

Ultrapar

Stronger than expected 4Q23 result; 2024 expansion capex increases 47% YoY

Maintain Rating: NEUTRAL | PO: 36.00 BRL | Price: 30.54 BRL

4Q23 result came 5% above BofAe

Ultrapar's 4Q23 adjusted EBITDA came in at R\$1,666mn, 5% above our expectations of R\$1,581mn. The slight beat can be largely explained by Ipiranga's margin which came 13% above our expectations at R\$192/m3, partially offset by weaker than expected results in Ultragaz and Ultracargo. Net income was R\$1,114mn, well ahead of BofAe's R\$645mn, mainly due to the extraordinary tax credits of R\$ 563mn at Ipiranga. Of note, FCFE reached approximately R\$690mn (adjusted by the reduction in draft discount of around R\$136mn) and ND/EBITDA reached 1.1x, the lowest level in 15 years.

2024 expansion capex plan higher YoY

Ultrapar also released its capex plan for 2024 of R\$2.7 billion, up 37% YoY. Capex expansion of R\$1.5bn implies an increase of 47% vs. 2023's figure, mostly explained by a higher capital allocation to Ultragaz and Ultracargo. At Ultragaz, capex expansion of R\$311mn (up 90% YoY) is focused on: 1) continuously capturing new customers in the bulk segment, 2) revitalizing and opening points of sale, 3) projects aimed at optimizing operations, and 4) expanding into new energy solutions. Ultracargo's capex expansion (R\$635mn, up 202% YoY) will focus on: 1) the construction of the railway branch at Opla, 2) capacity expansion of the Itaquí, Santos and Rondonópolis terminals, 3) building the Palmeirante terminal, and 4) paying the grant of Vila do Conde terminal.

Ipiranga delivered higher than expected adj. margin

Ipiranga reported volumes of 6.1MMm3, broadly in line with our estimate. Adjusted EBITDA came in at R\$1,170mn, which implies a margin of R\$192/m3, 13% above our expectation of R\$170/m3. Of note, Ipiranga also reported an extraordinary tax credits of R\$563mn, which should offset income tax payment over the next few quarters and help Ultrapar's cash generation.

Ultragaz and Ultracargo weaker vs. BofAe

Ultragaz's EBITDA of R\$406mn came 7% below our estimate of R\$435mn, mostly explained by lower-than-expected sales volumes (4% lower vs. BofAe). Ultracargo reported an adj. EBITDA of R\$155 million, below ours R\$183 million, due to: 1) weaker than expected volumes at 4,276Mm3 (2% below BofAe), and 2) higher than expected costs (we were expecting flattish costs QoQ, but the figure increased by 10% due to higher costs with personnel and maintenance).

Maintain Neutral rating for Ultrapar

We maintain our Neutral rating for Ultrapar as it lacks visibility for further improvements. In addition to that: 1) we believe that the improvement in Ultragaz unit's margins and returns have already been factored in by the market; and 2) Ipiranga has already closed a large part of its gap in margins with Vibra. In our view, new triggers for UGPA should stem from clearer visibility in Ultra's capital allocation strategy going forward.

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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Equity

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Stock Data

Price (Common / ADR)	30.54 BRL / 6.20 USD
Price Objective	36.00 BRL / 7.60 USD
Date Established	21-Feb-2024 / 21-Feb-2024
Investment Opinion	C-2-7 / C-2-7
52-Week Range	12.67 BRL - 31.28 BRL
Market Value (mn)	34,059 BRL
Free Float	63.4%
Average Daily Value	31.11 USD
Shares Outstanding (mn)	1,115.2 / 1,115.2
BofA Ticker / Exchange	XLRF / SAO
BofA Ticker / Exchange	UGP / NYS
Bloomberg / Reuters	UGPA3 BZ / UGPA3.SA
ROE (2023E)	17.1%
Net Dbt to Eqty (Dec-2022A)	50.3%

Exhibit 3: Ultrapar – Investments real vs. Guidance

Ultra's guidance increased 37% from the total realized in 2023

	2023 (Guidance)	2023 (Real)	2024 (Guidance)
Expansion	1,005	1,038	1,528
Ipiranga	585	640	582
Ultragaz	190	164	311
Ultracargo	204	210	635
Others	26	24	-
Maintenance and others	1,177	910	1,151
Ipiranga	791	503	764
Ultragaz	238	247	186
Ultracargo	113	121	169
Others	35	39	32
Total	2,182	1,950	2,678
Ipiranga	1,376	1,143	1,345
Ultragaz	428	412	497
Ultracargo	317	332	804
Others	61	63	32

Source: BofA Global Research Estimates, company filings

BofA GLOBAL RESEARCH

Price objective basis & risk

Ultrapar (XLRUF / UGP)

Our price objective of R\$36.0/share (US7.60/ADR) is based on a DCF valuation using a 10.2% WACC and 2.5% terminal growth rate. This is consistent with our methodology for other similar energy companies under our coverage.

Upside risks to achieving our price objective are stronger than expect economic performance in Brazil, improved competitive environment for fuel distribution. And possible attractiveness of Ultrapar's stable business in periods of market volatility. Downside risks to our price objective are weak economic performance in Brazil (including lower car sales, which could affect growth in fuel demand), potential for lower pricing power in the highly competitive liquid fuels distribution business and LPG distribution, and possible underperformance in periods when the market is looking for higher beta stocks.

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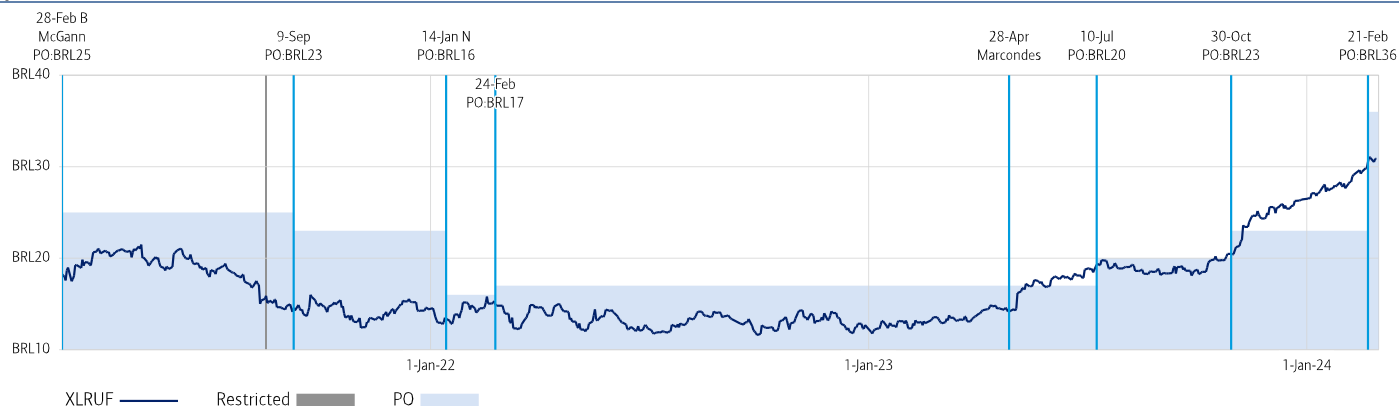
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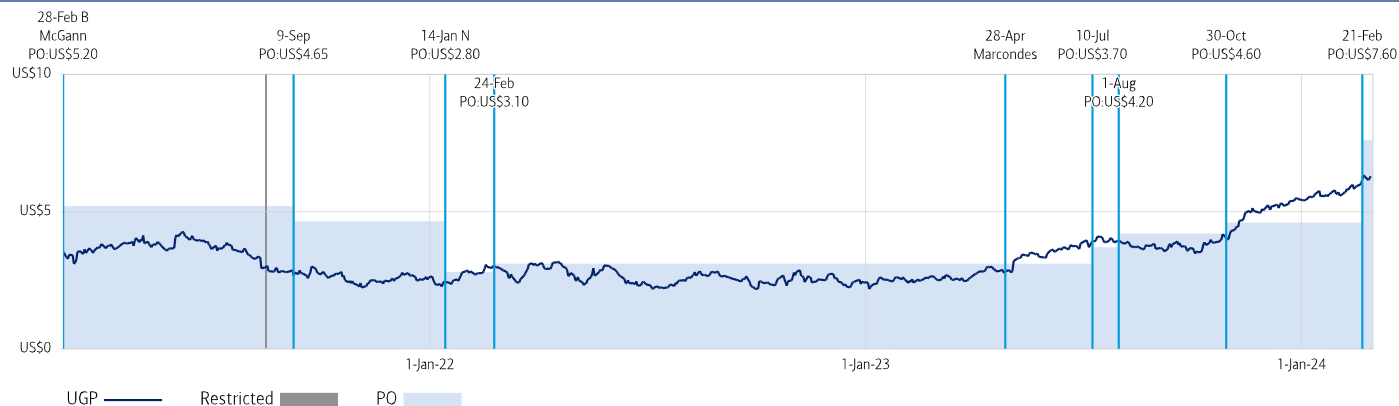
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Ultrapar (XLRUF) Price Chart



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Ultrapar Pa-ADR (UGP) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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