

Rumo

Main Takeaways for Rumo from Cosan Investor Day

Outperform

Current Price R\$22.76

Target Price R\$32.00

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Net/Net: Today (September 12), Cosan held its investor day, including important discussions with Rumo's top management. Overall, comments seemed quite optimistic regarding the supply and demand outlook, implying a price increase of potentially up to 26% YoY for 1H24. Moreover, Rumo management shared details on the development of its main expansion projects, and walked through assessments of main operational bottlenecks and how these might be overcome.

Pricing in 2024. The company highlighted the 1H23 pricing disparity between Rumo's Northern Operations vs. what they considered to be the best transportation alternative, Northern Arc, implying a potential price increase of up to 26% YoY in 1H24 (Figure 1). We think this disparity could trigger earnings revisions as our recent discussions with investors pointed to a more conservative approach for pricing in their models.

Paulista network. Rumo stressed that 22% of the total investment pipeline for Paulista Network has already been deployed, which has improved capacity. With the expansion plan conclusion, including initiatives such as PTC, railway upgrade, larger trains, and lines, Rumo forecasts 75 Mt (+42% vs. LTM, Figure 2) of capacity. Management also mentioned discussions with government for a specific contract amendment to potentially reallocate part of the initial investment schedule to other projects that in their assessment could be more valuable for both parties.

Santos Port capacity. Rumo mentioned their short-term focus on working to increase the port's efficiency and capacity, and detailed the already ongoing investment projects being done by Rumo itself and other stakeholders. To further increase Santos Port capacity to 77 Mt in 2025 (+51% vs. 2023), management highlighted the FIPS importance for future investments, and also some projects: *Novo Valongo* (improving port access) and STS11, expected to be launched in 2025, adding 16 Mt the port's capacity (Figure 3).

LRV. Rumo management mentioned that the first 34km stretch is being built, and an additional 150km stretch is expected for 2024, while also reiterating its expectations for Campo Verde's terminal start-up in 2026. Moreover, management highlighted the relevance of a close relationship with MT government to build an integrated logistics project, leading to lower overall grains logistics cost, increasing MT export's competitiveness.

Relative Performance (R\$)



Source: FactSet.

Company Data, September 12, 2023 (closing price)

		(R\$ mn)	2022A	2023E	2024E
Bloomberg code	RAIL3 BZ				
Current Price	R\$22.76				
Target Price (YE 2024)	R\$32.00				
Price Perf Last 12 Mth (Absolute)	10.00%				
52 Week Range (R\$)	17.11 - 24.44				
Market Cap (R\$ mn)	42,164				
Free Float (%)	65.6				
3-Mth Avg daily vol (R\$ mn)	325				
Outst shares (mn)	1,853				
(R\$)	2022A	2023E	2024E		
Adj EPS	0.02	0.35	0.90		
BVPS	8.32	8.62	9.38		
DPS	0.02	0.05	0.16		
Revenues	9,842	10,886	12,484		
EBITDA	4,534	5,620	6,787		
EBIT	2,567	3,415	4,318		
Net Profit	45	640	1,658		
FCFE	2,243	1,995	1,911		
Net Debt	13,701	11,401	12,905		
P/E (x)	NM	65.8	25.4		
EV/EBITDA (x)	19.6	9.5	8.1		
FCFE Yield (%)	3.0	4.7	4.5		
Div Yield (%)	0.1	0.2	0.7		
Net Debt/EBITDA (x)	3.0	2.0	1.9		

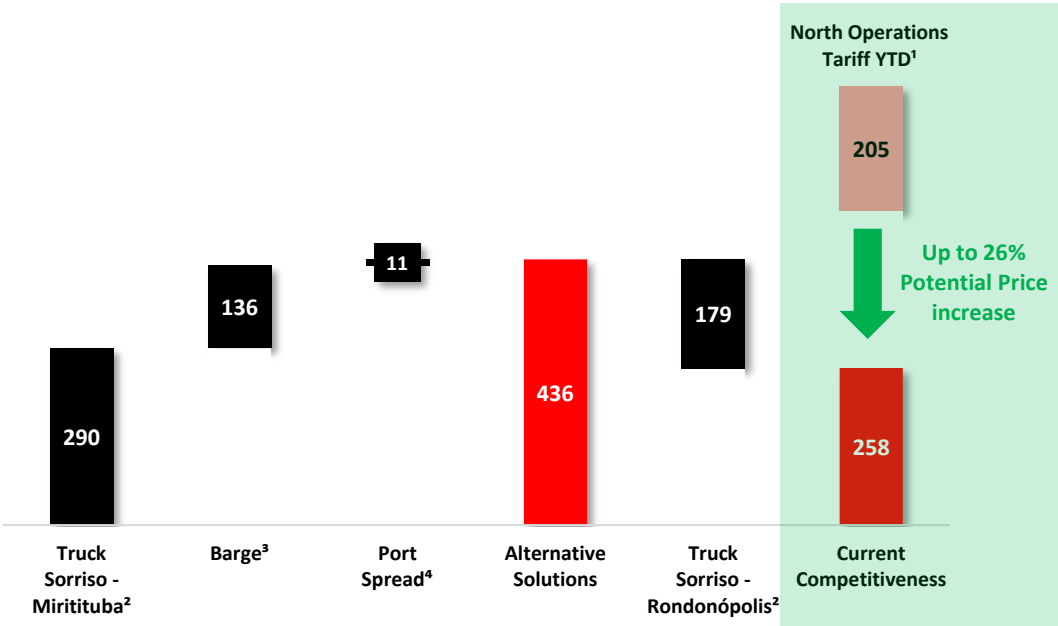
Sources: FactSet, Company Data and Santander estimates.

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Figure 1 - Current Pricing Dynamics



Source: Cosan's 2023 Investor Day, Santander Research

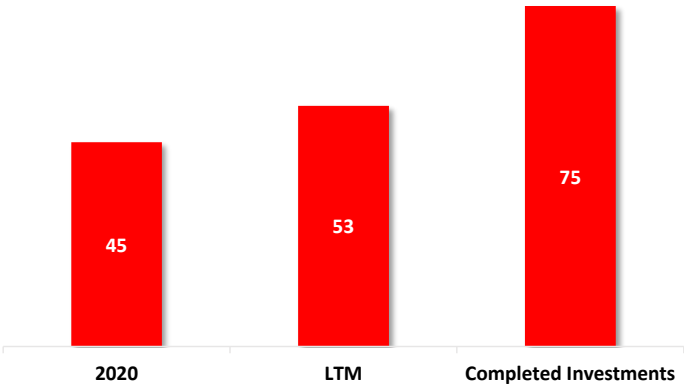
(1) YTD North Operation yields (1H23), multiplied by the distance between Rondonópolis and Santos - 1,650 km

(2) IMEA YTD

(3) USDA 1Q23 @ptax

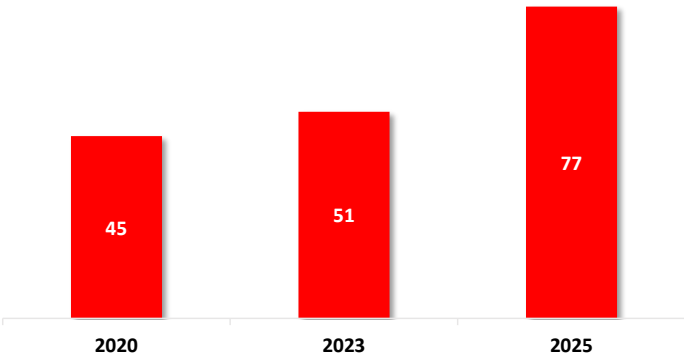
(4) Rumo's Internal Estimates

Figure 2 - Paulista Network Capacity (mn ton)



Source: Cosan's 2023 Investor Day, Santander Research.

Figure 3 - Railway Capacity Grains, Sugar and Pulp (mn ton/year)

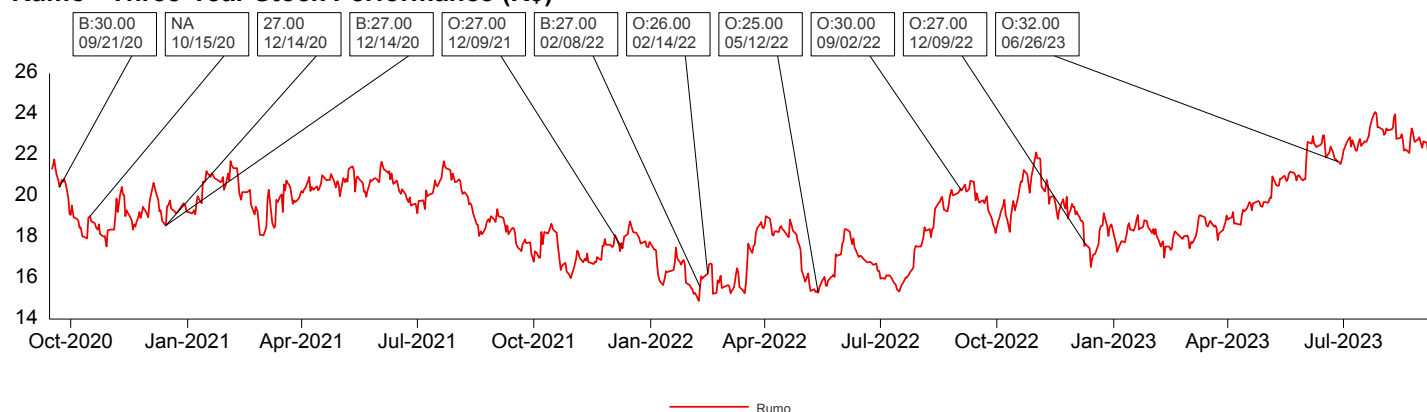


Source: Cosan's 2023 Investor Day, Santander Research

Other Companies Mentioned

Cosan (CSAN3 BZ; TP: R\$29.00; CP: R\$17.65, Outperform)

Rumo - Three-Year Stock Performance (R\$)



Valuation & Risks

Our YE2024 target price is based on a DCF analysis (FCFE) assuming a K_e of 14.7% and a perpetual growth rate of 3% (both in BRL nominal terms).

Risks include: Uncertainties related to potential changes in the Brazilian railroad regulatory framework, uncertainties related to the return of new projects in which Rumo might become involved, unfavorable government intervention, and potential increases in Brazilian interest rates affecting Rumo's bottom line.

Cosan S.A. - Three-Year Stock Performance (R\$)



Valuation & Risks

Our YE2023 target price is based on the SOTP of the company, valuing each of the businesses using the DCF approach. Main risks include: (1) declining sugar, ethanol and iron ore prices; (2) capital discipline; (3) lower gas, lubricants, and fuels consumption, (4) growth and M&A execution.

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Rating	Definition	% of Companies	
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Under Review		1.30%	33.33%

The numbers above reflect our Latin American universe as of May 31, 2023.

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