



Raízen & Rumo

Brazil | Outperform



September 12, 2023 | Flash News

Cosan Day – Still Optimistic With Raízen and Rumo

Cosan held its Investor Day today, featuring the participation of management from Raízen, Rumo, Compass, Moove and Cosan Investimentos. Below, we discuss the highlights of Raízen's and Rumo's presentations; for the other companies, please see our Oil & Gas team's note.

While there were no major announcements, we were glad to see Raízen's management focus on the evolution of its agricultural productivity, and we also welcomed Rumo's detailed explanation of the potential of its North Operations, particularly with respect to the LRV railway.

- Raízen's CEO reiterated the company's commitment to: i) crushing at least 80 mtons of sugarcane this harvest, with significant upside potential; ii) attempting to generate positive cash flow this year, despite the heavy investment pipeline; and iii) delivering E2G plants on time and on budget, as exemplified by the inauguration of the Bonfim plant this month.
- For Rumo, highlights included: i) the Central Railway's potential to diversify cargo and thus add value; ii) an investment update on the Paulista Railway, with over 22% of its investment already committed; and iii) a report on the beginning of construction work on the LRV Railway and an explanation on its potential volume and yield growth in the medium term.

Raízen

- By the end of the 2023-24 harvest, **80% of Raízen's planted area will likely have reached its potential**, compared with the current level of around 65%. Looking ahead, this increase in agricultural productivity could add BRL ~3 billion to the bottom line, per management's estimates, as Raízen wishes to maintain its gains in TCH levels for the long term.
- The company remains optimistic about a **structural change in sugar prices**, given the tight supply-and-demand outlook for the medium term. This is particularly important given the heavy investment agenda the company is planning for the next couple of years – strong sugar results would likely help to strengthen Raízen's balance sheet.
- Finally, management expects the **profitability of Raízen's Brazilian Mobility operation to increase in the short term** after some challenging recent quarters due to the volatility in the domestic fuels market. Key drivers include the strengthening of the company's integrated supply chain and an expansion of the client base, both of which are helping to increase the operation's value-added.

Rumo

- **The first 34 km of the LRV railway are already being built**, including several of the 21 bridges planned for the whole project. The company restated its intention of beginning to operate the Campo Verde terminal by 2026, benefitting from the strong crop outlook for the state of Mato Grosso, which alone is responsible for over half of the global grain trade flow.
- Another highlight was the **strength of the Central Railway**, on which work was finished last quarter. Besides traditional agricultural cargo such as grains, sugar and fertilizers being transported in partnership with names like Caramuru, Coruripe and Andali, Rumo is also aiming to increase loads of other types of cargo, which would add value to the operation.
- Regarding the **South Operations**, management stated that it expects the company to be able to terminate its West Railway concession by YE24 once some final legal issues are resolved. There was no news on the South Railway, but a new economic equilibrium is being sought by the company.

Ticker (local) RAIL3
Target Price – BRL (YE24) 30.00

Stock Data

Current price	BRL	22.14
Upside (YE24)	%	35.5
52 Week high/low	BRL	24.44/16.21
Shares outstanding	th	1,851,836
Market capitalization	BRL m	41,000
3-mth avg daily vol.	BRL m	327
Performance (%)	1m	12m
Absolute	-5.3	8.8
Vs. Ibovespa	-2.2	3.7

Ticker (local) RAIZ4
Target Price - BRL(YE23) 5.00

Stock Data

Current price	BRL	3.78
Upside (YE23)	%	32.3
52 Week high/low	BRL	4.88/2.25
Shares outstanding	th	10,318,225
Market capitalization	BRL m	39,003
3-mth avg daily vol.	BRL m	86
Performance (%)	1m	12m
Absolute	-6.5	-9.2
Vs. Ibovespa	-3.5	-13.5
Current price	BRL	3.78
Upside (YE23)	%	32.3

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- **Security issues in Santos** are being tackled in three ways: i) strengthening internal control systems; ii) partnering with local authorities, including both the civil and military police forces; and iii) engaging in community initiatives to enhance the quality of life of the people living in the region, following a methodology pioneered by the NGO Gerando Falcões.
- Management also highlighted the enhancement of the **FIPS regulatory model**, under which Rumo operates in a partnership along with MRS and VLI, with the company tending to the needs of all three parties and investing to maintain operations at the Port of Santos. Rumo has an ~80% market share in the port and is responsible for ~80% of the FIPS costs.

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Outperform	The analyst expects the stock to perform better than market average.	70%	70%
Market Perform	The analyst expects the stock to perform in line with market average.	25%	24%
Underperform	The analyst expects the stock to perform below market average.	5%	4%

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Companies Mentioned	Ticker	Recent Price	Rec	Disclosure Items						
				1	2	3	4	5	6	7
Rumo Sa	RAIL3	22.14	OP	X			X			
Raízen Sa - Preference	RAIZ4	3.78	OP	-	-	-	-	-		

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