

## Cosan S.A.

## Key Takeaways from 2023 Investor Day

Cosan just hosted its 2023 investor day. Despite volatility and uncertainty in the global geopolitical environment, Cosan sees opportunities for growth. The company is focused on (i) replicating Commit's playbook for Comgas, (ii) advancing E2G projects, (iii) capitalizing on positive price scenario for S&E, (iii) and recovering M&S margins, to name a few. Overall, they are satisfied with their portfolio and its size and see themselves benefitting from energy transition and decarbonization. On the holding level, they remain committed to the capital allocation strategy, monitoring opportunities to buy back own shares and shares of the listed players of the group. Please see our notes below. For more details on Raízen (OW) please see our investor day notes [here](#), for more details on Rumo (OW) please see Guilherme Mendes's note [here](#).

- **Introductory Remarks - Cosan (Luis Henrique, CEO).** (1) Focus on Comgas, to grow in terms of profitability, replicating Commit's playbook, in addition to creating new M&S business. (2) In Rumo, aim to continue increasing capacity. (3) In Raízen, focus is to conclude E2G plants. Further, indicators show a record cane harvest, with biogas also seeing positive results. Also highlight commitment to recovery of results in M&S Brazil. (4) Moove USA is bringing comfort in their model, which should be replicated in Europe. (5) Consistent improvement in operational performance of the whole portfolio, with R\$26bn in EBITDA under the Cosan umbrella. (6) Increased focus on capital allocation, as well as innovation with SAF, and new processes and technology.
- **Compass (Nelson Gomez, CEO).** (1) War brought volatility to gas market, as well as changes to infrastructure with growing liquification of NG in the Middle East. LNG becoming more tradable, ensuring supply security and flexibility. (2) Demand should continue increasing given room for growth on distributors side and opening of a free market proportionating better competition. Further, demand for biomethane should be supported and the company aims to take off with LNG for B2B in 2025, with improved access to off-grid clients. (3) From the supply side, PBR continues to be relevant, and investments in pre-salt volumes continue. Biomethane growing in relevance here as well, leading to increased offer of RNG. LNG continues of utmost importance bringing S-D balance and flexibility, guaranteeing gas supply in Brazil. (4) Establishing a new M&S segment to bring assurance, flexibility and decarbonization to clients both on and off-grid. Company aims to sell 5 distributors it holds in the North East to bring greater focus on the Central South cluster. (5) See room for improvement in important KPI's which include, Residential Penetration, Share Margins, OPEX/Customer, and LTIF. Overall M&S sees 97 MM cbm/d NG equivalent potential demand. (6) Invested R\$9bn over last 4 years, all done with robust and low leverage, generating EBITDA growth over the period, in which ~R\$7bn distributed to shareholders.
- **Moove (Filipe Affonso Ferreira, CEO).** (1) Vocal on the complexity of the

## Neutral

CSAN3.SA, CSAN3 BZ  
Price (12 Sep 23):R\$17.84

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lubricants industry, as well as the excellence of Moove operations in each of the steps in its production chain. (2) Operation brings together ExxonMobil's know-how on lubricants production – a market that gained significant complexity during the past few years – with Cosan's management structure, cash availability and supply chain network (~70% of production costs are linked with raw materials), a combination that has consistently delivered results as the company reached >R\$1bn in revenues as of 1H23. (3) Positive effect from the integration and maturation of operations in Europe and North America, with a clear pipeline of investments to be followed – including organic and inorganic growth strategies. (4) Worth flagging that there is interest on IPO (no timing comments), with management mentioning the existence of a potential investor for the deal and not discarding the possibility of listing abroad. In the US, the operation has been evaluated by 4x its acquisition value (in dollar terms), with its brands holding ~3% market share in the region (vs 20% in Brazil).

- **Raizen (Ricardo Mussa, CEO).** (1) Productivity: 65% of sugarcane field already at potential; favorable climate conditions accelerate recovery. First cut and second cuts are seeing historical records for productivity, with this gap being closed for the remaining cuts as well. By end of the 23/24 harvest, will have 80% of cane collected. Productivity is 30% better than previous year YTD at 92 tons/ha. They estimate a minimum crushing of 80mnt, and highlight a monthly crushing record in July of 14mnt. The profile of the industry is changing with less volatility, and greater FCF generation. (2) Ethanol/E2G. Recently became 1st ethanol producer in the world receiving CORSIA Certification, and also 1st H2 station in the world using ethanol. New wave of demand for their product with better premium. Production at the Costa Pinto plant in 23/24 saw weekly production record (+6% vs. 2022/23 crop). Have five new E2G plants under construction, with capacity of each estimated at 82mn liters, with capex of R\$1.2bn, with over +20% leveraged return. Inaugurating Bonfim plant in September, with capacity of 82kcbm/yr. (3) Sugar: See prices stabilizing at structurally higher level amid India favoring ethanol and El Nino. Big investments this year and next year, 24/25 should allow high price capture, leading to cash and alleviation of BS. (4) Power: Focusing on customer proximity, and expansion of commercialization with prudent risk management. Rapidly increasing client base with more than R\$1bn of EBITDA in 22/23. (5) Mobility. See gradual recovery of profitability in BZ. Diesel prices had fallen 27 weeks in a row, with international price cheaper until June. Now, see the opposite with the imported product more expensive following PBR price change, supporting margins in 2H. Also cite removal of roughly R\$1bn in financial expenses, and almost R\$500mn in organizational costs. Maintain guidance of EBITDA to R\$13.5-14.5mn for 23/24, R\$13-14bn in Capex, and 1.8x leverage.
- **Cosan Investments (Leo Pontes, CEO).** (1) Currently see R\$21bn of investments across current portfolio. Objective is to maximize management model, focus on relevant investments with optionality, evolution of portfolio. (2) Vale (R\$17.4bn). See the investment as a liquid and irreplicable asset with low carbon mining, exposure to good demand and hard currency, with sound financial structure bringing good optionality. (3) Land. Roughly 900 properties, and a reference in management of agricultural properties in Brazil. 318,000 hectares of land in seven states. BRL 14.2 billion FMV, with high potential for appreciation (return of 25%). (4) Porto Sao Luis. Green field investment with 200ha of licensed area. Modular capacity of up to 115 million ton/year. Port project with capacity to operate ships of up to 400,000 DWT. Asset can operate with lots of flexibility which will come with demand. Cite lots of progress here, with decisive year ahead. (5) Fifth Wall. Climate Tech Fund with investment in early stage. Commitment to invest US\$25mn. It's a small business, but idea is that they are on the technological frontier allowing them to learn.
- **Financial Management (Ricardo Lewin, CFO & IRO).** (1) Diverse portfolio has proven resilient and has grown despite volatility, seeing growth with returns. For

example, in Moove, even with 2019's multiple very depressed, saw 20% return for Cosan. (2) Stable dividend distribution has allowed them to increase sources of liquidity for portfolio, which has been optimizing term and cost.

- **Closing Remarks (Marcelo Martins, CSO)** (1) Diversified and well leveraged portfolio enabling good risk management. (2) See comparative advantage through exposure to strong demand (domestically and internationally), hard currency, & sust. development. Also highlighted focus on continued remuneration to shareholders, and prioritization of buybacks given depressed valuations. (3) Continue to look for alternatives when available. Want business growth based on optionality, management model based on a responsible print, with good risk management and execution.
- **Q&A.** Overall, the company highlighted that operations seem to be very discounted, especially when considering recent deliveries – which fulfilled all provided guidance -, and current leverage levels. Considering **(1) Cash positioning**, management showed significant interest on a share buyback program and did not discarded divestment opportunities, although noting that this scenario demands attractive yields, finding key investors, and considering the maturity of the asset. One of the main topics discussed was **(2) Rumo's Value Generation**, which was considered impressive given the past issues faced by this operation; volumes are expected to continue growing in this front, and should not reach a plateau until 2030. Worth flagging that management does not intend to proceed with a follow-on offer at this point. Regarding **(3) Compass**, current low leverage levels open the room for the company to evaluate investment opportunities, although management noted that the focus remains on improving execution on recent investments. The main issue in this operation is represented by construction – considering the lack of specialized construction companies in the country – and the hire of workforce in recently launched plants. As for **(4) Raízen**, the company has been holding conversations with US, and other Asian countries for expanding the export of E2G. Management highlighted that the increasing pressure from IRA and Green Deal groups in Europe read positively for the operation on the back of decarbonization efforts. Last, **(5) Participation in Vale's Board** was considered positive by Cosan representatives, which noted positive read-through in terms of capital and human resources.

**Companies Discussed in This Report** (all prices in this report as of market close on 12 September 2023, unless otherwise indicated)

Raizen(RAIZ4.SA/R\$3.88/OW), Rumo(RAIL3.SA/R\$22.76/OW)

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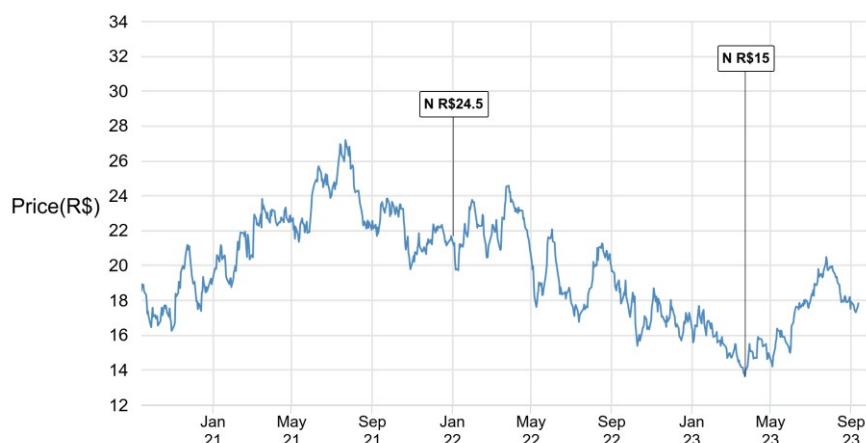
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Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
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| Date      | Rating | Price (R\$) | Price Target (R\$) |
|-----------|--------|-------------|--------------------|
| 03-Jan-22 | N      | 21.69       | 24.5               |
| 24-Mar-23 | N      | 13.64       | 15                 |

| Date      | Rating | Price (R\$) | Price Target (R\$) |
|-----------|--------|-------------|--------------------|
| 23-Nov-20 | N      | 18.50       | 21.5               |
| 24-May-21 | N      | 19.97       | 23.5               |
| 25-Aug-21 | N      | 18.73       | 21.5               |
| 23-Nov-21 | OW     | 16.86       | 21.5               |
| 14-Mar-22 | OW     | 15.56       | 20                 |
| 04-Apr-22 | OW     | 19.00       | 20.5               |
| 11-May-22 | OW     | 15.31       | 20                 |
| 30-Aug-22 | OW     | 20.09       | 24                 |
| 26-Oct-22 | OW     | 20.58       | 25                 |
| 10-Apr-23 | OW     | 18.66       | 24.5               |
| 11-May-23 | OW     | 20.49       | 25                 |
| 11-Jul-23 | OW     | 22.20       | 26                 |
| 31-Aug-23 | OW     | 22.63       | 27.5               |

| Date      | Rating | Price (R\$) | Price Target (R\$) |
|-----------|--------|-------------|--------------------|
| 13-Sep-21 | OW     | 6.50        | 9                  |
| 03-Jan-22 | OW     | 6.45        | 8.5                |
| 02-May-22 | OW     | 6.90        | 8                  |
| 28-Oct-22 | OW     | 4.13        | 7.5                |
| 24-Mar-23 | OW     | 2.26        | --                 |



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