

Cosan

Feedback from meeting with CFO: streamlining the financial structure

Reiterate Rating: BUY | PO: 32.00 BRL | Price: 18.55 BRL

Strategy continuity despite recent management changes

We met with Cosan's CFO Mr. Rodrigo Araujo in Sao Paulo. Mr. Araujo took office in January from Petrobras, where he worked for 16 years, being CFO between 2021 and 2023. Mr. Araujo also joins Mr. Nelson Gomes, Cosan's new CEO, who came from Compass (Cosan's gas subsidiary). In his view, management changes do not represent a strategy change. Cosan remains focused on maximizing value of the existing portfolio and managing the capital structure.

ST focus: simplifying Vale's derivatives structure

Mr. Araujo's very short-term focus is on reducing Cosan's financial complexity and increasing access to cash from subsidiaries, mainly by unwinding the derivatives structure created to finance the acquisition of a 4.9% stake at Vale in 2021. This is expected to happen in the next six months and should use part of the proceeds from the recent US\$600mn bond issuance. By doing so, Cosan will have greater access to Vale's dividends. 70% of the R\$1.3bn Cosan would have received from Vale since 2022 was used to finance the structure and keep the strikes of the derivatives unchanged.

Liability management in place; eyes on interest coverage

Cosan had R\$32bn of net debt at the holding level, as of the 3Q23. Aside from simplifying the structure, management is also focused on increasing the debt's maturity and increasing interest coverage. We estimate interest coverage was 1.3x at the end of 2023, while management is looking for 1.5-2.0x. This would be a level that would also allow Cosan to continue to invest in the portfolio or potentially make new investments.

Portfolio strategy remains unchanged

Cosan sees great growth and value creation opportunities within the existing portfolio of assets. As stated in the last Investor Day in Sep/23, goal is to keep the stake at Vale below 5%, but they are confident about their positive contribution to decisions related to Vale's value creation and capital allocation, since Cosan's former CEO (Mr. Luis Henrique Guimaraes) is currently a Board member. Cosan has also reportedly analyzed IPOs of Compass and Moove, as they believe those liquidity events could unlock value.

Maintain Buy and R\$32/share PO

We maintain our Buy rating on Cosan, a top pick in our coverage. Cosan is a portfolio company with investments in irreplaceable assets, highly sensitive to lower interest rates, and with strong upside potential to its core assets. Short-term catalysts include earnings momentum at Vale and Rumo and unwinding of the derivatives structure. In the mid-term, catalysts are: 1) the ramp-up of the 2nd generation ethanol business at Raizen (E2G) and the sustainability of much higher sugarcane yields; 2) the expansion of Rumo and the tariff upcycle until 2028; and 3) the potential liquidity events of the subsidiaries.

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Equity

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Stock Data

Price (Common / ADR)	18.55 BRL / 14.96 USD
Price Objective	32.00 BRL / 27.00 USD
Date Established	10-Jan-2024 / 10-Jan-2024
Investment Opinion	C-1-7 / C-1-7
52-Week Range	13.45 BRL - 20.81 BRL
Market Value (mn)	34,764 BRL
Free Float	63.7%
Average Daily Value	22.80 USD
Shares Outstanding (mn)	1,874.1 / 468.5
BofA Ticker / Exchange	CSAIF / SAO
BofA Ticker / Exchange	CSAN / NYS
Bloomberg / Reuters	CSAN3 BZ / CSAN3.SA
ROE (2023E)	-6.2%
Net Dbt to Eqty (Dec-2022A)	98.1%

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Timestamp: 06 February 2024 07:16PM EST

Price objective basis & risk

Cosan (CSAIF / CSAN)

Our PO is R\$32/share (\$27/ADR) is based on a sum-of-the-parts (SOTP) analysis. Our breakdown is 1) Raizen (R\$12.6/share, 100% DCF). We assume a moving WACC weighted by EBITDA share of each business every year. Our WACC for Sugar is 11.8% in nominal BRL terms, 10.9% for renewables, 10.9% for Marketing & Services in Brazil, 11.5% for Projects, and 27.4% for Marketing & Services in Argentina. 2) Compass (R\$12.2/share, 100% DCF based on FCFE with 14.4% Ke and 4% terminal growth rate (tgr) for Comgás, Sulgás, GasBrasliano, TRSP and the other distributors valued at EV/RAB of Comgás at a discount of 20% due to lower profitability), 3) Rumo (R\$9/share, 57-year DCF (FCFE), lasts until the last concession (2079), with Ke of 12.8%, in BRL nominal terms), 4) Moove (R\$4/share, 100% DCF, WACC of 10.8% with 4% terminal growth rate), 5) Cosan Investments (R\$2.4/share, Invested value in acquisitions of land companies and Atlántico), 6) Vale (R\$11/share, blended valuation assuming a below average 4x 2024E EV/EBITDA given higher iron ore prices and a 12% WACC in the DCF).

We also exclude net debt (R\$17/share) at the holding level, including the derivatives, and corp expense (R\$2.8/shr, 100% DCF of corp expense, WACC of 11.4% with 4% tgr).

Downside risks: 1) lower commodity prices 2) worse execution of Raizen's projects, 3) smaller-than-expected dividend payments from subsidiaries, 4) fiercer competitive environment in fuel distribution business and at Rumo, 5) execution problems at Rumo.

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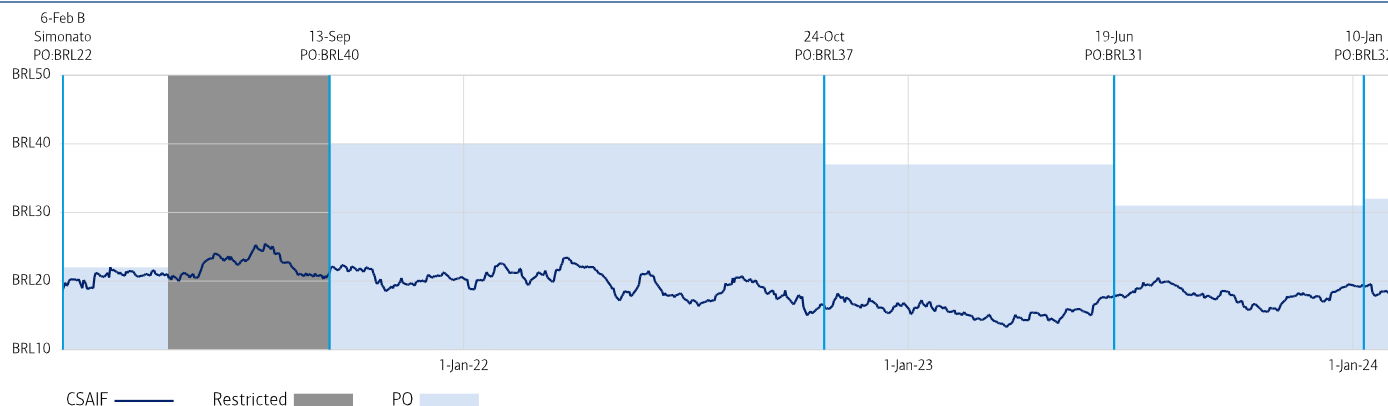
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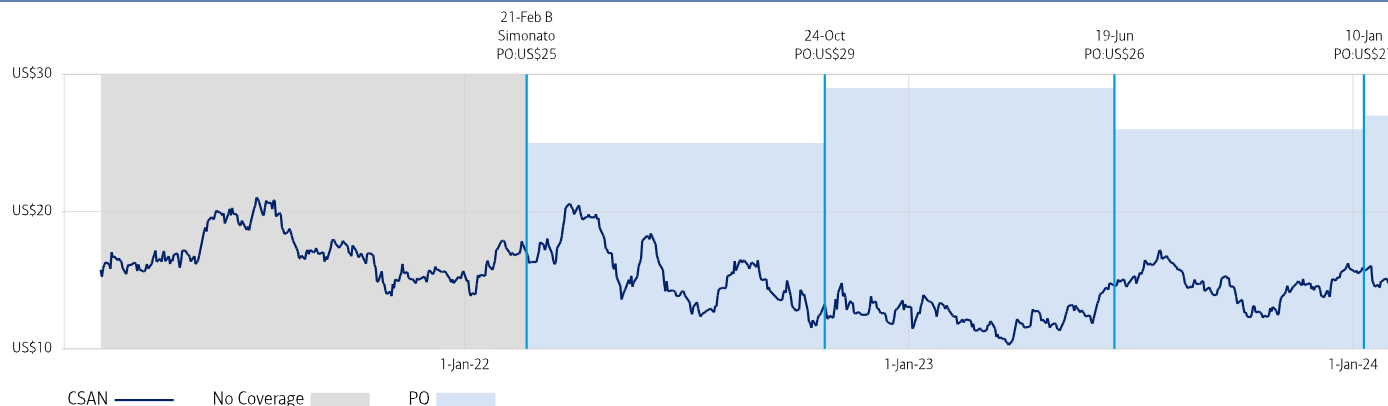
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Cosan SA (CSAIF) Price Chart



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Cosan (CSAN) Price Chart



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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: Food Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

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%

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