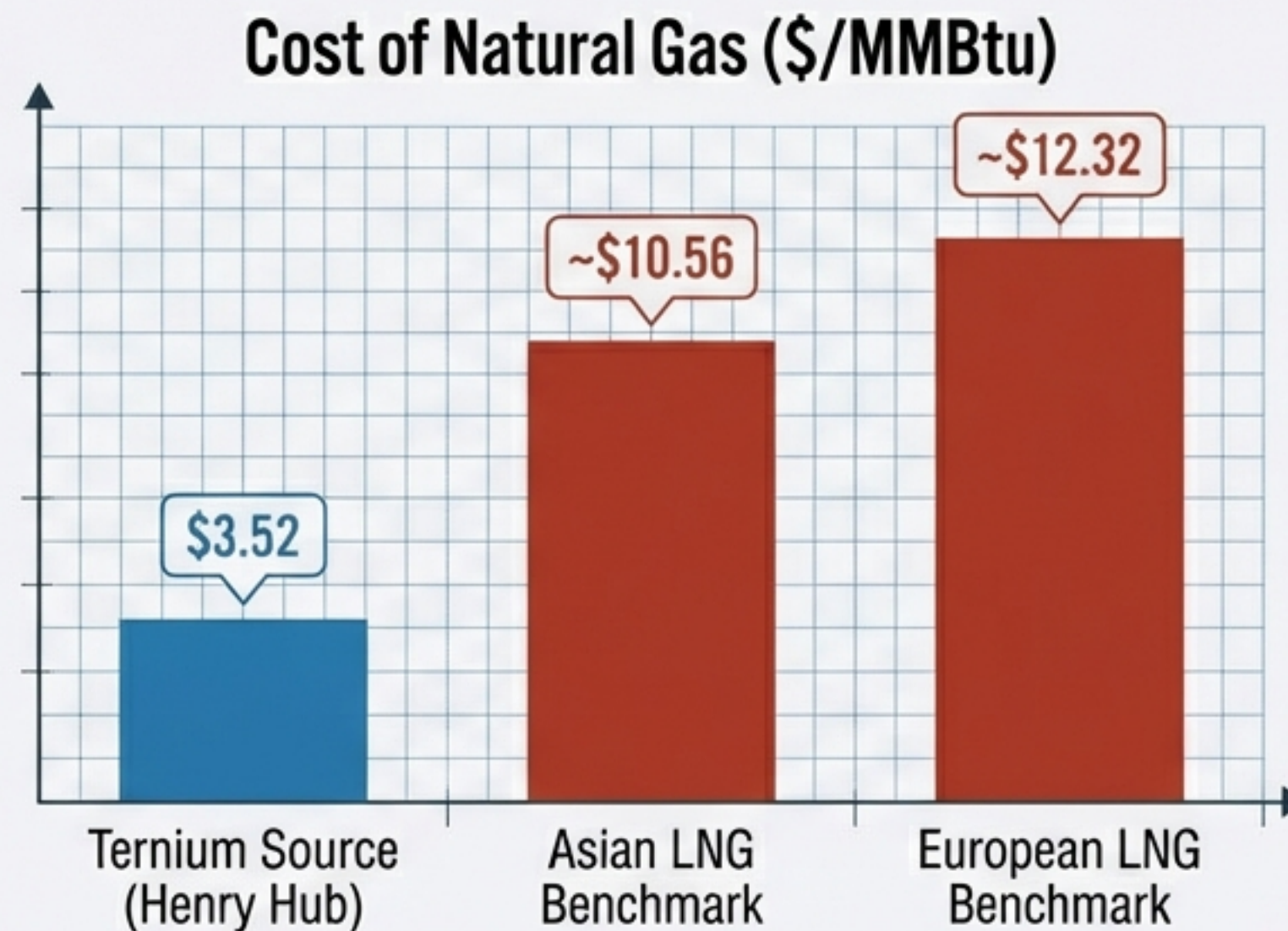
Synthesis: Ternium's growth depends entirely on **pivoting the mix** to the **high-end automotive** sector; the **general economy** is a **dead weight** on volume.

THE “MELTED AND POURED” RULE: BUILDING A POLITICAL MOAT



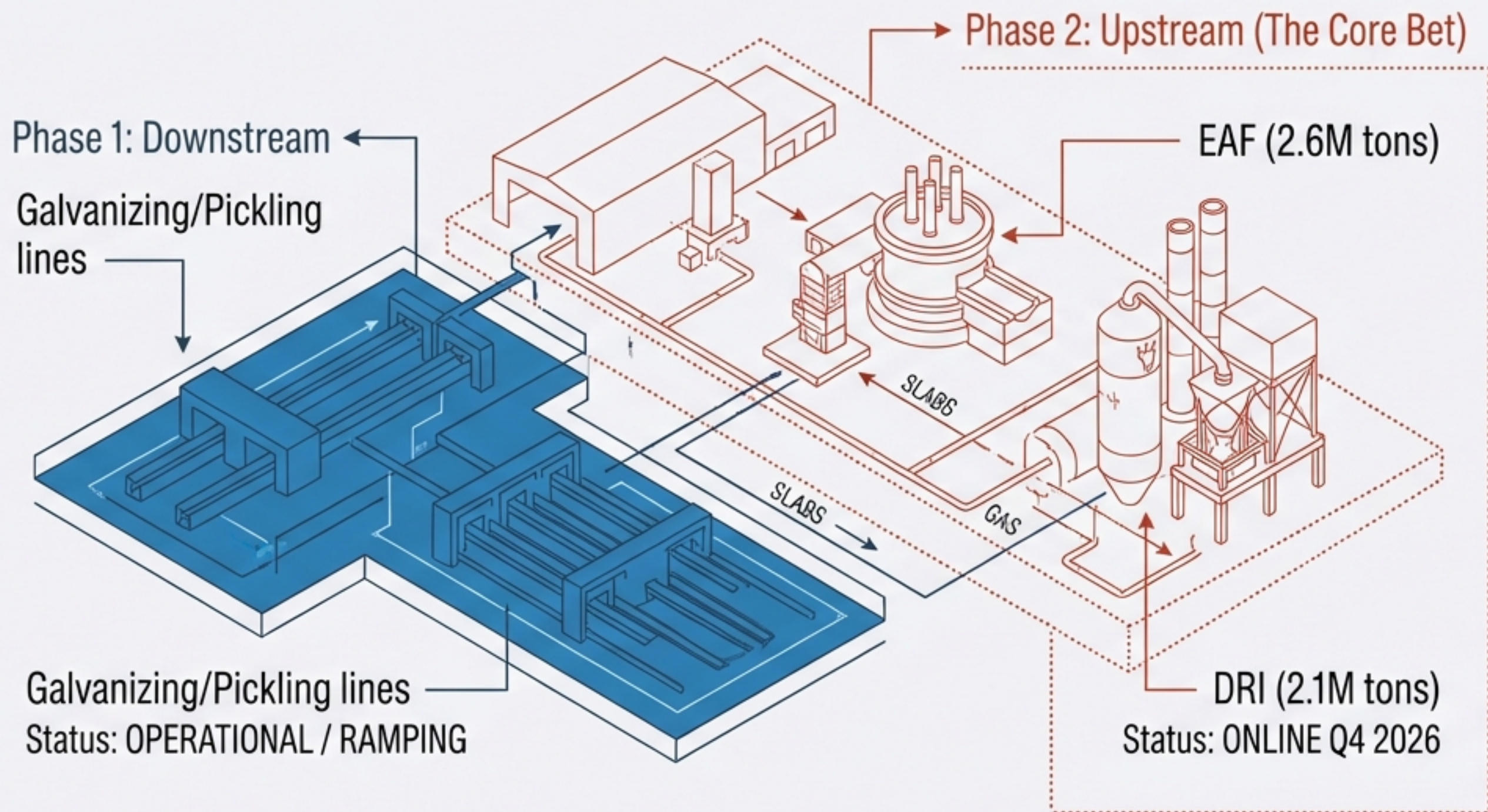
THE BINARY RISK: 2026 USMCA RENEGOTIATION.
VEHICLES NEED 70% NORTH AMERICAN STEEL TO QUALIFY.

THE ENERGY ARBITRAGE: TEXAN GAS VS. GLOBAL LNG



Strategic Impact: EAF/DRI production in Mexico is structurally cheaper than global peers due to pipeline connectivity. Energy accounts for ~28% of smelting costs.

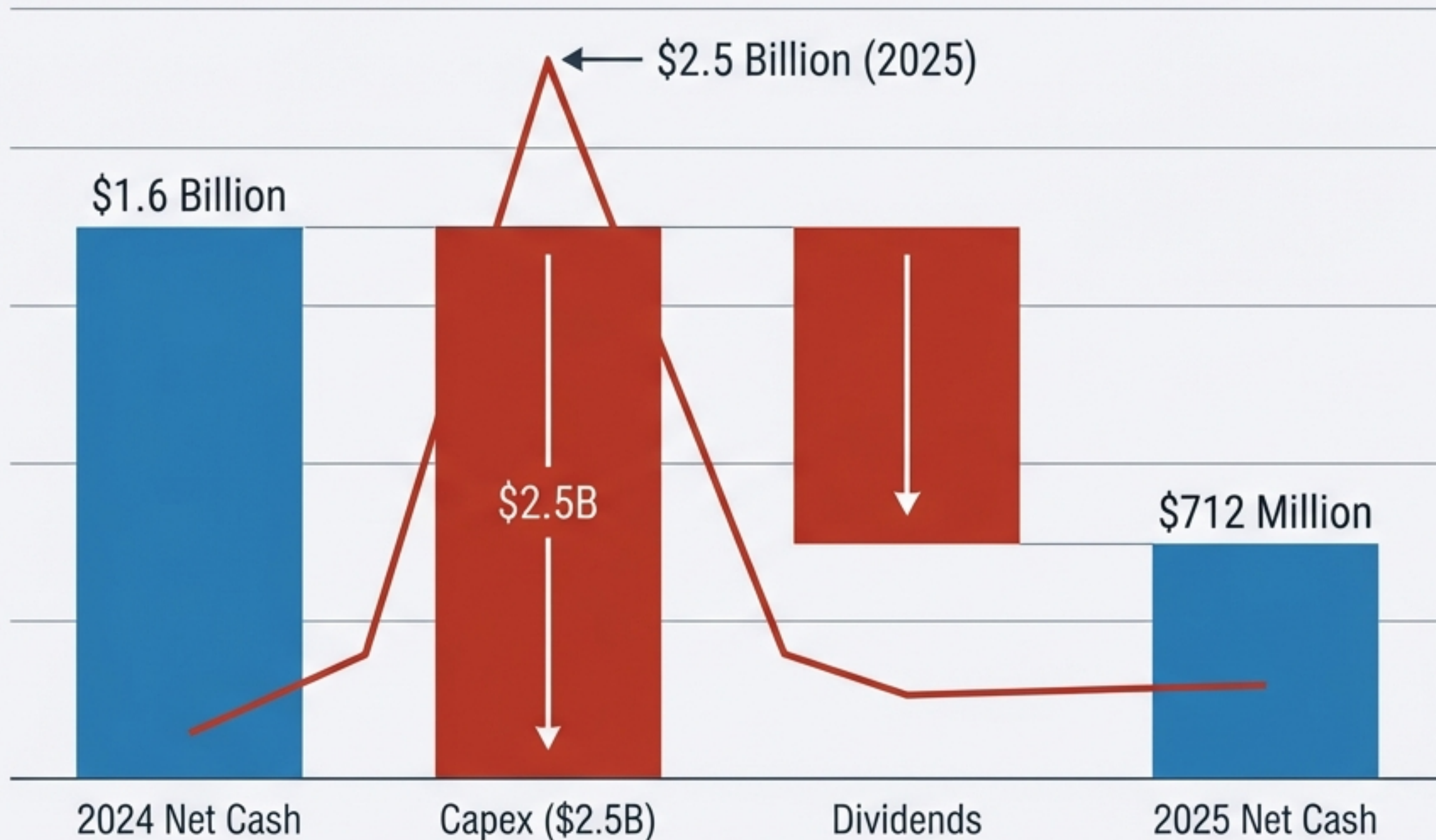
THE \$4 BILLION FULCRUM: THE PESQUERÍA EXPANSION



The Financial Goal:
Replace imported
slabs to capture
15-20% normalized
EBITDA margins.

Strategic Shift:
Transitioning from
a re-roller of
imported slabs to
a fully integrated
vertical
manufacturer

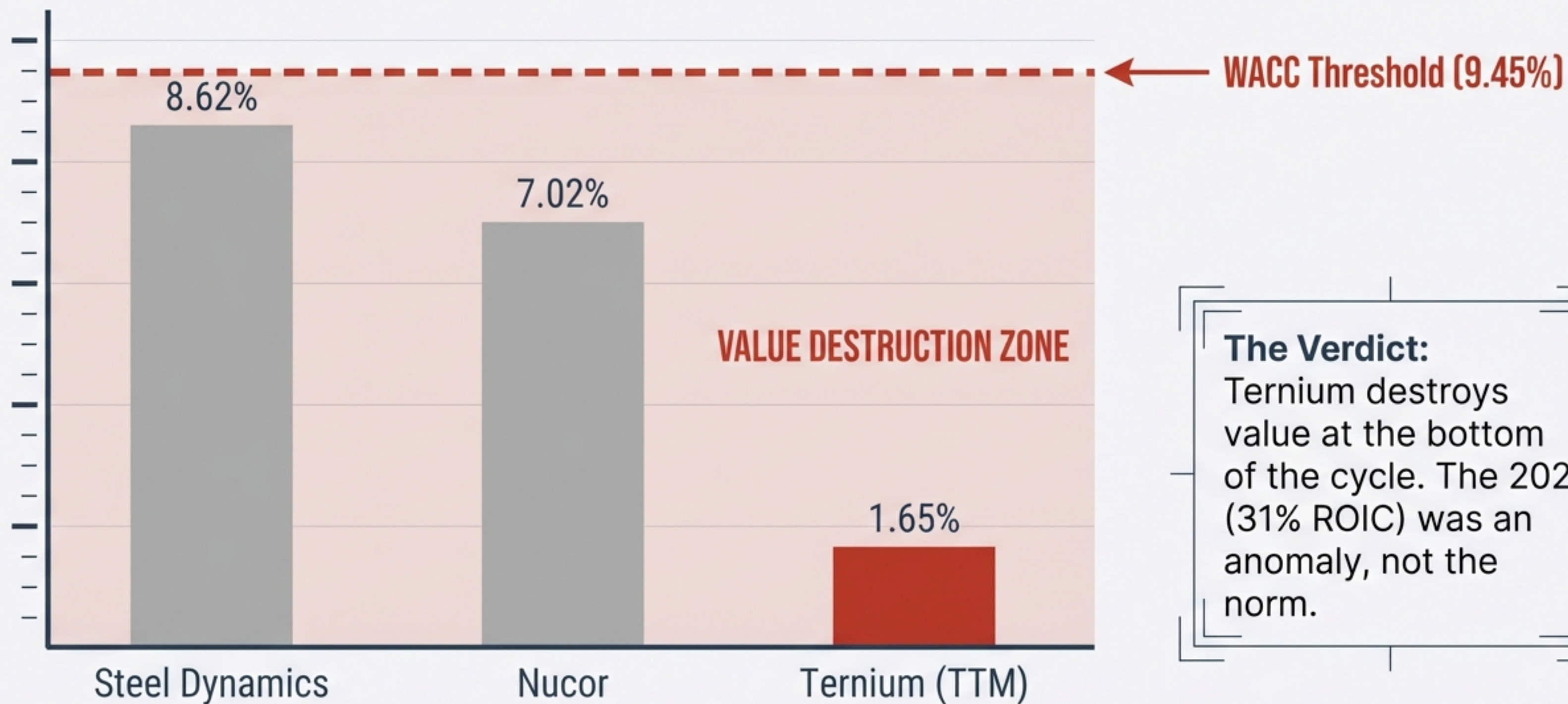
THE COST OF AMBITION: LIQUIDITY DRAIN



Key Insight: Cash flow from operations (\$2.3B) was 100% consumed by Capex and Dividends.

Free Cash Flow (FCF)
is currently negative.

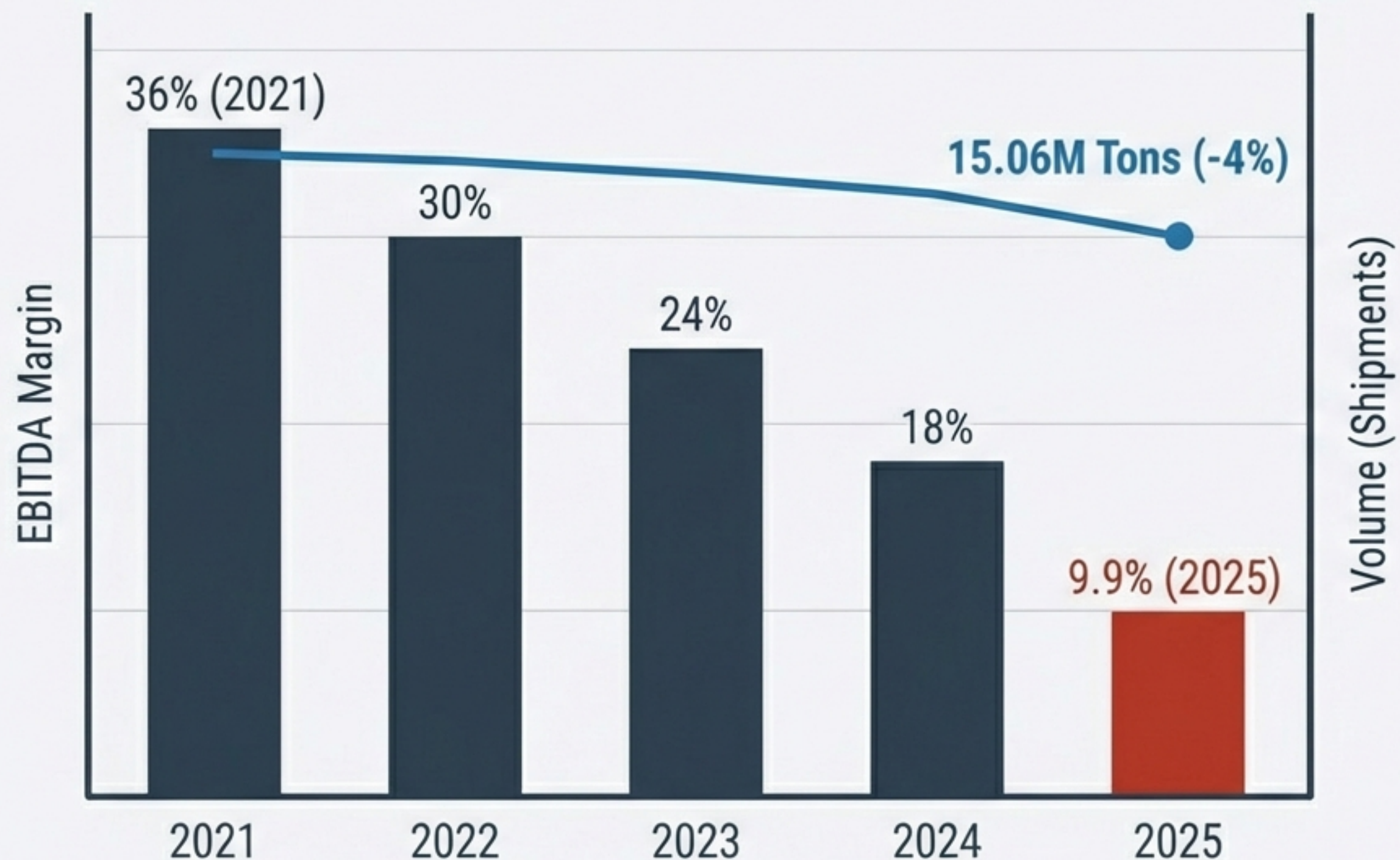
THE MOAT TEST: ROIC FAILS TO CLEAR THE WACC HURDLE



The Verdict:

Ternium destroys value at the bottom of the cycle. The 2021 (31% ROIC) was an anomaly, not the norm.

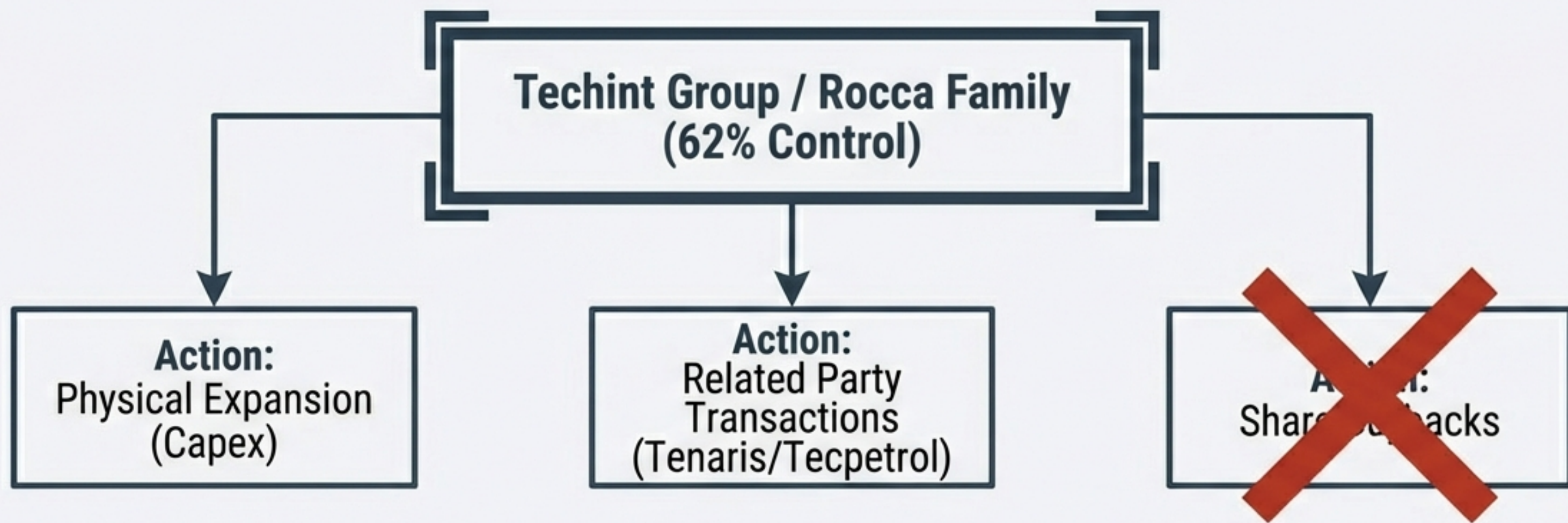
GROWTH & MARGINS: A CYCLICAL MIRAGE



Key Insight: The Reality: Organic growth is negative; the business is shrinking in volume.

Recent revenue CAGR is a statistical statistical illusion caused by the post-pandemic pricing spike.

THE 'CONTROL DISCOUNT': EMPIRE BUILDING OVER VALUE



**Zero repurchases despite
5.0x EV/EBITDA valuation.**



The Governance Reality: Capital allocation prioritizes industrial scale and dividends over per-share intrinsic value optimization.

THE USIMINAS QUAGMIRE: A CAPITAL SINKHOLE

THE COST OF BRAZIL

CSN Lawsuit Liability

\$416 Million

DTA Write-down

\$405 Million

Buyout of Nippon Steel

\$315 Million (Cash Out)

Status: LIABILITY CENTER

Takeaway: Brazil is currently a capital sinkhole. The buyout grants control, but inherits a struggle against Chinese imports (76% of Brazilian flat steel imports are Chinese).

VALUATION: CHEAP FOR A REASON?

EV/EBITDA

➡ **~5.0x**

Discount vs Peers (7-9x)

Free Cash Flow Yield

➡ **NEGATIVE** | **>15%**
(Current TTM) | (2027 Projected)

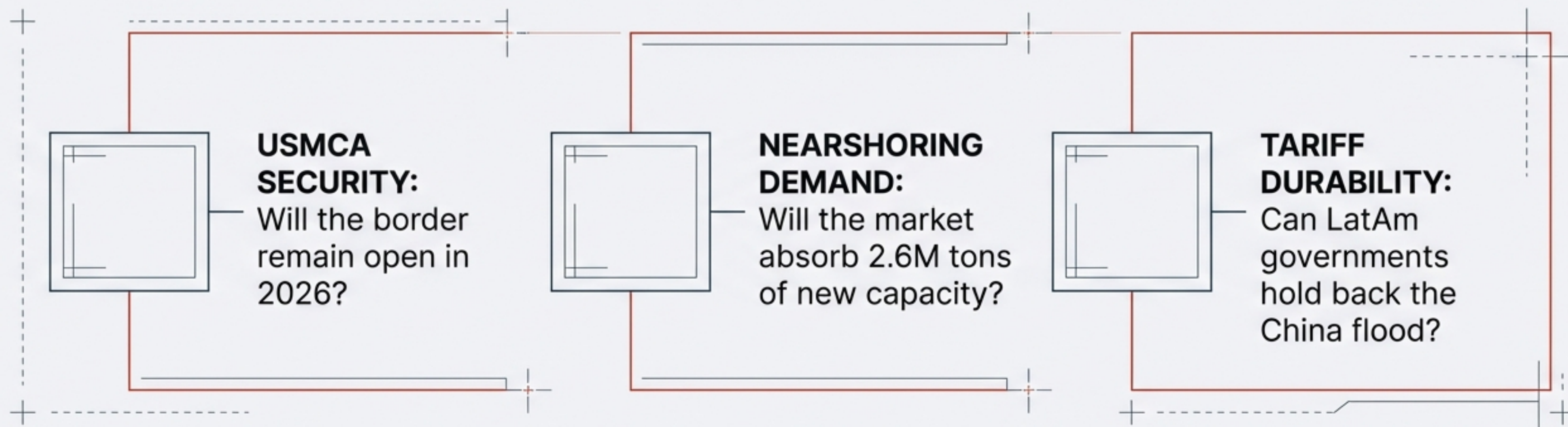
P/E Ratio

➡ **~20x**

Distorted by non-cash charges

The Trap: The valuation is appealing ONLY if you believe the 2027 margin guidance. If the cycle turns, the “cheap” multiple is a value trap.

THE VERDICT: A 'SHOW ME' STORY FOR 2027



**Ternium is a competent operator without a durable moat yet.
The \$4 Billion wager must pay off to clear the cost of capital.**