

# Cosan (CSAN3) | Buy; TP R\$ 31.80/sh

The big capex cycle is near the end

Cosan Day 2023 Main Takeaways

During Cosan Investor Day, management reinforced the current portfolio is ideal in terms of size and composition. Leverage will always be a point of attention, but the situation is more comfortable now. **Cosan is moving towards the end of this growth capex cycle** (with only Raízen and Rumo still near peak), thus reducing execution risk and opening room for more cash generation (and dividend payments). Management also believes the stocks from the holding and the listed investees are trading at “low multiples” and the buyback of shares is one of the best uses of capital. **Any equity offering (citing specific examples of Rumo, Compass, and Moove) should not take place at this level of valuation.**

Today (12<sup>th</sup>), Cosan held its Investor Day 2023. Cosan’s CEO, Luis Henrique Guimarães, began the event by reinforcing that the current portfolio is well positioned in the most strategic and of greater potential sectors in Brazil and is **ideal in terms of size and composition**. From now on, the focus should be on execution.

**Leverage will always be a point of attention, but some variables have changed.** Since the announcement of Vale’s deal, leverage has been a major concern. However, in the past months, many variables have changed both at the micro and macro levels. New debt emission from the holding removed liquidity concerns, the group is selling some non-core assets in each investee (for instance, Compass selling northeast LDCs) and Brazil is cutting interest rates. According to Mr. Guimaraes, *Cosan is moving towards the end of this growth capex cycle (with only Raízen and Rumo still near peak), thus reducing execution risk and opening room for more cash generation (and dividend payments).* The group had the challenging task of completing complex, capital-intensive projects, being exposed to civil construction risk, in an environment of shortage of suppliers in Brazil..

**The market doesn't give Cosan the benefit of the doubt.** Mr. Marcelo Martins, Cosan’s CSO, argued that the group’s deliveries in the last years were extremely relevant, but the market is not pricing in this execution capability, leading the stocks from the holding and the listed investees to trade at “low multiples”. Mr. Martins reinforced that the companies don’t need to access the equity market to fund their growth needs (citing specific examples of Rumo, Compass, and Moove) therefore the Cosan does not want to generate a dilution at low prices. According to Mr. Martins, at these prices, he believes that the buyback of shares is one of the best uses of capital.

## André Vidal

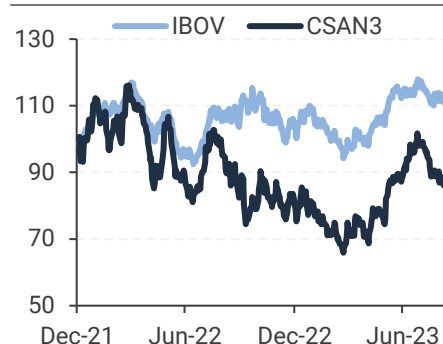
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Cosan (CSAN3)	Buy
Target Price (R\$/sh)	R\$ 31.80
Current Price (R\$/sh)	R\$ 17.84
Upside (%)	78%
Market Cap (R\$ million)	33,301
# of shares (million)	1,867
Free Float (%)	64%
ADTV (R\$ million)	106

## Performance vs. IBOV



# Cosan Day 2023 Main Take Always

## The big capex cycle is near the end

**The partnership model was a recurring theme.** The company has a partnership model never before implemented in the industrial sector. Among other goals, the model intends to create a structured plan of succession and promote common goals between the management of all moving parts, with a focus on capital allocation, risk management, and people development. All partners have a relevant share of their assets exposed to the Cosan's risk, with long-term vesting periods, to ensure alignment.

**Cosan Investimentos focused in Mining and Land.** According to Mr. Leo Pontes, Cosan Investimentos's CEO, land management is a good example of how the holding can generate value rotation in its portfolio. Mr. Pontes also gave an update on the São Luis Port project: modular execution remains the plan and the MoU with Paulo Brito is still valid. The project is advancing to be ready for a final decision to start construction in the next year. Finally, the investment in Vale's remained in the spotlight. Cosan's management reinforced that the assumptions for the investment decision didn't change. Vale is a good dividend payer, exposed to hard currency, and has great potential towards the energy transition trend. The optionality they built was intended to give them time to confirm these premises (albeit it is too early to have a final decision) as well as to exploit opportunities (as they recently did, unwinding some of the collars).

**In XP's ESG team's opinion, the event revealed Cosan's success in deploying a robust ESG strategy across the portfolio while achieving milestones itself.** Key ESG themes discussed for each subsidiary: (i) Rumo: Leading railway safety; (ii) Raízen: Paving the way to reshape the future of energy; (iii) Compass: Exploring biomethane; (iv) Moove: Seeking to reduce emissions; and (v) Cosan Investimentos: Capital allocation into cutting-edge technologies (note [here](#)).

**Moove has become a benchmark for transformation and growth among Cosan's assets.** Moove management reinforced that they are quite pleased with how Moove USA (former Petrochoice) integration is working. The company has developed a model focused on continuous improvement and a replicable management system. They are investing in information systems for new acquisitions to be more easily integrated. In the past years, organic growth has been beyond 30% CAGR, despite an environment of nearly zero volume growth for the addressable market. Albeit the size that Moove currently has (EBITDA LTM over R\$ 1 billion) puts a challenge to keep growing at this same rate for the next years, there are still efficiency gains to benefit from, and market share remains low in North America (3%) and countries in Europe that Moove operates (5%). The "old continent" is one of the focuses for a new potential M&A, allowing Europe to reach volume sizes more in line with LatAm and North America operations.

**Compass "2.0 phase" is over, is time to reap its benefits.** With the SP Regasification terminal ("TRSP") near its start-up, Compass' latest growth cycle is complete and the focus now is on execution, with three clear avenues: (i) continue Comgás long-term successful history; (ii) replicate Comgás model in the LDCs from South-Center States (potential opportunities from privation in this States may arise), and; (iii) to develop the Marketings & Services new business. Compass seeks to benefit from the flexibility arising from TRSP and the supply contract it has with TotalEnergies, as well as decarbonization benefits from biomethane, to develop a new range of clients, both on and off-grid (B2B LNG). Compass estimates a total addressable market of ~100MM m<sup>3</sup>/d from diesel, fuel oil, and LPG substitution that could be reached from TRSP small-scale B2B LNG: even a small amount of share (1%) could lead to significant volumes (~1MM m<sup>3</sup>/d). Compass will develop the necessary infrastructure throughout 2024 for B2B LNG to start in 2025.

# Cosan Day 2023 Main Take Always

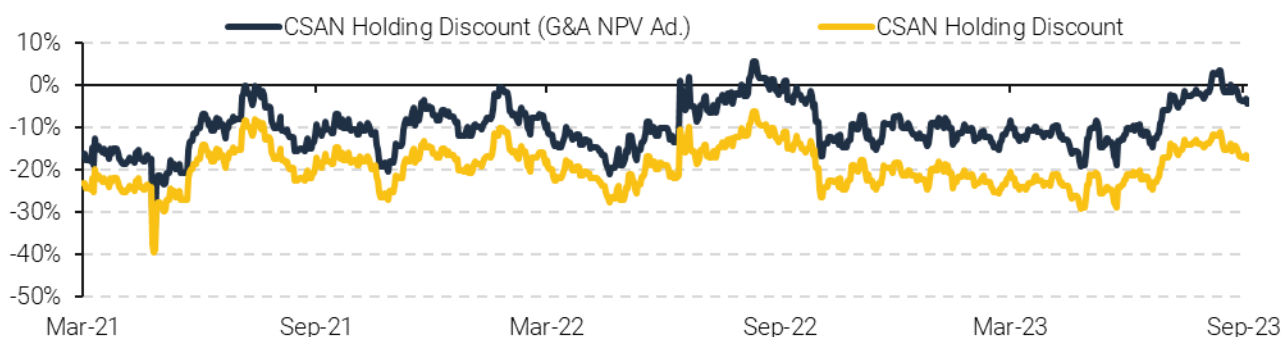
## The big capex cycle is near the end

According to Xp's Transportation team, for Rumo, the main highlights were: (i) reduced security concerns, as 1Q23 operational issues are now under control; (ii) positive pricing prospects for 2024 as the competitive scenario remains constructive; (iii) solid pipeline of projects to improve capacity in the overall railway system; (iv) strong capital discipline (a follow-on transaction is ruled out for now), and (v) updated view on key regulatory themes. (note [here](#)).

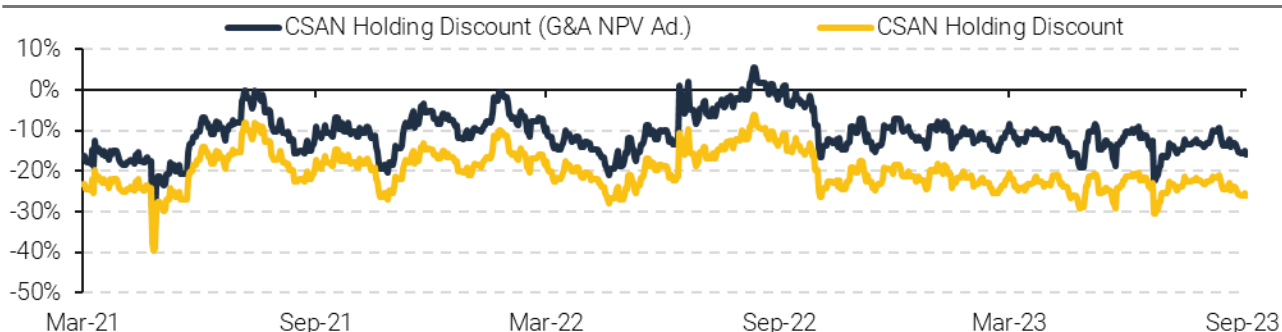
**Raízen's strategy proving assertive with results rebounding in 2Q24.** According to XP's Agri, F&B team, Raízen's main takeaway was management's *mea-culpa* regarding the fuel supply strategy in 1Q24 (focusing on PBR's supply), which led to poor results as Raízen became less competitive vs. import prices. However, management reinforced that this strategy is proving assertive as the market conditions turned, which should lead to improving results in the 2Q (the main reason why the company sustained its 23/24 guidance). Recovering Mobility results reinforce the team view that the outlook is improving, but they remain cautiously optimistic as we should not see an overshoot in margins yet, while a better Sugar outlook (prices, yields, and costs) is yet to be reflected and poor Ethanol margins should drag results (note [here](#)).

**Our take:** This year's event was a unique way to have a better view of the growth optionalities embedded into Cosan's investment case, something we think the market is not paying enough attention to. We agree with Mr. Martins that both the holding and the listed investees look cheap now. On this front, we would like to highlight that the holding discount may appear historically low now if we assume the "market value" for Compass as the last private placement (~R\$ 20 billion for 100%). However, since the beginning of July, when speculations of a potential IPO for Compass gained traction, we think the market has started to price the value of this company more in the range of R\$ 25 billion.

Cosan HD appears low if one assumes the last private placement as a valuation measure for Compass ....



... But we think the market started to assign a valuation more in line with R\$ 25 billion since July



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