Brazil Fuel Distribution

Stronger margins all around; raising estimates Ultrapar

Price Objective Change

21 February 2024

Equity
Latin America
Oil & Gas

Higher margins led by healthier competitive landscape

We raise our estimates Ultra as we incorporate stronger margins in our models. Changes in the supply chain dynamics have marked the fuel distribution over the past several years. In this context, the fuel distributors were forced to adapt themselves to different scenarios and trace new strategies – bringing a lot of volatility to the business, which operates with very tight margins. Only in 2023, for example, players reported margins in a range between ~R$70/m3 and ~R$250/m3. However, with a more stable market and a healthier competitive landscape/more rationality regarding fuel imports, we expect Ipiranga to report stronger margins in 2024 onwards. In this regard, we are raising our estimates for margins at levels around R$165-150/m3 (vs. our current expectations of R$105/m3 for Ipiranga).

4Q23: a strong quarter despite the QoQ drop

In our view, the 4Q23 will demonstrate that the competitive landscape of the segment has improved and players became more rational and careful with the supply/demand balance of the market. The import window was opened during Nov-Dec, however, given that most of the volume was brought to Brazil to obtain the inventory gains abovementioned in the 1Q24, the fuel distributors did not push products into the market and, therefore, margins were better than expectations. Despite the QoQ drop, we expect margins to come at strong levels – hovering around R$170-180/m3.

Ultra (Neutral): new PO of R$36/share (from R$23/share)

We also raise our estimates for Ultrapar and FY25 PO to R$36/share from R$23/share (US$7.6 from USD4.6) which implies 18% upside to the current price, as we: 1) rollover our target to YE25, and 2) raise margins due to a healthier competitive landscape (we assume margin of R$153/m3). Despite the upward revision in earnings, we maintain our Neutral rating for Ultrapar. Though we acknowledge that we missed the strong pick-up in earnings/cash generation of Ultrapar, it still lacks visibility for further improvements. In addition to that: 1) we believe that the improvement of 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 of Ultra's capital allocation strategy going forward.

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Stronger margins all around; raising estimates for Ultrapar

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In this regard, we are raising our 2024 estimates for margins to levels around R$165-150/m3 (vs. our current expectations of R$105/m3 for Ipiranga). The stronger margins can be largely explained by a healthier supply/demand balance in Brazil. In our most recent interactions with market participants, we have noted that a higher discipline in their supply/import strategy. In other words, we do not expect the market to become oversupplied again.

Ultrapar: Neutral rating; new PO of R$36/share (from R$23/share)

We are raising our estimates for Ultrapar and introducing our new FY25 PO of R$36/share (from R$23/share), as we: 1) rollover to FY25, and 2) raise margins due to a healthier competitive landscape (we assume margin of R$153/m3).

Despite the upward revision in earnings, we maintain our Neutral rating for Ultrapar. Though we acknowledge that we missed the strong pick-up in earnings/cash generation of Ultrapar, it lacks visibility for further improvements. In addition to that: 1) we believe that the improvement of Ultragaz unit's margins and returns have already been factored by the market; and 2) Ipiranga has already closed a large part of its gap in margins with Vibra. In our view, clearer visibility of Ultra's capital allocation strategy would be the new triggers for UGPA going forward.

4Q23: a strong quarter in spite of the QoQ drop

In our view, the 4Q23 will showcase that the competitive landscape of the segment has improved and players became more rational and careful with the supply/demand balance of the market. As we discuss below, the import window was opened during November and December and fuel distribution players sought closing the year with high level of inventories due to the expectations of inventory gains with the expected increase in PIS/Cofins and ICMS taxes in the beginning of the year.

However, given that most of the volume was brought to Brazil in order to obtain the abovementioned inventory gains in the 1Q24, the fuel distributors did not push products into the market and, therefore, margins were better than expectations. We, therefore, believe that, in spite of the QoQ drop, margins should come at strong levels – hovering around R$180-170/m3.

A tough 1H23…

The first half of 2023 was a tough period for the fuel distributors as they were negatively impacted by the high volume of Russian diesel imported to Brazil, which was significantly cheaper than Petrobras's prices. This led to an oversupply in the market that pressured margins downward amid high inventory levels. As a result, 1H23 fuel distributors' margins fell short of the market's original expectations.

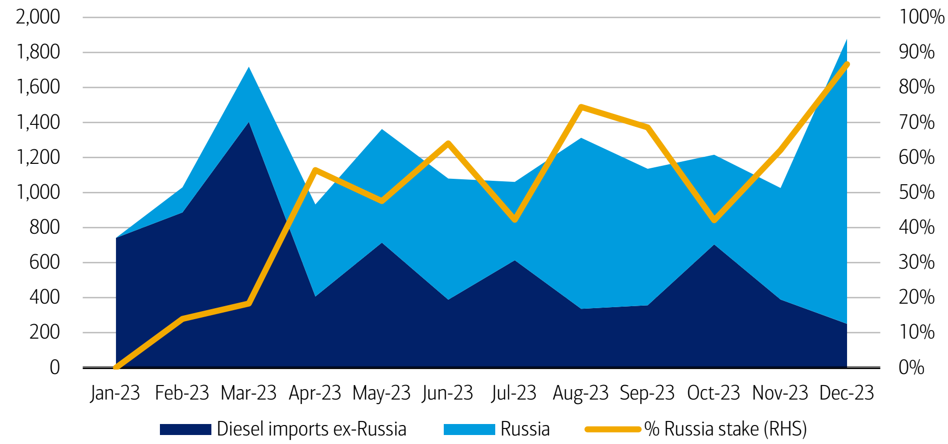
But a bright 3Q23

The market, however, changed after July. The higher seasonal demand of the 3Q23 absorbed the high inventories while the gap between local and Russian diesel prices closed, leading to a healthier competitive landscape. In this context, fuel distributors reported all time high margins in the 3Q23 even adjusting by the inventory gains.

What to expect from 4Q23

Looking ahead the 4Q23, margins are expected to drop from the record results posted in the 3Q23. With the reopening of the import window, the participation of the Russian diesel picked-up once again in Brazil during November and December. Additionally, diesel imports were intensified by expectations of inventory gains with the expected increase in PIS/Cofins and ICMS taxes in the beginning of the year. Notably, Brazil imported approximately 1.9Mm3 of diesel in December, of which approximately 90% came from Russia.

Exhibit 1: Brazil diesel imports (000' m3)
Russia has become the main source of diesel for Brazil in 2023



Source: BofA Global Research and MDIC

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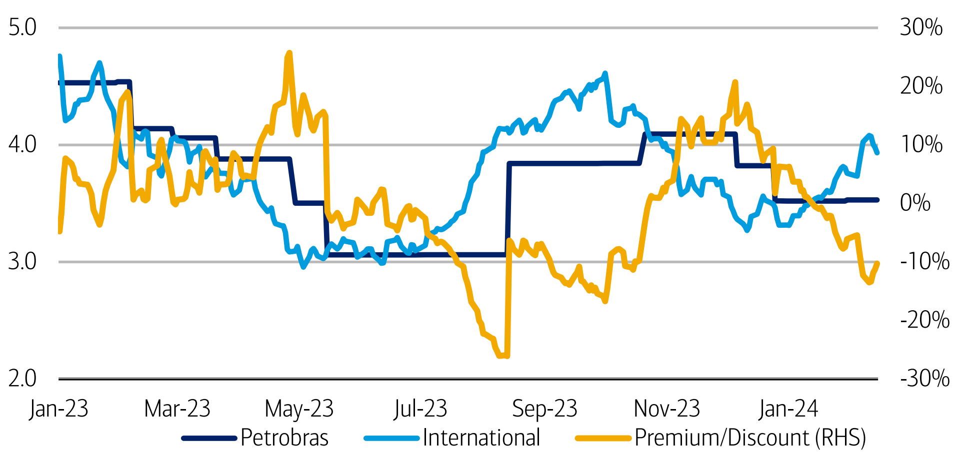
Regarding the parity, it has become more difficult to track the difference between Petrobras' and Russian prices. According to Platts, the price of Russian diesel imports depends largely on the delivery window as well as on payment terms. Steeper discounts are available for those market players who are paying more promptly (the companies with larger and stronger balance sheets).

Platts has also reported that some Russian cargoes make the journey to Brazil without having a buyer already in place, adding that the cargoes usually stay afloat for five to seven days until someone buys them. Additionally, the cargoes are also arriving to the ports of Itaqui and Suape – before, they were concentrated in ports located in the southern region of Brazil.

Exhibit 2: Petrobras prices vs. international parity (R$/liter)
Petrobras' prices are below international parity in the 1Q24



Source: BofA Global Research, Petrobras and Platts

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In this regard, with a more unbalanced market, EBITDA margins are expected to decrease in the 4Q23 vs. the record result in the 3Q23. However, given that most of the volume was brought to Brazil in order to obtain the inventory gains, the fuel distributors did not push products into the market and, therefore, we expect margins to come better than our previous expectations.

This showcases that the competitive landscape of the segment has improved and players became more rational and careful with the supply/demand balance of the market. Furthermore, we believe that the dynamics of October were also favorable and more in line with the strong margins of the 3Q23. We, therefore, believe that, in spite of the QoQ drop, margins should come at healthy levels – hovering around R$180-170/m3.

Exhibit 3: Ultrapar – BofAe 4Q23 preview
We estimate an EBITDA margin of R$170/m3

R$mn	4Q23E	3Q23A	QoQ	4Q22A	YoY
Net revenues	31,932	32,484	-2%	35,957	-11%
Adj. EBITDA	1,581	2,001	-21%	1,833	-14%
Adj. EBITDA/m3 (Ipiranga)	170	244	-30%	178	-4%
Net income	644	891	-28%	836	-23%

Source: BofA Global Research estimates and Ultrapar

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We expect strong margins in 2024

Over the past several years, the fuel distribution segment was marked by volatility. The competitive sourcing of fuel for the distribution players is the cornerstone of the business and, since 2015, the supply chains dynamics have significantly for the sector. Over the past years, margins have been positively or negatively affected by different factors, such as: 1) The implementation of a fuel pricing policy by Petrobras; 2) the surge of diesel and gasoline imports by third-party players; 3) increase of ethanol consumption vs. gasoline, 4) truckers strike; 5) privatization of some refineries in Brazil; 6) the increase in relevance of Russian diesel in the Brazilian matrix; 7) among others.

In this regard, investors lacked in visibility of what should be recurring margins and sustainable returns of the business. However, for 2024, we do not foresee any meaningful change or impact in the segment and, therefore, we do expect the fuel distributors to report more normalized margins (except for the inventory gains led by the oil prices volatility that will always be present). In addition to that, as we discuss below, we believe that the fuel distributors will benefit from stronger margins.

Below, we introduce key themes that, from our perspective, will be essential to understand the segment in 2024:

Stronger margins all around

As abovementioned, change in the supply chain dynamics have marked the fuel distribution over the past several years. In this context, the fuel distribution players were forced to adapt themselves to different scenarios and trace new strategies – bringing a lot of volatility to business, which operates with very tight margins. Only in 2023, for example, the fuel distributors reported margins in a range between ~R$70/m3 and ~R$250/m3. However, with a more stable market and a healthier competitive landscape, we Ipiranga to report strong margins in 2024 onwards.

In this regard, we are raising our estimates for margins at levels around R$165-150/m3 (vs. our current expectations of R$105/m3 for Ipiranga). The stronger margins can be largely explained by a healthy supply/demand balance in Brazil. In our most recent interactions with market participants, we have noted that a higher discipline in their supply/import strategy. In other words, we **do not** expect the market to become oversupplied again.

The Russian diesel is likely to continue to present in the Brazilian diesel matrix (at least while sanctions to Russia persists) as, in our view, it is natural that the fuel importers will seek optimizing their supply matrix and, therefore, sourcing the cheapest diesel available in the market. This is especially true for the fuel distribution players that operate in a segment with very tight margins.

This can be evidenced by the level of imports in January. Diesel imports in the first month of the year dropped around 45% month over month even amid the high levels of discount observed during the months of November and December (of note, there is usually a one/two-month lead time until the product arrives in Brazil).

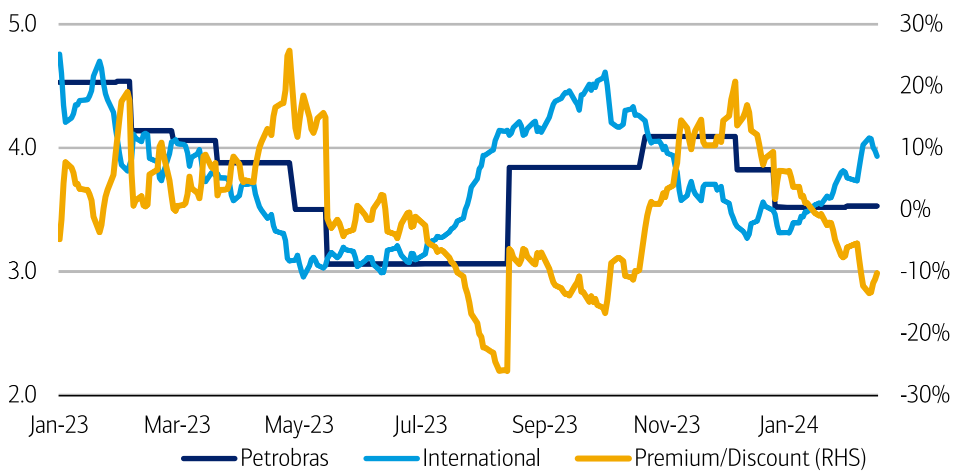
2024 should start at a high-note

Beyond the inventory gains expected in the 1Q24, the supply dynamics of this quarter could also favor Ipiranga, in our view. As shown below, with the diesel prices adjustments by Petrobras done in the end of 2023 and with the recent increase in international prices, local prices are currently below international parity. This implies that the marginal molecule of diesel, which is the imported one, is more expensive vs. local prices.

Usually, Petrobras participation in the supply matrix of the largest fuel distributors (such as Ipiranga), is higher when compared to smaller players. In this context, the average cost of diesel purchase for the largest players could be lower vs. the independent players. This, in our view, will turn Ultra to be more competitive in the 1Q24 – which could lead to stronger margins in this quarter vs. our expectations for the 4Q23.

Exhibit 4: Petrobras prices vs. international parity (R$/liter)

Petrobras' prices are below international parity in the 1Q24



Source: BofA Global Research, Petrobras and Platts

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Lower fuel demand and focus on clients with higher-returns

Diesel demand in Brazil is expected to drop this year

Demand for oil products is highly correlated with the broader economy's health: diesel sales reflect economic activity (used in industry, agriculture, and logistics), while Otto-cycle fuel sales reflect both household income and business activity.

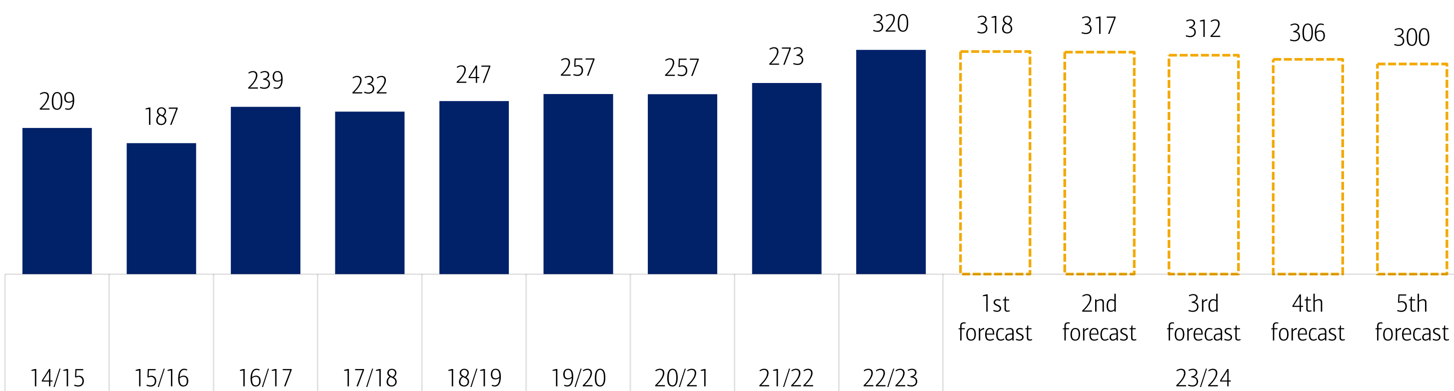
Over the recent years, demand for diesel has been especially supported by the agribusiness with record-high crops. However, for this year specifically, the Brazilian crop will likely be affected by the El Niño.

The El Niño phenomenon is a natural event usually occurs every two-to-seven years. In the years that it occurs, the temperatures in the waters of the equatorial Pacific rise above normal levels – this has implications on the climate, including changes in temperature, precipitation, and wind patterns.

In Brazil, El Niño is associated with an increase in rainfall in the south-central part of the country, while the north and northeast suffer from droughts. This weather pattern significantly impacts on Brazilian agriculture, affecting crop productivity and profitability.

In this regard, according to Conab (National Supply Company), the total grain harvest in the 2023/24 season is expected to reach 299.8 million tons. The volume is 6.3% lower than that obtained in the last harvest, which represents a drop of 20.1 million tons. This was the fifth update from Conab for this crop and – it was also the weakest one. Comparing with the first estimate of this harvest made by the entity, the current projection shows a decrease of 17.7 million tons.

Exhibit 5: Grain crops in Brazil (million ton) and CONAB's revisions for the 2023/24 crop
CONAB expects the 2023/24 to be 6.3% lower vs. 2022/23



Source: BofA Global Research, CONAB

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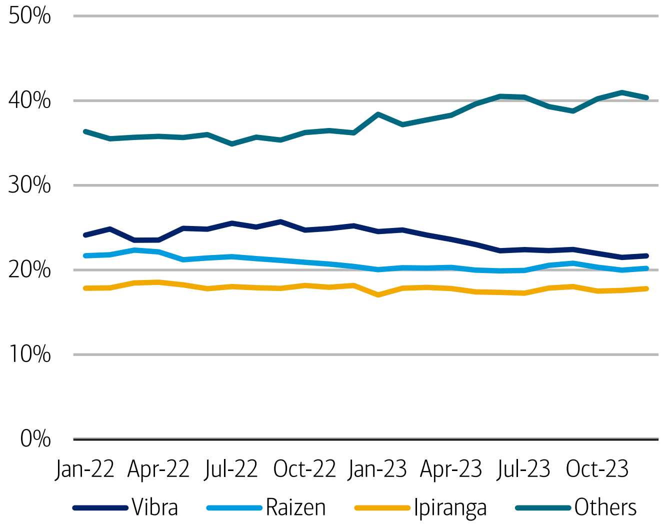
Lower market share due to focus on clients with higher returns

Notably, Ipiranga has opted to be more selective regarding their sales in the spot market: TRRs (TRR is a Brazilian acronym for transporter-dealer-retailer, they usually purchase fuel from distributors and deliver it to small consumers) and white flags (unbranded) gas stations. This new strategy has led both companies to lose market in the spot market.

Although the loss in market-share could imply that Ipiranga is less competitive vs. the independent players, it is important to note that this is part of the companies' new strategy. The spot market is usually pricing-driven, meaning that the fuels distributors need to lower their prices to compete in this market. In this context, Ipiranga has been focusing on the segments with higher returns.

Of note, white flag gas stations represent around 37% of the retail market considering only diesel, gasoline, and ethanol. Similarly, the TRRs represent around 38% of the B2B market, considering only diesel.

Exhibit 6: Market share in the retail segment*
Volumes have dropped in the retail segment...



Source: BofA Global Research, ANP *considers only diesel, gasoline and ethanol
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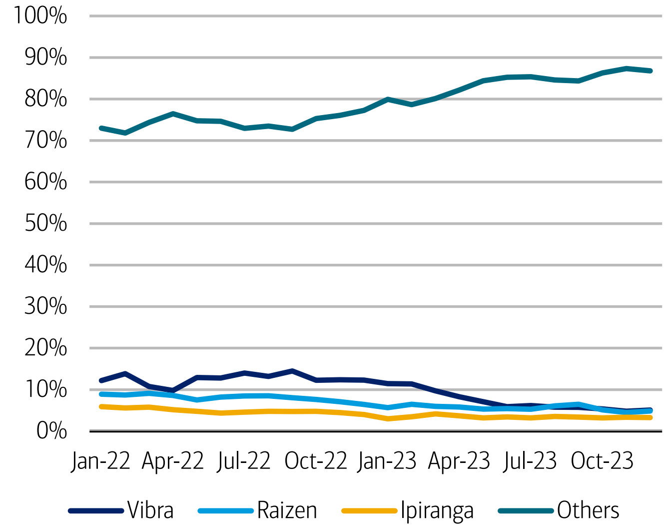
Exhibit 7: Market share in the white-flag subsegment*
... but it can be explained by lower sales to the white flags stations



Source: BofA Global Research, ANP *considers only diesel, gasoline and ethanol
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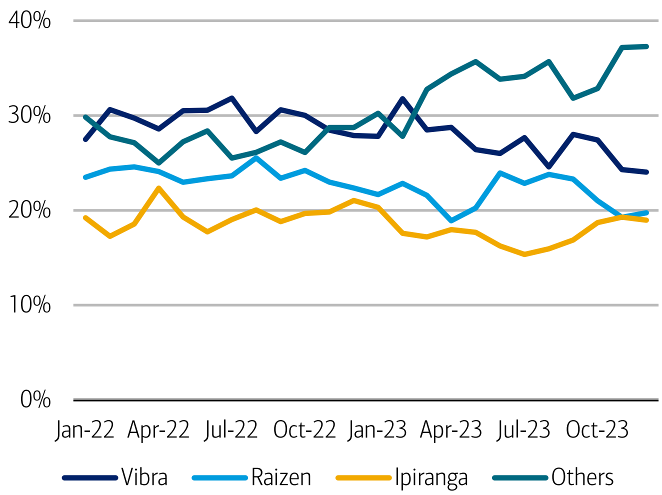
Exhibit 8: Market share in the B2B segment*
Volumes have also dropped in the B2B segment...



Source: BofA Global Research, ANP *considers only diesel
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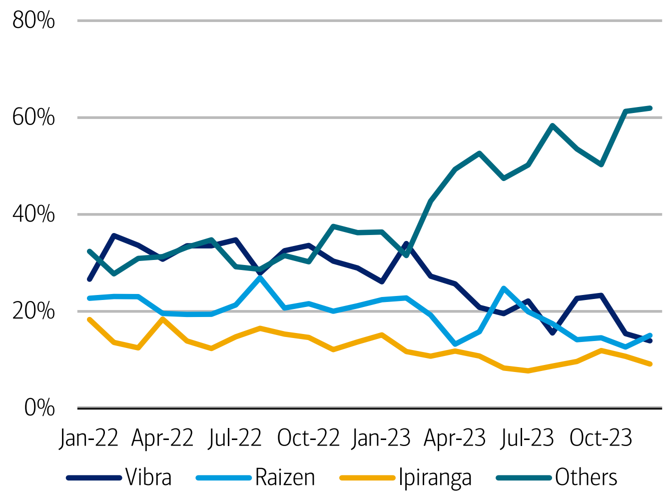
Exhibit 9: Market share in the TRR subsegment*
due to lower sales to the TRRs



Source: BofA Global Research, ANP *considers only diesel
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Measures to improve competitiveness and tax evasion in the sector

Taxes constitute a significant portion of the cost of fuels sold in Brazil and for this reason, tax evasion was prevalent among some fuel distributors, allowing them to charge lower fuel prices. These practices are more common on ethanol given that its production is pulverized, and taxes are partially paid by the fuel distribution companies, which facilitates the practice of tax evasion. Taxes on gasoline and diesel, on the other hand, are fully paid at the refinery gate and, given the significant share of this market held by Petrobras, there is very little room for tax evasion.

Tax evasion have enabled certain distributors to supply large quantities of fuel products at prices below those offered by the major distributors, thereby causing players that eschew such practices to lose margins, as they are forced to lower their prices to remain competitive.

In this context, the Institute *Combustível Legal* (ICL) listed four topics that could combat irregularities in the fuel distribution sector:

Inclusion of hydrous ethanol in the single-phase tax system

The Complementary Law 192/22 (LC 192) introduced the monophasic taxation regime of ICMS on the producer or importer, with fixed and uniform rates, in R$/liter, throughout the national territory, for gasoline and diesel.

The ICL has defended the expansion of this system to hydrous ethanol, a natural substitute for gasoline for flex-fuel cars, since variations in the tax of the non-monophasic system are a potential loophole for the occurrence of large tax evasions. With the approval of the tax reform in December 2023, the expectation is that the inclusion of ethanol under monophasic taxation will be approved by a complementary law in 2024.

Approval of a federal law against "persistent debtors"

One of the expectations for 2024 is the approval of Draft Bill 164/22. The Bill's proposal is to establish general rules for the identification and control of "persistent debtors", with the objective of preventing competitive imbalances, ceasing new debts that are constituted by companies created with the sole purpose of not paying taxes.

The "persistent debtor" makes the non-payment of taxes a business strategy, causing losses to the public coffers, with direct negative consequences on investments in the areas of Health, Education and Public Security.

Approval of Draft Bill 8455/17

The approval of Draft Bill 8455/17 also joins the list of expectations of the sector for 2024. The proposal has been pending since 2017 and has been ready to enter the voting agenda in the Lower House since 2020.

This bill classifies the activity of stealing oil-products in pipelines as crime against the economic order. The bill establishes a gradation in punishment, which is increased according to the severity of the crime. The penalty ranges from one to five years in prison and a fine and can reach up to 30 years. The bill also foresees for punishment for those who receive the stolen fuel.

Improvement of inspection of frauds

One of ICL's expectations is the improvement of inspection of frauds related to the volume and quality of the fuel sold at the gas stations by the main governmental agencies, such as the National Agency of Petroleum, Natural Gas and Biofuels (ANP), which continuously conducts task forces in all regions of the country.

The ICL itself has a series of actions planned to establish new collaborations with the inspections and surveillance entities, as it has already done over the last few years through tool support, workshops, logistical support for actions, among other actions.

In this regard, support to institutions for the formation of permanent task forces, with intelligence information and training activities, will continue along the lines of what happened in 2023. These actions include complaints related to the illegal mixing of methanol and solvents into fuels, as well as the fight against quantity fraud with the use of chips, which harm consumers during fueling; and the crimes of smuggling, robbery and piracy in the Amazon region.

Ultrapar: Neutral rating; new PO of R$36/share

We are raising our estimates for Ultrapar and introducing our new FY25 PO of R$36/share (from R$23/share), as we: 1) rollover to FY25, and 2) raise margins due to a healthier competitive landscape (we assume margin of R$153/m3).

Despite the upward revision in earnings, we maintain our Neutral rating for Ultrapar. Though we acknowledge that we missed the strong pick-up in earnings/cash generation of Ultrapar, we lack in visibility of further improvements. In addition to that: 1) we believe that the improvement of 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 of Ultra's capital allocation strategy going forward.

New vs. old

The bulk of our upward revision for Ultrapar stems from higher margins for Ipiranga, as we discussed in the first section of this report. We see Ultrapar trading at a 2024 price to earnings ratio (P/E) of approximately 14.2x.

Exhibit 10: BofA – New vs. Old estimates for Ultrapar
The bulk of our upward revision stems from higher margins of the fuel distribution business

	2023			2024			2025		
BRL (in millions)	**Old**	**New**	**Ch.**	**Old**	**New**	**Ch.**	**Old**	**New**	**Ch.**
Net Revenue	119,815	126,936	6%	118,485	129,086	9%	100,834	115,112	14%
EBITDA	4,558	5,625	23%	4,723	5,872	24%	5,020	6,297	25%
Net Income	1,338	2,049	53%	1,700	2,338	38%	1,895	2,551	35%
EPS (R$)	1.20	1.84	53%	1.52	2.10	38%	1.70	2.29	35%

Source: BofA Global Research estimates

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We are more optimistic vs. consensus

Although we maintain our Neutral rating for Ultrapar, we highlight that we are more optimistic for Ultrapar than the consensus. For 2024, we estimate a net income of R$2.3 billion, 27% above consensus. For 2025, our forecast is 23% above consensus.

Exhibit 11: Ultrapar estimates – BofA vs. Consensus
Despite our neutral rating, we are more optimistic vs. the consensus

	2024			2025		
	Old	**New**	**Ch.**	**Old**	**New**	**Ch.**
EBITDA	5,872	5,194	13%	6,297	5,487	15%
Net Income	2,338	1,846	27%	2,551	2,081	23%

Source: BofA Global Research estimates

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Explaining UGPA's stellar performance

UGPA stocks are up approximately 130% since January 2023, being the strongest performance in the LatAm Oil & Gas coverage. In our view, this can be largely explained by two main factors:

Ultragaz's margins have improved at sustainable levels

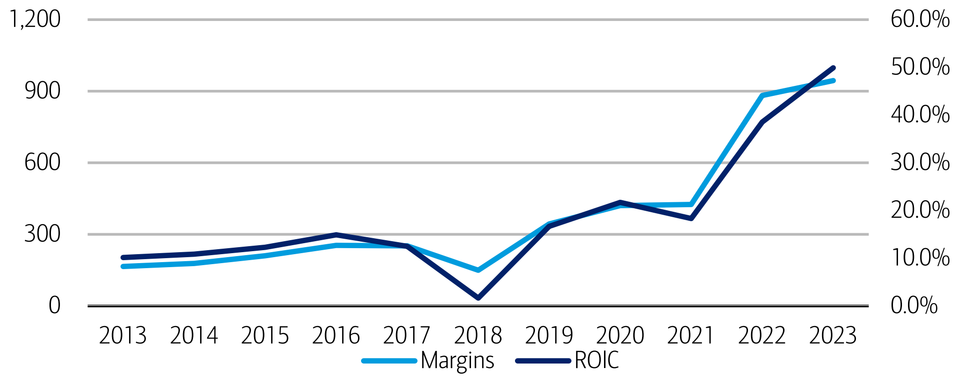
Ultragaz's margins have been improving since 2018, but it really started to call attention from the market in 2021-22, when they reached levels above R$500/ton. The rise was due to:

1) The privatization of Liquigas, which brought more rationality to the LPG (liquefied petroleum gas) distribution market; and

2) Operational excellence along with innovation and expansion in the LPG market (where Ultragaz became closer to clients with greater profitability by developing new applications for the LPG). In this regard, the company's bulk segment growth has been boosting Ultragaz's margins – as of today, the segment represents around one-third of Ultragaz's sales volumes but more than half of the company's margins.

For a long period, the market was concerned about the sustainability of such strong margins and ROIC – and, therefore, forecasted a drop in Ultragaz's results. Margins, however, kept increasing and beating expectations all around. Currently, we believe that the market has accepted that the strong margins are here to stay. In our most recent discussions on Ultrapar, the strong margins are broadly accepted by investors.

Exhibit 12: Ultragaz's margins (R$/ton) and ROIC (%)
Ultragaz's margins skyrocketed in 2022



Source: BofA Global Research and Ultrapar

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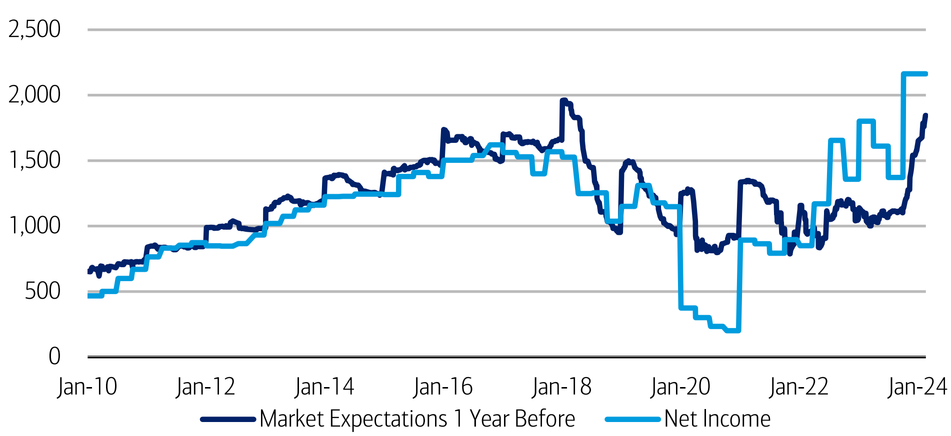
Ipiranga's turnaround process

As we will discuss in the next section, Ipiranga's margins were being anchored at Vibra's minus R$30-40/m3. However, following the latest results, investors believe that Ipiranga has been able to close the gap with Vibra.

Positive earnings revision explains the strong performance of UGPA

In 2022, the market started to raise its expectations for Ultrapar's earnings. However, these upward revisions were too shy. Result after result, Ultrapar showed to the market the sustainability of Ultragaz's margins and the improvement of Ipiranga by beating expectations even amid tough competitive environments (as was the case for the 1H23).

Exhibit 13: Ultrapar Reported Net Income vs Forecasts for that period 12m before*
Ultrapar has beat estimates over the past quarters



Source: BofA Global Research and Bloomberg * We have analyzed in this chart how actual earnings compared with expectations 1 year before results

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Ipiranga's turnaround process is concluded (or almost there)

It is undeniable the improvement of Ultrapar over the past few years. With the change in management in 2021, the company was able to do a very fair assessment of the decisions that impacted Ipiranga's results in the years before. This, in our view, allowed the company to create an accurate strategy to start the turnaround process.

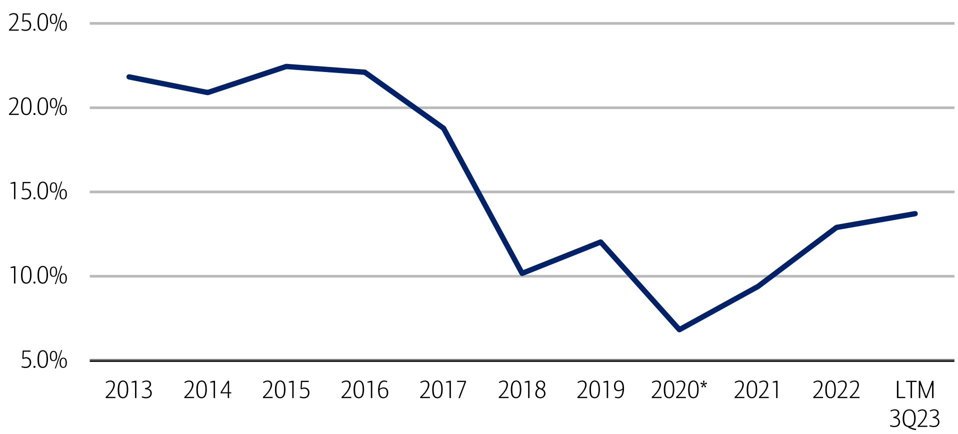
Ipiranga's overwhelming focus on margins (in detriment of volumes) post-2014 put the company in a fragile situation which led to declining returns (ROIC). As a result, between 2018 and 2022, Ipiranga's margins (and therefore UGPA's stock) significantly underperformed its peers.

In 2022, the company disclosed a plan for growth resumption, which was based on four main pillars: 1) pricing intelligence, 2) network management and engagement, 3) logistics & distribution, and 4) supply & trading.

Only two years after it, Ipiranga has already showcased a substantial improvement. The 3Q23 result proved it as Ipiranga reported similar margins vs. Vibra, which could be considered the top player in the sector not a long time ago. In our interactions with investors over the past two years, we believe that Ipiranga's margins were being anchored at Vibra's minus R$30-40/m3 (and we include ourselves into this).

In the most recent interactions with the management, it acknowledged that Ipiranga executed most of its plan but there is still room in the logistics pillar for the company to enhance and potentialize the improvements it foresees for this pillar. As shown in the Exhibit 10, LTM 3Q23 posted the highest ROIC since 2018.

Exhibit 14: Ipiranga's ROIC
LTM 3Q23 posted the highest ROIC since 2018.



Source: BofA Global Research and Ultrapar *pandemic affected mobility / fuel sales in Brazil

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Investment Rationale

Ultrapar

Ultrapar is a company focused on downstream/infrastructure energy businesses. This process is expected to lead to a period of lower earnings and greater uncertainty, which could limit upside for the shares. The company's core fuel distribution businesses and fuel storage segments remain well-positioned to show good growth on the back of economic recovery.

Price objective basis & risk

Ultrapar (XLRUF, C-2-7, R$30.53 / UGP, C-2-7, US$6.19)

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.

Analyst Certification

We, Leonardo Marcondes and Isabella Simonato, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

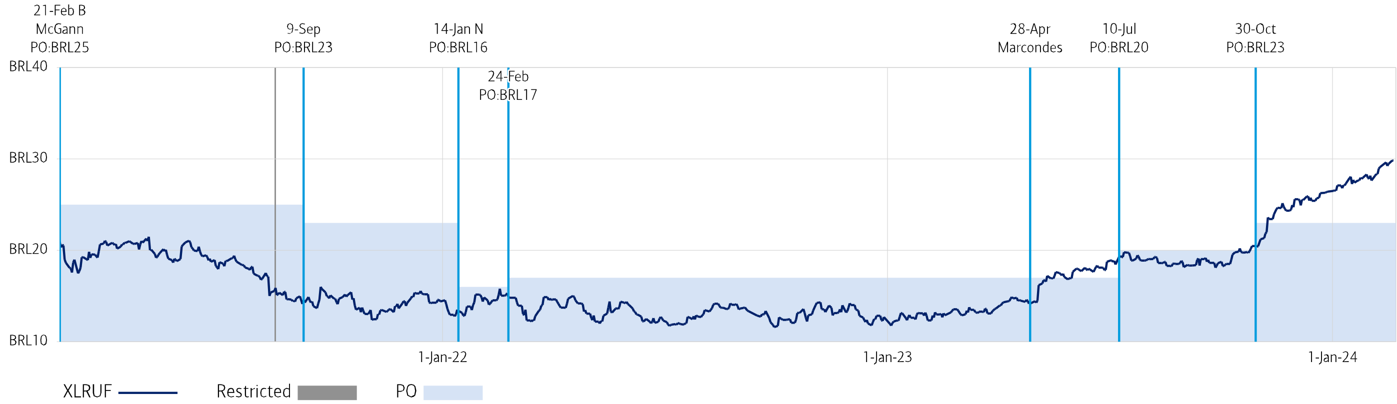
Latin America - Natural Resources Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	3R Petroleum	XPXXF	RRRP3 BZ	Leonardo Marcondes
	Alpek SAB de CV	ALPKF	ALPEKA MM	Leonardo Marcondes
	CSN	SIDHF	CSNA3 BZ	Caio Ribeiro
	CSN	SID	SID US	Caio Ribeiro
	Dexco SA	DURXF	DXCO3 BZ	Leonardo Neratika
	Empresas CMPC SA	XEMCF	CMPC CI	Leonardo Neratika
	Enauta Participacoes S.A.	QGEPF	ENAT3 BZ	Leonardo Marcondes
	Orbia	MXCHF	ORBIA* MM	Leonardo Marcondes
	Petro Rio	HRTPF	PRIO3 BZ	Caio Ribeiro
	Petrobras	PBRQF	PETR3 BZ	Caio Ribeiro
	Petrobras	PBR	PBR US	Caio Ribeiro
	Petrobras PN	PBRA	PBR/A US	Caio Ribeiro
	Petrobras PN	PTRBF	PETR4 BZ	Caio Ribeiro
	PetroReconcavo	XPXYF	RECV3 BZ	Leonardo Marcondes
	Suzano	XXRTF	SUZB3 BZ	Caio Ribeiro
	Suzano S.A.	SUZ	SUZ US	Caio Ribeiro
	Ternium	TX	TX US	Caio Ribeiro
	Usiminas SA	USNZY	USNZY US	Caio Ribeiro
	Usiminas SA	USSPF	USIM5 BZ	Caio Ribeiro
	Vale	VALE	VALE US	Caio Ribeiro
	Vale	VALEF	VALE3 BZ	Caio Ribeiro
	Vibra Energia SA	XUBRF	VBBR3 BZ	Leonardo Marcondes
NEUTRAL				
	Bradespar	BRDQF	BRAP4 BZ	Caio Ribeiro
	Companhia Brasileira de Alumínio	XZUDF	CBAV3 BZ	Leonardo Neratika
	CSN Mineracao	XZRAF	CMIN3 BZ	Caio Ribeiro
	Ecopetrol S.A.	XESSF	ECOPETL CB	Caio Ribeiro
	Ecopetrol S.A.	EC	EC US	Caio Ribeiro
	Gerdau S. A.	GGBUF	GGBR4 BZ	Caio Ribeiro
	Gerdau S.A.	GGB	GGB US	Caio Ribeiro
	Metalurgica Gerdau	MZGPF	GOAU4 BZ	Caio Ribeiro
	Ultrapar	XLRUF	UGPA3 BZ	Leonardo Marcondes
	Ultrapar Pa-ADR	UGP	UGP US	Leonardo Marcondes
UNDERPERFORM				
	Empresas Copec SA	PZDCF	COPEC CI	Leonardo Neratika
	Grupo Mexico	GMBXF	GMEXICOB MM	Caio Ribeiro
	Klabin S.A	XLWDF	KLBN11 BZ	Caio Ribeiro
	Klabin S.A	KLBAY	KLBAY US	Caio Ribeiro
	Southern Copper	SCCO	SCCO US	Caio Ribeiro
	YPF SA	YPF	YPF US	Leonardo Marcondes
	YPF SA	YPFSF	YPFD AR	Leonardo Marcondes
RSTR				
	Braskem SA-A	BAKAF	BRKM5 BZ	Leonardo Marcondes
	Braskem SA-ADR	BAK	BAK US	Leonardo Marcondes

Disclosures

Important Disclosures

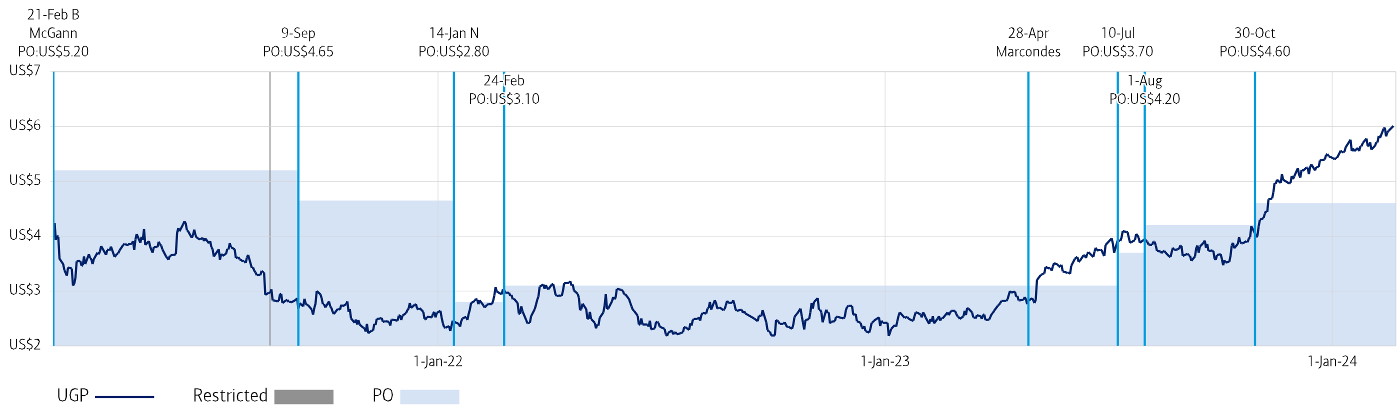
Ultrapar (XLRUF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Ultrapar Pa-ADR (UGP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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