

# Cosan

## Picking the Winning Horses



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### OIL, GAS & PETROCHEMICALS TEAM

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Cosan has committed to a strategy of portfolio diversification and capital allocation that increasingly comprises investments in irreplicable assets, in sectors where the company believes Brazil has clear competitive advantages in the value chain of natural resources, including renewable energy, oil and gas, high-quality mining, and carbon-capture credits.

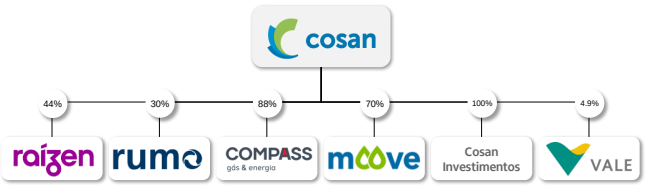
Long led by a well-regarded management team, the company has employed its strategy sharply and consistently, often to pick the winning horses. Cosan's current portfolio is made up of leading companies that have consolidated operations in energy sectors and that also have the potential to contribute to the development of innovative businesses that could catalyze the growth of renewable energy in Brazil, while ensuring energy security along the way.

We are reinstating coverage of Cosan with an **outperform** rating and a YE23 fair value of BRL 23/share, based on our view that the company's portfolio is composed of companies with strong growth prospects, which can benefit significantly from (and also contribute to) the development of Brazil's competitive advantages, and on our belief that the stock has been trading at a higher-than-fair holding discount.

If All You Have Is Five Minutes...

**Picking the Winning Horses.** Cosan has committed to a strategy of portfolio diversification and capital allocation that increasingly comprises investments in irreplicable assets in sectors where the company believes Brazil has clear competitive advantages.

Cosan's Portfolio

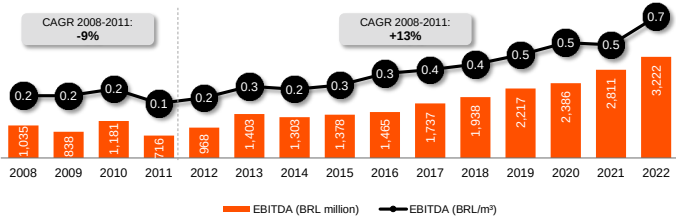


In this report, we look closely at Compass and Moove. Our partner teams cover [Raízen](#), [Rumo](#) and [Vale](#). Click on their names for a link to their latest updates.

Source: Company data and Itaú BBA.

**Natural Gas Distribution.** Compass intends to replicate the successful business model for growth and efficiency implemented at Comgás in other controlled companies, to increase the connection of new consumers to the network and offer options for an increasingly free gas market in Brazil.

Comgás's EBITDA



Source: Company data and Itaú BBA.

**Marketing and Services: A Building Block of the New Gas Market.** The objective is to serve distributors and customers in the free market mainly through the LNG Regasification Terminal (TRSP), which will expand supply options in the region with the greatest demand for natural gas in Brazil.

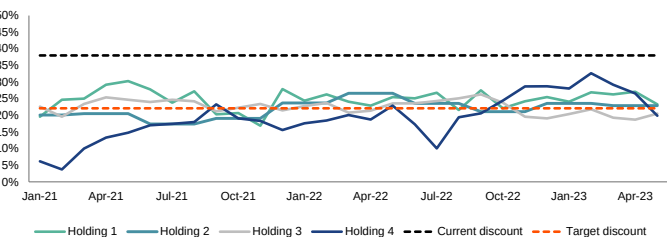
Existing and Future LNG Terminals in Brazil



Source: EPE and Itaú BBA.

**Holding Discount.** Cosan is currently trading at a holding discount significantly higher than other holding companies. Our 22% holding discount assumption is based on an average of historical discounts for other holding companies.

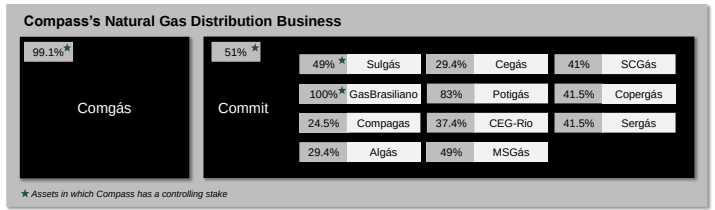
Holding Discount



Source: Company data and Itaú BBA.

**Compass: Building a New Market.** Through two major segments – Gas Distribution and Marketing & Services – Compass aims to expand the access to natural gas, in competitive conditions, by the expansion of domestic infrastructure, diversification of supply and interiorization of gas.

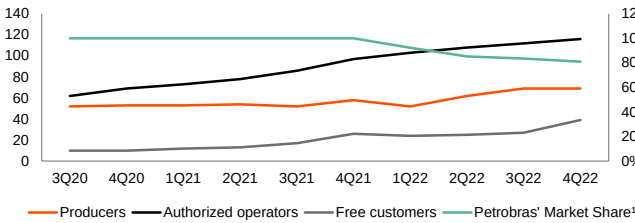
Compass Structure and Strategy



Source: Company data and Itaú BBA.

**An (Under Construction) New Gas Market.** The Brazilian natural gas regulatory framework changed significantly after the New Gas Law, which established guidelines to make more-efficient use of existing infrastructure, attract new investments and promote competition in the natural gas market

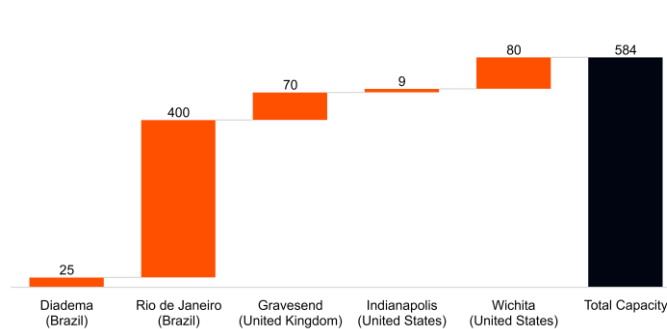
Number of Agents in the Natural Gas Market and Petrobras's Market Share



Source: MME and Itaú BBA. <sup>1</sup> Petrobras's market share in integrated network

**Moove: Widening Footprint Domestically and Abroad.** Combining a strategy of organic and inorganic growth, Moove has strengthening its market position in Brazil and is poised to benefit from an expanding global lubricant market.

Moove's Production Capacity (Millions of Liters per Year)



Source: Itaú BBA and Moove

**Valuation.** Our fair value is based on a sum-of-the-parts valuation and a 22% holding discount. For Vale, we assumed the fair value estimates from out Metals and Mining team for the 1.55% stake and a strike of BRL 72/share for the collar structure related to the 3.31% stake.

Consolidated SOTP (BRL in Millions)

| COSAN's Businesses  | Target Price | Equity Value | COSAN's Stake | COSAN's Equity | BRL/COSAN3 |
|---------------------|--------------|--------------|---------------|----------------|------------|
| Raízen              | BRL 5.0/sh   | 50,419       | 44%           | 22,185         | 11.9       |
| Compass             | n.a.         | 23,704       | 88%           | 20,860         | 11.2       |
| Moove               | n.a.         | 7,564        | 70%           | 5,295          | 2.8        |
| Rumo                | BRL 24.0/sh  | 44,093       | 30%           | 13,360         | 7.2        |
| Vale                | USD 17.0/sh  | 364,695      | 1.6%          | 5,653          | 3.0        |
| Vale (collar)       | n.a.         | 315,996      | 3.3%          | 10,459         | 5.6        |
| Cosan Investimentos | n.a.         | 4,975        | 100%          | 4,975          | 2.7        |
| Corporate           | n.a.         | -27,178      | 100%          | -27,178        | -14.6      |
| Total               |              |              |               | 43,375         | 23         |

Source: Company data and Itaú BBA.

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## HOLDING: PICKING THE WINNING HORSES

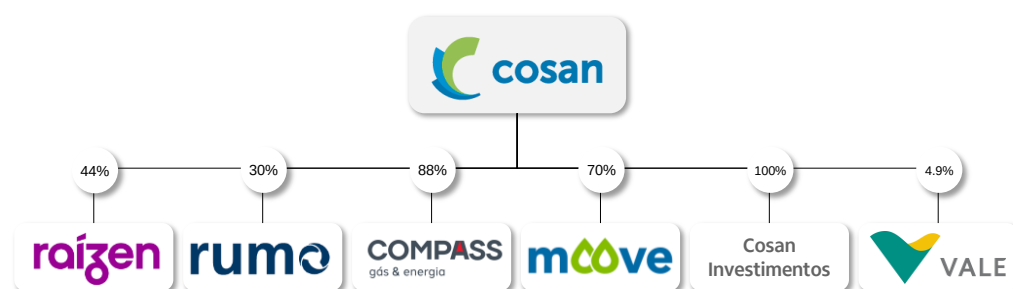
## SECTION 1

Cosan has committed to a strategy of portfolio diversification and capital allocation that increasingly comprises investments in irreplicable assets in sectors where the company believes Brazil has clear competitive advantages in the value chain of natural resources, including renewable energy, oil and gas, high-quality mining, and carbon-capture credits.

Long led by a well-regarded management team, the company has employed its strategy sharply and consistently, often to pick the winning horses. Cosan's current portfolio is made up of leading companies that have consolidated operations in energy sectors and that also have the potential to contribute to the development of innovative businesses that could catalyze the growth of renewable energy in Brazil, while ensuring energy security along the way.

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### Cosan's Portfolio



Source: Itaú BBA

### Raízen

A joint venture between Cosan and Shell that is an integrated energy company, a benchmark in sugar, ethanol and bioenergy production, and one of the largest companies in Brazil's fuel distribution and commercialization sector. Raízen is covered by our Agribusiness team (please find the latest update [here](#)).

### Compass Gás e Energia

A company that operates and invests in distribution, infrastructure, origination and trading of natural gas, and intends to explore opportunities arising from the development of the new gas market in Brazil.

### Moove

One of Brazil's largest lubricant companies, which operates globally (in 2022 it acquired the U.S. company PetroChoice) in the production and distribution of Mobil and Comma products and professional brands.

### Rumo

Rumo is the largest railway operator in Brazil, managing approximately 13,500 km of railway lines in the Midwest, South, Southeast and North regions, transporting over 70 billion RTKs of both agricultural and industrial cargo. The company also operates distribution centers, storage facilities and transshipment terminals, with a static storage capacity of around 900 thousand tons, and it owns port terminals in the states of São Paulo and Paraná. Rumo is covered by our Agribusiness team (please find the latest update [here](#)).

## Vale

Headquartered in Brazil and with locations in over 30 countries, Vale is among the world's largest producers of iron ore fines and pellets and of nickel. In 2022, ~90% of the company's EBITDA came from the iron ore business and ~10% from the base-metals unit. Looking ahead, Vale aims to ramp up mining operations in Brazil, both in the Southeastern system (halted since the Brumadinho event) and in the Northern system (with licensing-related challenges) and to improve its production rates in the base metals division. Vale is covered by our Metals and Mining team (please find the latest update [here](#)).

## Cosan Investimentos

Created in August 2021, Cosan Investments aggregates several group initiatives in agriculture, mining, logistics, and also investment in the Climate Tech Fund. The rural properties portfolio business is currently the largest in terms of assets and results for this vertical, and is composed of participation in Radar, Tellus and Janus. The business includes more than 318,000 hectares, valued around BRL 14 billion, of which Cosan's stake accounts for nearly BRL 4.2 billion. The strategy consists of investing in productive properties with attractive valuations, and leasing them to third parties. The portfolio includes harvests in sugarcane, soy, cotton, corn and other commodities in the States of São Paulo, Minas Gerais, Goiás, Maranhão, Bahia, Tocantins, Piauí and Mato Grosso.

Besides the agriculture business, Cosan Investments acquired TUP Porto São Luis for BRL 804.8 million through the subsidiary Atlântico Participações Ltda. (or Atlântico); the transaction was completed in February 2022. The subsidiary also signed a binding MoU to form a joint venture with Grupo Paulo Brito to explore iron ore and ship it through the TUP Porto São Luis. The joint venture deal, called JV Mineração, is still subject to precedent conditions that have not yet been met.

## Valuation

Our fair value is based on a sum-of-the-parts valuation and a 22% holding discount. For Raízen, Rumo, Compass, Moove and the corporate segment, we used a DCF approach. For Vale, we assumed the fair value estimates from our Metals and Mining team for the 1.55% stake and a strike of BRL 72/share for the collar structure related to the 3.31% stake. For Cosan Investimentos, we assumed the last available data on the land portfolio valuation and, for São Luís Port, we considered the acquisition value.

## Consolidated SOTP (BRL in Millions)

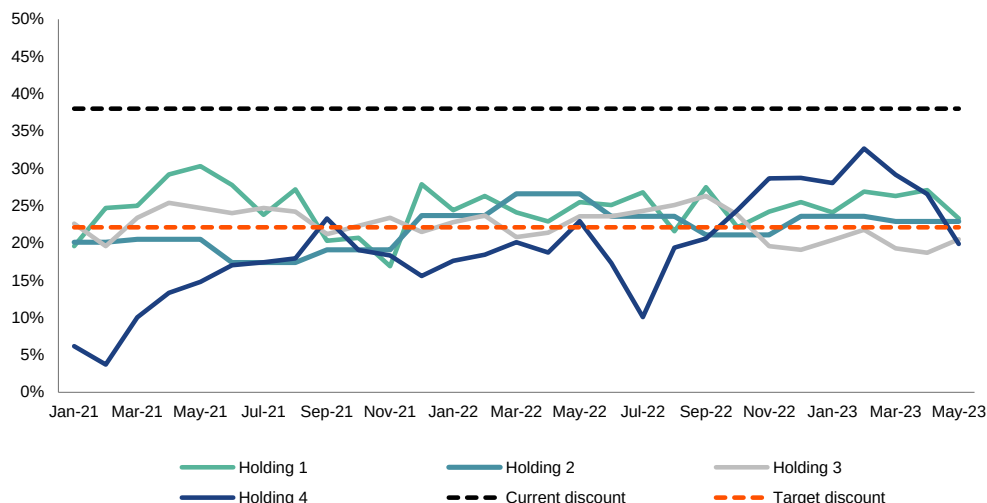
| COSAN's Businesses  | EV      | EBITDA Adj 23 | EV/EBITDA | Net Debt YE 23 | Target Price | Equity Value | COSAN's Stake | COSAN's Equity | BRL/COSAN3 |
|---------------------|---------|---------------|-----------|----------------|--------------|--------------|---------------|----------------|------------|
| Raízen              | 89,217  | 13,506        | 6.6x      | 38,797         | BRL 5.0/sh   | 50,419       | 44%           | 22,185         | 11.9       |
| Compass             | 29,231  | 3,961         | 7.4x      | 5,527          | n.a.         | 23,704       | 88%           | 20,860         | 11.2       |
| Moove               | 9,496   | 1,242         | 7.6x      | 1,933          | n.a.         | 7,564        | 70%           | 5,295          | 2.8        |
| Rumo                | 52,634  | 5,605         | 9.4x      | 8,541          | BRL 24.0/sh  | 44,093       | 30%           | 13,360         | 7.2        |
| Vale                | 421,377 | 92,804        | 4.5x      | 56,682         | USD 17.0/sh  | 364,695      | 1.6%          | 5,653          | 3.0        |
| Vale (collar)       | n.a.    | n.a.          | n.a.      | n.a.           | n.a.         | 315,996      | 3.3%          | 10,459         | 5.6        |
| Cosan Investimentos | n.a.    | n.a.          | n.a.      | n.a.           | n.a.         | 4,975        | 100%          | 4,975          | 2.7        |
| Corporate           | -4,077  | 73            | n.a.      | 23,100         | n.a.         | -27,178      | 100%          | -27,178        | -14.6      |
| Total               |         |               |           |                |              |              |               | 43,375         | 23         |

Source: Itaú BBA

For the current holding discount, we consider the market cap of Raízen, Rumo, Vale and Cosan, while for Compass, Moove and Cosan Investimentos, we assumed our valuation estimates. For the net debt, we exclude Vale's shares from the cash, cash equivalents and marketable securities.

Our 22% holding-discount assumption is based on an average of historical discounts for other holding companies.

## Holding Discount



Source: Companies and Itaú BBA

## Consolidated Financials (BRL in Millions)

| BRL Million                             |                |                |                |                | BRL Million                             |                |                |                |                |
|-----------------------------------------|----------------|----------------|----------------|----------------|-----------------------------------------|----------------|----------------|----------------|----------------|
| INCOME STATEMENT                        | 2022a          | 2023e          | 2024e          | 2025e          | BALANCE SHEET                           | 2022a          | 2023e          | 2024e          | 2025e          |
| <b>NET REVENUES</b>                     | <b>162,253</b> | <b>164,342</b> | <b>157,804</b> | <b>152,697</b> | Cash & Equivalents                      | 18,857         | 26,711         | 27,832         | 32,273         |
| Cash COGS                               | -147,951       | -146,443       | -136,728       | -130,125       | Accounts Receivable                     | 9,086          | 9,266          | 9,192          | 9,176          |
| <b>GROSS PROFIT</b>                     | <b>14,302</b>  | <b>17,899</b>  | <b>21,076</b>  | <b>22,572</b>  | Inventories                             | 9,891          | 9,140          | 8,623          | 8,277          |
| SG&A Expenses                           | -7,039         | -7,356         | -7,708         | -8,214         | Property, Plant and Equipment           | 93,590         | 99,549         | 103,504        | 107,529        |
| Other Operating Expenses                | 1,894          | 1,749          | 1,275          | 1,192          | Others                                  | 46,607         | 42,557         | 41,811         | 41,230         |
| <b>OPERATING INCOME</b>                 | <b>9,157</b>   | <b>12,292</b>  | <b>14,643</b>  | <b>15,550</b>  | <b>TOTAL ASSETS</b>                     | <b>178,030</b> | <b>187,223</b> | <b>190,962</b> | <b>198,485</b> |
| <b>EBITDA</b>                           | <b>17,170</b>  | <b>20,249</b>  | <b>22,836</b>  | <b>24,093</b>  | Loans and Borrowings                    | 79,994         | 86,274         | 84,544         | 84,920         |
| Financial Result & Others               | -6,861         | -9,617         | -8,775         | -8,200         | Suppliers                               | 13,713         | 14,320         | 13,640         | 13,229         |
| <b>EARNINGS BEFORE TAXES</b>            | <b>2,296</b>   | <b>2,676</b>   | <b>5,868</b>   | <b>7,350</b>   | Other Current & Non-Current Liabilities | 34,368         | 33,622         | 33,751         | 33,871         |
| Income Taxes & Social Contrib. & Others | -1,120         | -1,973         | -1,683         | -2,129         | <b>Liabilities</b>                      | <b>128,074</b> | <b>134,215</b> | <b>131,934</b> | <b>132,020</b> |
| <b>NET INCOME</b>                       | <b>1,176</b>   | <b>703</b>     | <b>4,184</b>   | <b>5,221</b>   | <b>Equity</b>                           | <b>49,956</b>  | <b>53,008</b>  | <b>59,028</b>  | <b>66,465</b>  |
| <b>PER SHARE DATA</b>                   |                |                |                |                | <b>TOTAL LIABILITIES &amp; EQUITY</b>   | <b>178,030</b> | <b>187,223</b> | <b>190,962</b> | <b>198,485</b> |
| Number of Shares Outstanding            | 1,867          | 1,867          | 1,867          | 1,867          | <b>DEBT SITUATION</b>                   |                |                |                |                |
| EPS                                     | 0.6            | 0.4            | 2.2            | 2.8            | Loans and Borrowings                    | 79,994         | 86,274         | 84,544         | 84,920         |
| Cash Earnings                           | 7,318          | 7,361          | 11,029         | 12,294         | Cash & Equivalents                      | 18,857         | 26,711         | 27,832         | 32,273         |
| CEPS                                    | 3.9            | 3.9            | 5.9            | 6.6            | <b>NET DEBT</b>                         | <b>61,137</b>  | <b>59,563</b>  | <b>56,712</b>  | <b>52,647</b>  |
| <b>MARGINS</b>                          |                |                |                |                | Net Debt/EBITDA                         | 3.6            | 2.9            | 2.5            | 2.2            |
| Gross Margin                            | 8.8%           | 10.9%          | 13.4%          | 14.8%          | <b>RETURNS</b>                          |                |                |                |                |
| Operating Margin                        | 5.6%           | 7.5%           | 9.3%           | 10.2%          | ROIC                                    | 6%             | 8%             | 9%             | 9%             |
| EBITDA Margin                           | 10.6%          | 12.3%          | 14.5%          | 15.8%          | ROE                                     | 2%             | 1%             | 7%             | 8%             |
| Net Margin                              | 0.7%           | 0.4%           | 2.7%           | 3.4%           |                                         |                |                |                |                |

Source: Itaú BBA

COMPASS: BUILDING A NEW MARKET

SECTION 2

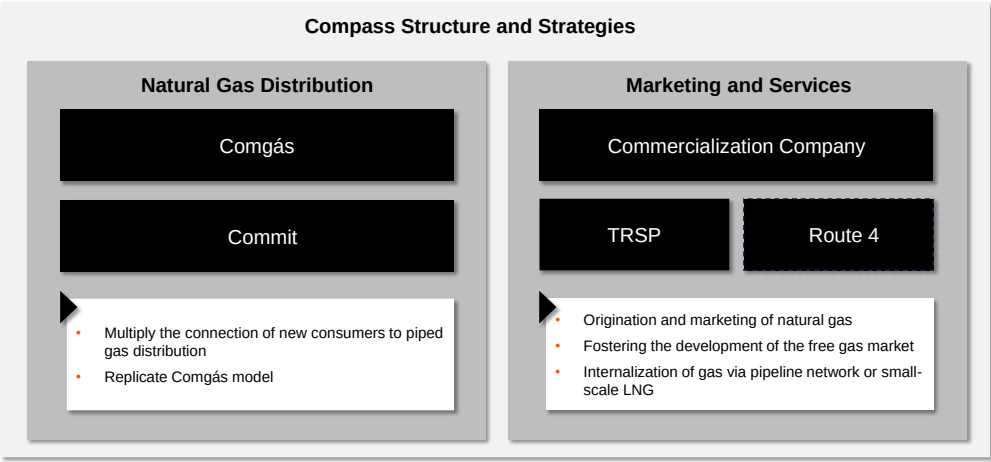
Compass Gás & Energia was created in March of 2020, with the purpose of contributing to and capturing opportunities from the development of a free gas market in Brazil. Through two major segments – Gas Distribution and Marketing & Services – Compass offers services and solutions with the aim of expanding the access to natural gas, in competitive conditions. These include expansion of domestic infrastructure, diversification of supply and interiorization of gas.

Compass has owned Comgás, Brazil’s largest natural gas distribution company, since 2012. With the commitment to divest its natural gas distribution assets signed by Petrobras in 2019, Compass acquired, in 2021, a 51% stake in Gaspetro (Petrobras’s holding company with equity interest in distributors), enabling company’s expansion plan in the Gas Distribution segment beyond Comgás. In partnership with Mitsui, which holds a 49% stake in Gaspetro, Compass created a company called “Commit” to manage the portfolio of participations in 11 distributors.

On the Marketing & Services front, Compass intends to focus on the origination and commercialization of natural gas, supplying distributors and customers of the free market connected to the distribution network, and off-grid consumers (not connected) through other modes. The main project on this front is the regasification terminal being built in the São Paulo state, which is expected to begin operations in the second half of 2023. Other supply alternatives on this front, in addition to LNG, would be the increasing domestic production coming from the pre-salt, and renewable alternatives like biomethane.

With operations on these two fronts, Compass is structured to not only benefit from the opening of the natural gas market in Brazil, but to act as an agent to catalyze the development of the necessary requirements to strengthen and consolidate the free market in the country.

Compass Structure and Strategies



Source: Company data and Itaú BBA

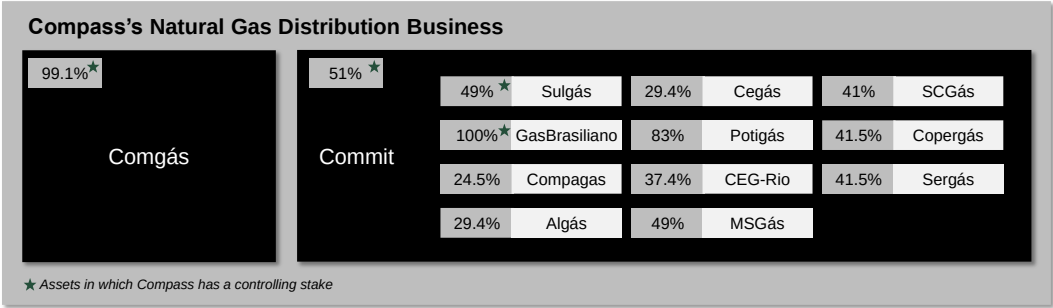
The Cornerstone: Natural Gas Distribution

The natural gas distribution business is the basis of the creation of Compass. Since the acquisition of Comgás, Brazil’s largest natural gas distribution business, the company has been posting consistent results, built on a winning business model that made it possible to significantly increase the pipeline network and the number of customers served, along with associated efficiency gains.

Compass’s natural gas distribution segment includes participation in 12 distributors that serve approximately 2.9 million customers through the following stakes: i) 99.14% of the shares of Comgás, present in the state of SP; ii) indirect control of GasBrasiliiano (Compass controls 51% of Commit, which controls 100% of the shares of GasBrasiliiano), present in the northwest region of the State of São Paulo; iii) 75.99% of the shares of Sulgás, a natural gas distributor in the State of Rio Grande do Sul; and iv) 51.00% of the shares of Commit, which has interests in 11 distributors spread across the Center-South and Northeast regions.

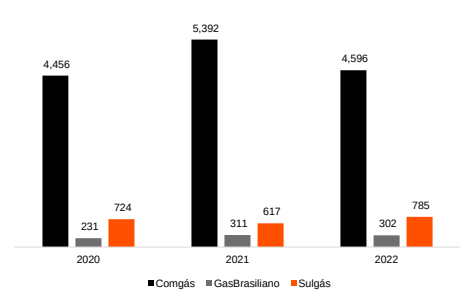
Benefiting from the knowledge and experience that Compass has developed in the management of Comgás over the past several years, the company intends to replicate the successful business model of growth and efficiency, especially in the controlled companies, with the purpose of increasing the number of new consumers connected to the pipeline network and offering options for an increasingly free gas market in Brazil.

Compass's Natural Gas Distribution Business

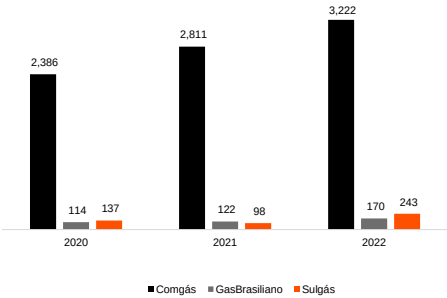


Source: Company data and Itaú BBA

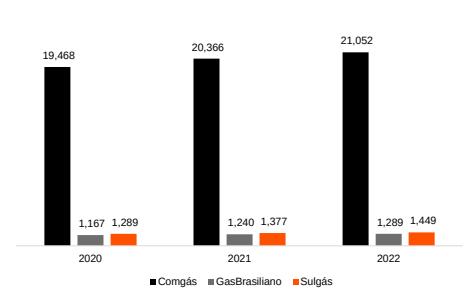
Sales Volume Comparison (Million m³)



EBITDA Comparison (BRL in Millions)



Network Extension Comparison (km)



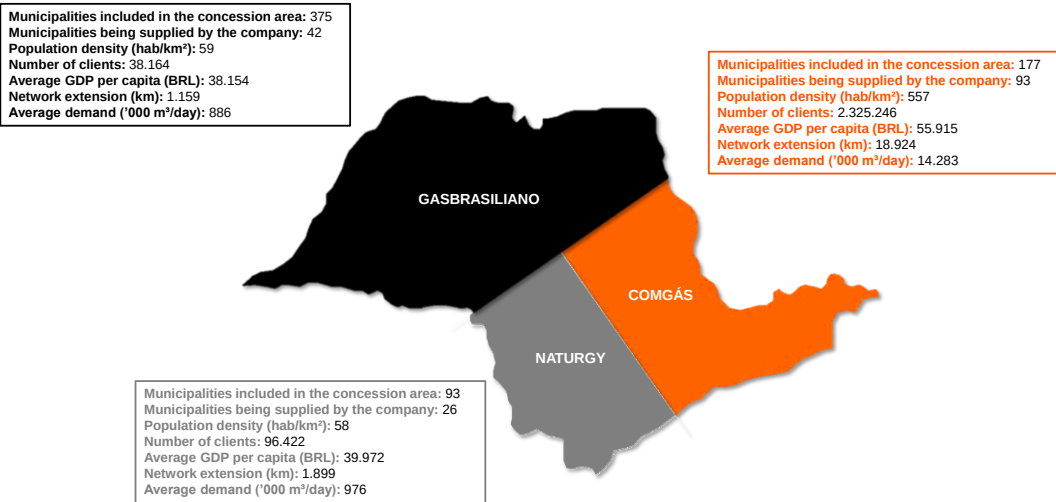
Source: Company data and Itaú BBA

The Comgás Experiment: A Model to Be Replicated

**About Comgás.** Comgás is the largest piped natural gas distributor in Brazil, with a pipeline network of more than 18 thousand kilometers, bringing natural gas to more than 2.3 million consumers in the residential, commercial and industrial segments, in 93 municipalities. Its concession area covers 177 cities in the metropolitan areas of São Paulo and Campinas, as well as in the Baixada Santista and Vale do Paraíba, with high levels of GDP and population density.

Natural Gas Distribution Concession Areas in São Paulo State

Piped natural gas distribution concession areas in SP

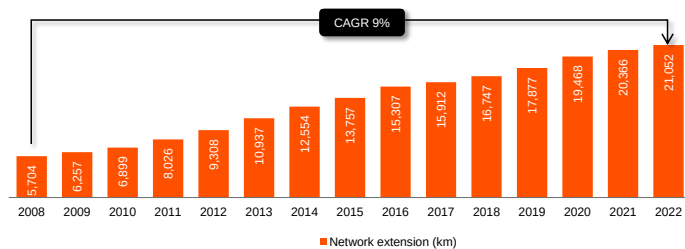


Source: IBGE, ARSESP and Itaú BBA

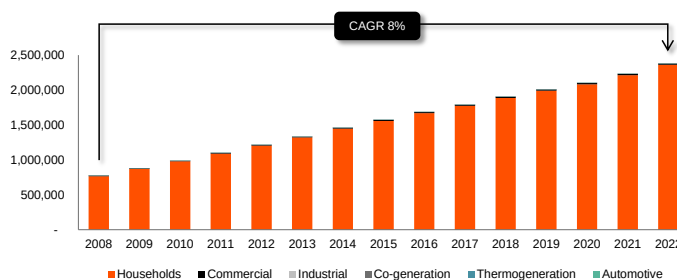
**Corporate development.** Comgás became a public company in 1996 and has traded on the São Paulo Stock Exchange since 1997. It was privatized in April 1999, when its majority shareholders were BG Group and Group Shell. In November 2012, Cosan acquired 60.1% of Comgás's social capital from the BG Group. In December 2017, Cosan acquired the totality of the stakes in Comgás held by Shell (16.77%), resulting in a total participation of 79.88% in the company's social capital. In 2019, after voluntary public offerings, Cosan increased its participation in Comgás to 99.14%. In 2020, Cosan created Compass and contributed the totality of its Comgás shares to the new company's capital stock. Thus, Compass now holds 99.14% of the total share capital of Comgás.

**Increased footprint, but steady volumes.** Over the past ten years, Comgás has been able to expand its geographic footprint from 71 to 94 municipalities, through the implementation of more than 10,000 km of gas pipelines, connecting more than 1 million new clients. Despite the effective growth in the total number of customers, the consumption density along the network is increasingly smaller, and investments in network expansion have, at most, supported Comgás's total sales volumes over time.

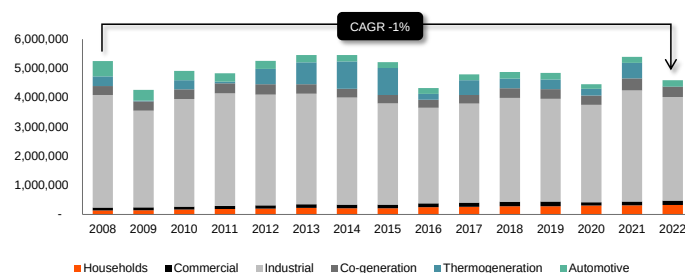
## Network Extension (km)



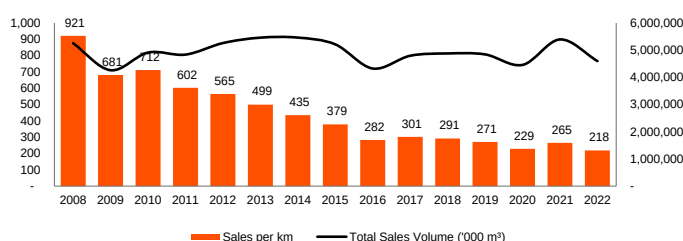
## Total Number of Clients



## Sales Volumes ('000 m³)



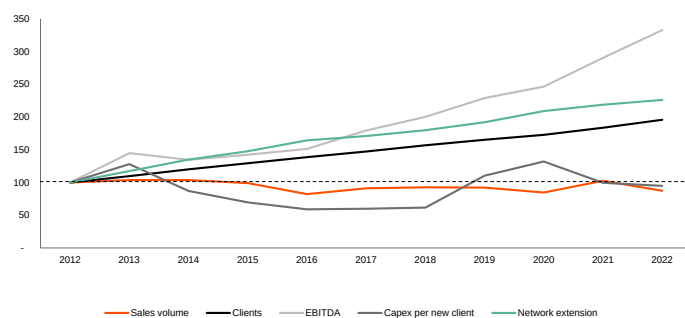
## Sales Volumes per km of Network



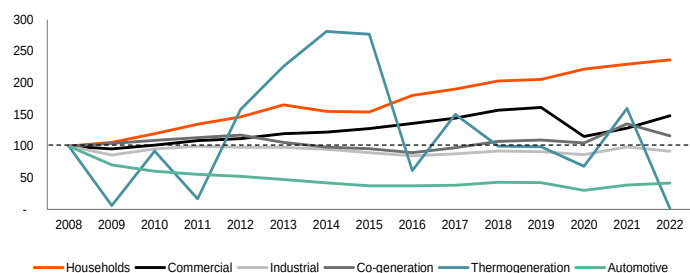
Source: Company data and Itaú BBA

**An industrial demand that has moved sideways.** The industrial sector is a reliable natural gas consumer base that represents more than half of total demand in Brazil and almost 80% of Comgás's total sales. However, the country's industrial demand has stagnated since 2010, chiefly due to historically high gas prices that have prevented its broader usage by large industrials. According to S&P Global Commodity Insights, natural gas is less prevalent than firewood in important sectors such as food and beverage, and ceramics. It is also less consumed than coal coke in the steel segment. Despite the increased connections of industrial clients by Comgás over the past few years, total sales volumes did not increase in the same period.

## Growth in Number of Clients per Category (Base 100 @ 2008)



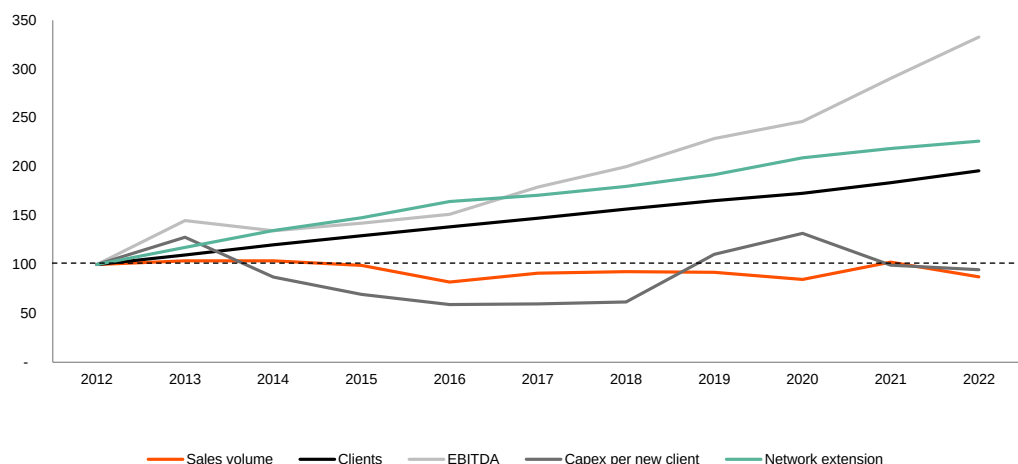
## Growth in Sales Volume per Category (Base 100 @ 2008)



Source: Company data and Itaú BBA

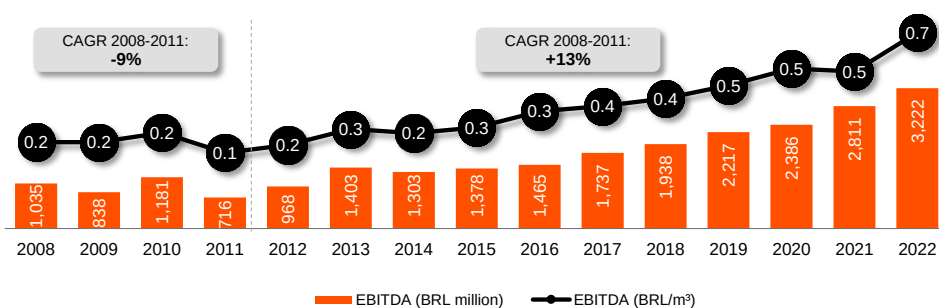
**Impressive EBITDA growth, despite the disappointing industrial segment lever.** Despite the lack of growth in total gas sales over the past decade, Comgás has been able to deliver impressive EBITDA growth in the same period, combined with well-behaved capex levels in real terms, especially after the acquisition by Cosan in 2012. The EBITDA growth can be largely explained by a better mix in terms of margins, with an increase of household and commercial segments over industrial, coupled with inflationary readjustments on margins.

## Comgás Footprint Evolution vs. EBITDA Growth (Base 100 @ 2012)



Source: Company data and Itaú BBA

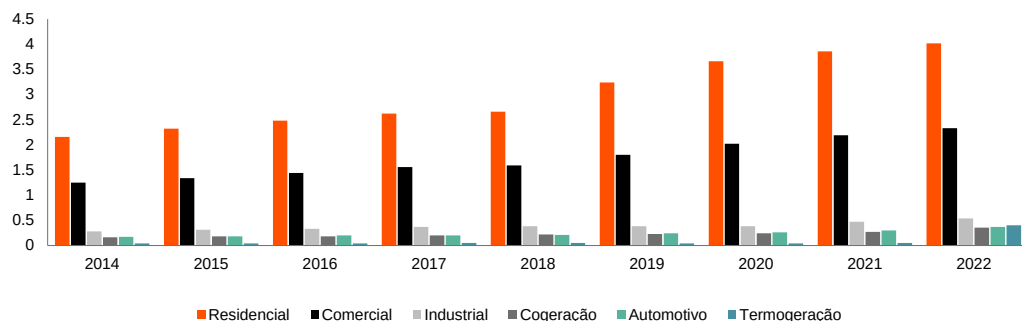
## Comgás's EBITDA



Source: Company data and Itaú BBA

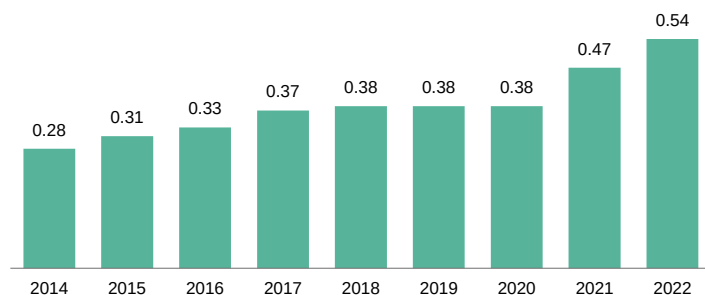
**Sustained gross margin expansion compensated volumes not growing.** The marginal lower consumption density for each additional built network has led to lower sales volumes per kilometer, but the margin evolution combined with efficiency gains has contributed to keep the company's return on employed capital healthy over the years. Comgás had higher growth in number of clients and sales volumes over the past few years in the residential and commercial segments, which are the highest margin segments. Additionally, even though the industrial segment has not grown in terms of total volumes, this segment also had a significant margin expansion in the last few years.

## Gross Margin per Segment (BRL/m³)

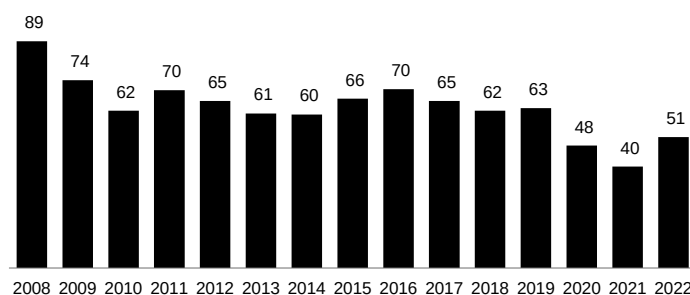


Source: Company data and Itaú BBA

## Gross Margin Evolution – Industrial Segment (BRL/m³)



## Operational Expenses (BRL/m³, Real Terms)



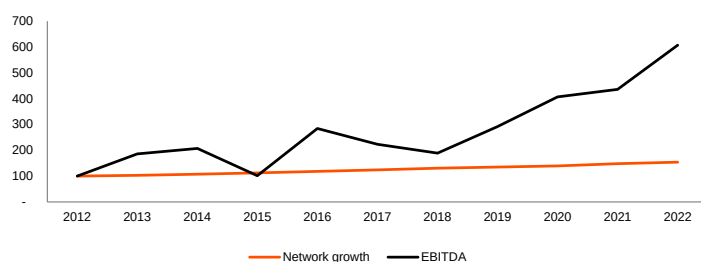
Source: Company data and Itaú BBA

## GasBrasiliiano: High Exposure to Industrial Demand to Lead to High-Value Marginal Sales

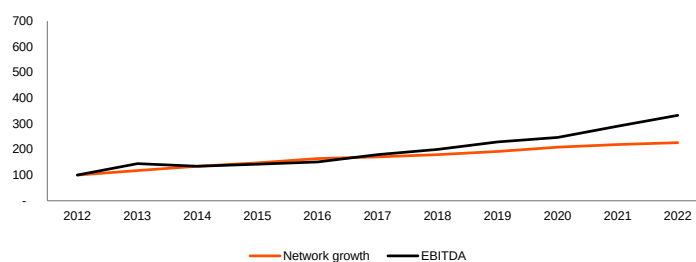
**About GasBrasiliiano.** GasBrasiliiano is the concessionaire responsible for the distribution of piped natural gas to the northwest area of the state of São Paulo. This area covers 375 municipalities (58.1% of the total of municipalities of the state), reaching an estimated population of 9,200 thousand inhabitants (approximately 20.03% of the population of the State), covering an area of 141,907 km². The company began its activities in 1999 with the signing of a Concession Agreement with the regulatory agency for the distribution of piped natural gas, with the effective start of gas distribution to its customers in January 2003. It initially belonged to the ENI group (Ente Nazionale Idrocarburi S.p.A.), and in 2011 it was acquired by Petrobras Gás S.A. (Gaspetro), a holding company with equity interest in 18 natural gas distribution companies located in all regions of Brazil. Gaspetro's corporate structure was then formed by Petrobras, with 51% of the shares, and Mitsui Gás e Energia do Brasil Ltda., with the remaining 49% of the shares. In 2022, Compass acquired Petrobras's 51% stake in Gaspetro, which is now called Commit Gás S.A.

**Elevated industrial consumption trumps low population density.** Despite the much more modest expansion in the pipeline network over the past decade compared with Comgás, GasBrasiliiano has been able to deliver a strong EBITDA generation in the same period. The fact that GasBrasiliiano has grown in an area with high industrial activity but still-low coverage by a piped network helps to yield significant additional sales volumes for the newly built network, leading to stable levels of sales per kilometer over time. The elevated industrial consumption compensates for the low populational density and, therefore, low residential consumption, resulting in a higher average sales per km for GasBrasiliiano vs. Comgás, while the latter has witnessed declining sales volumes per kilometer given the low consumption density in the regions that are being covered through network expansion.

## GasBrasiliiano EBITDA Growth vs. Network Growth (Base 100 @ 2012)

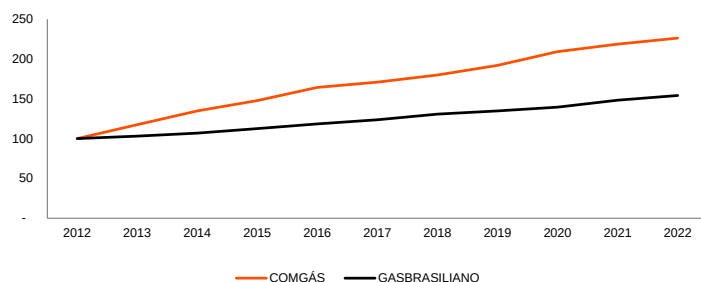


## Comgás EBITDA Growth vs. Network Growth (Base 100 @ 2012)

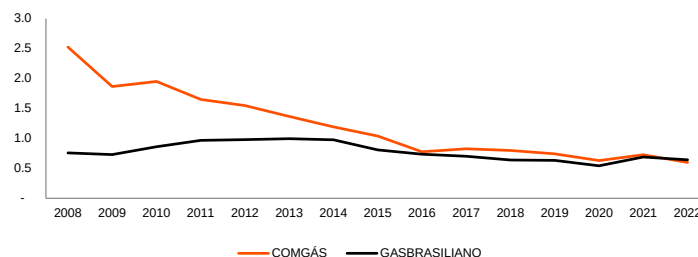


Source: Company data and Itaú BBA

## Growth in Network (Base 100 @ 2012)



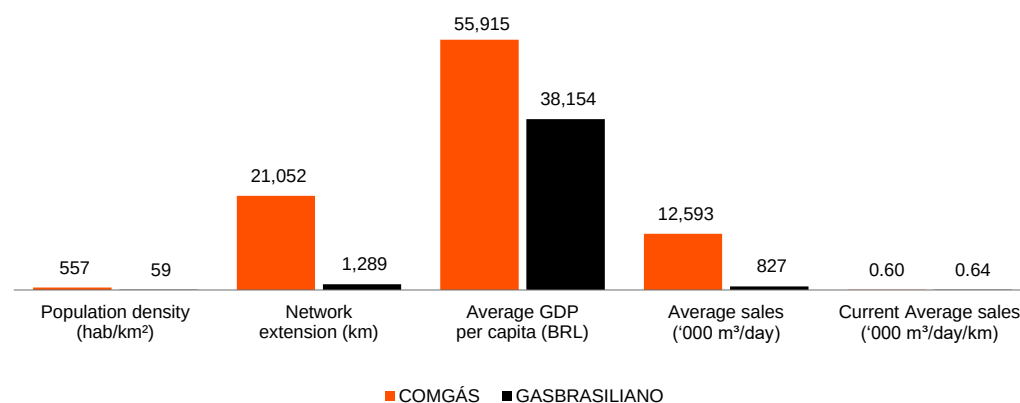
## Current Average Sales per Km ('000 m³/day/km)



Source: Company data and Itaú BBA

**Room to grow in a high-consumption region.** GasBrasiliano currently operates with a piped network that is 16x smaller than Comgás's, in a concession area with 9x less population density. When we compare the GDP per capita of both concession areas, we notice that GasBrasiliano's concession area's figures are only 1.5x smaller than Comgás's. Considering GDP per capita a proxy of industrial activity in the concession area, the high GDP per capita combined with lower population density translates into 96% of GasBrasiliano's total demand coming from the industrial segment, while this segment represents 77% of Comgás's total sales. We believe that GasBrasiliano has significant room to grow footprint in a region with a still-limited reach of natural gas combined with enormous potential demand coming from the industrial segment.

## Comparison of Key Operational Metrics – Comgás x GasBrasiliano



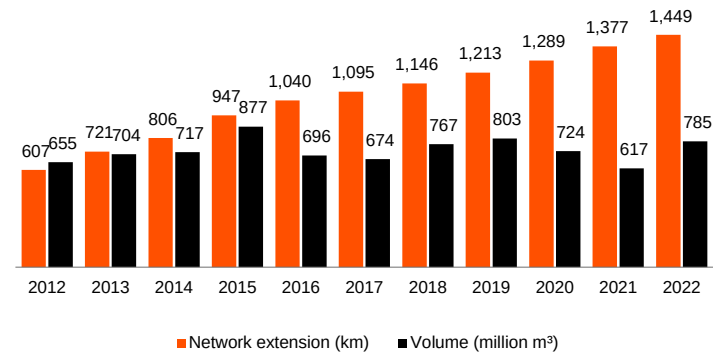
Source: IBGE, ARSESP and Itaú BBA

## Sulgás: A Lot of Room for Growth, but a Different Challenge

**About Sulgás.** Sulgás is the company responsible for the distribution of piped natural gas in Rio Grande do Sul, a state in the south of Brazil. Created in 1993, it started selling natural gas in 2000, with the completion of the Bolivia-Brazil gas pipeline. Currently, it serves the industrial, vehicle, commercial, residential and power generation segments, with a pipeline network of 1.4 thousand kilometers, bringing natural gas to 80 thousand customers in 41 municipalities. Compass has a 51% stake in Sulgás, while Commit Gás S.A. has 49%.

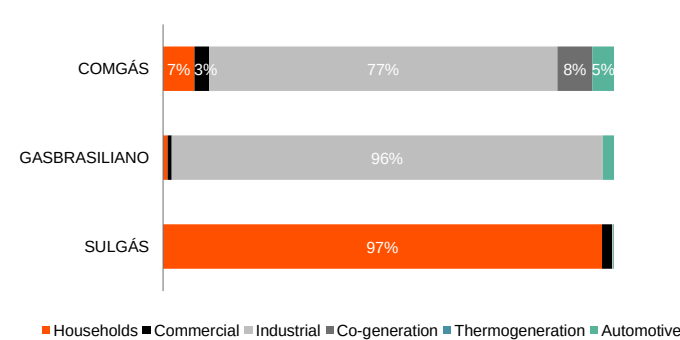
**Strong network growth, but sideways historical results.** Sulgás's concession area has lower levels of industrial activity and consumption density compared with the concession areas of Comgás and GasBrasiliano, which implies a much higher exposure to the residential segment for Sulgás and has translated into steady volumes and modest EBITDA growth despite a significant network expansion over the years.

Network Extension and Volume Growth

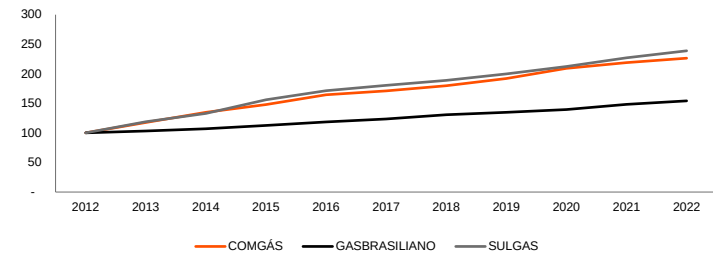


Source: Company data and Itaú BBA

Clients per Segment

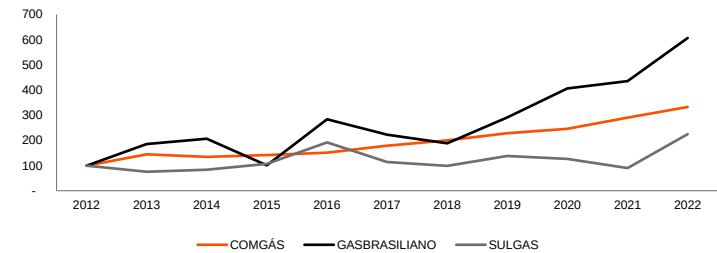


Sulgás Network Growth (Base 100 @ 2012)



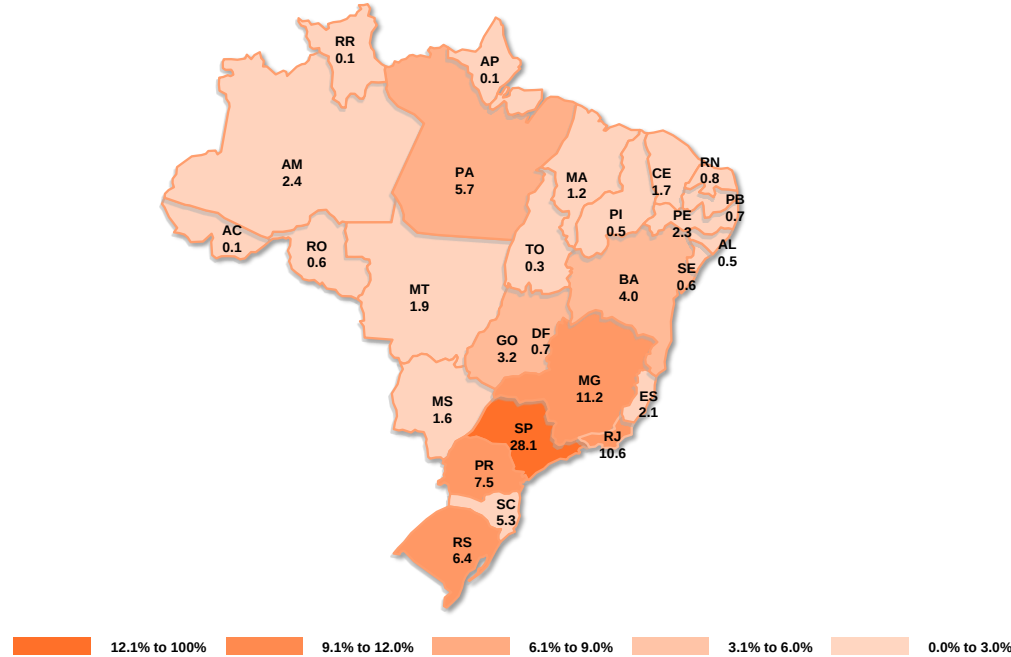
Source: Company data and Itaú BBA

Sulgás EBITDA Growth (Base 100 @ 2012)



**A whole state to grow.** Sulgás’s concession area includes the whole state of Rio Grande do Sul, which comprises 497 municipalities, of which Sulgás currently supplies only 41. Compared with São Paulo, the state has lower population density, close to 40 hab/km², and also a lower share in the domestic industry, which could bring additional challenges to volume expansion for Sulgás. On the other hand, Sulgás’s concession model is cost-plus based, which encourages expansion. This way, Sulgás should benefit from expanding its network and increasing volumes with limited risk while pursuing it.

Share in the GDP of Industry



Source: Confederação Nacional da Indústria and Itaú BBA

## Marketing and Services: A Building Block of the New Gas Market

The Marketing and Services business front aims to create efficient and competitive alternatives for the supply of natural gas in Brazil through the implementation of infrastructure to capture opportunities from the increase in domestic production and from the development of the free market.

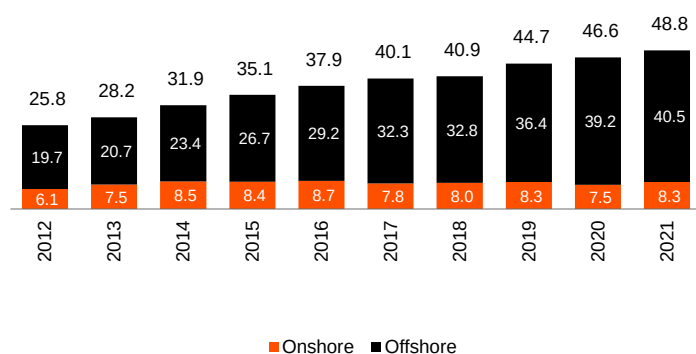
The objective is to serve distributors and customers in the free market that are connected to the distribution network and off-grid consumers (not connected), mostly through the main ongoing project in this segment, the SP LNG Regasification Terminal (TRSP), which will expand supply options in the region that has the greatest demand for natural gas in Brazil. More than 70% of the construction was completed in December 2022, and TRSP is expected to start operations in the second half of 2023.

Other supply alternatives to be explored in the future within this strategy in addition to LNG include the Route 4 project, which aims to increase the infrastructure for transporting pre-salt gas and renewable natural gas, enabling the connection between biomethane producers and consumers who want a cleaner supply alternative.

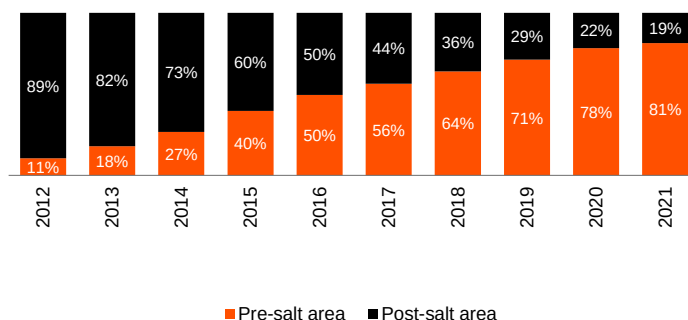
## Large Potential for the Expansion of the Natural Gas Market in Brazil

**The pre-salt has significantly changed the natural gas supply in the country.** The increase in E&P activities in Brazil over the past decades, especially in the pre-salt area, has led to the discovery of large natural gas reserves and a significant increase in production, which more than doubled in the last decade. Around 80% of the country's natural gas production comes from offshore operations, where 80% comes from pre-salt operations.

Natural Gas Production (Million m<sup>3</sup>)



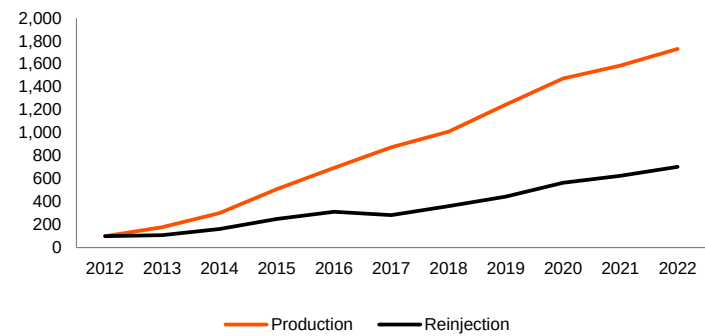
Origin of Natural Gas Offshore Production (%)



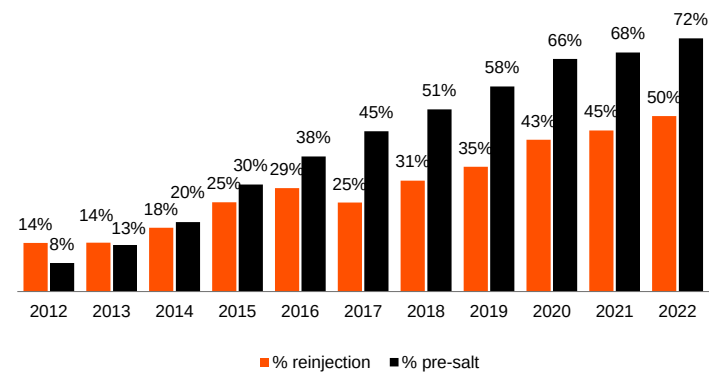
Source: ANP and Itaú BBA

**Pre-salt operations are associated with higher levels of reinjection.** Due to the characteristics of the offshore fields, high rates of natural gas reinjection are necessary to remove high levels of CO<sub>2</sub>, to increase oil recovery and to maintain pressure in reservoirs. Reinjection levels grow along with the pre-salt production, but at a slower pace. The reinjection levels are also determined by other factors, like infrastructure limitations to allow the gas to reach the continent. Pre-salt operations are usually ultra-deep and very far from the shore, which makes infrastructure requirements to transport the gas costly and challenging. In this sense, the delay in the beginning of the operation of the Route 3 pipeline (one of the routes for the flow of the pre-salt's natural gas production) has also contributed to increase reinjection levels. It is worth noting that around 40% of the reinjection is mainly composed of CO<sub>2</sub> recovered from the treatment of the gas, which could not be commercialized as natural gas even if there were no infrastructure restrictions.

Pre-Salt Production Growth vs. Reinjection Growth (Base 100 @ 2012)



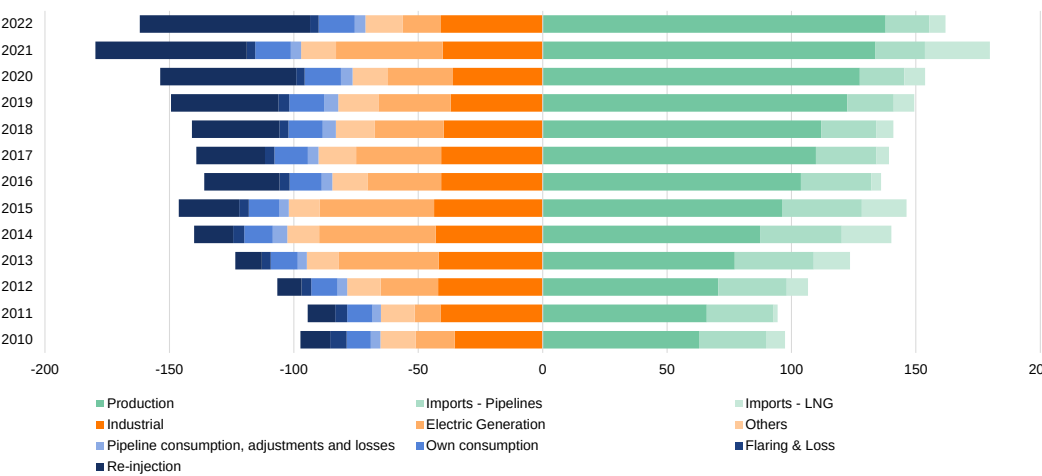
Pre-Salt Share vs. Reinjection Share in Total Production (%)



Source: ANP and Itaú BBA

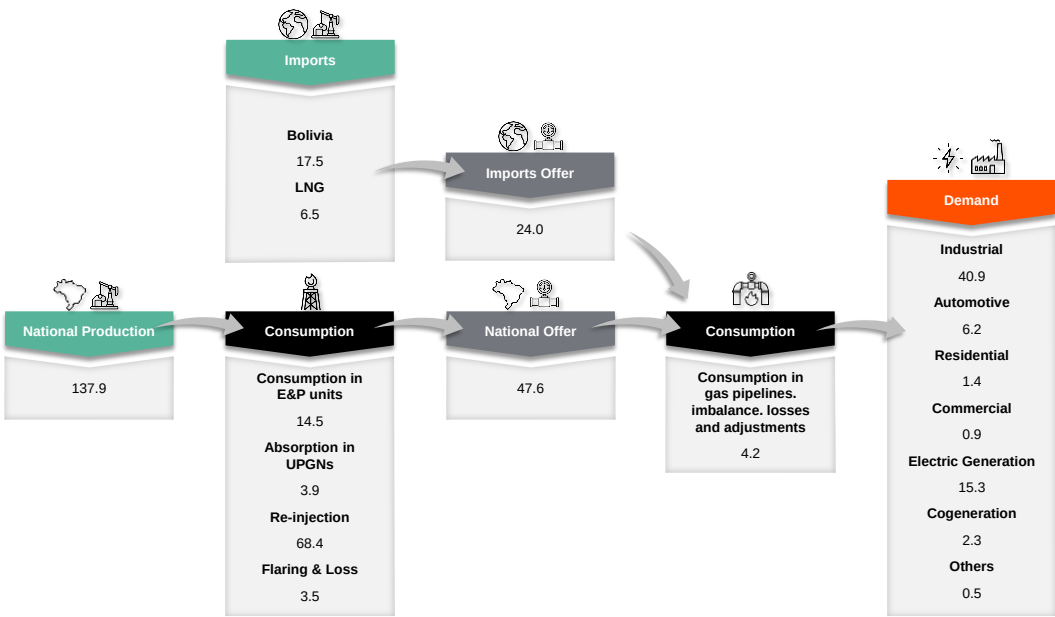
**Natural gas supply-demand balance.** In Brazil, the demand for natural gas is currently focused on the industrial and thermoelectric sectors. Industrial consumption represents the largest share of natural gas demand, serving mainly the iron and steel, chemical, and petrochemical segments, and has had a relatively constant profile over the years. Thermoelectric demand has a more variable consumption profile, and had its highest level of demand between 2013 and 2015, when a water crisis occurred in Brazil, which caused low energy generation in hydroelectric plants. The sideways evolution of industrial demand, combined with lower needs for thermoelectrical demand and higher domestic production, has implied modest levels of imported LNG for the country, despite the higher reinjection levels.

Brazilian Natural Gas Supply and Demand Balance (Million m³/day)



Source: MME and Itaú BBA

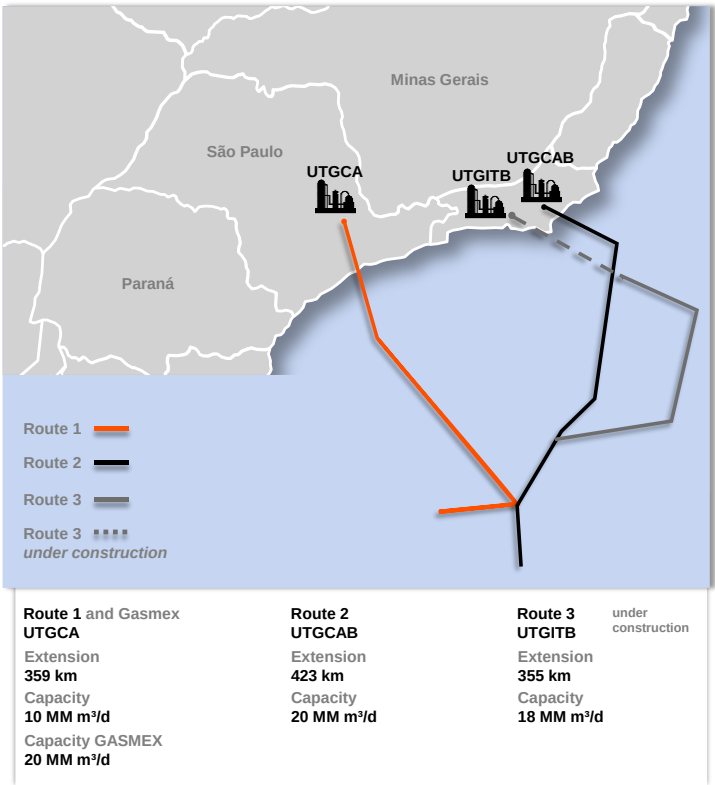
Supply and Demand Balance for 2022 (Million m³/day)



Source: MME and Itaú BBA

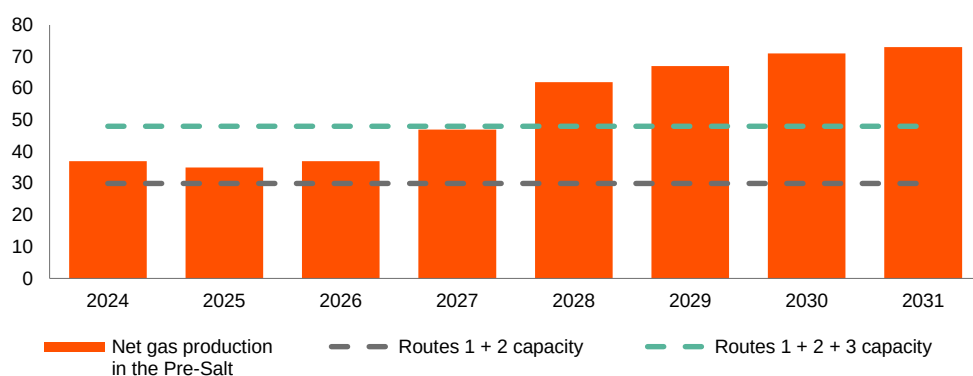
**The increase in domestic supply relies on the construction and expansion of outflow and processing infrastructure.** In the pre-salt, comparing the production prospects with the existing and planned natural gas outflow capacity from the pre-salt (Routes 1, 2 and 3), it is observed that infrastructure expansion will be required after 2027. According to the latest Energy Research Company (EPE) ten-year energy expansion plan, with Route 3 pipeline's entry in 2024, there will be sufficient infrastructure to flow production until 2027, when the flow will be very close to the capacity limit of the three routes together. From 2028, if all the planned production comes to fruition, there will be a need to expand the outflow infrastructure with the addition of new routes, such as the Route 4 that has been studied by Compass.

Pre-Salt's Natural Gas Outflow Routes



Source: Petrobras and Itaú BBA

## Pre-Salt's Natural Gas Expected Net Production and Flow Capacities of Route 1, 2 and 3 Pipelines (Million m<sup>3</sup>/day)



Source: EPE and Itaú BBA

### The Route 4 project: an optionality that could expand access to the competitive pre-salt gas.

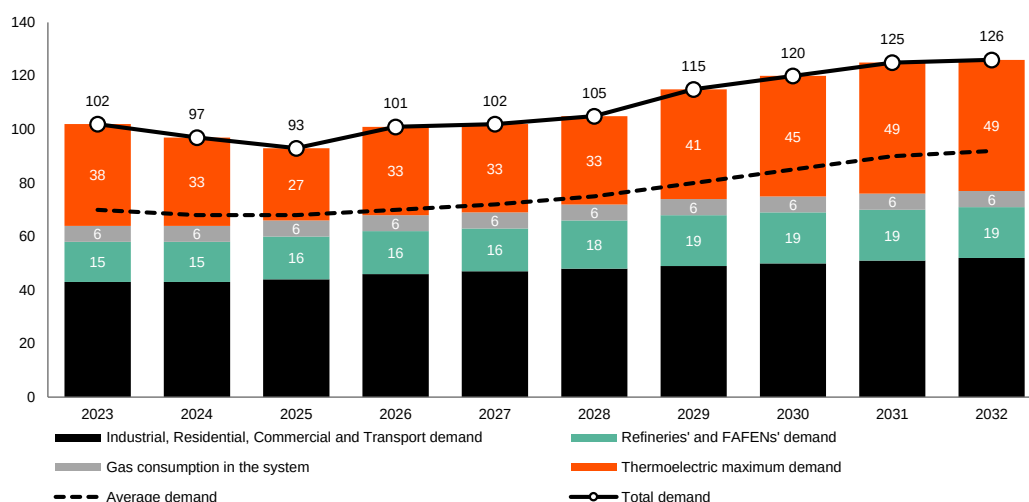
The investment in an additional outflow route has been studied by the group since 2012 and is currently in the licensing phase. As published by the EPE, this project has two alternatives, Route 4a, connected to Cubatão (SP), and Route 4b, connected to the Port of Itaguaí (RJ). The licensed capacity is 21 million m<sup>3</sup>/day, with a length of 267 km and an investment of approximately BRL 8 billion. The company has declared that it is interested in developing the route with strategic partners, while maintaining a minority stake.

**The icing on the cake of domestic supply: Biogas.** The biogas and biomethane segment is also growing in Brazil, with significant untapped potential, no intermittency limitations, and an ample source of raw materials from agricultural residue, without the need to use dedicated crops. When biogas is refined, it generates biomethane, which is equivalent to and interchangeable with natural gas and regulated as such, and adequate to interiorizing and diversifying supply, given its intrinsic attributes, which allow its use in a decentralized way. The EPE expects biogas production to grow substantially in the coming years.

Our Utilities team made a deep dive into the biogas market in the Orizon initiation of coverage ([Orizon – Modern-Day Alchemy: Turning Waste Into Cash](#)), in which they explore the sector's growth potential over the next several years.

**Gas as the transition fuel in Brazil: a potential boost in demand.** Renewable energy sources are somewhat unpredictable and intermittent by nature, and require a stable complementary source of energy. In this context, we believe gas will likely play a crucial role in Brazil in the coming decades, since it provides a reliable supply that can compensate for the intermittency of renewable energy (especially in the power sector) and serve as a competitive and clean alternative for the industry and transport sectors. In industry, natural gas can displace more-polluting fuels (like coke, coal, fuel oil and diesel) and promote the expansion of industrial production. Use of LNG in heavy-duty vehicles, despite the hurdles for its widespread adoption, could be a medium- to long-term alternative to decarbonize a hard-to-abate sector. Natural gas availability can also contribute to the development of the domestic fertilizer market and reduce dependence on imports.

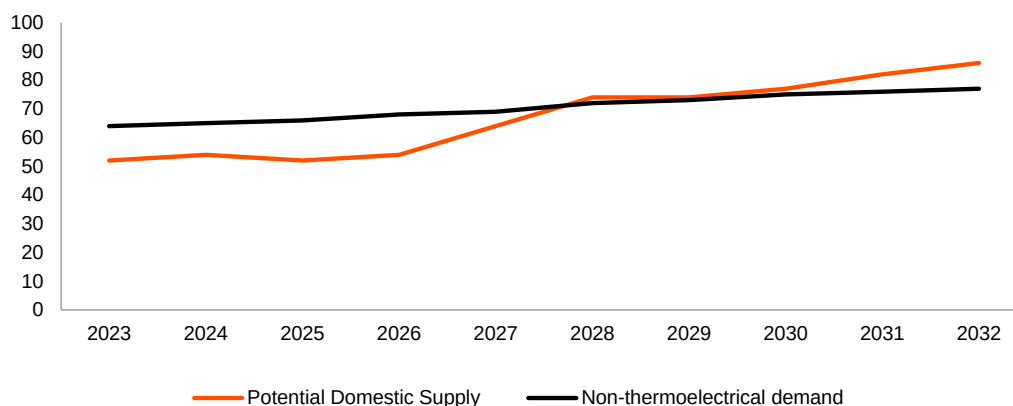
## Brazil's Natural Gas Demand Forecast (Million m<sup>3</sup>/day)



Source: EPE and Itaú BBA. Note: FAFENs are Nitrogenated Fertilizer Plants.

**A likely continuing deficit balance moving forward will imply LNG remaining an important part of supply.** Considering the limitations that the lack of infrastructure imposes on the full utilization of the potential domestic supply and the expectations of increasing demand coming from the network expansion of the distribution pipeline networks, the goal of expanding fertilizer production, and the increasing role of natural gas as a transition fuel, it is likely that increasing demand will outpace supply and that the country remains dependent on imported natural gas to meet demand, at least for the next decade.

## Firm Supply-Demand Balance (Net Domestic Production vs. Non-Thermoelectrical Demand)



Source: EPE and Itaú BBA. Note: From 2026 onward, significant production from the post-salt of the SEAL Basin and the pre-salt of the Campos and Santos basins is expected.

## An (Under Construction) New Gas Market

The Brazilian natural gas regulatory framework changed significantly after the promulgation of the New Gas Law (Law No. 14,134 of April 8, 2021), which established guidelines for natural gas processing, transport, import, export and commercialization, aimed at making more-efficient use of existing infrastructure, attracting new investment, and promoting competition in the natural gas market.

The new regulatory framework, underpinned by the 2021 Gas Law, aims to transform a historically concentrated and vertically integrated sector into a competitive and diversified market, with the objectives of improving the use of domestic gas production; expanding investments in infrastructure for the flow, processing, transport and distribution of natural gas; increasing competition in gas-fired power generation; and restoring the competitiveness of the industry in its various segments, such as fertilizers, petrochemicals, steel, glass, ceramics and others.

**Cease-and-desist agreement between Petrobras and CADE (TCC).** As part of the process of opening the natural gas market, Petrobras signed a Cessation Commitment Term (TCC) in July 2019 with the Administrative Council for Economic Defense (CADE), which provides for a set of measures to reduce Petrobras's participation in the various links of the natural gas chain, and the consequent entry of new agents in the market. The agreement provided for a total of 41 measures, for which Petrobras has achieved 95% total compliance. The only pending measure concerns the divestment of Transportadora Brasileira Gasoduto Bolívia-Brasil S.A. (TBG).

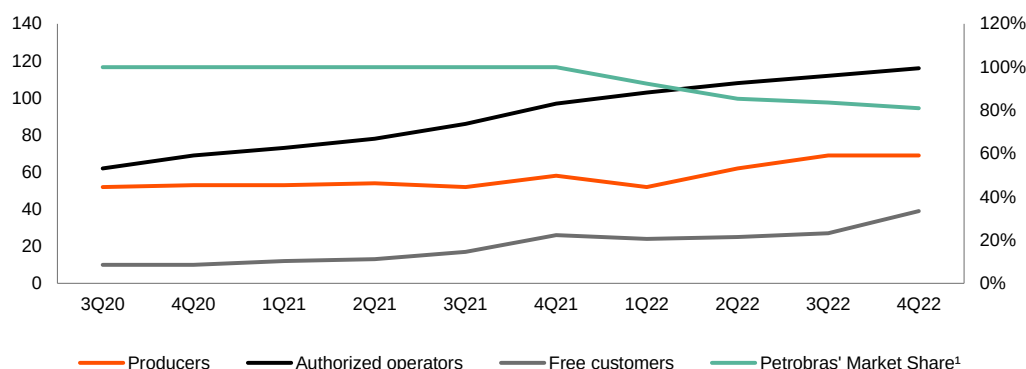
#### Main Commitments Undertaken by Petrobras Under the TCC

- ✗ Divestment of transport and distribution companies
  - ✓ NTS
  - ✓ TAG
  - ✗ TBG
  - ✓ Gaspetro
- ✓ Negotiating third-party access to the use of processing and disposal facilities
- ✓ Lease of the LNG (Liquefied Natural Gas) Terminal in Bahia
- ✓ Indication of injection and withdrawal volumes in the transportation systems
- ✓ Adjust the transportation contracts in effect to offer the remaining capacity to the market
- ✓ Reduction of natural gas purchases by Petrobras

Source: MME, Petrobras and Itaú BBA

**These measures have led to new companies starting operation and to others diversifying their activities, reducing Petrobras's market share...** The effects of the unbundling and opening of the market promoted by the New Gas Market Program can be observed by the reduction in Petrobras's market share throughout the year 2022, as a result of an increased number of agents in the production and commercialization of natural gas in Brazil. At the end of 2021, all gas traded in the integrated network belonged to Petrobras. By the end of 2022, Petrobras's market share had fallen to 81%.

#### Number of Agents in the Natural Gas Market and Petrobras's Market Share



Source: MME and Itaú BBA. <sup>1</sup> Petrobras's market share in integrated network.

**... and boosting the development of natural gas infrastructure projects in Brazil.** The EPE has also identified some of the investment opportunities that could be encouraged by the regulatory changes brought by the New Gas Market in Brazil, which represent the potential for infrastructure expansion over the next several years. In addition to NGPUs and LNG terminals, the potential investments were identified in outflow gas pipelines (related to new fields that will come into production in the post-salt and pre-salt in upcoming years) and in possible new transmission gas pipelines to connect future LNG terminals to the integrated network, or to serve regions where there is still no natural gas supply. The entry of new players and the increase in investments in the sector may change the dynamics of the regional natural gas market and access of the domestic market to the LNG market.

## Potential Investments in Natural Gas Infrastructure

| Classification               | Foreseen |              | Indicative |               |
|------------------------------|----------|--------------|------------|---------------|
|                              | Projects | BRL Bn       | Projects   | BRL Bn        |
| Outflow gas pipelines        | 1        | 6            | 19         | 24.98         |
| Transmission gas pipelines   | 3        | 0.76         | 15         | 48.6          |
| LNG regasification terminals | 4        | 1.6          | 4          | 1.09          |
| Processing plants and Hubs   | 1        | 2.39         | 18         | 42.92         |
| <b>Total</b>                 | <b>9</b> | <b>10.75</b> | <b>57</b>  | <b>117.59</b> |

Source: EPE and Itaú BBA

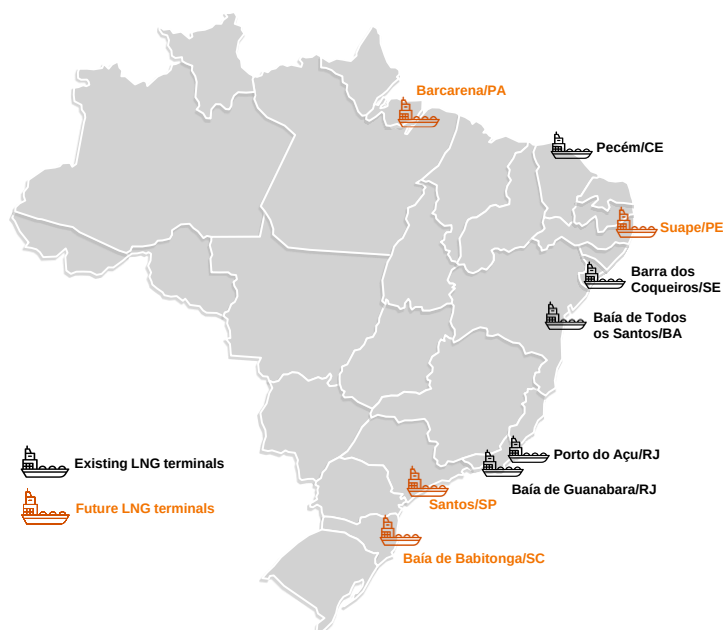
### TRSP: A New Way of Supply

In August 2021, Compass began construction of the São Paulo Regasification Terminal ("TRSP"). Located in the Port of Santos, TRSP has a licensed nominal regasification capacity of 14 million m<sup>3</sup>/day and will operate with the charter of a Floating Storage and Regasification Unit (FSRU), a vessel specialized in the storage and regasification of LNG, with the operation expected to start in the second half of 2023 and estimated total capex of BRL 700 million.

The development of the TRSP creates an important supply alternative in the context of the opening of the free natural gas market, making the market more competitive and increasing the share of natural gas in the national energy matrix, via the gas pipeline network or small-scale LNG.

**New LNG terminals in Brazil are coming from private players.** Brazil has five operating LNG terminals, three private – Porto do Açú/RJ, Barra dos Coqueiros/SE and Baía de Todos os Santos/BA (leased from Petrobras) – and two owned by Petrobras – Baía de Guanabara /RJ and Pecém/CE. In accordance with the commitment signed with CADE for the opening of the natural gas domestic market, Petrobras leased its Baía de Todos os Santos terminal to Excelerate Energy until December 2023. There are four new LNG terminals being implemented, including the TRSP. Compass has also obtained a favorable ruling regarding the connection of the terminal with the Subida da Serra pipeline, linking the project with distribution pipelines owned by Comgás, the São Paulo state gas distribution company owned by Compass.

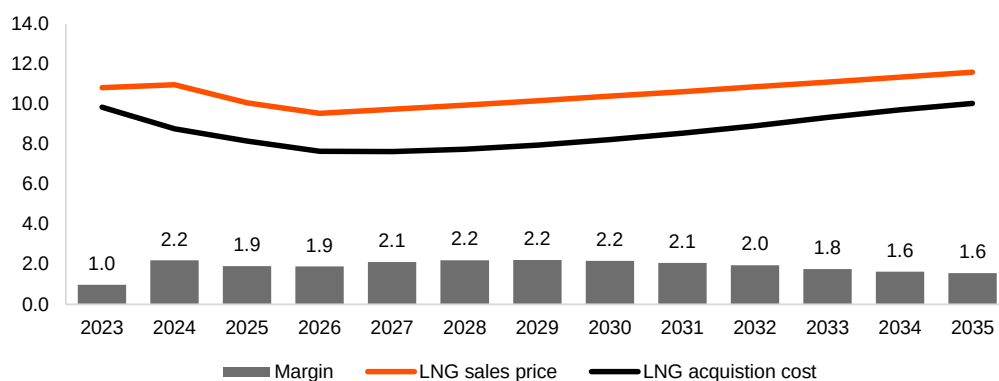
### Existing and Future LNG Terminals in Brazil



Source: EPE and Itaú BBA

**A totally tied-in operation and business model.** Compass will purchase the gas in liquefied form, which will arrive at the TRSP via methane tankers. Then the LNG from these ships is transferred to the FSRU connected to the terminal, for regasification and injection into the network. Another commercialization alternative, still under study, is the small-scale LNG, a solution in which part of the LNG is transferred from the FSRU to special containers that keep the LNG in liquid form and that can be transported to customers by road or rail. Compass has already established a strategic commercial partnership with Total Energies Gas & Power for the long-term supply of LNG. This supply will be sold to consumers in the natural gas free market and to distribution companies, including Comgás, with which Compass already has a contract for the sale of 3.125 million m<sup>3</sup>/day. The company's strategy for the TRSP seems to privilege margins over volumes, therefore we expect the ramp-up of the terminal to take a few years before achieving its maximum capacity.

#### Estimated LNG Gross Margin (USD/MMBtu)



Source: EPE, ANP and Itaú BBA. Note: For LNG sales price, we assumed the prices corresponding to the Compass-Comgás contract level for the total volume; LNG acquisition cost was based on the Empresa de Pesquisa Energética (EPE) formula that considers Henry Hub prices and adds other factors.

#### Financials (BRL in Millions)

| Income Statement | 2022   | 2023e  | 2024e  | 2025e  |
|------------------|--------|--------|--------|--------|
| Net Revenues     | 20,134 | 22,759 | 24,560 | 26,661 |
| EBITDA           | 3,460  | 4,182  | 4,837  | 5,036  |
| Net Income       | 1,977  | 858    | 2,313  | 2,472  |

Source: Itaú BBA and Compass Note that financial figures account for 100% of the company.

MOOVE: WIDENING FOOTPRINT DOMESTICALLY AND ABROAD

SECTION 3

**Moove is a solid reference in lubricants.** The company produces and distributes automotive and industrial lubricants, mainly under the Mobil, Comma, EcoUltra and Tirreno brands, with operations in South America, Europe and United States. Moove markets lubricants and other products for applications in the automotive and industrial segments, and also is an importer and distributor of base oils in the Brazilian market. The company has five plants (two in Brazil, one in Europe and two in United States), which give it a wide global footprint.

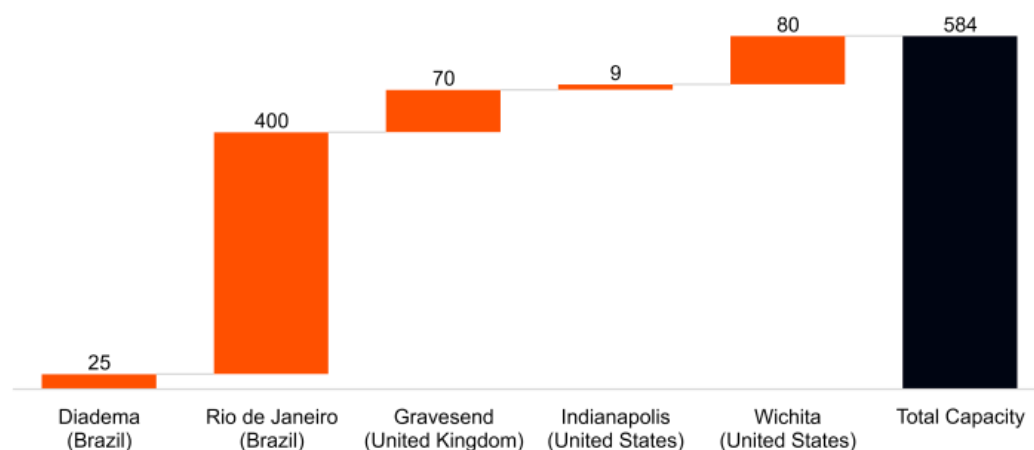
- **South America:** from its plants in Brazil, the company produces and distributes Mobil™ and Tirreno lubricants throughout the country. Moove has installed capacity to produce around 425 million liters of lubricants and specialty chemicals per year. In addition, through the office in Buenos Aires, it serves the markets of Argentina, Bolivia, Paraguay, and Uruguay.
- **Europe:** from its factory in England, it sells to over 40 countries (reaching Asia) under the Comma brand and distributes Mobil™ lubricants to the United Kingdom, Spain, France, and Portugal markets. The plant in Gravesend, England, has an annual production capacity of about 70 million liters per year.
- **United States:** from its plants in the United States and more than 50 distribution centers around the country, Moove produces and sells lubricants to more than two-thirds of all American territory, being one of the largest lubricants distributors of United States. The operation in the United States is a result of Moove's acquisition of PetroChoice in May 2022. PetroChoice distributes about 62 million gallons of lubricants annually and has an annual production capacity of around 89 million liters per year.

Geographic Footprint of Moove's Plants



Source: Itaú BBA and Moove

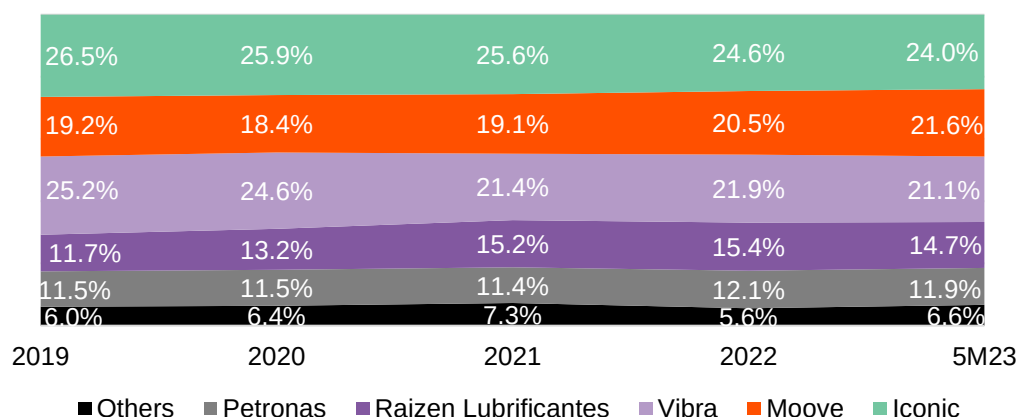
## Moove's Production Capacity (Millions of Liters per Year)



Source: Itaú BBA and Moove

**Moove is one of the top-three largest sellers in Brazil's lubricants market and has been resilient through the years.** According to IBP, Moove had a market share of approximately 21.6% in the first five months of the year, placing the company as the second-largest lubricants seller in Brazil, behind Iconic (a joint venture of Ipiranga and Chevron) with 24.0%, and followed by Lubrax from Vibra with 21.1%. In addition, the company has been resilient over time, maintaining its market position among the top three sellers, while other players were pressured by the entrance of new competitors in the market and investments from other players.

## Evolution of the Market Share from Brazilian Lubricants Sellers

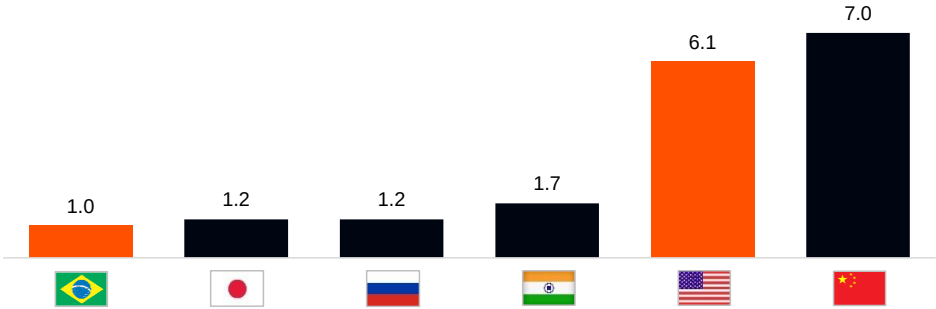


Source: Itaú BBA and IBP. Note that market-share figures consider lubricants, greases, and base oils, but do not consider agricultural spray oil.

**A combination of organic and inorganic growth in Brazil.** In 2022, Moove acquired Tirreno, which has a complementary operation that offers opportunities for synergies for Moove, given Tirreno's strong presence in original equipment manufacturers (OEMs), with more than 1,400 customers and a great reputation in the industry. Tirreno's portfolio is 51% specialties (metalworking fluids and protective oils for variety of metals) and 49% ancillaries (brake fluids, coolants, and others). In addition, the company has 60% of proprietary brands, 25% related to private label and 15% to fluid industrial products.

**At the same time Moove has grown domestically, the company has kept busy worldwide.** In 2022, the company enhanced its international footprint with the acquisition of PetroChoice. The acquisition is part of Moove's strategic expansion plan, which aims to foster synergies in automotive and industrial products through technology and manufacturing, distribution, and cross-selling opportunities with other already-active regions, replicating the group's management, strategy, and sales model. In addition, the United States market is the second largest market in the world, with an estimated lubricants market of 6.1 million tons, compared with the 1 million tons of Brazil.

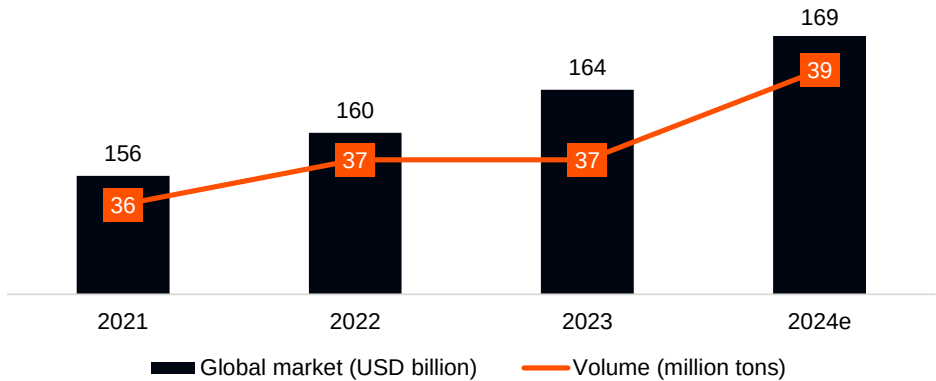
Estimated Global Lubricants Market by Geography (Millions of Tons)



Source: Itaú BBA and Moove

The global lubricants market is expected to reach a market value of USD 169 billion by 2024 (from USD 164 billion in 2023). This growing demand for lubricant oils and greases will likely be driven by the growing demand and sale of vehicles and their spare parts. Countries like India, China, the United States, and Brazil are principally responsible for the increase in vehicle sales globally, strengthening their lubricants market share indirectly. Moove has a strategic position to surf this trend, especially in Brazil and United States, through the Brazilian and American operations. In addition, lubricants are an essential part of rapidly expanding industries to reduce operational downtime and eventually increase overall productivity, as they are used between machinery's moving parts to reduce friction and wear and tear.

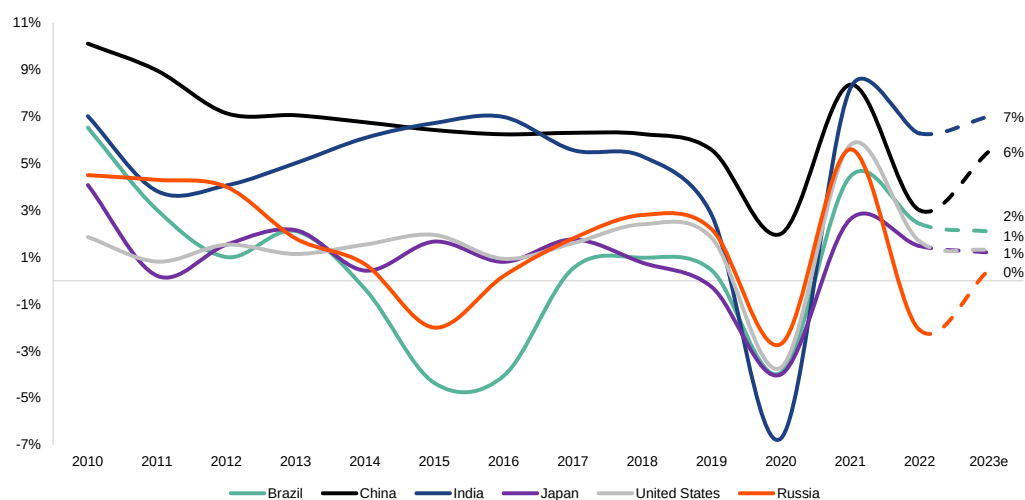
Evolution of the Global Lubricants Market



Source: Itaú BBA and Moove

Europe is also a path for growth, but the access to Asian markets is crucial. The lubricants market in Europe is more mature than the Brazilian and American markets, but the region has a unique position to serve the Asian market. Moove has been taking advantage of its factory in England to reach over 40 Asian countries. The region's real GDP has been growing at a faster pace than other markets over the past year, especially in China and India – this is regarded as a good proxy for lubricant demand growth. In addition, as we have noted before, both countries are likely to be the main protagonists, together with Brazil and United States, for the increase in vehicle sales globally, which should strengthen their lubricants market share indirectly.

## Evolution of GDP Growth per Country (YoY, %)



Source: Itaú BBA, The World Bank and Bloomberg. Note that we consider Bloomberg's consensus for 2023.

## Valuation

We estimate an equity value of BRL 5.3 billion for Moove (adjusted by Cosan's interest of 70%), which accounts for BRL 2.8/share of our YE23 fair value for Cosan (BRL 23/share). See below the main financial estimates from our model.

## Financials (BRL in Millions)

| Income Statement | 2022  | 2023e  | 2024e  | 2025e  |
|------------------|-------|--------|--------|--------|
| Net Revenues     | 8,980 | 11,714 | 12,317 | 12,869 |
| EBITDA           | 851   | 1,242  | 1,295  | 1,345  |
| Net Income       | 487   | 229    | 551    | 632    |

Source: Itaú BBA and Moove. Note that financial figures account for 100% of the company.

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| Ratings <sup>(1)</sup> | Definition <sup>(2)</sup>                                             | Coverage <sup>(3)</sup> | Banking Relation <sup>(4)</sup> |
|------------------------|-----------------------------------------------------------------------|-------------------------|---------------------------------|
| 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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| Analysts      | Disclosure Items |   |   |   | Sig |
|---------------|------------------|---|---|---|-----|
|               | 1                | 2 | 3 | 4 |     |
| Monique Greco |                  |   |   |   | OK  |
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