Equity Strategy
Brazil

A Fresh View on Brazilian Equities Following Itaú's CEO Conference

In this report we discuss the key takeaways from this year's Itaú BBA CEO Conference, held on May 9-11, 2023. Most of the 130 participating corporates were represented by C-level executives, making this a unique event. We had 501 institutional investors attending from 218 institutions, of whom 30% were Brazilian and the remaining 70% were international investors.

- **International investors were more bullish than we anticipated, arguing that valuations in Brazil look attractive relative to other EM markets and that the Brazilian equity market is likely to perform well when there is greater visibility on interest rate cuts.** Many of them believe that the BCB will start cutting rates earlier than the Itaú BBA Macro team's base-case assumption of 4Q23. Markets are pricing in an assumption that the BCB will start cutting rates in September. We also sensed a better mood among Brazilian investors, who had been very bearish before our conference.
- **Greater interest in high-beta and high-duration domestic names, but a more cautious view on commodities in general.** Looking at the Brazilian stock market's performance, this rotation has already begun, but we believe that it has only just started and that this trend will continue.
- **The new fiscal rule was voted on yesterday by the Lower House, and was approved by a wide margin.** According to our Macro team's calculations, the new rule will not stabilize debt/GDP in the short term; for that to happen, the government would have to find a huge volume of extraordinary revenues. We do assume some extraordinary revenues in our base case, and our simulations point to gross debt/GDP rising from 72.9% in 2022 to 87% in 2026. We view the approval of the new fiscal rule as a positive event for equities, eliminating the risk of a much worse fiscal framework.
- **The tax reform is the next big topic.** In our view, the sales tax reform will be difficult to pass in the short term, as lobbying from various sectors will make it harder to settle on a single IVA for all sectors. The sales tax reform will not increase government revenues in real terms, as there will be a transition period. The second phase of the tax reform, which addresses income taxes, will be debated in 2H23. In our view, this reform will lead to the taxation of dividends, the end of the interest-on-capital tax benefit, higher taxes for wealthy individuals and little or no reduction in corporate taxes. We believe that this reform is likely to increase Brazil's tax revenues.
- **We are updating our Brazil Buy List portfolio, increasing its exposure to domestic long-duration names and reducing its exposure to commodities.** Although most of the high-quality/long-duration domestic names have performed well in the past few weeks, we believe that there is room for further appreciation due to still-attractive valuations and the potential for upward earnings revisions.
- **We are adding BTG Pactual (BPAC11), Grupo Soma (SOMA3), Localiza (RENT3), Nubank (NUBR33) and Hapvida (HAPV3) to our Buy List,** and removing Assaí (ASAI3), Sabesp (SBSP3), SLC Agricola (SLCE3), Rumo (RAIL3) and Vale (VALE3). The remaining companies in our portfolio are Equatorial, B3, Suzano, Prio and Meli.

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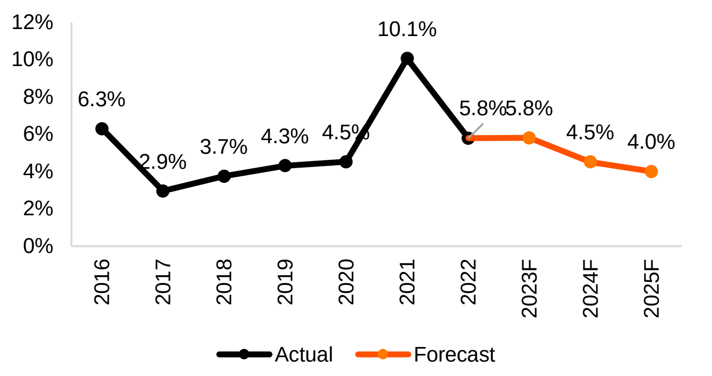
A QUICK RECAP

SECTION 1

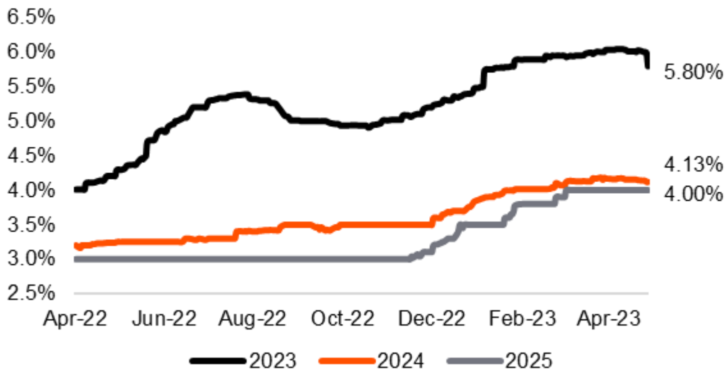
April inflation came in slightly above our expectations, with core inflation falling slower than we anticipated. Although the 12-month reported IPCA fell to 4.18% in April from 4.65% in March, we expect it to rise in the coming months, before reaching 5.8% by year-end with the return of fuel taxes and the end of the lower base effect from the 2022 fuel tax cuts.

IPCA – Itaú Macro Forecast



Source: Itaú BBA, BCB

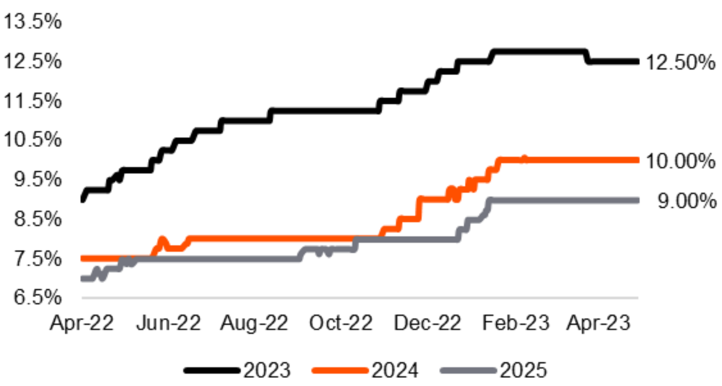
IPCA – Focus Survey Forecast Evolution



Source: Itaú BBA, BCB

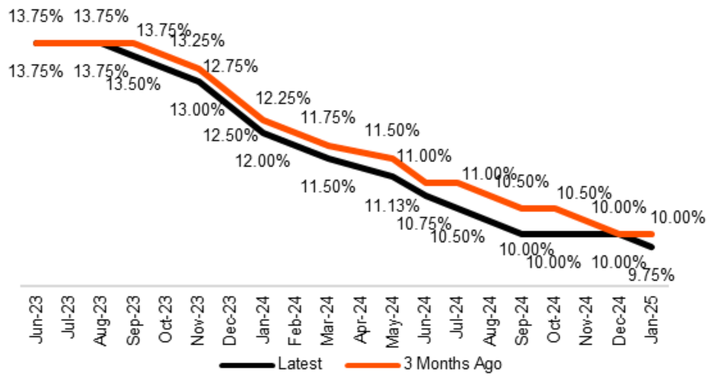
Although the market has been pricing in earlier interest rate cuts, our Macro team still assumes that rates will start to be cut in 4Q23, falling to 12.50% by YE23.

Focus Survey Selic Rate Forecast Evolution



Source: Itaú BBA, BCB

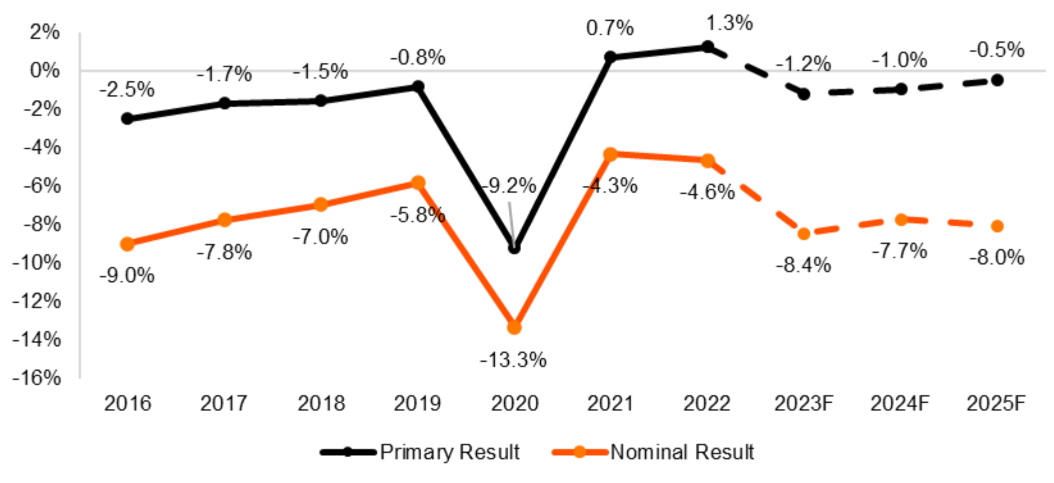
Focus Survey Selic Forecast By Meeting



Source: Itaú BBA, BCB

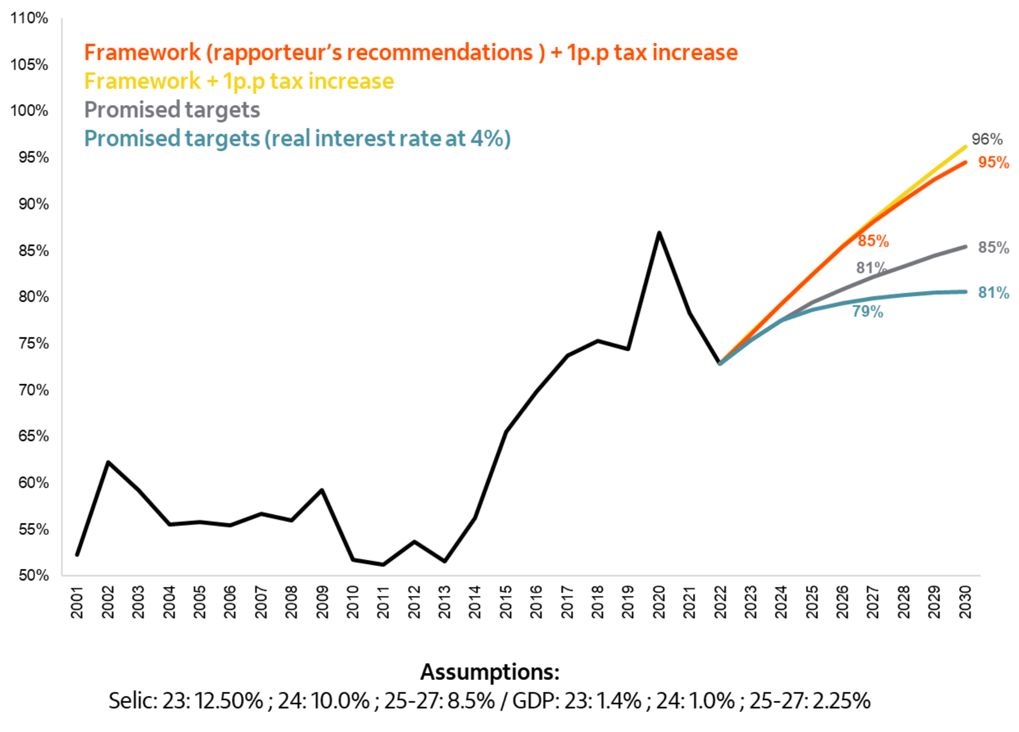
When the federal government submitted the new fiscal framework to Congress, investors had mixed feelings about the potential impact on the fiscal accounts. There was criticism of the lack of enforcement mechanisms if the government does not meet the primary result target. The rapporteur discussed the bill with the deputies, incorporating some changes that, in our view, provided some necessary enforcement mechanisms. On the other hand, the rapporteur's recommendations added complexity to the legislation. According to our Macro team's calculations, the new rule will not stabilize debt/GDP in the short term; for that to happen, the government would have to find a huge volume of extraordinary revenues. We assume some extraordinary revenues in our base case, and our simulations point to gross debt/GDP rising from 72.9% in 2022 to 87% in 2026. We view the approval of the new fiscal rule as a positive event for equities, as it eliminated the risk of a much worse fiscal framework. The revised bill was presented and approved in the Lower House by a vote of 371 to 105, and it will be moving to the Senate in the next week.

Primary Result and Nominal Result – Itaú Macro Forecast



Source: Itaú Macro

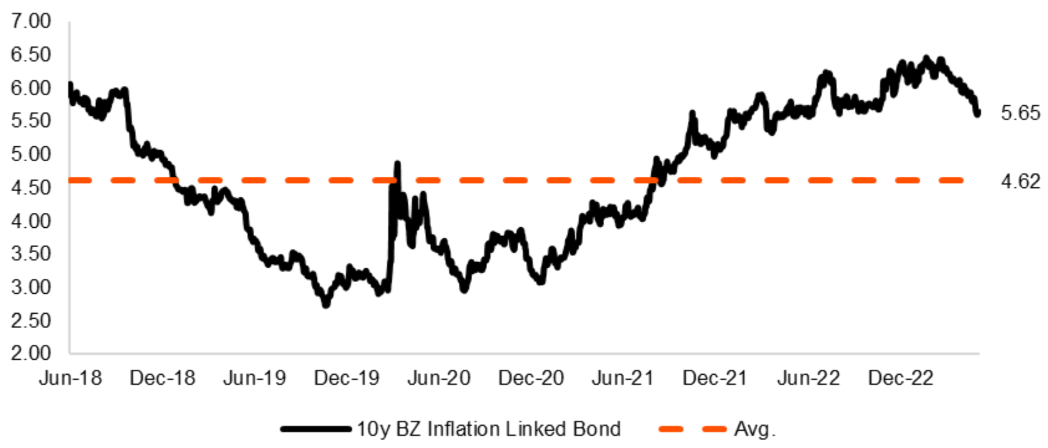
Gross Debt to GDP Sensitivity – Itaú Macro Estimates



Source: Itaú Macro

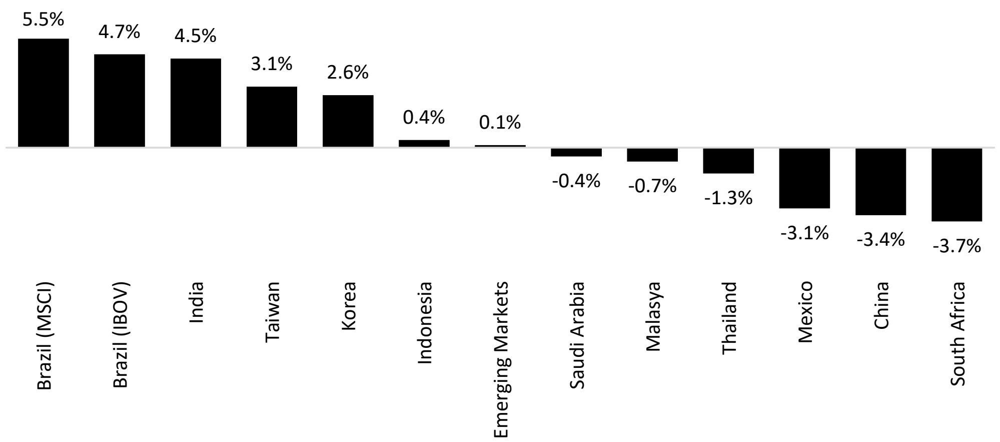
Investors have reacted positively to these developments, with government bond yields falling due to a lower risk perception, and the optimism spilled over to the equity market. The IBOV has outperformed its EM peers in the past few weeks, mainly led by domestic and financial stocks.

Brazil Inflation-Linked Government Bond Yields (%)



Source: Itaú BBA, Bloomberg

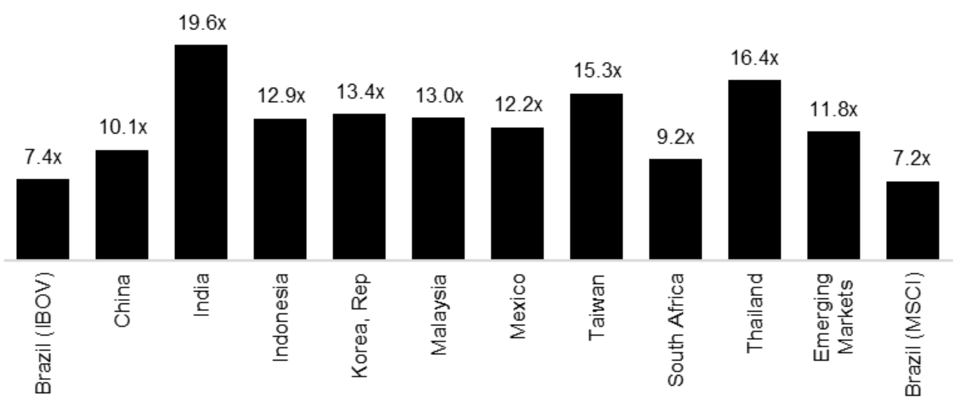
EM Performance, Last 30 Days



Source: Itaú BBA, Bloomberg

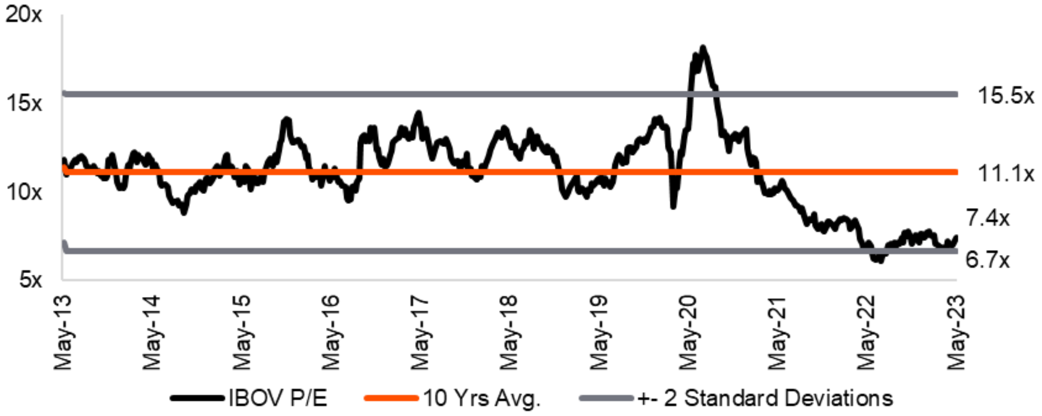
At our New York conference, we felt that international investors were more bullish than we had anticipated, arguing that valuations in Brazil look attractive relative to other EM markets. Even when we exclude commodities from our 12-month-forward IBOV P/E, Brazil's valuation still looks appealing**.**

Emerging Market Valuations: 12-Month Forward P/E



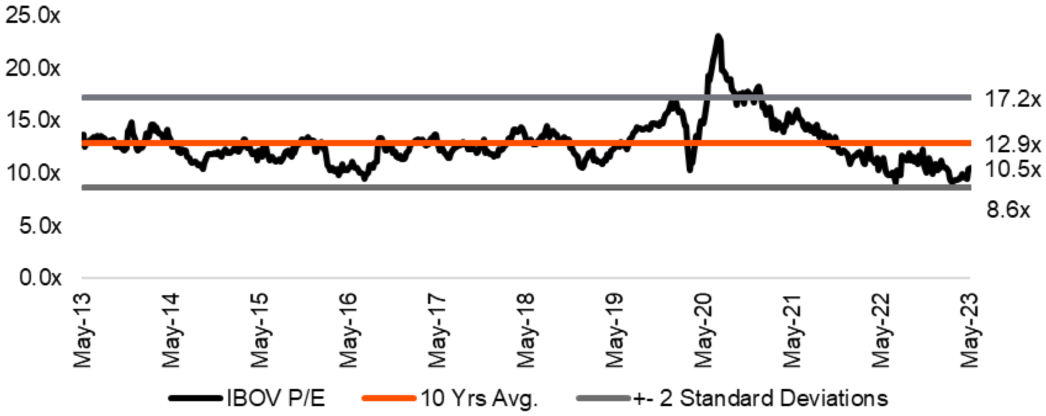
Source: Itaú BBA, Bloomberg

IBOV Valuation: 12-Month Forward P/E



Source: Itaú BBA, Bloomberg

IBOV Valuation, Excluding Commodities: 12-Month Forward P/E



Source: Itaú BBA, Bloomberg

Itaú Macro Forecasts

	2017	2018	2019	2020	2021	2022	2023	2024
Economic activity								
GDP (%)	1.3	1.8	1.2	-3.3	5.0	2.9	1.4	1.0
Unemployment rate (%) – December	12.5	12.3	11.7	14.9	11.8	8.5	9.0	9.1
Inflation								
IPCA (%)	2.9	3.7	4.3	4.5	10.1	5.8	5.8	4.5
IGP-M (%)	-0.5	7.5	7.3	23.1	17.8	5.5	2.0	3.8
Monetary policy								
SELIC rate (%, December)	7.00	6.50	4.50	2.00	9.25	13.75	12.50	10.00
SELIC rate (%, avg)	9.92	6.56	5.96	2.81	4.81	12.63	13.56	10.56
Public accounts								
Primary result (% GDP)	-1.7	-1.5	-0.8	-9.2	0.7	1.3	-1.2	-1.0
Gross debt (% GDP)	73.7	75.3	74.4	86.9	78.3	72.9	76.0	79.3
External sector								
BRL/USD (eop)	3.31	3.88	4.03	5.19	5.57	5.28	5.15	5.25
BRL/USD (avg)	3.19	3.66	3.95	5.16	5.40	5.17	5.10	5.20
Current account (% GDP)	-1.2	-2.9	-3.6	-1.9	-2.8	-2.9	-1.7	-1.5
Trade balance (USD bn)	56	47	35	50	61	62	70	60

Source: Itaú BBA, Bloomberg

CEO CONFERENCE FEEDBACK

SECTION 2

Our Analysts’ Feedback From Itaú BBA’s 16th LatAm CEO Conference

Sector	Report
Agribusiness	Itaú BBA on LatAm Agribusiness: Notes From NY LatAm CEO Conference
Banking & Financials	Itaú BBA on Brazil Banking & Financial Services: Notes From New York Conference – Good Vibrations
Commodities	Itaú BBA on LatAm Commodities: Notes From the NY LatAm CEO Conference
Consumer & Retail	Itaú BBA on Brazil Consumer: Notes from NY LatAm CEO Conference
Food & Beverage	Itaú BBA on LatAm Food & Beverage: Notes From the NY LatAm CEO Conference
Healthcare & Education	Itaú BBA on Brazil Healthcare & Education: Notes From the NY LatAm CEO Conference
Oil & Gas	Itaú BBA on Brazil Oil & Gas: Notes From NY LatAm CEO Conference
Tech	Itaú BBA on Brazil Tech: Notes From the NY LatAm CEO Conference – The Mood Is Good and It’s Not Just the Weather
Utilities	Itaú BBA on Brazil Utilities: Notes from NY LatAm CEO Conference

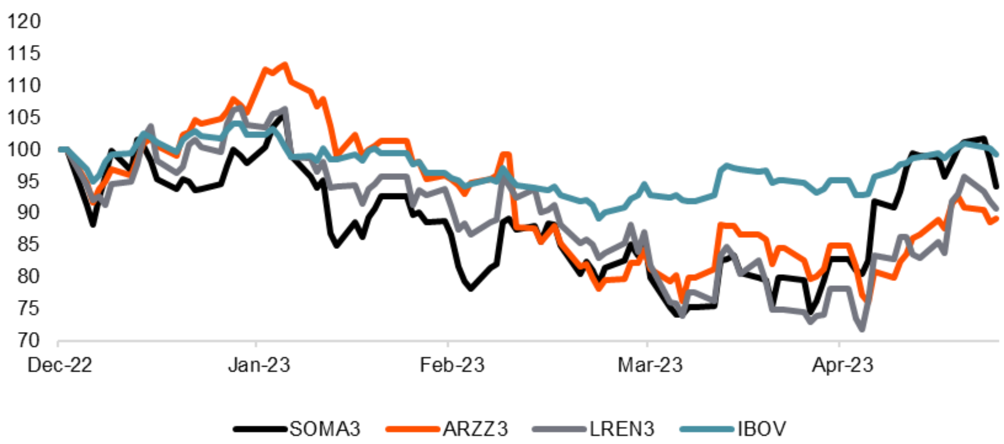
Source: Itaú BBA

CONSUMER & RETAIL

SECTION 3

We have become more optimistic on the fashion retail sector given the potential decline in interest rates, its attractive valuation and its higher earnings visibility. Based on our recent interactions with investors and company representatives at our CEO Conference, we believe that the mood has improved substantially as we approach a potential scenario of declining interest rates. Fashion retailers that focus on the high-income segment remain the highlights in the short term, on solid operating momentum. Middle-income-focused names have still been exposed to soft short-term momentum in 2Q23, given the macro headwinds. However, we perceived that sentiment on Renner is improving among investors (both local and international), as 2H23 is likely to see an improvement in the company's operating momentum. In addition, it seems that investors and companies are less concerned about the possibility of federal taxation of ICMS tax benefits granted by Brazilian states. Over the last few months we have had several interactions with well-respected law firms, and their consensus view is that the recent Superior Court (STJ) decision supports the theory that the federal government cannot charge income taxes on presumed credits granted by states. Regarding other tax credits, the law firms believe that the federal government would have to pass a bill to able to tax such credits. Since most of these companies have presumed credits and properly constituted reserves, we do not expect this issue to result in any meaningful impact on their earnings. (See our note Itaú BBA on Brazil Equity Strategy: Potential Measures to Increase Tax Collection, in which we discuss this topic in detail.)

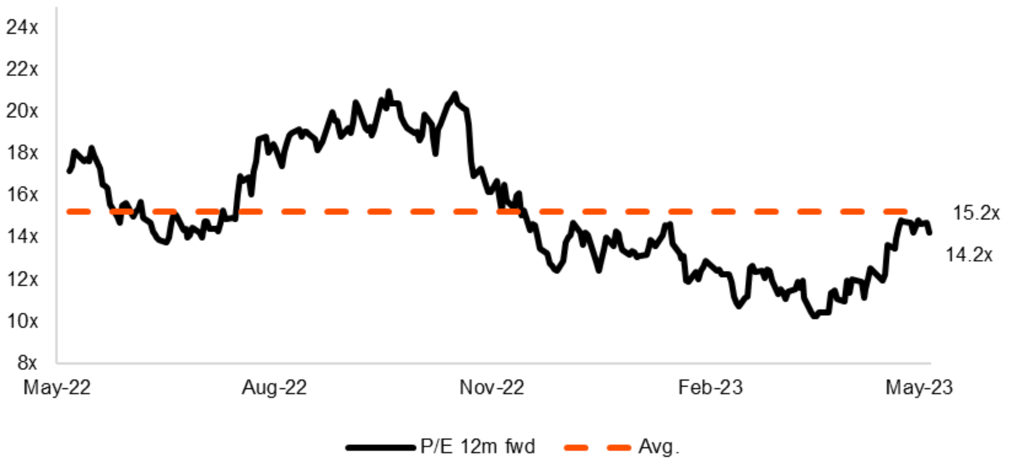
Fashion Retailers – Performance, Year-to-Date



Source: Itaú BBA, Bloomberg

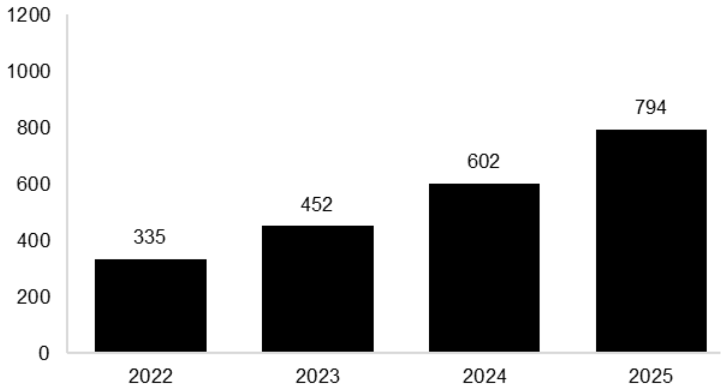
At the conference, Soma and Arezzo shared positive views on their companies' earnings momentum and growth prospects. We like both names, but our preferred name is now Soma. The company reported strong 1Q23 results, showing that the integration with Hering is going well and that the international operations have strong growth potential. During our CEO Conference in New York, we had the opportunity to visit some department stores where SOMA sells its Farm brand clothes and talk to store representatives about U.S. customers' acceptance of the brand. The feedback was very positive, with the stores reporting that sales had substantially beat expectations. We also visited Soma's own stores in New York. The Global Farm operation represents ~10% of the group's revenues and is growing fast. The group has already started to enter Europe, where they see great potential as well – but for now, the focus will be on escalating its presence in the U.S. through the DTC sales channel. The stock is mostly owned by locals, and international clients may increase their exposure if these positive trends are confirmed. The stock is trading at 14x P/E for 2023 and 10.5x P/E for 2024. Arezzo also shared a positive outlook at the conference, but we view it as expensive (at 16x PE 2023 and 12x PE 2024).

Soma – 12-Month Forward P/E (Consensus)

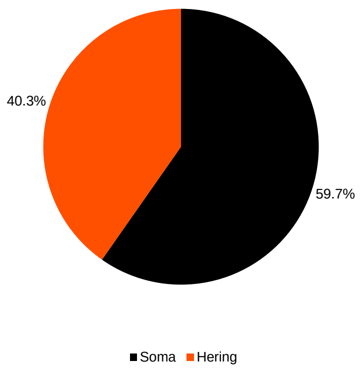


Source: Itaú BBA, Bloomberg

Soma – Net Income* Evolution and Forecast



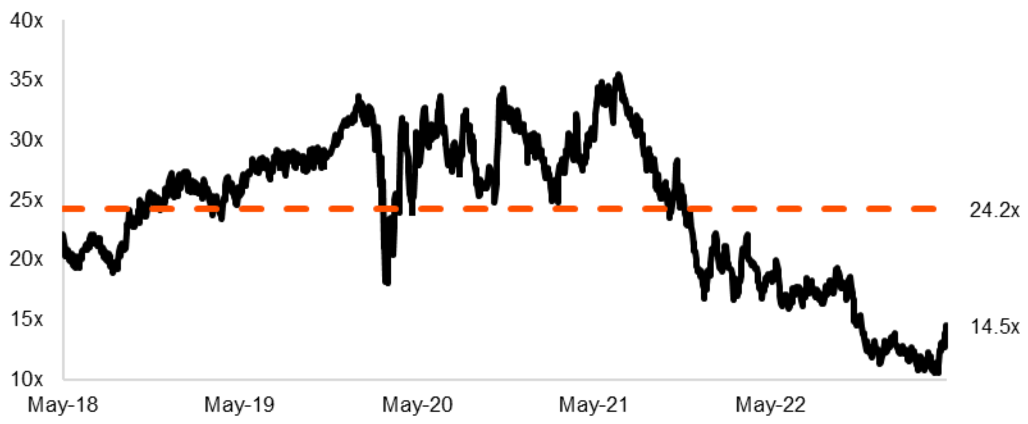
Soma – Net Revenue Breakdown, 2023E



Source: Itaú BBA. *Does not consider Hering added value adjustment.

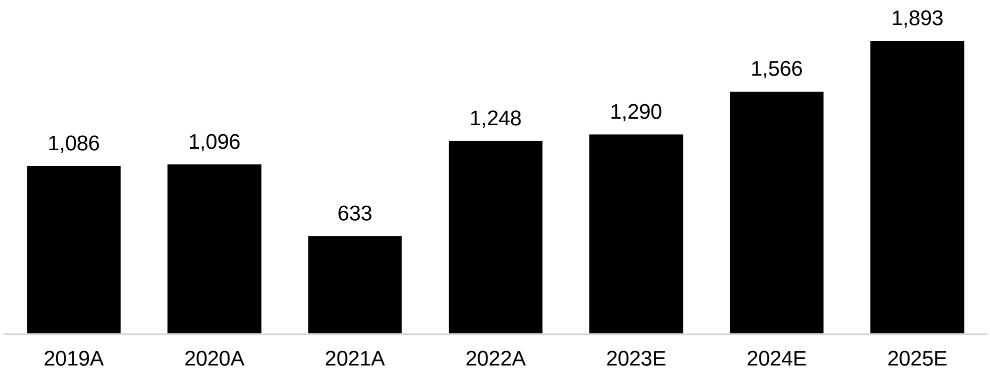
We like Renner, given its attractive valuation relative to historical multiples, but we believe that it makes sense to wait a little longer before buying it, until earnings start to improve. Investors have become more optimistic on potential cost reductions due to lower cotton prices and freight costs and a more efficient distribution center. In addition, small-value imports are falling in response to greater tax supervision, which suggests that the competitive environment might have improved. We expect the fintech Realize to show better results in the second half. We see 2024 as the year in which net income will become more normalized.

Lojas Renner – 12-Month Forward P/E (Consensus)



Source: Itaú BBA, Bloomberg

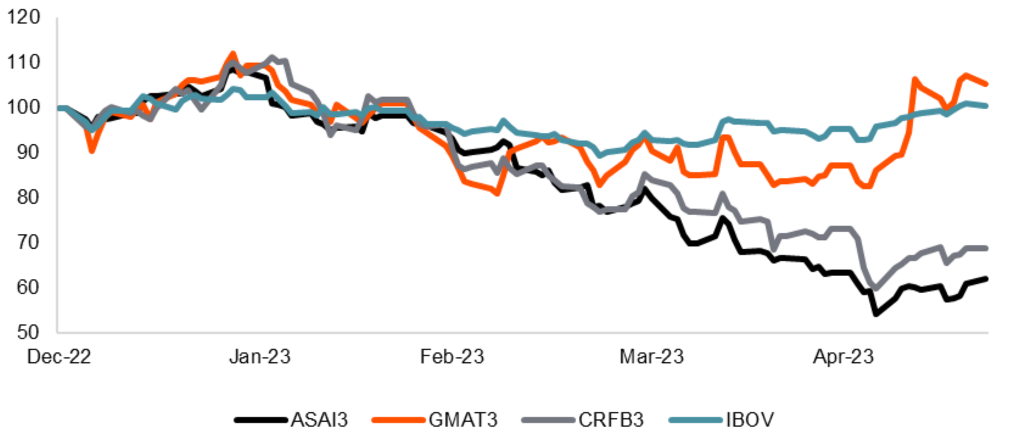
Lojas Renner – Net Income Evolution and Forecast



Source: Itaú BBA

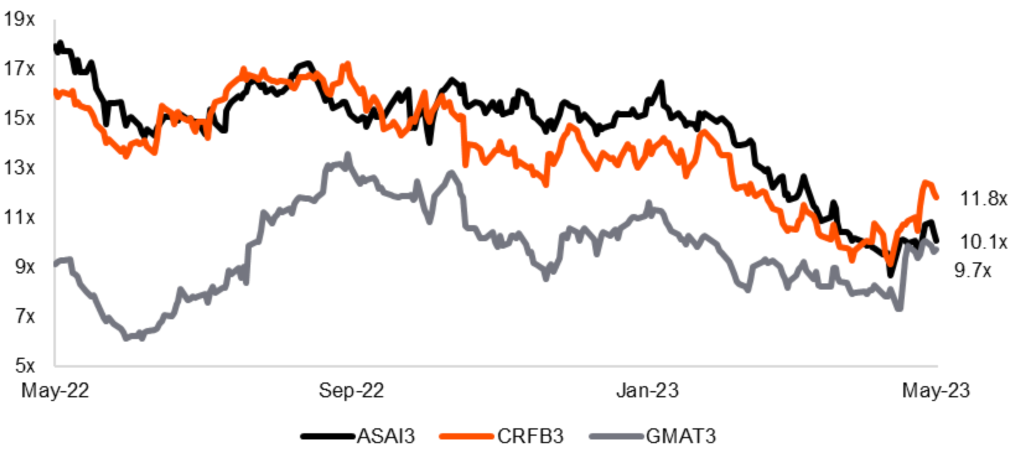
On the other hand, the mood surrounding Food Retailers, which were considered some of the best places to hide at the beginning of the year, has deteriorated massively. Overall, the sector is suffering from food deflation and slower growth. For Assaí there was massive disappointment after the follow-on as the company's characterizations of its short-term outlook deteriorated consistently. Investors are now more concerned about corporate governance, and have been selling the stock (Assaí's shares are down 30% since the follow-on). Carrefour has reported weak results and seems to be struggling with the integration of BIG. Grupo Mateus seems to be the best name for playing the sector right now, as it has good earnings momentum, is exposed to a softer competitive environment and has an attractive valuation. However, potential market concerns related to the tax reform or the elimination of subsidies could hurt the stock price. We prefer to stay out of the sector for now.

Food Retailers – Performance, Year-to-Date



Source: Itaú BBA, Bloomberg

Food Retailers – P/E 12-Month Forward



Source: Itaú BBA, Bloomberg

Among ecommerce players, we continue to prefer MELI over other names. There was massive interest among investors at our conference in meeting representatives from the company. MELI has been gaining share, and its NPLs have been improving. We have MELI in our Brazil Buy List Portfolio, and we will extend this recommendation. Meanwhile, Magazine Luiza has recently reported weak results, with strong cash burn. Its stock fell by 22.8% the day after the earnings release.

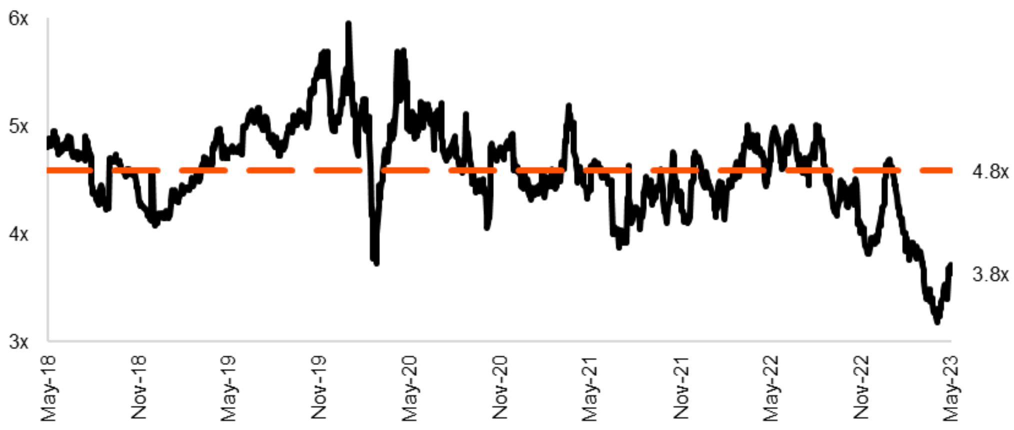
Other names. Raia is a great story, but its valuation seems too rich. Natura's 1Q23 results were good, but management said at our conference that margins may be volatile in the coming quarters because of the integration with Avon. We like Natura's strategy of pulling back or exiting from countries in which the operation is not profitable and focusing on markets in which the company is doing well, but we acknowledge that this strategy could entail operational deleveraging, initially. Petz's competitive environment is still fierce (with greater competition from Cobasi, Petlove and Amazon, in the latter's case mostly in pet food), and we would not rule out softer QoQ profitability for Petz standalone in 2Q23.

FOOD & BEVERAGE

SECTION 4

Our top pick in the sector is Minerva, on favorable earnings momentum. Following the lifting of the ban on Brazilian beef exports, we expect rebounding Chinese demand to drive a sequential volume recovery despite prices still being under pressure. In addition, the Brazilian cattle cycle is favorable, which should ensure a solid profitability recovery from 2Q23 onward. The stock is trading at an attractive valuation of 4x EBITDA, below the historical average of 5-5.5x. Going forward, we are forecasting EBITDA growth in both 2023 and 2024 and expect leverage to remain below 3x EV/EBITDA, which we deem comfortable. On the other hand, JBS is trading at a very discounted level, but its earnings momentum is tough and its EBITDA is likely to decline in 2023, mostly due to the weak performance of the U.S. Beef division. Despite the attractive valuation, we believe that there will be a better entry point ahead. On Marfrig, investors might wait a bit longer to judge if the favorable seasonality of “barbecue season” in the U.S. will be enough to offset worse-than-expected cattle availability in the region. Last but not least, BRF is expected to post a nice profitability recovery in the coming quarters, as lower commodity prices could translate into softer feed costs, supporting a strong margin improvement. However, the long-term outlook remains challenging and the lack of visibility on the growing Avian Flu risk justify a cautious view on the stock for now.

Minerva – EV/EBITDA 12-Month Forward



Source: Itaú BBA, Bloomberg

Ambev’s operational momentum is favorable, but we remain on the sidelines due to significant uncertainties. We expect a solid margin recovery throughout 2023 and 2024, with the Brazilian beer division benefiting from better pricing dynamics and lower COGS/hl. However, we believe that the attractive valuation is already incorporating: i) the impact of hyperinflation in Argentina; ii) sizable off-balance liabilities; and iii) the impacts of the potential end of the interest-on-equity benefit, which are still unclear at this point.

M. Dias Branco has good operational momentum and is trading below its historical average. The company is benefiting from lower wheat prices and its margins are likely to continue improving ahead, while the stock is trading at 13x P/E, compared with the historical average of 16x. Despite the constructive momentum, however, we believe that much of the upside has already been priced in by the market.

OIL & GAS

SECTION 5

We continue to like the Oil sector, but we prefer to have exposure through junior companies rather than through Petrobras. Our top pick in the sector remains PetroRio, which we believe still has attractive upside (~60% to our fair value estimates) and which has a promising growth outlook, driven mainly by better-than-expected results from its ongoing redevelopment plan, especially in Frade. In addition, we expect the likely end of the export tax in June to ease the pressure on the production commercialization results. Regarding PetroRecôncavo, at our CEO Conference investors took the opportunity to ask for further explanation of the new reserves certificate that was recently published, particularly the higher capex that was reported – 63% higher than previously estimated – and the lower oil production that was projected for the next two years, which remains a topic of concern among investors.

Petrobras has performed well recently (+9.5% in the last 30 days) after many of the risks that had been mapped by investors did not materialize in worst-case outcomes. The biggest of these risks, in our view, was the definition of the new fuel pricing policy, which ended up being well received by the market, despite some pushback on the presumed transparency and efficacy of the new commercial strategy in stressed scenarios. The proposed new commercial strategy aims for fuel prices between the customer's alternative cost (which is close to import parity) and the marginal value for Petrobras (which could be close to export parity in some cases). In our view, this rule's announcement eliminated the risk of a more radical rule (like pricing based on production costs) that would negatively affect Petrobras's profitability. With the new shareholder remuneration policy having not yet been announced (this is expected to occur in June), the company maintained a high distribution level in 1Q23, with a 7.4% dividend yield for the quarter. Our analyst estimates that if Petrobras distributed the minimum dividend of a 25% payout, the dividend yield would still be decent, at around 8% for the year. The company also mentioned the possibility of share buybacks, which the company has never done before. The news about capital allocation to new investments has also been taken as reasonable by investors, since Petrobras has prioritized brownfield investments in refining, rather than greenfields, and has made it clear that investments in offshore wind generation will take some years before the company starts deploying capex. Brazil has still massive potential to develop onshore wind generation, which is much cheaper than offshore. And the country currently has excess energy capacity, so building new projects does not make sense now – energy prices are too low. Also on capital allocation, the potential acquisition of Vibra is a frequent topic of discussion among investors. Vibra has a poison pill that would tack a 15% premium onto the highest stock price of the last 18 months.

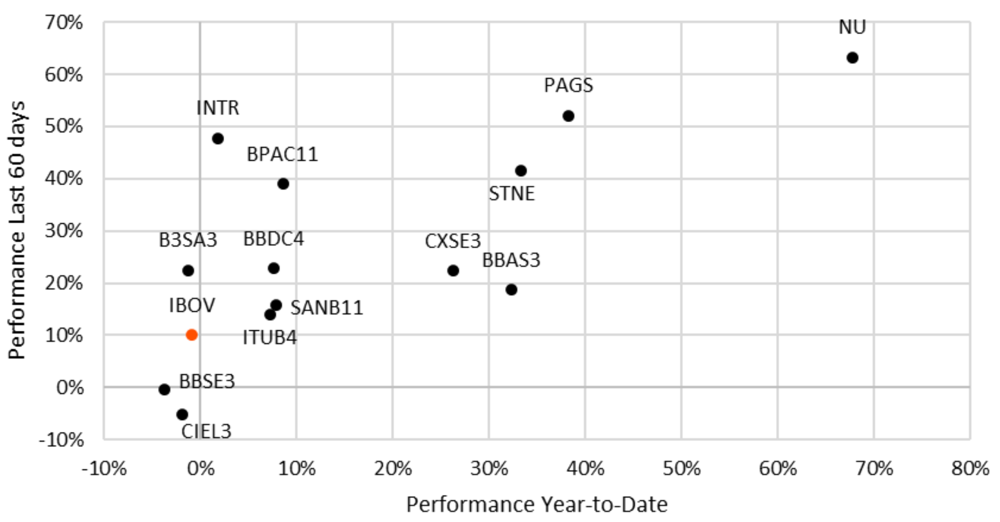
We view Petrobras's fuel pricing policy as positive for the other fuel distribution players such as Vibra and Ultrapar. Petrobras's domestic prices to fuel distributors had been above import parity for many weeks before the adjustment announced last week, which enabled independent importers to increase their presence in the country (also benefiting from the impact of the price cap on Russian diesel) by buying discounted diesel from Russia and then selling it to unbranded resellers and regional distributors. This increase in imports from independent players is likely to put pressure on the sector's margins and share dynamics and could weigh down results for the largest distributors. Petrobras's new commercial strategy is expected to reduce the premium in domestic prices relative to import parity, reducing the competitiveness of independent importers and therefore easing the pressure on the competitive dynamics in the sector, which would benefit Vibra and Ultra. We expect investors to remain focused on assessing the normalized margin level for these companies over the next few quarters, adjusting for the effects caused by volatility and inventory effects. We currently prefer Vibra over Ultrapar, given the former's more attractive valuation and the fact that Ultrapar has outperformed Vibra substantially over the last three months (+29%, vs. Vibra's +15%).

BANKING & FINANCIALS

SECTION 6

Since our conference, we have seen a clear shift in our clients' positioning and demand from defensive names to high-beta names. In 1Q23, the quality of the reported earnings seemed not to have much to do with the stock market reaction. Bradesco reported poor results and its stock price went up, while Banco do Brasil and BB Seguridade reported strong results and their stock prices fell. Investors seem to be focusing on the inflection points and are now buying names that have suffered a lot, betting on an earnings recovery. We have seen greater demand for B3, BTG, Nubank, Inter, PAGS and Stone.

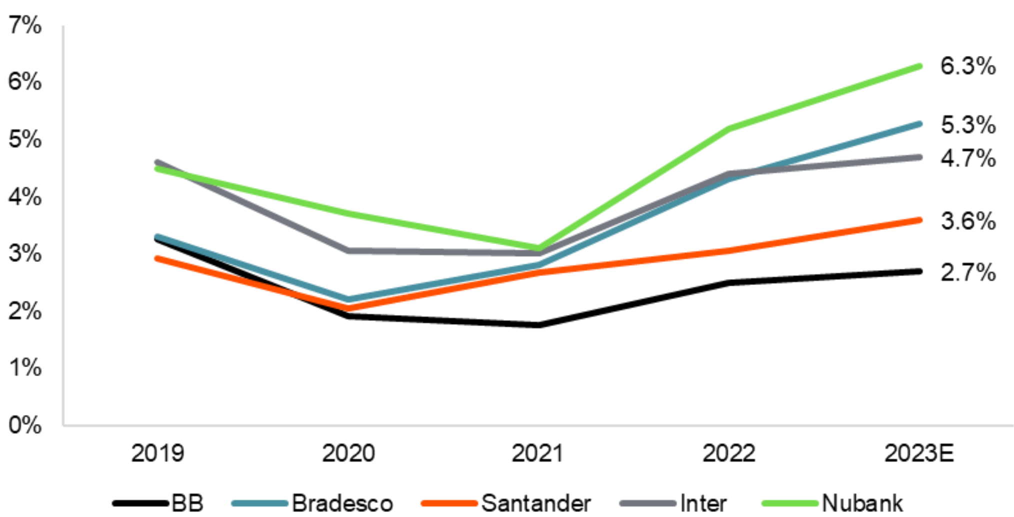
Banking & Financials – Performance, Year-to-Date x Last 60 Days



Source: Itaú BBA, Bloomberg

Contamination from corporate NPLs seems to be contained to SMEs, with no major spillovers to large corporates yet, as some might have feared. There are also signs that retail NPLs have stopped deteriorating, with Banco do Brasil and another large bank seeing improvements already. Bradesco, on the other hand, continues to show sharp deterioration in its retail and credit portfolios. Some investors are buying Bradesco, betting that an improvement will come for it as well. We prefer to wait for further signs of improvement before turning more positive on Bradesco. Banks usually take a long time to digest bad credit harvests.

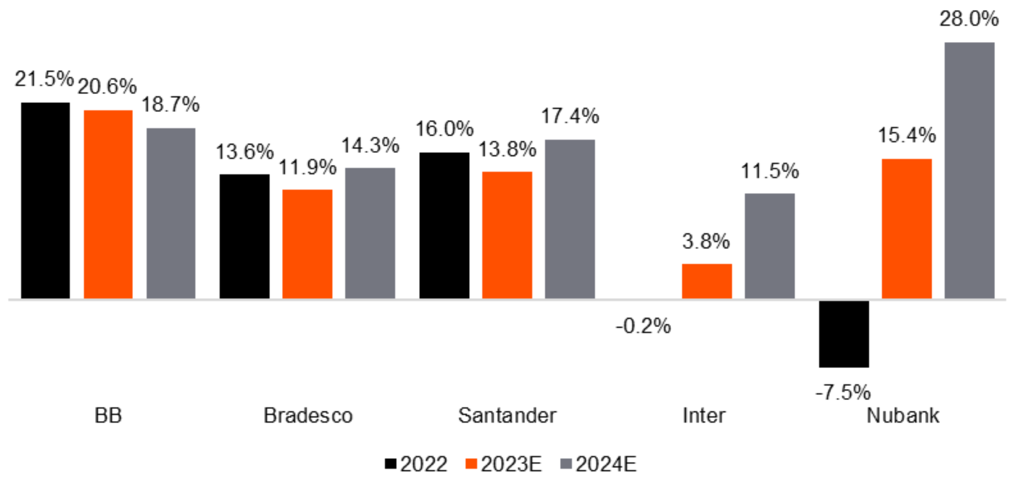
NPLs, Over 90 Days



Source: Itaú BBA and companies

Our Banking & Financials Analyst Pedro Leduc recently upgraded Nubank to outperform after the bank reported outstanding results, with a high ROE of 10%. Nubank is now our top pick among large banks. It has proven to be the digital bank with the most monetization and engagement power. We forecast strong earnings growth for Nubank in the coming years, and its ROE is likely to surpass that of large banks as soon as in 2024. See our upgrade report: [Itaú BBA on Nubank: 1Q23 Beats; Upgrading to Outperform].

Banks Under Our Coverage – ROE, 2022-2024E



Source: Itaú BBA and companies

Efficiency has been a common trend. Across the board, we see banks and other financial services companies discussing in-depth efficiency programs. Efficiency will be extracted via expense control, given the more uncertain top-line dynamics. These controls will include revising current processes and postponing investments with slower paybacks. This also means that the eventual top-line acceleration (or lower Selic-related costs for acquirers) will have a materially positive impact on margins. We highlight B3, BB, Bradesco, Nu and PAGS as having made the most evident efforts.

Acquirers have bounced up significantly from their recent lows – especially the more rate-sensitive PAGS and Stone. They would benefit from a potential reduction in interest rates, as well as leader Cielo taking up pricing. On the negative side, we are seeing weak card volumes, which could eventually spark competitive pressures.

All eyes on the credit-card interest rate cap debate. The industry has been actively debating a recently proposed bill that would limit credit card revolving interest rates to 8% p.m., from the current ~13%. The government is very open to understanding the reasons for these rate levels and potential solutions. Clearly, capping rates is not good in any scenario, but "debating" is much better than outright "capping". As the recent INSS payroll cap episode showed, understanding the root causes of rate levels, the economics of the product in question and the reasoning behind a proposed solution is better for everyone. A unilateral measure would certainly backfire in terms of credit access and consumption, on top of erasing a material amount of profit for Brazilian banks and acquirers.

From an Equity Strategy perspective, our preferences in the Banking & Financials sector are Nubank, BTG and B3. Our Banking team prefers B3 over BTG, and PAGS as a more aggressive player to capture lower rates. We think that these players will benefit from a reduction in interest rates and the shift to higher-beta stories. Valuation remains low across the board (except for Nubank, which will probably not trade on short-term multiples).

COMMODITIES: STEEL & MINING, PULP & PAPER, AND AGRIBUSINESS

SECTION 7

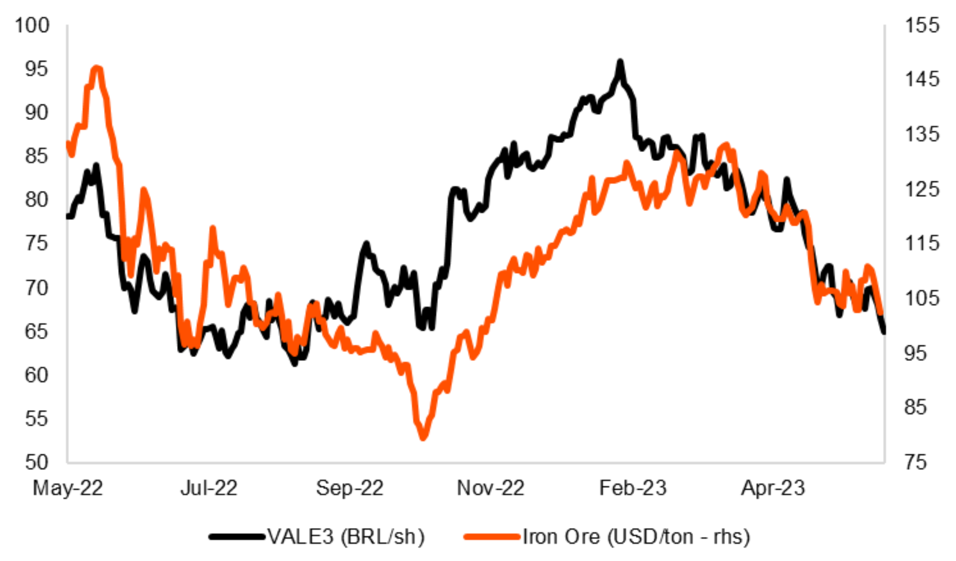
Investors were bearish on commodities, given the weak global economic growth as well as a more cautious view on the property market in China, which could translate into lower iron ore prices. Recent data points to weak real estate credit origination in China. There is also a risk that China's government could limit production, as it did in 2022, putting pressure on iron ore prices. According to our Steel & Mining analyst, Vale will generate a 12% FCF yield if iron ore prices average around USD 115/ton in 2023.

Our top pick in the Steel & Mining sector is Gerdau. Around 60% of Gerdau's EBITDA comes from its U.S. division, which has good prospects given the infrastructure package approved by the U.S. Congress. The Brazilian division is likely to report somewhat constrained results. We also like the fact that Gerdau, unlike CSN and Usiminas, has no exposure to iron ore. We forecast a 15% FCF yield in 2023. Usiminas will report very weak results because it will engage in more of a "rolling margin" business – using more slabs acquired from third parties – due to the maintenance stoppage of its BF#3, which is forecasted to be complete only in August. CSN is the most leveraged of the three and will burn cash over the next few years, given its high capex. Half of its EBITDA comes from iron ore sales.

We have seen more optimism on Suzano, as some investors believe that pulp prices have reached a bottom and that the risk is now more to the upside. Investors believe that prices are close to their bottom, based on their reading of certain signals: i) clients are buying at normal levels – typically, at the beginning of a correction period, clients purchase minimum quantities and consume stocks; and ii) atypical clients, such as Chinese integrated producers, are buying from LatAm pulp producers and lowering their own pulp production levels. According to our analyst, Suzano is one of the names attracting the most attention from clients, who are interested in talking about its outlook.

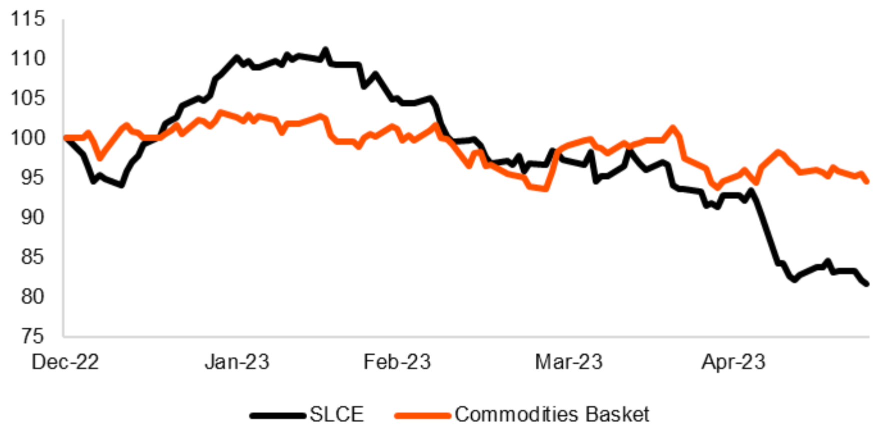
SLC was one of our preferred names, but domestic grain prices have suffered recently and the path ahead is unclear, so we are opting to remain on the sidelines for now. International soy and corn prices have fallen by 13% and 15%, respectively, this year to date; Brazil has had a very good soybean crop this year, which, along with strong expectations for the American crop, is helping to bring prices down. Moreover, the company reported a lower-than-average volume of hedges, which reduces visibility on margins ahead. Brazil has had a very good crop this year, mostly benefitting the top line; as for margins, due to the drop in agricultural input prices, the company stated that it remains confident that it can lock in advantageous exchange rates in the next couple of months as it accelerates its fertilizer and pesticide purchases.

Vale and Iron Ore Prices (Last 12 Months)



Source: Itaú BBA, Bloomberg

SLC x Commodities Basket* (Year-to-Date)



Source: Itaú BBA, Bloomberg. *50% cotton, 40% soy, 10% corn.

REAL ESTATE

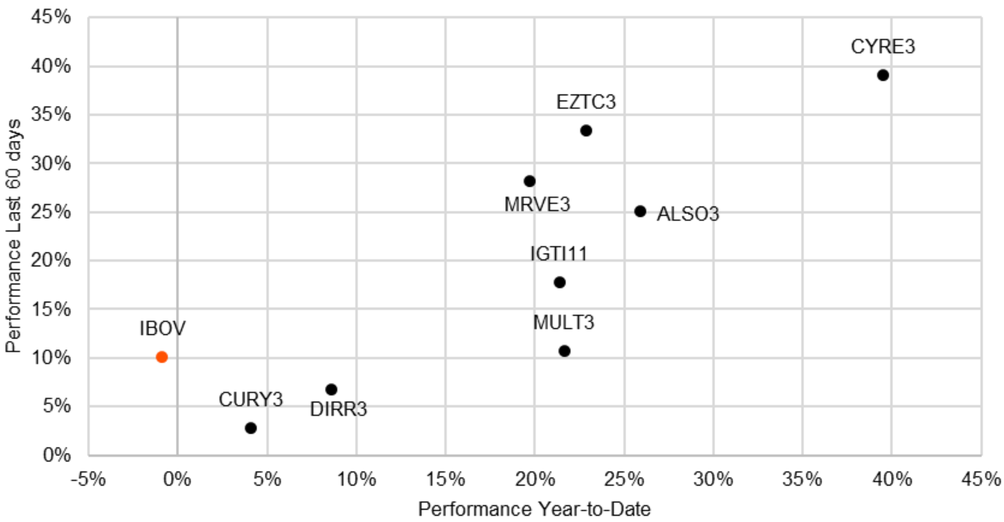
SECTION 8

The mid-income homebuilder Cyrela shared a positive message at our conference, indicating that sales remain healthy, despite the still challenging macro backdrop, and noted that it has not needed discounts to sell its inventories. We believe that the sector is now prepared to benefit from potential interest-rate cuts. Our preference among mid-income players is EZTEC, but we also like Cyrela. According to our Real Estate analyst, investors' positioning seems underweight in the sector, and the recent move has been short covering. In his view, when there is clear visibility on an interest-rate cut, the sector is likely to rally.

For the low-income segment, the debate is more about the segment's funding and potential changes in the Minha Casa Minha Vida housing program. A lot of attention was focused on the Supreme Court when, after much debate, it decided to vote on the FGTS fund remuneration. The current remuneration is TR+3%, and could be changed to TR+6% (same as for savings accounts). The vote by the Supreme Court was halted when one of the judges requested more time to analyze the issue. A higher remuneration formula would mean less funding available for the sector. One of the solutions to soften the potential impact would be keeping the current conditions for employees who already have money deposited in their FGTS accounts and changing the remuneration formula only for new workers joining the labor force. If this is confirmed, the short-term impact would be less meaningful for the sector. Our preference in the sector is MRV, as it is the most liquid name and we expect its results to improve. The U.S. market has stopped deteriorating, and the company confirmed the sale of some units in the coming quarters. Moreover, we expect further revisions in the housing programs, such as: i) increases in unit cap prices; ii) adjustments in the subsidy curve; iii) changes in CEF's spreads, allowing for a broader application of the extent in financing terms from 30 to 35 years.

Shopping mall valuations are not very attractive now, as the sector has performed well YTD. We see limited room for upward revisions in earnings, and our IDAT index for malls suggests a deceleration in sales growth. The sector could do well if rates go down, but we believe that there are better plays to benefit from a potential rate cut. Our Real Estate analyst has made Multiplan the top pick, preferring exposure to the segment through more dominant portfolios with exposure to higher income segments.

Real Estate Stocks – Performance, Year-to-Date and Last 60 Days



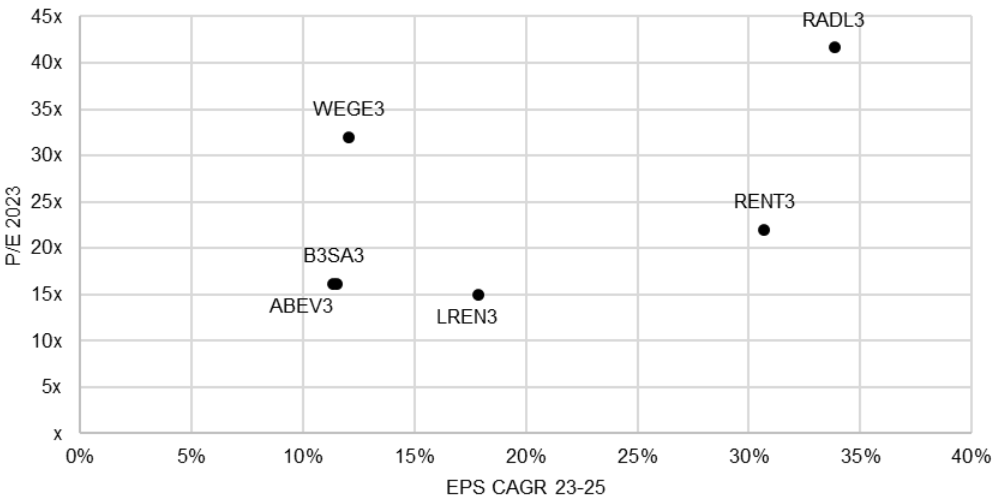
Source: Itaú BBA, Bloomberg

TRANSPORTATION & CAPITAL GOODS

SECTION 9

We recently downgraded WEG, as we see a deceleration in its top-line growth and a normalization of its margins. We see other near-term risks, such as the negative impact of the transfer price bill and the potential end of the interest-on-equity tax benefit. Moreover, we see WEG trading at an above-average premium to the other high-quality players listed in B3, despite lower growth being forecasted for the next few years. See our full Capital Goods report: Itaú BBA on WEG: Downgrading to Market Perform, but Can't Wait to Come Back.

WEG Seems Expensive Relative to Other High-Quality Domestic Companies



Source: Itaú BBA, Bloomberg

Localiza looks like a great name to own, given the more favorable competitive environment and its potential to benefit from lower interest rates. Other players in the sector are now focusing on improving profitability and will reduce their fleets. One source of revenue that is increasing and very profitable is car subscription services for individuals. This is better than renting cars to Uber drivers, as the car use is much less intense, enabling Localiza to sell the used cars at better prices. We highlight that given the volume of its car purchases, Localiza usually buys them at appealing discounts (potentially 20%-25%). According to our analyst, investors are now starting to pay more attention to 2024 multiples, and Localiza's valuation will likely look very appealing – it is trading at 17x P/E. Furthermore, we see upside risk to our 2024 earnings estimates. On the negative side, the company's bottom line will suffer if the interest-on-equity benefit is actually ended.

On Vamos, investors are still digesting recent data. Vamos's long-term fundamentals and the appeal of its business model continue to attract investor interest, but analysts are still posing questions about the company's related-party transaction that affected its asset sales margins in 1Q23. Additionally, demand for Euro 6 trucks at higher tickets than for Euro 5 remains a point of concern, as is the impact it would have on accelerated depreciation in 2023 and 2024. Given these short-term uncertainties, investors seem less confident about the bottom line touching BRL 1 billion in FY23.

HEALTHCARE & EDUCATION

SECTION 10

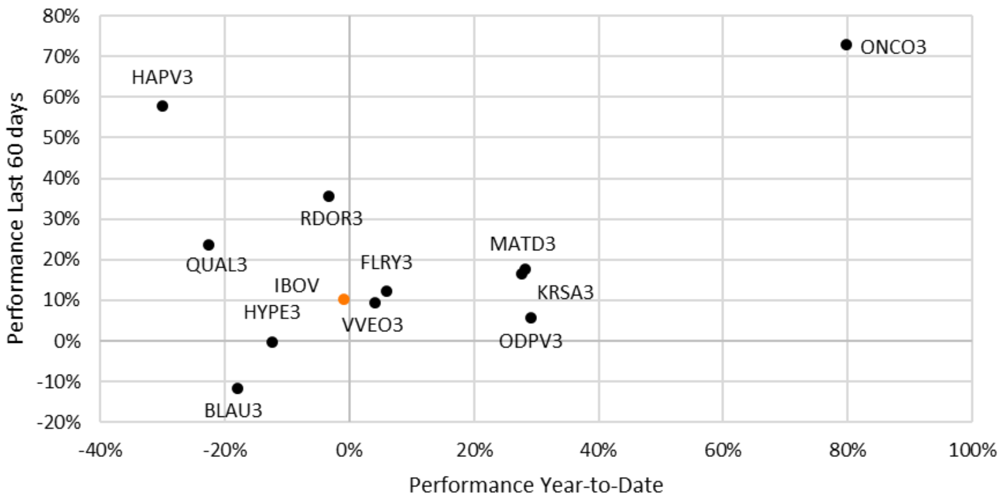
We have seen an improved mood around both sectors following the 1Q23 results, which on average beat market expectations. After most Healthcare companies' 4Q22 results disappointed market expectations, we saw investors adopting a more cautious approach entering the 1Q23 earnings season, even though trends were not pointing to a very different quarter relative to the previous one. In this context of generally conservative expectations, companies reported healthy figures that were better than expected, which led to positive stock price reactions in the following days. Looking ahead, we believe that the 1Q23 results have helped to set the tone for the rest of 2023, as some of investors' most important concerns regarding some of the companies we cover were addressed in these results.

In the Healthcare sector, Hapvida is the name about which we see the biggest change in investor sentiment, and it is our top pick among the liquid names. Its 1Q23 results were clean, with no unexpected adjustments, and above our expectations, which justified the positive stock price action in the days following their release. Average ticket inched up QoQ, the MLR was better, and SG&A declined, which led to a 19% beat of our EBITDA estimate for the quarter. The reversal of the negative cash flow dynamics of 4Q22 was also a good sign.

Rede D'Or: positive and in-line results. We saw healthy hospital and oncology top-line trends with a good sequential average ticket dynamic, although materials and medicine costs once again held down EBITDA. After the tight dynamics of the previous quarter, working capital was a positive highlight in 1Q23.

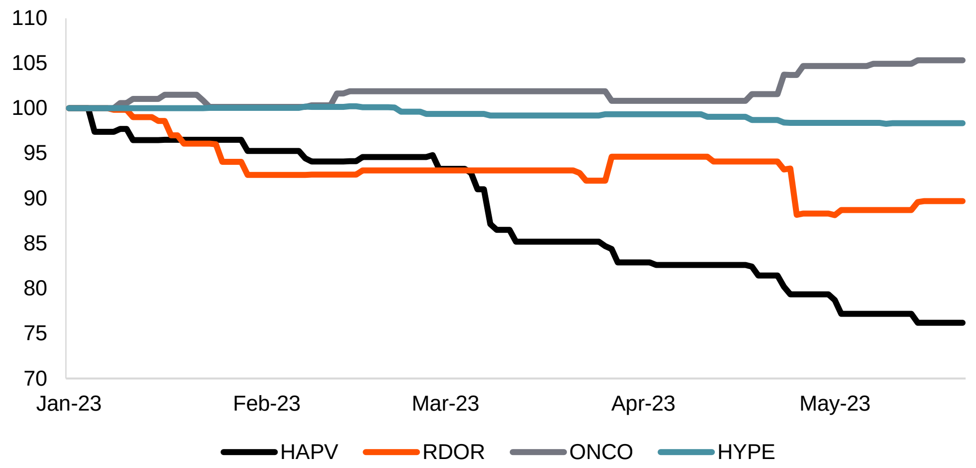
After the poor 4Q22 results, investors have cut their EBITDA forecasts for Hapvida and RDOR. We now see room for upward revisions in consensus EBITDA estimates for Hapvida, given its stronger-than-anticipated 1Q23, but not necessarily for RDOR. Hapvida's 1Q23 results showed indications of better MLR trends and a potential rebound in margins, with EBITDA that was far above our forecast. These trends, helped by the indications of stronger price readjustments, point to upside potential to our numbers and a possible upward revision in our estimates for the company's earnings for the full year of 2023 and beyond. It is reasonable to expect a sequential worsening of the MLR in 2Q23, but this will likely be partially offset by better SG&A without the one-off effects that negatively affected margins in 1Q23. Regarding RDOR, the SULA integration is still a big question mark for us, and the lack of disclosure on some of the trends evident in the results prompts some degree of uncertainty about our numbers, especially for the insurance side, while we wait for the company's disclosure of its growth plan.

Healthcare Sector – Performance, Year-to-Date and Last 60 Days



Source: Itaú BBA, Bloomberg

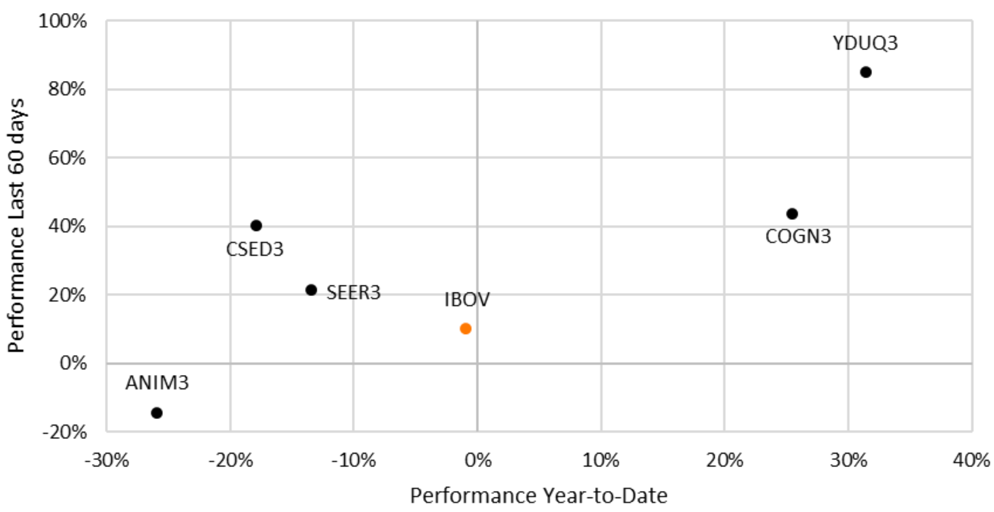
Healthcare Companies – 2024 EBITDA Consensus Estimates Evolution



Source: Itaú BBA, Bloomberg

We see greater optimism on the Education sector, given the stronger-than-anticipated 1Q23. Education stocks have performed well over the last 30 days, with Yduqs up 69% and Cogna up 37%.

Education Sector (B3-Listed Companies) – Performance, Year-to-Date and Last 60 Days



Source: Itaú BBA, Bloomberg

Yduqs is likely to be the one that benefits the most from this better mood. The company's medical courses and its Ibmec division are going well, helping to improve its margins. Over the past few years, the company has closed several units, improving its efficiency level. Leverage is comfortable at 2x EBITDA, and despite the recent rally, the valuation remains attractive, with the stock trading at a 2024 EV/EBITDA of 5.2x. Cogna also reported good results and has improved its efficiency, but we view it as more leveraged and more expensive than Yduqs. Anima is smaller and is highly leveraged, with a net debt/EBITDA of 3.5x. Given its high leverage, we believe that the company will burn cash and may have to resort to a follow-on to adjust its capital structure.

Education – Multiples and Leverage

Company	P/E		EV/EBITDA		Net Debt (inc. Leasing) / Adjusted EBITDA	
	2023e	2024e	2023e	2024e	2023e	2024e
Afya	13.0x	9.5x	7.2x	6.1x	2.0x	1.6x
Ânima	n.m	8.1x	4.4x	4.0x	3.5x	3.2x
Cogna	n.m	16.5x	6.1x	5.0x	3.3x	2.6x
Cruzeiro do Sul	19.7x	10.1x	3.9x	3.7x	2.1x	2.1x
Ser Educacional	189.0x	13.3x	4.6x	4.4x	3.3x	3.1x
Vitru	13.0x	7.0x	7.5x	6.0x	3.6x	2.6x
YDUQS	96.4x	11.3x	5.4x	4.9x	2.9x	2.5x
Arco	18.1x	12.6x	8.5x	7.0x	3.1x	2.5x
Vasta	13.2x	8.2x	6.2x	4.8x	3.0x	2.2x

Source: Itaú BBA, Bloomberg

UTILITIES

SECTION 11

As we have mentioned before in this report, we are seeing investors moving from defensive sectors/companies to high-beta names, given the favorable outlook for an interest rate cut. That said, we believe that Utilities may underperform other sectors such as Retail and Financials. We still have a positive view on the distribution sector, but we have a neutral view on transmission and a more cautious view on the generation sector given the low-energy-price environment, which will likely hurt the results of companies with large volumes of uncontracted energy.

At our conference, investors and corporates expressed great concern about the federal government's request that the Supreme Court revoke the 10% limit on voting rights, which would allow the government to exercise much greater influence over the companies' strategies. Although there was a consensus that the federal government's attempt to get the limit revoked will fail, the attempt itself represents a setback in governance, leaving the companies more concerned about potential government interference in their businesses.

A constructive view on the disco concession-renewal process. One company that attended our conference mentioned that the discussions with the MME (Ministry of Mines and Energy) are going well, and that the government understands the importance of respecting contracts and of having a stable and reliable regulatory framework. The discussions are evolving in the direction of using around BRL 4 billion/year from the P&D and energy efficiency funds to execute the social capex. We met with other discos after the conference that shared similar views. The federal government is expected to open a public consultation period soon to discuss the concession renewal terms. We believe that companies with greater exposure to the concession renewal process, such as Energisa and CPFL, will perform well if the outcome is as positive as we anticipate, removing the overhang for the sector. On March 20, we published a report quantifying the potential NPV impact for each company of a range of possible concession renewal terms (see Itaú BBA on Brazil Utilities: Quantifying Potential Outcomes for the Disco Concession-Renewal Process).

Equatorial remains our top pick in the Utilities space, given its attractive valuation (11.1% implied IRR), strong EBITDA CAGR and potential value creation from M&As and participation in the upcoming transmission auctions. The company is participating in the M&A process to acquire the distribution company Coelce from Enel, competing with CPFL. Moreover, Equatorial will go through several tariff resets in 2023, boosting its EBITDA and helping it deleverage. The company would be negatively affected if the concession renewal terms are negative, but the NPV impact would be much lower for Equatorial than what we expect for its peers, as only 2 of its 6 discos will go through a concession renewal process by 2032. The other discos will only go after 2040.

SP governor Tarcisio Freitas attended our conference, where he reiterated that Sabesp's privatization is a top priority and that the government has already started negotiating with the municipalities to extend the concession contracts in the event of a privatization. In addition, he expects Sabesp to become more efficient and sees it having BRL 1.8 billion in cost-reduction potential as a state-owned company. Sabesp's CEO Andre Salcedo also attended our conference and said that the company would announce a voluntary dismissal program (recently confirmed) with the potential to reduce headcount by 2,000 employees, around 16% of the labor force. The stock was up 7.2% following this announcement.

We have a positive view on the next transmission auction, scheduled for June 30, given its huge scale and the challenging credit conditions, which could lead to lower competition and higher IRRs. Some companies that attended our conference believe that BNDES could provide attractive funding terms, but BNDES has not made any commitments regarding the terms prior to the auction. See our report Itaú BBA on Brazil Utilities: First Glimpse of June Transmission Auction.

Itaú BBA

Transmission Auction Lots: Maximum Revenues and Capex

Lot	Construction time (months)	Line Extension (Km)	Estimated Capex (BRLmn)	Max RAP (BRLmn)	Capex/Max RAP	Location
1	66	1,116.0	3,162.2	515.5	6.1	MG/BA
2	66	1,614.0	4,344.5	708.9	6.1	MG/BA
3	60	349.0	921.4	148.1	6.2	MG
4	60	303.0	786.6	126.6	6.2	MG
5	66	1,006.0	2,686.0	438.9	6.1	BA/MG/ES
6	60	714.0	1,203.4	192.9	6.2	BA/SE
7	66	1,044.0	2,342.3	382.9	6.1	MG/RJ
8	66	38.0	259.5	43.8	5.9	PE
9	36	-	94.2	15.0	6.3	SP

Source: Itaú BBA

Oversupply in the next few years, with some companies saying that it could last almost the whole decade. Energy prices in Brazil are likely to remain very low in the coming years, even if rainfall disappoints substantially in the next rainy season. All companies said that the current market conditions are not attractive for developing new greenfield renewables projects. We agree with this view, but we believe that it is already reflected in the stock prices of generation companies such as Eletrobras, which has performed poorly over the last 12 months. We like Eletrobras, given its very attractive valuation, upside potential from cost reduction, upside potential from settling contingencies and growth potential from an unleveraged balance sheet. At our conference, Eletrobras provided more details on its efficiency agenda, saying that it expects controllable expenses to fall from around BRL 9 billion today to BRL 5 billion by 2024-25.

We have become more constructive on Eneva's investment story following our meeting at the CEO Conference. The main reasons are: i) EBITDA from exports to Argentina is likely to beat market expectations for 2023 and to become a recurring source of revenues for the company in the coming years; ii) an attractive self-production PPA with White Martins, at around BRL 200/MWh, and the transfer of the existing PPA of BRL 168/MWh to the trading company are likely to result in greater profitability for the renewables business; iii) the potential sale of a minority stake in Focus should help the company to deleverage; iv) there is the potential to contract Parnaíba I and III and November's capacity auction at attractive terms; and v) there are ongoing negotiations to potentially replace existing inflexible generation, increasing the dispatch of Eneva's thermal assets (although this is unlikely to happen in the very short term, as there are still regulatory challenges on that front). We believe that these initiatives will likely lead to higher thermal dispatch, mitigating the EBITDA volatility caused by moving from a year of good hydrologic conditions to a year of bad conditions.

Utilities – Itaú BBA Comp Table

Company	Sector	Ticker	Rating	Share Price, BRL/Sh	Market Cap, BRLmn	Real Cost of Equity, %	YE22 TP BRL/sh	YE23 TP BRL/sh	Implied IRR Real, %	Upside Potential (%)	Total Ret. (%)	EV/EBITDA		P/E		Implied EV/RAB (Current Price)		FCF Yield		Dividend Yield		Net Debt /EBITDA	
												2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
Alupar	Integrated	ALUP11	OP	28.8	8,425	7.0%	0.0	37.4	11.1%	30.2%	33.3%	5.7	5.0	11.0	9.4	n.a.	n.a.	3.6%	8.4%	4.6%	5.3%	2.8	2.5
CPFL Energia	Integrated	CPFE3	OP	32.0	36,849	8.1%	39.7	0.0	12.9%	24.1%	35.7%	5.8	5.5	7.0	5.8	1.2	1.1	4.7%	8.9%	12.2%	13.9%	2.2	2.1
Eletrobras	Integrated	ELET3	OP	36.0	82,798	8.0%	61.6	0.0	15.8%	71.3%	72.7%	7.2	4.1	10.3	5.6	n.a.	n.a.	-3.3%	2.9%	2.4%	8.9%	1.9	0.9
Auren	Genco	AURE3	MP	14.2	14,180	8.0%	0.0	15.7	9.6%	11.0%	16.9%	10.1	9.4	18.8	16.6	n.a.	n.a.	-0.5%	7.2%	5.3%	6.0%	2.4	2.2
Omega Energia	Genco	MEGA3	MP	9.4	5,854	8.0%	0.0	13.0	10.0%	37.9%	37.9%	9.7	7.7	-14.1	19.5	n.a.	n.a.	-22.7%	24.7%	0.0%	1.3%	5.9	4.4
Eneva	Genco	ENEV3	MP	11.7	18,519	8.5%	0.0	16.8	11.8%	43.4%	43.4%	8.2	7.6	16.2	12.1	n.a.	n.a.	0.2%	7.3%	0.0%	2.1%	3.7	3.5
Engie	Genco	EGIE3	OP	42.3	34,481	8.0%	0.0	46.1	10.1%	9.2%	17.3%	7.3	7.7	9.1	8.7	n.a.	n.a.	0.7%	1.3%	11.0%	11.5%	2.6	3.0
Taesa	Transco	TAEE11	UP	37.3	12,833	7.0%	0.0	35.9	7.2%	-3.5%	7.2%	10.8	10.5	16.1	14.0	n.a.	n.a.	-3.5%	2.0%	8.7%	9.0%	4.5	4.6
ISA CTEEP	Transco	TRPL4	MP	24.6	16,209	7.0%	0.0	26.9	8.2%	9.3%	13.1%	8.3	7.0	15.0	10.1	n.a.	n.a.	-4.6%	-3.2%	5.0%	4.9%	2.9	2.7
Equatorial	Disco	EQTL3	OP	29.3	33,055	9.0%	0.0	37.1	11.1%	26.7%	28.4%	7.3	6.1	14.7	7.9	1.6	1.4	-8.4%	4.6%	1.7%	3.2%	3.3	2.7
Energisa	Disco	ENGI11	OP	44.7	18,200	9.0%	0.0	70.0	12.5%	56.6%	58.6%	6.5	6.3	12.5	9.3	1.4	1.3	-12.0%	-4.2%	3.1%	5.7%	3.7	3.7
Sabesp	Others	SBSP3	OP	50.7	34,654	10.0%	0.0	74.9	15.1%	47.7%	49.6%	5.3	4.7	9.2	7.0	0.7	0.7	-0.7%	-0.6%	2.7%	3.6%	1.8	1.7
Ambipar	Others	AMBP3	OP	20.4	2,298	12.1%	47.4	0.0	24.2%	132.8%	134.2%	4.2	3.5	8.0	5.1	n.a.	n.a.	n.a.	n.a.	0.0%	4.9%	2.2	1.7
Orizon	Others	ORVR3	OP	35.8	2,970	10.0%	0.0	48.5	14.7%	35.4%	36.2%	8.2	8.6	29.4	29.7	n.a.	n.a.	n.a.	n.a.	0.8%	1.6%	2.2	3.1

Source: Itaú BBA

TECH

SECTION 12

Overall, we have seen an improvement in the mood around the main names in our Tech coverage universe in the past few months, partly because of relief on expectations for long-term interest rates, but also because of better bottom-up dynamics for those companies.

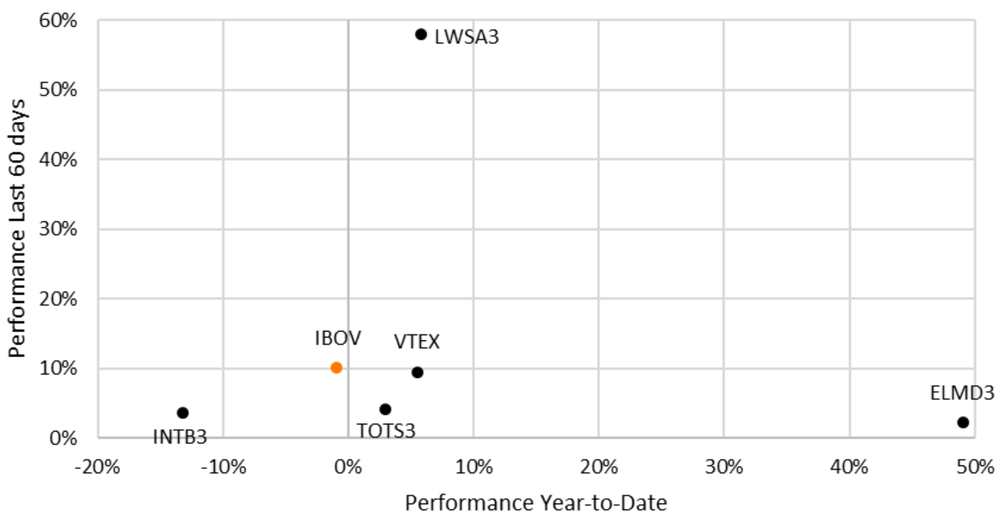
Eletromidia remains our top pick among the Tech names we cover, despite its strong year-to-date performance (up 49%). Our positive stance is supported by the company's exceptional operational performance, huge growth potential (backed by increasing penetration in OOH), key positioning in its sector, and highly scalable and profitable business model. We also see the company trading at an attractive valuation (close to 10x P/E 2024), as well as potential short-term catalysts, namely the approval of the Globo deal by CADE, which is still analyzing it.

Totvs is our preferred name among the most liquid stocks under our coverage. The 1Q23 results eased fears of a sharp deceleration for the core business, reinforcing the resilience of its business model and supporting our view that the company will likely continue to deliver solid results ahead. We also see positive catalysts coming up, such as the potential approval of the Techfin JV with Itaú and the potential announcements of M&As in the short term due to the company's strong balance-sheet positioning.

We appreciate Intelbras's profitability improvement in the past few quarters, despite the still-challenging trends in the energy division (mainly solar). The valuation remains attractive at 13x P/E 2023 and 11x P/E 2024. Away from the operational front, Intelbras has an exposure to the tax reform debate, as it enjoys several tax benefits, including ICMS (presumed credit), which are unlikely to be affected by any revenue-boosting measures by the federal government but could be exposed to a gradual, long-term impact from the first phase of the tax reform.

For the companies we cover that have exposure to e-commerce, VTEX and Locaweb, we believe that investors have been pricing in an inflection point in earnings-estimate revisions, with an upward asymmetry at this point. We have a brighter view on VTEX than on Locaweb, due to the former's positioning for the large enterprise market, which we view as more profitable and resilient.

Tech Companies – Performance, Year-to-Date and Last 60 Days



Source: Itaú BBA, Bloomberg

BRAZIL BUY LIST

SECTION 13

We are updating our Brazil Buy List portfolio, increasing its exposure to financials and domestic long-duration names and reducing its exposure to commodities. Although most of the high-quality/long-duration domestic names have performed well in the past few weeks, we believe that there is room for further appreciation due to still-attractive valuations and the potential for upward earnings revisions.

We are increasing our exposure to financials by adding Nubank and BTG Pactual to our portfolio. We believe that these three stocks are likely to benefit from further declines in interest-rate expectations, from both the cost-of-capital and operational perspectives.

We are adding Nubank, our new top pick in the space. We admire the company's execution, as it has proven to be the digital bank with most monetization and engagement power, giving it strong earnings growth potential that more than justifies the high short-term multiples.

Our addition of BTG, despite our Banking & Financials team's **market perform** rating on the name, is based on our perception that the scenario for corporate credit has not deteriorated as much as was anticipated following the events of the beginning of the year, and also because it is a good horse for playing a potential improvement in capital markets (both debt and equity), namely one coming from lower interest-rate expectations.

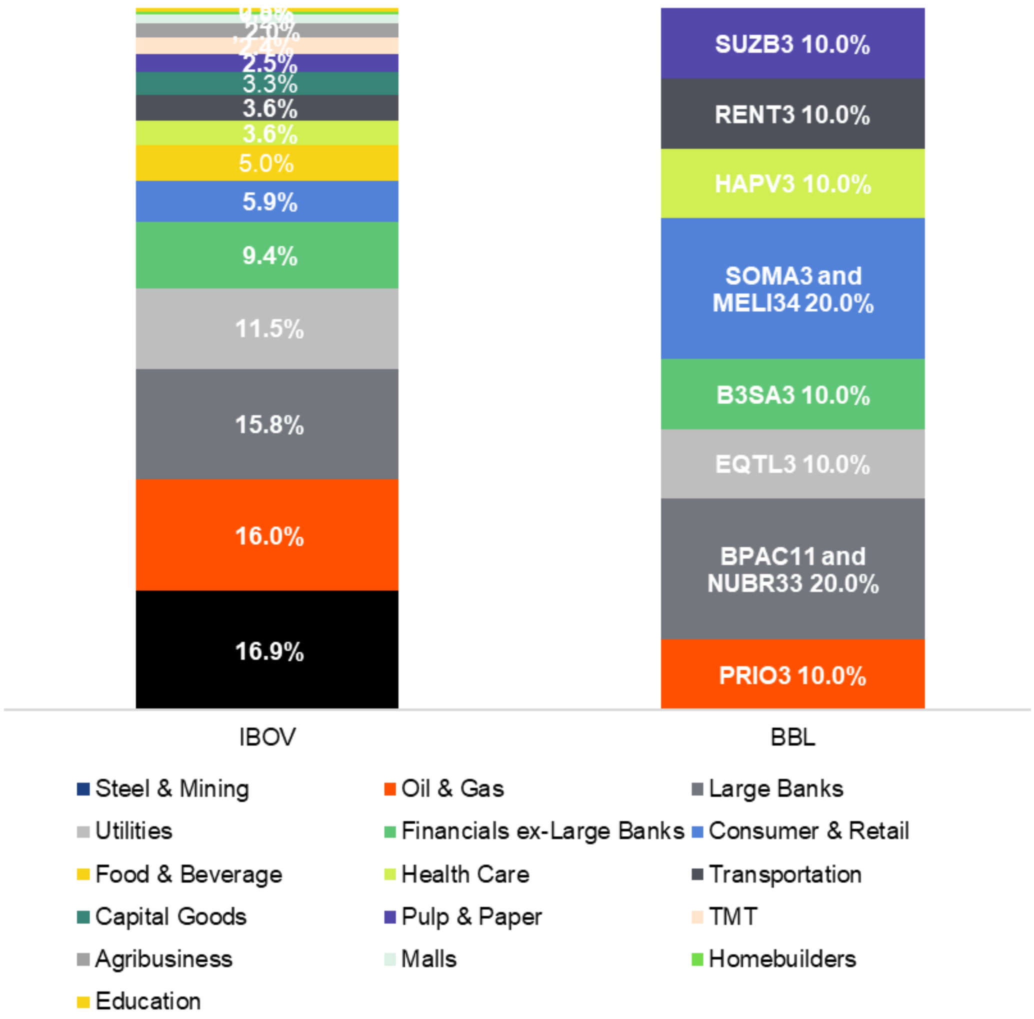
We are increasing our exposure to domestic stories by adding Hapvida, Localiza and Grupo SOMA to our Brazil Buy List, shifting our portfolio towards more interest-rate-sensitive calls with good liquidity, solid long-term investment stories and the potential for upward estimate revisions.

Hapvida is our top pick in the Healthcare space. The company has addressed the solvency concerns that pushed investors away from the story at the beginning of the year, and its 1Q23 results showed better trends for profitability going forward, adding upside risk to our estimates. We remain confident that its verticalized business model will lead to further consolidation in the healthcare plan industry. We also appreciate its attractive valuation (12x P/E 2024).

Localiza remains our preference in the rentals space. We appreciate the company's positioning in the sector, which has helped it outperform its peers. Localiza has been delivering strong operating results (mainly fueled by the RAC and GTF divisions) and has been exploring new growth avenues, reinforcing our constructive view on the stock in the long run. The performance of the Seminovos division has been a concern for investors, as it is more sensitive to the tough macro scenario in the short term; we have been monitoring the division closely, and it is likely to be accorded less weight as investors start to look more at 2024 earnings expectations.

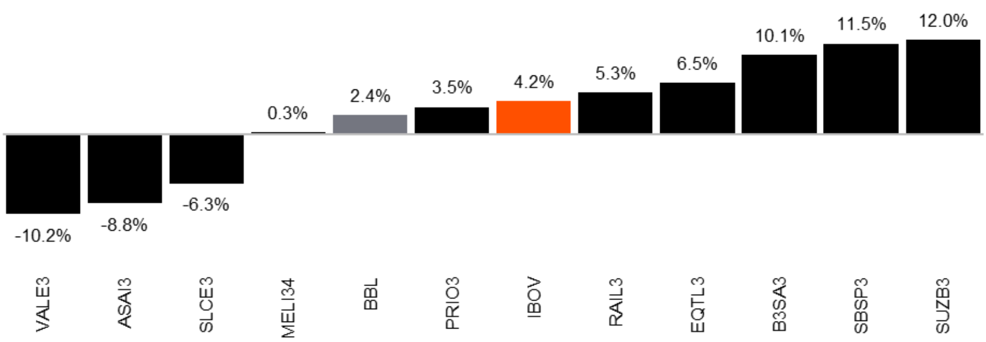
Grupo Soma is our pick in the retail space. We see the company as a good vehicle for exposure to the retail space, given its attractive valuation and exposure to the high-income segment. We appreciate the company's execution, good earnings momentum and initiatives to boost growth in the long run.

Brazil Buy List – Composition by Sector vs. IBOV



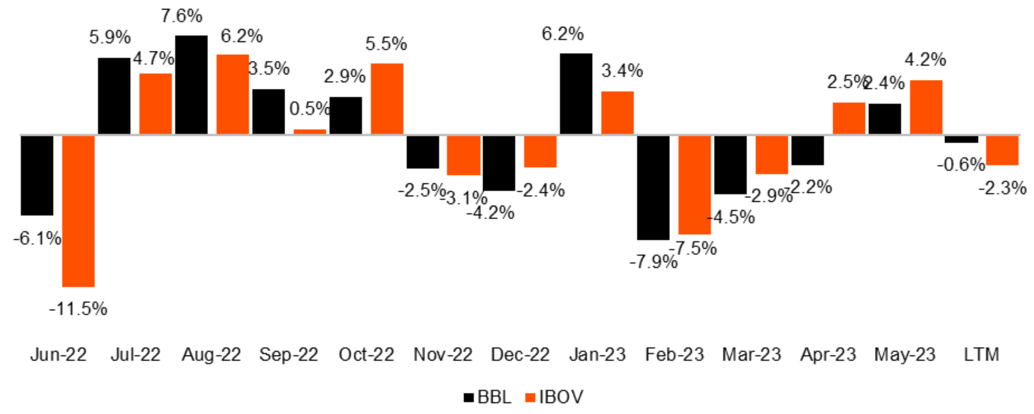
Source: Itaú BBA

Brazil Buy List – Performance by Stock, Month-to-Date



Source: Itaú BBA

Brazil Buy List – Performance, Last 12 Months



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Analysts	Disclosure Items				Sig
	1	2	3	4	
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Matheus Marques					OK
Victor Cunha					OK

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