

13 Sep 2023 08:59:48 ET | 16 pages

COSAN (CSAN3.SA)

Cosan Investor Day: Resilient Portfolio & Strong Culture

CITI'S TAKE

Yesterday, Cosan held its 13th Investor Day. From our perspective, key takeaways at the holding level were: 1) Disciplined capital allocation; 2) Cosan's strategic positioning via its diversified business portfolio; and 3) Performance and expansion of the business portfolio while looking for growth avenues in the long term. We believe that CSAN is well-positioned to deliver growth in the LT with the right culture, a good capital and HR allocation as it works toward its goals.

Compass — Mr. Nelson Gomes (Compass CEO) presented the company's expansion plan in the NG market, which is set to see rising demand. In the past, to meet such demand, Compass had increased its portfolio, acquiring Commit (ex Gaspetro) and Sulgás, and by investing in TRSP terminal. The company is segmenting its business into two parts: 1) Distribution; 2) Marketing and Services. The company aims to apply Comgás's strategy to Commit distributors and grow M&S (Marketing and Services) segment capturing customers on grid and off grid, adding RNG in the portfolio and maximizing optionality with new gas supply contracts.

Rumo — For details, please refer to [Rumo SA \(RAIL3.SA\) - Rumo Takeaways from Cosan Day 2023](#)

Moove — Moove's strategy focuses on supply and pricing supported by its strong growth in the recent past. The company's EBITDA has grown at 37% CAGR since 2017 (25% in USD terms), top line more than 4x, with more than 50% coming from foreign customers, with a ROIC of 15% in LTM 2023. The company intends to replicate its business model in the regions where it operates, which has an addressable market of 18bn L, evaluating organic and inorganic growth opportunities that have synergies with the business model.

Raízen — Mr. Mussa (Raízen CEO) updated the market on Raízen goals since its investor day in May'23. Main highlights were on the agricultural front — the company announced that it reached a record of sugarcane milling during the month of Jul'23, reaching 14mn ton, due to higher yields that closed the productivity gap vs suppliers, and announced that it expects to end the 23'24 harvest with a minimum sugarcane crushing of 80mn ton. Mr. Mussa also highlighted that he expects a scenario of higher margins for the mobility segment due to a less favorable import window for diesel imports in Brazil. Finally, Raízen is following its construction plan for the E2G plants, with 5 of the 8 contracted plants already under construction. For more details, please see [Raízen \(RAIZ4.SA\) - Raízen Day 2023: A long term call, with some ST catalysts](#).

Buy

Price (12 Sep 23 18:00)	R\$17.84
Target price	R\$30.00
Expected share price return	68.2%
Expected dividend yield	0.0%
Expected total return	68.2%
Market Cap	R\$33,433M
	US\$6,757M

Price Performance

(RIC: CSAN3.SA, BB: CSAN3 BZ)



Estimates	2020A	2021E	2022E	2023E	Q121A	Q221A	Q321A	Q421E
Sales (R\$M)	75,259	113,540	140,044	132,200	22,512	25,215	31,017	34,797
EBITDA adj (R\$M)	10,015	12,955	17,053	18,461	2,828	3,315	3,344	3,468
EBITDA margin adj (%)	13.3	11.4	12.2	14.0	12.6	13.1	10.8	10.0
Net income (R\$M)	859	5,750	5,425	6,253	828	942	3,265	716
EPS (R\$)	0.46	3.07	2.90	3.34	0.44	0.50	1.74	0.38

Valuation					Ratios	2020A	2021E
EV/EBITDA adj	7.0	5.7	4.6	4.4	ROE adj (%)	4.6	23.6
PE	38.9	5.8	6.2	5.3	ROIC adj (%)	4.7	6.3
FCF (%)	7.8	0.7	8.3	11.8	Debt to Capital (%)	74.0	70.3

Source: Company Reports and dataCentral, Citi Research.

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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CSAN3.SA: Fiscal year end 31-Dec						Price: R\$17.84; TP: R\$30.00; Market Cap: R\$33,433m; Recomm: Buy					
Profit & Loss (R\$m)	2019	2020	2021E	2022E	2023E	Valuation ratios	2019	2020	2021E	2022E	2023E
Sales revenue	79,877	75,259	113,540	140,044	132,200	PE (x)	25.4	38.9	5.8	6.2	5.3
Cost of sales	-69,966	-65,698	-100,556	-124,630	-115,371	PB (x)	2.0	1.6	1.2	0.9	1.1
Gross profit	9,911	9,561	12,984	15,414	16,829	EV/EBITDA (x)	5.6	7.0	5.7	4.6	4.4
Gross Margin (%)	12.4	12.7	11.4	11.0	12.7	FCF yield (%)	16.8	7.8	0.7	8.3	11.8
EBITDA (Adj)	10,917	10,015	12,955	17,053	18,461	Dividend yield (%)	na	na	na	na	na
EBITDA Margin (Adj) (%)	13.7	13.3	11.4	12.2	14.0	Payout ratio (%)	0	0	0	0	0
Depreciation	-4,101	-5,014	-5,655	-6,642	-6,884	ROE (%)	7.6	4.6	23.6	17.0	18.5
Amortisation	0	0	0	0	0	Cashflow (R\$m)	2019	2020	2021E	2022E	2023E
EBIT (Adj)	6,817	5,001	7,300	10,411	11,577	EBITDA	10,917	10,015	12,955	17,053	18,461
EBIT Margin (Adj) (%)	8.5	6.6	6.4	7.4	8.8	Working capital	-65	-2,235	-2,481	533	192
Net interest	-2,629	-2,716	-19	-3,799	-3,528	Other	-866	649	-1	-4,515	-4,770
Associates	0	0	0	0	0	Operating cashflow	9,986	8,429	10,473	13,071	13,883
Non-Op/Except/Other Adj	0	0	0	0	0	Capex	-4,360	-5,814	-10,252	-10,299	-9,923
Pre-tax profit	4,188	2,284	7,281	6,612	8,049	Net acq/disposals	0	0	0	0	0
Tax	-2,872	-1,425	-1,531	-1,187	-1,796	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow	-4,360	-5,814	-10,252	-10,299	-9,923
Reported net profit	1,316	859	5,750	5,425	6,253	Dividends paid	0	0	0	0	0
Net Margin (%)	1.6	1.1	5.1	3.9	4.7	Financing cashflow	-991	1,598	3,395	4,409	-1,012
Core NPAT	1,316	859	5,750	5,425	6,253	Net change in cash	4,635	4,213	3,615	7,181	2,948
Per share data	2019	2020	2021E	2022E	2023E	Free cashflow to s/holders	5,626	2,615	221	2,772	3,961
Reported EPS (\$)	0.70	0.46	3.07	2.90	3.34						
Core EPS (\$)	0.70	0.46	3.07	2.90	3.34						
DPS (\$)	0	0	0	0	0						
CFPS (\$)	5.33	4.50	5.59	6.97	7.41						
FCFPS (\$)	3.00	1.40	0.12	1.48	2.11						
BVPS (\$)	8.76	11.21	14.81	19.27	16.74						
Wtd avg ord shares (m)	1,874	1,874	1,874	1,874	1,874						
Wtd avg diluted shares (m)	1,874	1,874	1,874	1,874	1,874						
Growth rates	2019	2020	2021E	2022E	2023E						
Sales revenue (%)	21.0	-5.8	50.9	23.3	-5.6						
EBIT (Adj) (%)	35.0	-26.6	46.0	42.6	11.2						
Core NPAT (%)	34.9	-34.7	569.0	-5.6	15.3						
Core EPS (%)	34.9	-34.7	569.0	-5.6	15.3						
Balance Sheet (R\$m)	2019	2020	2021E	2022E	2023E						
Cash & cash equiv.	13,898	19,826	24,869	37,726	35,644						
Accounts receivables	3,831	4,166	6,542	9,363	7,261						
Inventory	5,137	5,094	6,743	9,683	6,770						
Net fixed & other tangibles	66,073	80,137	98,545	131,380	106,536						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	0	0	0	0	0						
Total assets	88,940	109,223	136,698	188,153	156,211						
Accounts payable	6,497	7,286	11,748	17,724	12,512						
Short-term debt	0	0	0	0	0						
Long-term debt	46,827	59,897	65,571	88,040	79,872						
Provisions & other liab	19,200	21,036	31,628	46,274	32,463						
Total liabilities	72,525	88,220	108,947	152,038	124,847						
Shareholders' equity	16,415	21,004	27,751	36,115	31,364						
Minority interests	0	0	0	0	0						
Total equity	16,415	21,004	27,751	36,115	31,364						
Net debt (Adj)	32,929	40,072	40,702	50,314	44,228						
Net debt to equity (Adj) (%)	200.6	190.8	146.7	139.3	141.0						

For definitions of the items in this table, please click [here](#).

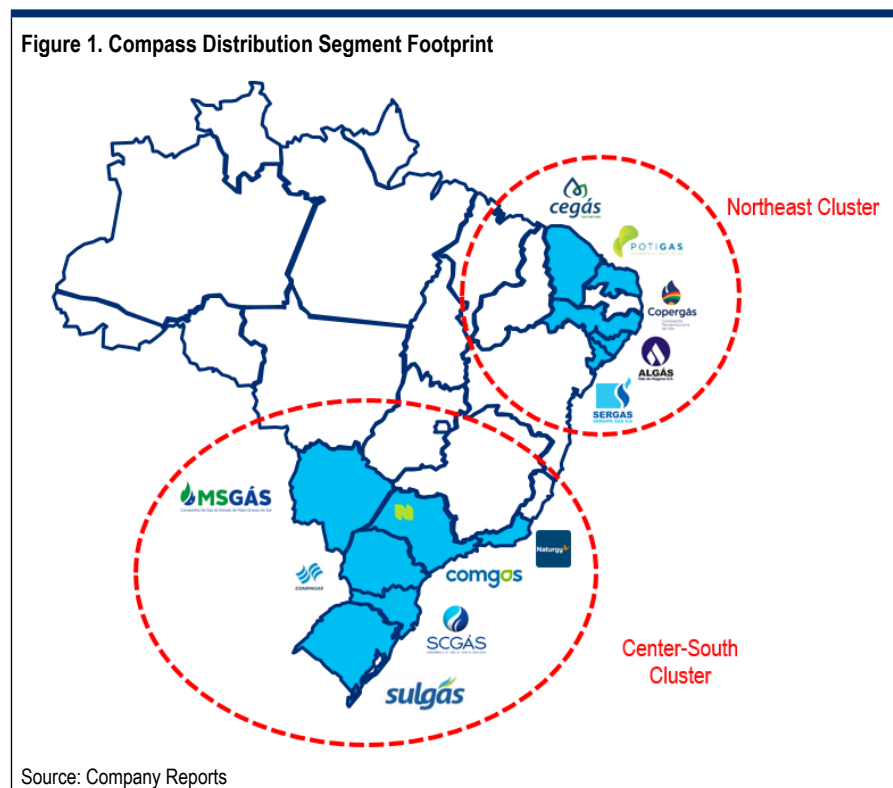
Cosan Investor Day

Compass: One of the best players in Brazilian NG arena

Mr. Nelson Gomes presented the company's expansion plan in the natural gas market, which is set to see rising demand. In the past, to meet such demand, Compass had increased its portfolio, acquiring Commit (ex-Gaspetro) and Sulgás, and by investing in TRSP terminal. The company is segmenting its business into two parts: 1) Distribution and 2) Marketing and Services.

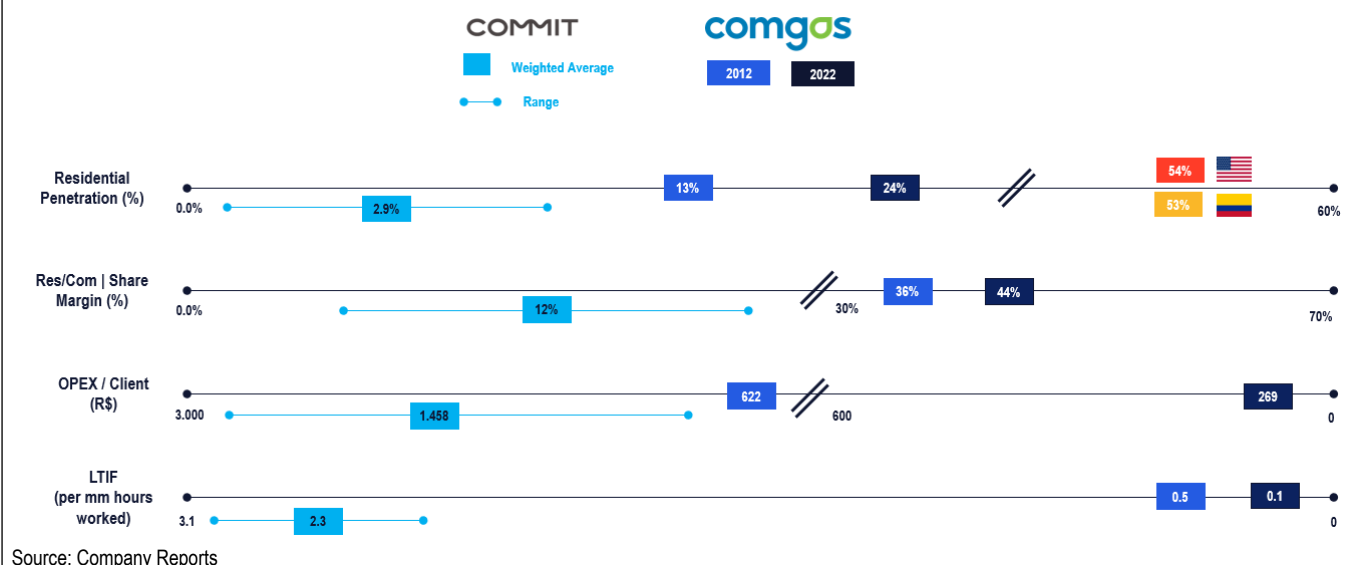
The Distribution segment is composed of natural gas distribution operation (Comgás + Commit). The segment has stakes in 12 gas distributors in Brazil. The company mentioned that the focus is on the Center South Region and expects to sell its stake in Northeast distributors by the end of the year. It also expects to exercise its right of first refusal in any privatization of natural gas distributors in the Center South region.

Figure 1. Compass Distribution Segment Footprint



The company aims to grow in the regions where it operates by replicating the strategy applied at Comgás, which has shown good results in the last 10 years — increasing residential penetration and residential share in the margin and reducing OPEX per client. Commit still has indicators well below what Comgás had in 2012, so there is great potential to be explored. It is important to note that in 2022 Comgás had a residential penetration of 24%, while the USA market has a residential penetration of 54% and the Colombian market, which has cultural characteristics similar to the Brazilian market, has a 53% penetration, so there is a large market to be developed.

Figure 2. Distribution Segment Growth Opportunities



The Marketing & Services segment (TRSP + Gas Commercialization) includes the supply of natural gas to free market customers (B2B clients) connected to the Compass pipeline network and off-grid customers. Compass has created a platform to serve customers off grid, through LNG transportation via trucks. The company estimates a potential demand of 97mn m3/day of natural gas, if 3% of the demand for LPG, diesel and fuel oil is shifted to LNG within a radius of 1k km away from the port of Santos. As we commented [here](#), Compass announced the acquisition of NewCo, a biomethane venture that will produce biomethane from an Orizon Sanitary landfill.

In summary, the company aims to apply Comgás's strategy to Commit distributors and grow the M&S (Marketing and Services) segment capturing customers on grid and off grid, adding RNG (Renewable Natural Gas) to its portfolio and maximizing optionality with new gas supply contracts.

Figure 3. Compass CAPEX (R\$bn)

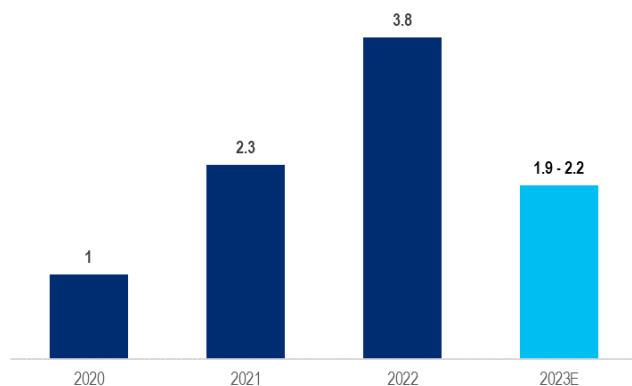
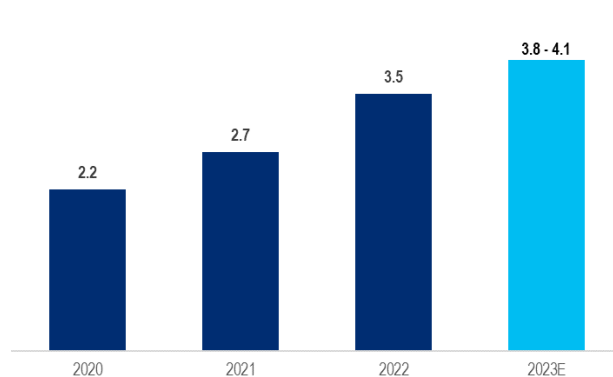


Figure 4. Compass EBITDA (R\$bn)



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Source: Citi Research, Company Reports

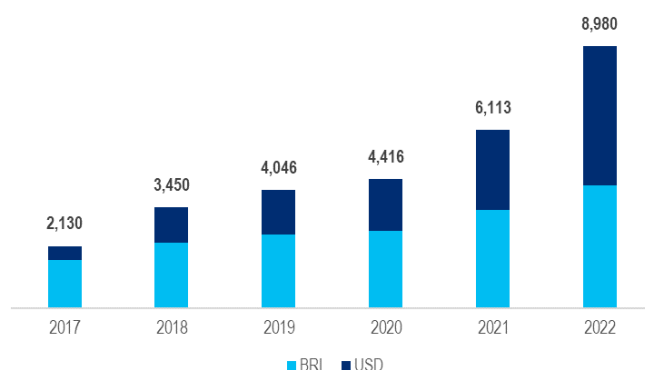
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Moove: Great improvements on the go

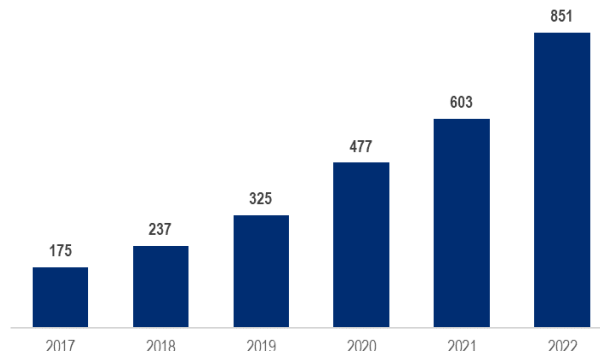
Moove's strategy focuses on supply and pricing supported by its strong growth in the recent past. The company's EBITDA has grown at 37% CAGR since 2017 (25% CAGR in USD terms), top line more than 4x, with more than 50% coming from foreign customers (operating in more than 10 countries and exporting to more than 40 countries), with ROIC of 15% in LTM 2023. The company intends to replicate its business model in the regions where it operates, which has an addressable market of 18bn L, evaluating organic and inorganic growth opportunities that have synergies with the business model.

Figure 5. Moove Net Revenues (R\$mnn)



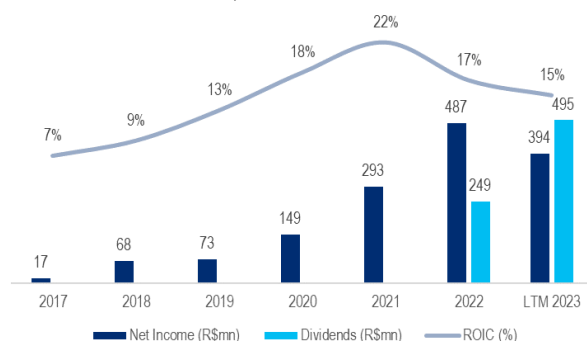
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Figure 6. Moove EBITDA (R\$mnn)



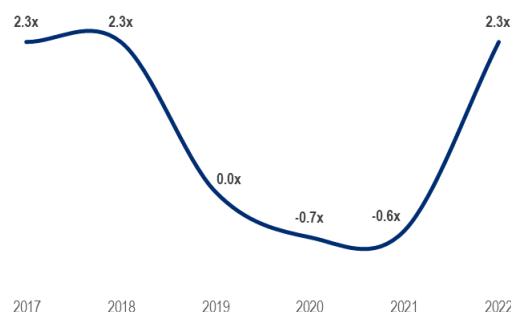
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Figure 7. Moove Net Income, Dividends and ROIC



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Figure 8. Moove Leverage



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Source: Citi Research, Company Reports

Given that the company is already a leader in the Brazilian premium lubricants segment, with 20% market share (+9.2 p.p. since acquisition) and more than 30 distribution centers and 100k points of sale in operation, it is focusing on applying its Brazilian strategy in Europe and North America operations, as the Brazilian operation is more mature than others. Moove aims to increase its geographic presence in Europe; the company has already invested c.US\$80mn since 2017 and has grown its EBITDA at a CAGR of 42%, reaching 5% of market share in the region. In US, Moove already represents about 20% of Mobil's total volume in the region, with two production plants and more than 50 distribution centers but has about 3% of the market share in the region.

Figure 9. Moove Highlights

		2021 (A)	2022 (B)	YoY	LTM 2023 (C)	C x B
Volume	mn L	400	525	31%	636	21%
Net Revenues	R\$bn	6	9	50%	10	11%
% USD Revenues	%	44%	53%	9 p.p.	57%	4 p.p.
EBITDA	R\$m	603	851	41%	1,023	20%
Dividends	R\$m	0	249	n.a.	495	99%
Leverage	x	-0.6x	2.3x	n.a.	1.8x	n.a.

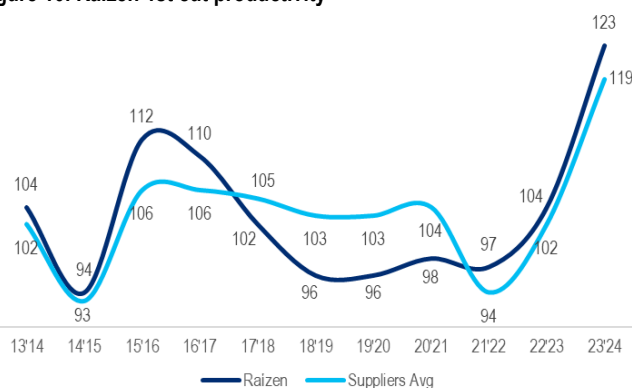
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Source: Citi Research, Company Reports

Raizen: The Renewable One Stop Shop

Mr. Ricardo Mussa updated the market on Raizen's goals since its investor day in May'23. Main highlights were on the agricultural side — the company announced that it reached a record of sugarcane milling during the month of Jul'23, reaching 14mn ton, due to higher yields in sugarcane of 1, 2 and 3 cuts that closed the productivity gap against suppliers. The company announced that it expects to end the 23'24 harvest with a minimum sugarcane crushing of 80mn ton, implying a TCH of 82 ton/ha, reaching 80% of its field, reaching 80% of its sugarcane field in potential productivity.

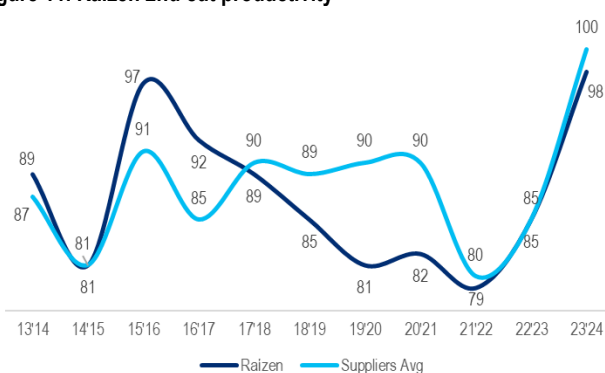
Figure 10. Raizen 1st cut productivity



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Source: Citi Research, Company Reports

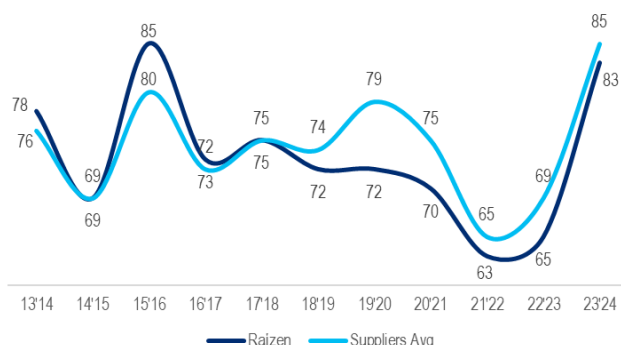
Figure 11. Raizen 2nd cut productivity



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Source: Citi Research, Company Reports

Figure 12. Raizen 3rd cut productivity



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Source: Citi Research, Company Reports

The company reaffirmed it is confident that in a tighter scenario for sugar, the higher sugar prices scenario would be maintained. It also expects global sugar stocks-to-use ratio fall to 45% by the end of this season, on the back of high utilization ratio. According to the company, a higher sugar price should enable investments necessary to increase sugar production capacity. Mr. Mussa also highlighted that he expects a scenario of higher margins for the mobility segment due to a less favorable import window for diesel imports in Brazil. Finally, Raizen stated that it is following its construction plan for the E2G plants, with 5 of the 8 contracted plants already under construction, and the Bonfim plant, which has a production capacity of 82km³/year, due to be inaugurated this month. For more details, please see [Raizen \(RAIZ4.SA\) - Raizen Day 2023: A long term call, with some ST catalysts](#).

Cosan Investimentos

We believe it is noteworthy to look beyond Cosan's legacy portfolio, to its investment vehicle Cosan Investimentos which the company uses to analyze and invest in potential new businesses that are exposed to sectors where Cosan's management know-how might enable it to leverage new business ventures, bring new technologies into the business, and gain exposure to strong currencies. Cosan may or may not be in a position to be an active participant in such ventures.

Cosan has already invested R\$21bn in its investment portfolio, of which R\$17.4bn invested in Vale, exposing the company to the mining sector; R\$2.5bn in 318k ha of land (53% for planting sugar cane and 44% for grains and fibers) through the Radar, Tellus and Janus funds; R\$0.8bn in the port of São Luis in Maranhão; R\$0.1bn in the Climate Tech Fund, to take advantage of opportunities in disruptive technologies that have synergies with the Cosan group.

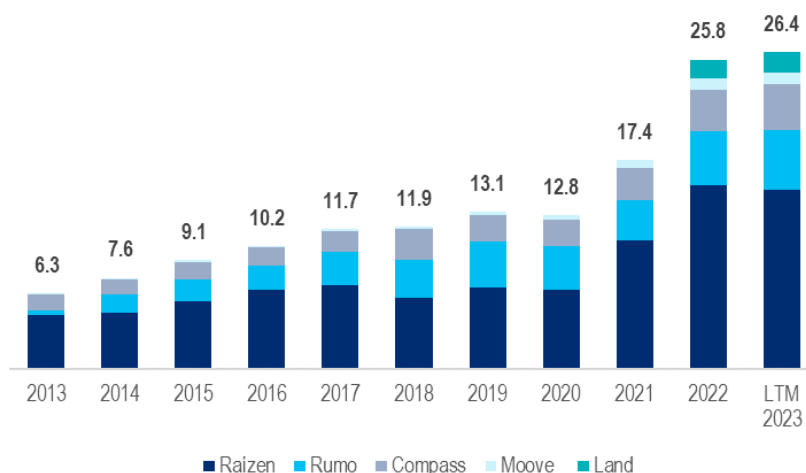
Management's alignment with LT strategy: Cosan's partnership program

It is well-known that strategic planning combined with deployment excellence equals solid strategic alignment, which can positively influence an organization's prospects. Disciplined capital allocation and human capital working hand-in-hand to build

business excellence can deliver positive results for all stakeholders. Cosan considers its human capital as a key asset and developing it is a key priority.

In this context, Cosan highlighted its partnership program which includes a cohesive and aligned group of executives who think strategically and support the group's decision-making process through a mechanism of continuous development of the company's key leaders. In our view, Cosan has a strong team which is deeply aligned with the company's long-term strategy and goals.

Figure 13. COSAN EBITDA (R\$bn)



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Source: Citi Research, Company Reports

Companies Mentioned:

Shell PLC (SHEL.L; £25.3; 2; 12 Sep 23; 16:30) | Exxon Mobil Corp (XOM.N; US\$117.49; 2; 12 Sep 23; 16:00) | Vale (VALE.N; US\$13.6; 2; 12 Sep 23; 16:00) | Rumo SA (RAIL3.SA; R\$22.76; 2; 12 Sep 23; 18:00) | Raizen (RAIZ4.SA; R\$3.88; 1; 12 Sep 23; 18:00)

COSAN

Company description

Cosan is one of Brazil's largest companies with a portfolio of assets throughout the country's fuel value chain. It is divided into five main assets: (1) Raízen, a joint venture with Shell that is split into two operating companies - (i) the largest sugarcane crushing capacity in the country and therefore one of the largest producers of sugar, ethanol and power from sugarcane bagasse, and (ii) a top-3 fuel distribution company in Brazil in terms of volumes operating under Shell's brand; (2) Compass, which operates and invests in four business segments that act as a complementary platform for activities to explore opportunities in the natural gas and energy sector in Brazil. Compass is strategically focused on - (i) natural gas distribution, through Comgás, the largest piped gas company in the country in terms of volume; (ii) gas infrastructure and origination, accessing the competitive supply of pre-salt gas and importing LNG (liquefied natural gas); (iii) gas trading, optimizing its supply and demand portfolio, creating diversification, flexibility and competitiveness; and (iv) gas-fired thermal generation and electricity trading, transforming gas into electricity; (3) Moove, a distribution company for lubricants that has plants in South America and in Europe; (4) Rumo, which was established by the merger of ALL Logística and the logistics subsidiary of Cosan, and is Brazil's dominant freight rail operator, with almost 14,000 km-worth of rail networks, through four concessions, with this area covering areas of southern and southeastern Brazil that are responsible for 80% of the country's agricultural output; and (5) Cosan Investimentos, which is the main vehicle for Cosan's new investment strategy that is carried out via an investment fund structure, through which it will make contributions with its own equity and from third parties' contributions in new scalable businesses, focusing on sectors that Cosan considers to have competitive advantages, and looking forward opportunities that connect digitization and innovation. Cosan's ownership structure consists of a controllership group with 35.9% of its shares and 66.4% of its stock floating in Brazil's capital markets.

Investment strategy

We rate Cosan Buy. Our investment thesis is underpinned by: 1) a good capital allocation track record; 2) growth avenues in diversified sectors with interesting synergies; and 3) a resilient thesis even in an adverse political scenario. However, the size of the company, its business diversification and the corporate structure could still cause a haircut in its valuation in comparison with the SOTP. Today, we see the company trading at close to ~6% discount to the business market value SOTP, which we see as a fair level, but this does not price in upside from RAIL, RAIZ and other business lines.

Valuation

Our target price reflects our positive view on the RAIL3 and RAIZ4 investment cases added to our Compass and Moove valuation. We do not consider the impacts of Sulgás, Gaspetro and Cosan Investimentos in our valuation. Our R\$30/sh target price reflects a SOTP valuation and a holding discount of 10%, in line with the historical discount.

Risks

Key risks to Cosan's target price are: 1) Adverse weather negatively affecting the S&E business; 2) any downward trend in S&E prices; 3) any downward trend in lubricant prices; 4) any adverse scenario for corn crops in the short to medium term, negatively affecting Rumo's share price; and 5) adverse decisions on the gas regulatory framework negatively affecting Compass' different lines of business.

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Appendix A-1

ANALYST CERTIFICATION

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

COSAN (CSAN3.SA)

Ratings and Target Price History
Fundamental Research

Analyst: Gabriel Barra



	Date	Rating	Target Price	Closing Price
1	26-Apr-21 12:20:26	*--	-	90.14
2	04-Jan-22 04:00:00	*1	*30.00	21.30

*Indicates Change

Rating/target price changes above reflect Eastern Time

The Firm has made a market in the publicly traded equity securities of Exxon Mobil Corp on at least one occasion since 1 Jan 2022.

The Firm has made a market in the publicly traded equity securities of Vale SA on at least one occasion since 1 Jan 2022.

The Firm has made a market in the publicly traded equity securities of Shell PLC on at least one occasion since 1 Jan 2022.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Rumo SA. This position reflects information available as of the prior business day.

Citigroup Global Markets Inc. or its affiliates has a net short position of 0.5% or more of any class of common equity securities of Exxon Mobil Corp,Shell PLC,Vale.

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of COSAN,Exxon Mobil Corp,Shell PLC,Vale.

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