

From growth to value... again

The latest growth cycle is complete

CSAN held its Investor Day yesterday, and the company exhibited a high level of satisfaction with its current portfolio and the sectors where the group is positioned. Yes, CSAN continues to be an agile asset manager, aiming to invest and divest in sectors where Brazil showcases clear competitive advantages. But our sense is that most of the big strategic moves have been made, and the holding company seems ready to reap the benefits of the most recent growth cycle. This is especially true considering the company's higher leverage currently and some level of constraint to raise additional capital for growth. The event was keenly focused on outlining the next steps for each of the operational BUs. With secured growth for nearly all its subsidiaries through yet-to-be-finalized organic projects, we believe the holding will soon undergo a more intensive deleveraging process. This should bode well for investors seeking to capture the value transfer between debt and equity through a resilient portfolio and a time-tested management team. We remain BUYers!

Compass: Portfolio optimization and product diversification

Having effectively expanded its natural gas (NG) distribution business through Comgás over the past decade, Compass' acquisition of Commit (formerly Gaspetro), Sulgás, and the construction of the regasification terminal (TRSP) marked the conclusion of more significant investments (+R\$6bn of M&A/non-recurrent disbursements). We now anticipate a reduction in capex and believe Compass will (i) streamline its NG distribution, focusing on the Center-South cluster while divesting from the Northeast, and (ii) grow Marketing & Services (M&S) division as it levers on a sophisticated platform of gas origination and distribution. We think the company is well-positioned to do both. In NG distribution, Commit's assets have a noticeable operational gap compared to Comgás (see figure 1). In M&S, the rising NG demand in Brazil, paired with Compass's strong position on both the supply and demand ends of the value chain, suggests significant value capture from unique solutions (NGL, biomethane) and enhanced customer flexibility (both on and off grid). With decreased future investments, mainly organic with selective M&A, Compass is set to be a leading cash generator and dividend payer for the group soon.

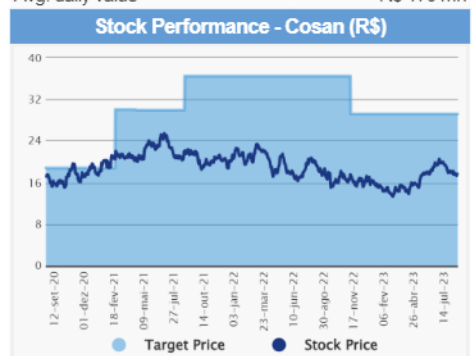
Raízen: Reiterating messages from RAIZ Day

RAIZ hosted its Investor Day in May (see [Long-term thinking](#)), and its presentation yesterday was key to emphasize that the FY1Q24 results aren't fully indicative of the

Valuation	12/2021	12/2022	12/2023E	12/2024E	12/2025E
RoIC (EBIT) %	16.5	13.7	19.0	19.0	19.7
EV/EBITDA	6.2	4.6	3.8	3.3	3.1
P/E	6.4	27.2	59.5	7.9	6.3
Net dividend yield %	2.9	2.5	0.3	6.3	6.4
Financials (R\$m)	12/2021	12/2022	12/2023E	12/2024E	12/2025E
Revenues	113,890	162,254	163,285	173,965	178,068
EBITDA	12,790	15,936	19,619	22,721	24,855
Net Income	6,288	1,176	553	4,163	5,236
EPS (R\$)	3.37	0.63	0.30	2.23	2.81
Net DPS (R\$)	0.63	0.43	0.06	1.12	1.12
Net (debt) / cash	(38,974)	(41,106)	(42,469)	(42,020)	(43,022)

Rating	Buy
12m Price Target	R\$30.00/US\$6.06
Price	R\$17.65/US\$3.57
RIC:	CSAN3.SA
BBG:	CSAN3.BZ

Trading Data & Return Forecasts	
Forecast price appreciation	+70.0%
Forecast dividend yield	0.3%
Forecast stock return	+70.3%
52-wk range	R\$ 20.5-R\$ 13.3
Market cap.	R\$ 32,946 mn
Shares o/s (m)	1,866.6 mn
Free Float	64.0
Avg. daily value	R\$ 179 mn



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expected trends for the remainder of the crop season. In S&E, focus remains on enhancing the company's sugarcane field productivity, which already displays yields consistent with the industry standards for 1st, 2nd, and 3rd cuts. This supports a double-digit gain in tons/ha in the current crop. This also reinforces our view that the crushing guidance of 80mn tons for FY23/24 is conservative, and that cost dilution may exceed expectations. In fuel distribution, while management acknowledged their inability to source a cheaper molecule in 1H23 – opting to prioritize increasing its PBR quotas amidst an oversupplied market – the new pricing policy from the NOC and reduced import windows for the rest of the year should translate in improved levels of ROIC, which we agree with. Looking towards a longer, greener horizon, RAIZ's management emphasized that the construction pace of its E2G plants is within schedule and expressed growing optimism about improvements in uptime and operational expenses.

After joining the R\$1bn EBITDA club, Moove sets its sights high

Moove has achieved an impressive 37% EBITDA CAGR over the past five years, bolstering its ROIC while maintaining controlled leverage levels. Yet, the company appears to be far from reaching its full potential. Management is confident that they've only tapped into a fraction of the synergies from last year's PetroChoice acquisition. The strategy now is to mirror Moove's growth from recent years in their new US and European operations. This approach should enable the company to organically expand its market share in these regions. That said, we wouldn't rule out the possibility of future M&As. IPO plans were also discussed, and while we deem a medium-term listing likely, current market conditions and Cosan management's belief that the asset remains significantly undervalued might postpone any ST plans.

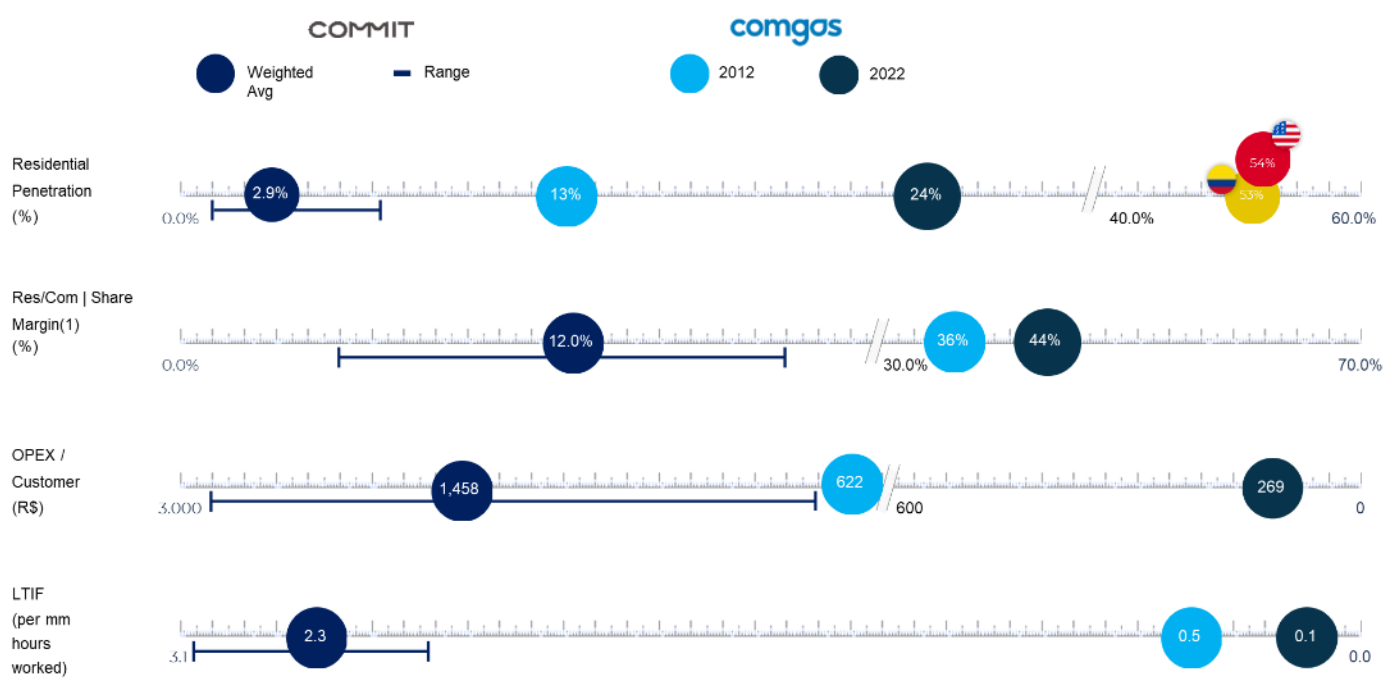
Cosan Investments/Holding: Flexibility is the name of the game

If we were to choose a single word to denote the sentiment that CSAN attempted to convey yesterday, it would be "flexibility." Flexibility to pursue when and how to sell stakes or IPO subsidiaries, flexibility to decide what to do with the Vale stake, and the increasing importance of maintaining a robust cash position in order to avoid any leverage distress. Even the partnership model being implemented at the top management level seems to be pursuing greater flexibility in order to maintain motivation, engagement, and a sense of continuity whenever the time comes for succession. CSAN today holds its most diversified portfolio of businesses in history, with plenty of options to unlock value, raise capital, and trade assets whenever and if ever they so choose. Meanwhile, management seems to believe buying back stock (as long as it doesn't jeopardize its balance sheet) is the main choice for capital allocation.

An irreplicable portfolio; BUY

With a R\$30bn EBITDA-portfolio under management (+4x than ten years ago) and after a transformation from a large sugar and ethanol producer into one of the most diversified Brazilian conglomerates (operating in leading companies across renewable energy, sugar, fuels, logistics, natural gas, and farmland, among others), we continue to believe CSAN's value proposition is generally overlooked by investors. The group is exposed to some of the most exciting long-term trends involving natural resources and infrastructure, and we think management's focus will now be on execution and deliver. Moreover, CSAN is an interest rate sensitive stock, which means that the current environment of diminishing rates shall allow the stock to start reducing the valuation discount embedded in the share price versus its subsidiaries (currently at 22%), we think. BUY!

Figure 1: Commit's assets have a noticeable operational gap compared to Comgás



Source: Cosan, BTG Pactual

Cosan

Income Statement (R\$m)	12/2021	12/2022	12/2023E	12/2024E	12/2025E
Revenue	113,890	162,254	163,285	173,965	178,068
Operating expenses (ex depn)	(101,141)	(147,328)	(142,675)	(152,001)	(154,047)
EBITDA (BTG Pactual)	13,452	16,820	21,204	22,421	24,495
Depreciation	(6,169)	(7,663)	(7,172)	(7,841)	(8,319)
Operating income (EBIT, BTG Pactual)	7,283	9,157	14,032	14,581	16,176
Other income & associates	3,191	170	(8)	38	71
Net Interest	(3,695)	(7,030)	(10,244)	(7,800)	(6,991)
Abnormal items (pre-tax)	0	0	0	0	0
Profit before tax	6,779	2,296	3,779	6,818	9,256
Tax	(230)	551	(1,324)	(1,326)	(2,128)
Profit after tax	6,549	2,847	2,455	5,492	7,128
Abnormal items (post-tax)	0	0	0	0	0
Minorities / pref dividends	(261)	(1,671)	(1,902)	(1,328)	(1,891)
Net Income (local GAAP)	6,288	1,176	553	4,163	5,236
Adjusted Net Income	6,288	1,176	553	4,163	5,236
Tax rate (%)	3	0	35	19	23
Per Share	12/2021	12/2022	12/2023E	12/2024E	12/2025E
EPS (local GAAP)	3.37	0.63	0.30	2.23	2.81
EPS (BTG Pactual)	3.37	0.63	0.30	2.23	2.81
Net DPS	0.63	0.43	0.06	1.12	1.12
BVPS	28.47	40.12	41.93	44.59	47.38
Cash Flow (R\$m)	12/2021	12/2022	12/2023E	12/2024E	12/2025E
Net Income	6,288	1,176	553	4,163	5,236
Depreciation	6,169	7,663	7,172	7,841	8,319
Net change in working capital	(1,751)	(1,523)	(834)	5,258	(208)
Other (operating)	0	0	0	0	0
Net cash from operations	10,707	7,316	6,891	17,262	13,348
Cash from investing activities	(7,654)	(23,264)	(13,161)	(12,294)	(11,666)
Cash from financing activities	31,478	9,638	-	-	-
Bal sheet chge in cash & equivalents	15,378	14,450	(4,406)	657	(2,905)
Balance Sheet (R\$m)	12/2021	12/2022	12/2023E	12/2024E	12/2025E
Cash and equivalents	23,985	38,435	34,029	34,687	31,781
Other current assets	31,003	36,641	35,746	34,389	35,156
Total current assets	54,988	75,076	69,775	69,076	66,938
Net tangible fixed assets	26,765	30,101	35,446	39,878	43,752
Net intangible fixed assets	20,796	24,716	25,804	26,430	27,090
Investments / other assets	62,521	74,375	79,626	82,030	83,741
Total assets	165,070	204,268	210,652	217,414	221,521
Trade payables & other ST liabilities	36,240	37,857	42,329	45,981	46,991
Short term debt	0	0	0	0	0
Total current liabilities	36,240	37,857	42,329	45,981	46,991
Long term debt	62,959	79,541	76,498	76,707	74,803
Other long term liabilities	12,727	11,980	13,556	11,485	11,276
Total liabilities	111,926	129,377	132,383	134,173	133,071
Equity & minority interests	53,144	74,891	78,269	83,241	88,450
Total liabilities & equities	165,070	204,268	210,652	217,414	221,521

Company Profile

Cosan is one of the largest corporations in Brazil, with businesses in strategic sectors, such as fuel and gas distribution, sugar and ethanol production, logistics and lubricants. Raízen, a JV between Cosan and Shell, is the leading sugar and ethanol producer in the world as well as one of Brazil's largest fuel distributors. Cosan also controls Compass, Brazil's largest private natural gas distributor. The company is also currently involved in logistics via Rumo, LatAm's largest independent rail-based logistics operator and lubricants production via Moove.

Financial ratios	12/2021	12/2022	12/2023E	12/2024E	12/2025E
EBITDA margin	11.8%	10.4%	13.0%	12.9%	13.8%
Operating margin	6.4%	5.6%	8.6%	8.4%	9.1%
Net margin	5.5%	0.7%	0.3%	2.4%	2.9%
RoE	15.9%	1.8%	0.7%	5.2%	6.1%
RoIC	16.5%	13.7%	19.0%	19.0%	19.7%
EBITDA / net interest	3.6x	2.4x	2.1x	2.9x	3.5x
Net debt / EBITDA	2.9x	2.4x	2.0x	1.9x	1.8x
Total debt / EBITDA	4.7x	4.7x	3.6x	3.4x	3.1x
Net debt / (net debt + equity)	42.3%	35.4%	35.2%	33.5%	32.7%

Source: Company reports and BTG Pactual estimates. Valuations: based on the last share price of that year(E) based on share price as of 12-set-2023

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Buy	Expected total return 10% above the company's sector average.	64%	52%
Neutral	Expected total return between +10% and -10% the company's sector average.	35%	44%
Sell	Expected total return 10% below the company's sector average.	1%	67%

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Cosan	CSAN3.SA	Buy	R\$17.84/US\$3.60	2023-09-12
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Statement of Risk

Cosan. [BRCSAN] - In general, the company faces typical commodity industry risks related to price volatilities, particularly in sugar, oil, gasoline, and ethanol prices. The industry is also subject to changes in supply and demand, and FX rate variations. International trading of commodities is subject to regulations, protectionism, and trading barriers that can affect the company's ability to sell its products in global markets. Cosan is also exposed to droughts and other adverse weather conditions that could result in a production decline. In addition, the ethanol industry in Brazil faces government-related risks that could affect the company's competitiveness. Cosan's growth strategy could face increased acquisition prices and execution risks, as the company has a consolidation strategy in Brazil.

Valuation Methodology

Cosan. [BRCSAN] - Our target price is based on a SOTP approach, where we value each business separately via DCF methodology.