

Brazilian Utilities

Feedback from US: 2 highlights & 2
lowlights

Industry Overview

Highlights: SBSP and ELET; Lowlights: CPLE and EQTL

Last week, we met several investors in the US, who shared overall constructive views about LatAm Utilities (on expected rates decline) but special interest on idiosyncratic stories. In our view, there were 2 positive and 2 negative highlights from the meetings: 1) Sabesp (positive): most foreign investors are still catching-up on the name, but all seemed bullish (details below), 2) Eletrobras (positive): positioning seemed much lighter than previous years, but sentiment has improved, 3) Copel (negative): seemingly high positioning (by locals & foreigners) might limit upside, 4) Equatorial (negative): surprisingly low interest about the usual sector favorite.

Sabesp: bull views and still light positioning

Sabesp represented 60-70% of the discussions, but most investors seemed to still be catching-up on the investment case following recent privatization steps (see Sabesp Path & Math). Investors seemed to have left meetings bullish about Sabesp's privatization upside and the unique equity story amidst water-utilities (US\$10bn market cap that could unlock 40-50% upside). The main concern is about SBSP's strategic shareholder after the privatization, similarly to locals' concerns (see UtilitieSurvey).

Eletrobras: uptick in sentiment and lighter positioning

Unlike recent years (since mid-2022 privatization), few investors seemed to still own Eletrobras. However, investors seemed willing to revisit the case due to: 1) recent increase in energy prices' forward curve, 2) expected legal de-risking (see UtilitieSurvey), and 3) strong EBITDA growth, and 4) upside risks from divestments & liability mgmt..

Copel: common holding along locals could limit upside

Copel seems like the only stock owned by both foreigners and locals. Investors see Copel as a low-risk name at attractive valuation, but seemed less likely to add position due to: 1) lack of potential catalysts, 2) potential rotation within the sector (e.g. SBSP, ELET).

Equatorial: surprisingly low interest from investors

Investors barely discussed EQTL, which is historically the sector favorite for foreigners. Investors' enthusiasm seemed curbed by: 1) positioning among locals, 2) concerns about NPV potential from M&A opportunities, especially due to concerns about competition.

Other themes and names: Energisa and renewables

From our end, we also discussed Energisa's strong earnings growth as a high-quality name for 2024 (see Utilities: a rare setup – buy EPS growth). But investors seemed less excited about stock performance without catalysts beyond earnings (arguably already expected). From investors, we were questioned about the outlook for renewables, for which we shared mixed feelings: 1) higher energy prices, 2) concerns about curtailment.

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Arthur Pereira, CFA >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4157
arthur.pereira@bofa.com

Gustavo Faria >>
Research Analyst
Merrill Lynch (Brazil)
+55 11 2188 4295
gustavo.faria@bofa.com

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