

Brazil ESG Strategy

Great for Portfolios. Even Better for Humans.

Initiating Coverage

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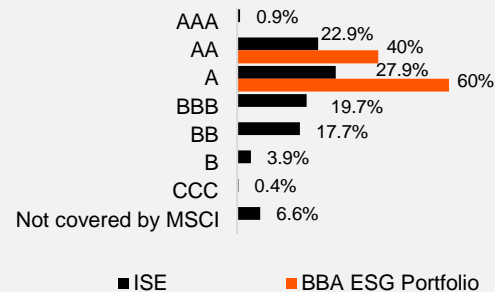
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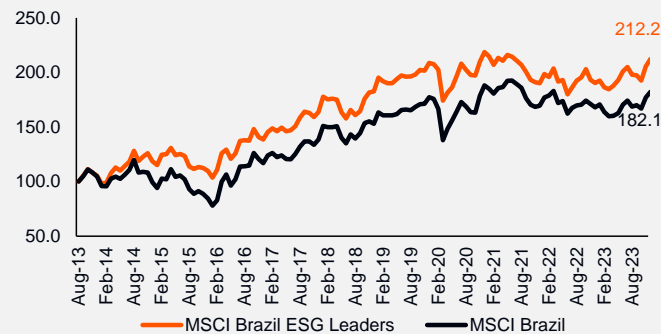
Executive Summary - Brazil ESG Strategy: Great for Portfolios. Even Better for Humans.

- Key message.** In this report, we are initiating coverage on Brazil Environmental, Social and Governance (ESG) Strategy. The sustainability theme has gained traction in Brazil in the last few years: the number of PRI signatories has soared by 90% since 2020. Increasing awareness is helping to debunk old misconceptions, and investors are increasingly persuaded that factoring ESG into analysis generates higher returns – in a recent investor survey, 85% of the respondents stated that ESG financial products provide similar or higher yields than traditional ones. Empirical evidence and academic studies also point to potentially higher returns – ESG indices tend to outperform their non-ESG comparables in the long run. So far, this view has been borne out in Brazil, where the ESG strategy approach has yielded excess returns: the MSCI Brazil ESG index has delivered a 206% gain since 2013, compared with a 177% gain for the MSCI Brazil index. Responsible investing has indeed come a long way. That said, reporting quality and standardization will be paramount going forward; some 94% of global investors surveyed detect at least some greenwashing in corporate ESG reports. In this report we present our methodology, which employs a combined framework: a positive screening approach, which favors best-in-class and best-in-progress companies, coupled with an ESG engagement approach. Our current ESG top picks are 10 stocks: CPFL Energia, Engie, Localiza, Totvs, Banco do Brasil, Rumo, 3Tentos, Renner, B3 and Cosan.
- ESG Panorama.** Environmental issues make up six of the ten top global risks. In this context, Brazil’s regulated carbon market has just been approved by the Chamber of Deputies – and may pose a USD 120 billion opportunity. Climate change, GHG emissions and temperature control are now in the spotlight, particularly because progress in these areas has been deemed insufficient. According to the UN Gap Report, at their current pace, emissions are projected to be 40% higher than the targeted reduction pathway by 2030.
- The ESG Investor: Five Takeaways From a Thousand Studies.** Leveraging on an NYU meta-study that analyzed more than 1000 research papers, we highlight five valuable conclusions: i) the positive impact of ESG on financial performance becomes more apparent over longer time frames; ii) the ESG integration approach yields better results than negative screening; iii) ESG investing provides downside protection during economic or social crises; iv) companies engaging in sustainability initiatives often see improved financial performance; and v) companies actively managing for a low-carbon future tend to have better financial outcomes. Best-in-class strategies dominate in Brazil, while ESG integration is the world’s preference. Brazil also ranks higher than LatAm in ratings diffusion, with twice the proportion of companies rated A or higher compared with their respective non-ESG indexes, according to MSCI ESG.
- Six Ways ESG Adds Value for the Corporate World.** Our objective is to bring ESG down to Earth. In this report, we present six ways that companies can benefit from incorporating ESG into their operations, from top-line growth to employee productivity improvement. ESG has already reached the operational level for 65% of Brazilian companies, and according to eight out of ten Brazilian CFOs, tax incentives will play a key role for ESG in Brazil as ESG projects’ IRRs get more attractive.
- Itaú BBA’s ESG Picks.** We match traditional finance with sustainability assessments, leveraging Itaú’s expertise and MSCI’s rich database and framework. Starting with an ESG assessment derived from MSCI’s materiality, we select a pool of best-in-class and best-in-progress companies. From there, we apply a broader double-materiality perspective and our research team’s expertise to come up with a portfolio that is both responsible and financially appealing.

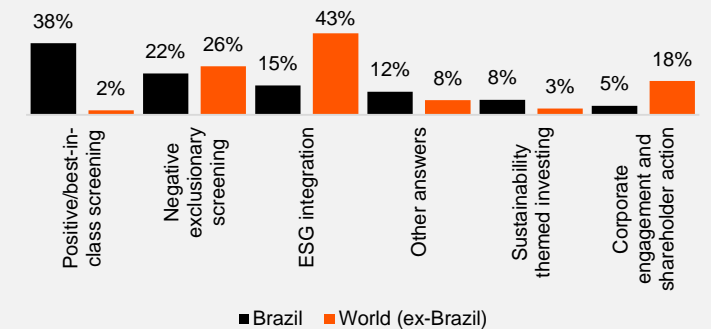
Portfolio vs. ISE: ESG Ratings



Factoring ESG in: MSCI Brazil vs MSCI Brazil ESG (BRL)



Responsible Investment Assets by Strategy



■ ESG Panorama: Connecting the Dots

- **ESG Is Not Philanthropy:** Understanding responsible, sustainable, social and impact investing (Slide 5)
- **Six of the Ten Top Global Risks Are Environmental Issues:** The impact of environmental issues dominates the current ESG agenda (Slide 6)
- **ESG Commitments Are Up 90% in Brazil Since 2020:** Commitments to ESG through public adherence to pacts, initiatives, and frameworks have been rising (Slide 7)
- **The Most Pressing Challenge in ESG – Reporting and Standardization:** Consolidation of frameworks and standards would benefit companies and investors (Slides 8 and 9)
- **94% of Global Investors Notice Greenwashing in Corporate Reports:** Combating greenwashing is a complex task and involves all links of the investment chain (Slide 10)
- **Materiality Mapping – GRI and SASB Dominate the Market:** Financial and impact materiality (Slide 11)

■ The ESG Investor: Players, Alpha, and Fiduciary Duty

- **Best-in-Class Strategies Dominate in Brazil; ESG Integration Is the World's Preference:** As sustainable investing has gained prominence, ESG integration has gained importance worldwide, but best-in-class and positive-screening approaches still prevail in Brazil (Slide 13)
- **Brazil Ranks Higher Than LatAm;** ESG Indexes Tend to Outperform Non-ESG Peers in the Long Run (Slide 14)
- **59% of Academic Studies Conclude That ESG Generates Similar or Better Portfolio Returns:** Factoring ESG into traditional financial analysis resulted in a non-negative financial performance for 92% of the corporate and investment studies analyzed (Slide 15)

■ ESG in the Corporate World: Six Ways ESG Adds Value

- **Six Ways ESG Adds Value for the Corporate World:** Understanding how ESG adds value for companies (Slide 17)
- **ESG Has Reached the Operating Level for Only 65% of Brazilian Companies:** Although awareness is increasing, Brazilian companies still have a long way to go in incorporating ESG and recognizing its advantages (Slide 18)
- **Eight Out of Ten Brazilian CFOs Believe Taxation Is Key to ESG Development:** Taxation can work both ways, promoting sustainable companies with tax incentives and punishing the less-committed ones with increased “green taxation” (Slide 19)

■ ESG in Brazil: Fund Classification, IFRS, and the Carbon Market

- **ANBIMA's New Fund Classifications:** The new ANBIMA rules for identifying sustainable funds and funds that integrate ESG issues (Slide 21)
- **Reporting: IFRS S1 and S2 – Brazil Leads the Pack** (Slide 22)
- **Brazilian Carbon Markets – a USD 120 Billion Opportunity:** Understanding the voluntary and regulated carbon markets (Slides 23-25)

■ Itaú BBA ESG Picks: Matching the traditional and the sustainable

- **Our Methodology and MSCI ESG** (Slides 27 and 28)
- **Portfolio Metrics** (Slides 29 and 30)
- **ESG Portfolio – Selected Stocks:** Engie (Slides 31-34), CPFL (Slides 35-38), Localiza (Slides 39-42), Banco do Brasil (Slides 43-47), Rumo (Slides 48-51), Totvs (Slides 52-55), 3Tentos (Slides 56-59), Renner (Slides 60-63), B3 (Slides 64-67), Cosan (Slides 68-71).

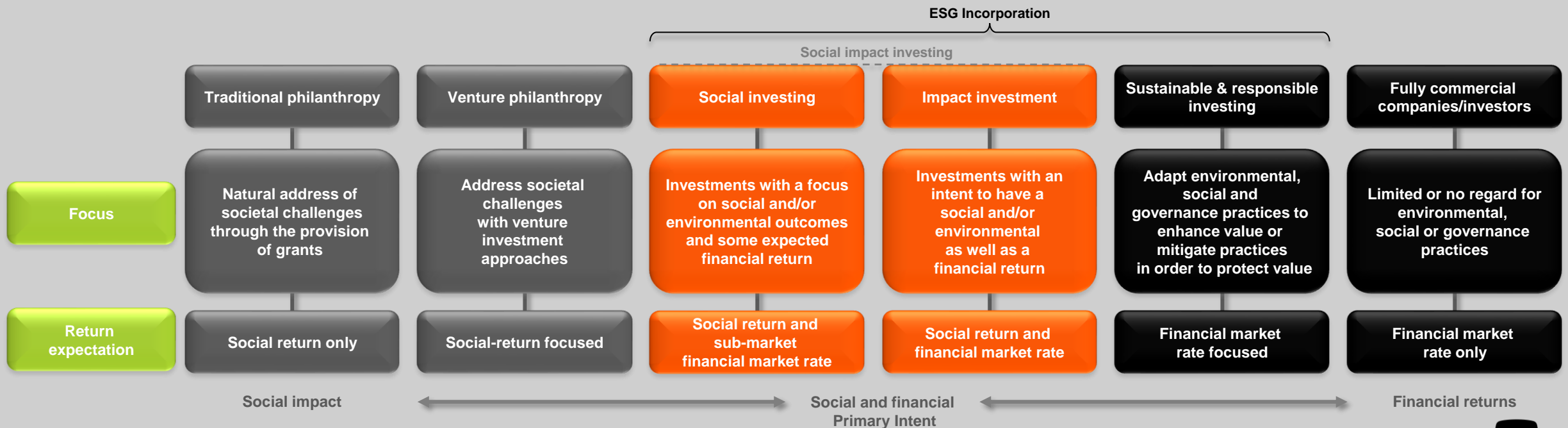
ESG Panorama:

Connecting the dots

ESG Is Not Philanthropy

- **Responsible Investment** is an umbrella term encompassing the various ways investors can incorporate ESG factors into security selection and portfolio construction. It combines financial and non-financial outcomes, complementing traditional financial analysis and portfolio techniques. There are no clear criteria for identifying responsible investment, nor is there a standard classification of the different approaches used by investors. That said, incorporating ESG into the investment process does not mean giving up on financial returns – philanthropy and social investing aside, all the other buckets of responsible investment pursue market-rate returns.
- **Sustainable Investment** refers to selecting assets that contribute to a sustainable economy. It includes considering ESG issues in assessing a security's risk-and-return profile and may involve screening out activities contrary to long-term environmental and social sustainability.
- **Social Investment** focuses on allocating capital to assets that address social challenges, such as products serving the economically disadvantaged “bottom of the pyramid” or investments in basic needs like healthcare, nutrition and clean energy.
- **Impact Investing** involves investments made to generate positive, measurable social or environmental impacts along with a financial return. It often targets goals aligned with the United Nations' Sustainable Development Goals (SDGs).

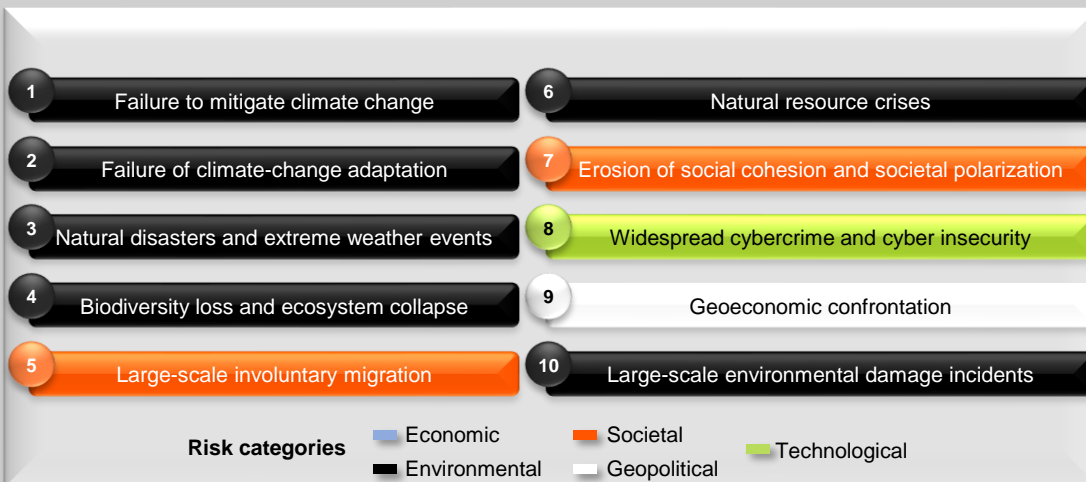
Responsible Investment Breakdown



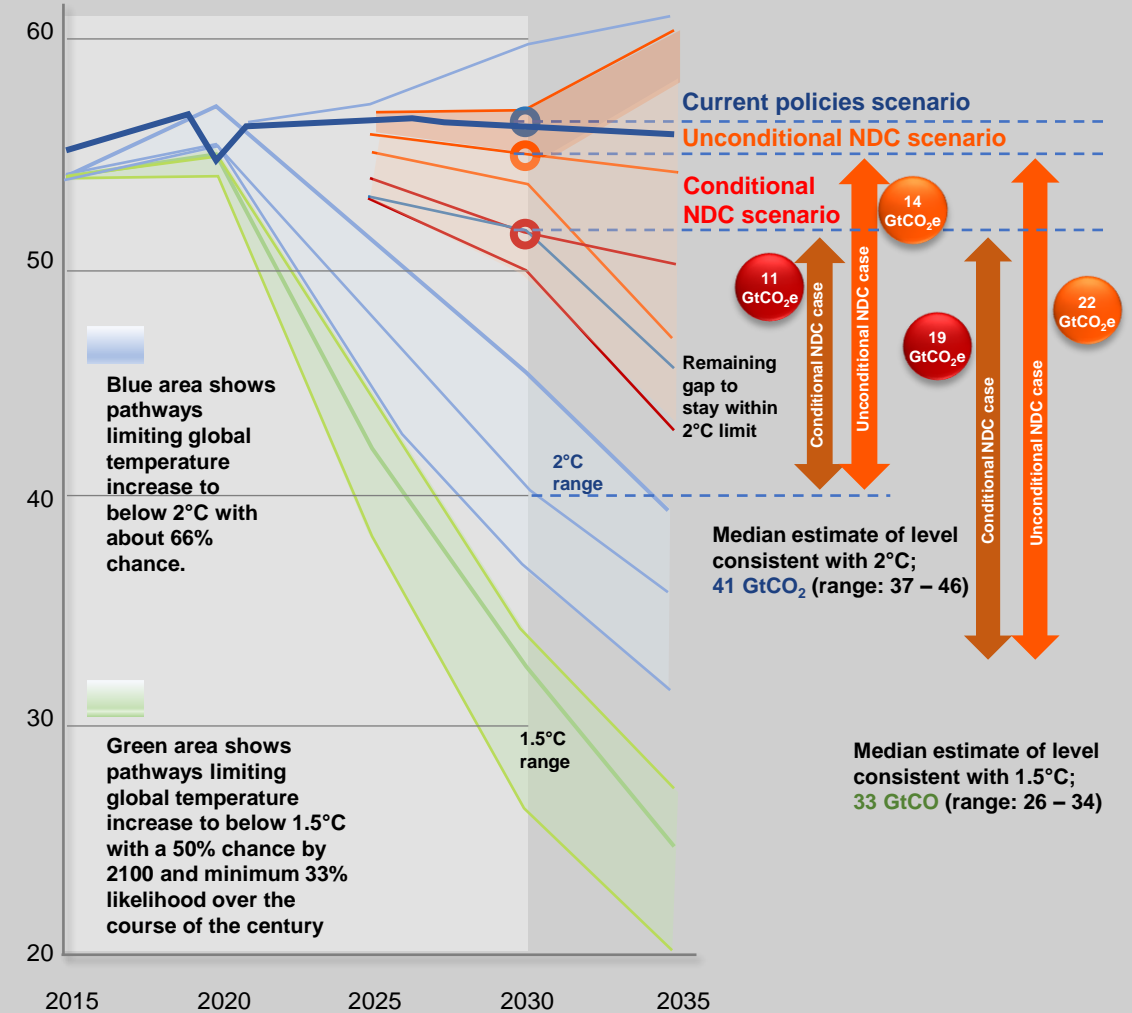
Six of the Ten Top Global Risks Are Environmental Issues

- In recent years, ESG concerns have centered on environmental issues. Social and governance factors are undoubtedly important, yet it is climate change, GHG emissions, and temperature control that have been in the spotlight, mainly because progress in these areas has been deemed so insufficient.
- Under the Paris Agreement, countries have committed to reducing GHG emissions to control global temperature rise and limit it to no more than +2° C compared with the pre-industrial era. These commitments (NDCs) may be unconditional or conditional (on other countries' engagement or financing). Regrettably, the UN Emissions Gap Report indicates that even if all the commitments are enacted, emissions would still be almost 30% higher than the target reduction pathway by 2030 – and at their current pace, emissions are projected to exceed the reduction pathway by 40% by that time.
- According to the World Economic Forum Global Risk Perception Survey 2022-2023, in a ranking of the main risks identified for the next ten years, environmental issues dominate the top four positions. Moreover, environmental risks comprise 60% of the ten most significant risks.

Global Risks Ranked by Long-Term Severity



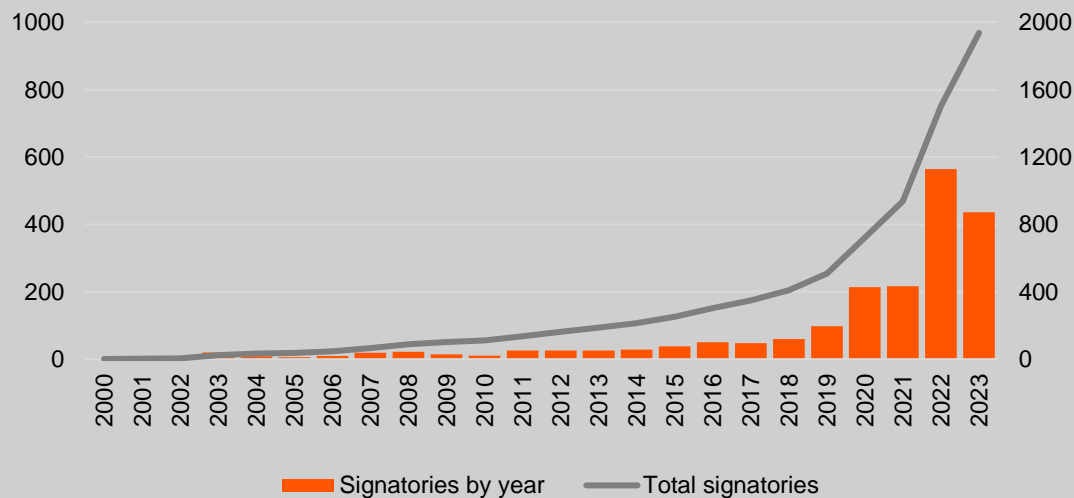
Emissions Scenarios and Temperature Control



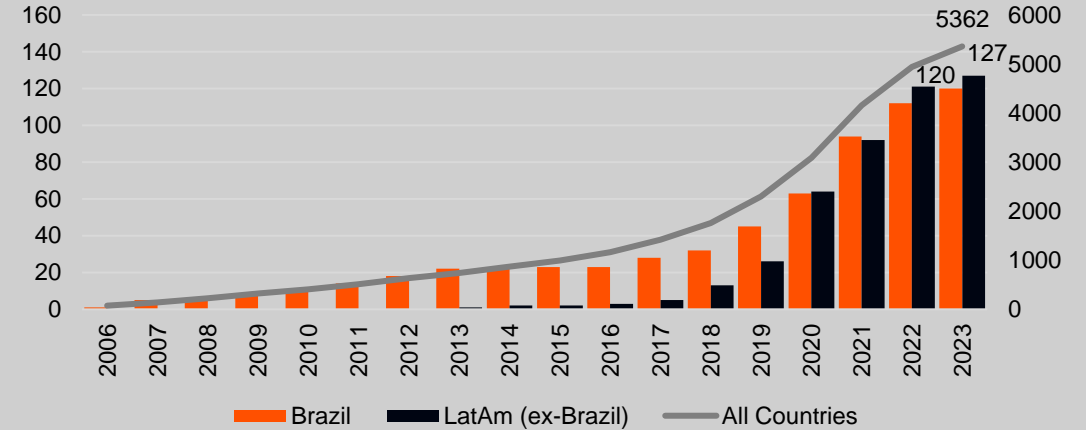
ESG Commitments are Up 90% in Brazil Since 2020

- Society's commitment to ESG has been tied to public adherence to pacts, initiatives and frameworks, which are numerous and non-exclusive. Figures for both market participants and companies show a widespread increase in awareness.
- Data from the Principles for Responsible Investment (PRI) indicate that ESG awareness among financial market players (asset owners and asset managers) is soaring: the number of PRI signatories – organizations that have publicly demonstrated their commitment to responsible investment – has grown by 74% globally, by 98% in Latin America, and by 90% in Brazil since 2020. Other data support the conclusion that ESG-oriented legislation has been gaining ground in countries around the world.
- A similar trend is seen in data from the UN Global Compact, a call to companies to align their strategies and operations with ten universal principles related to human rights, labor, the environment, and anti-corruption practices. The number of participants in the Compact has increased at a CAGR of 27% over the last three years.

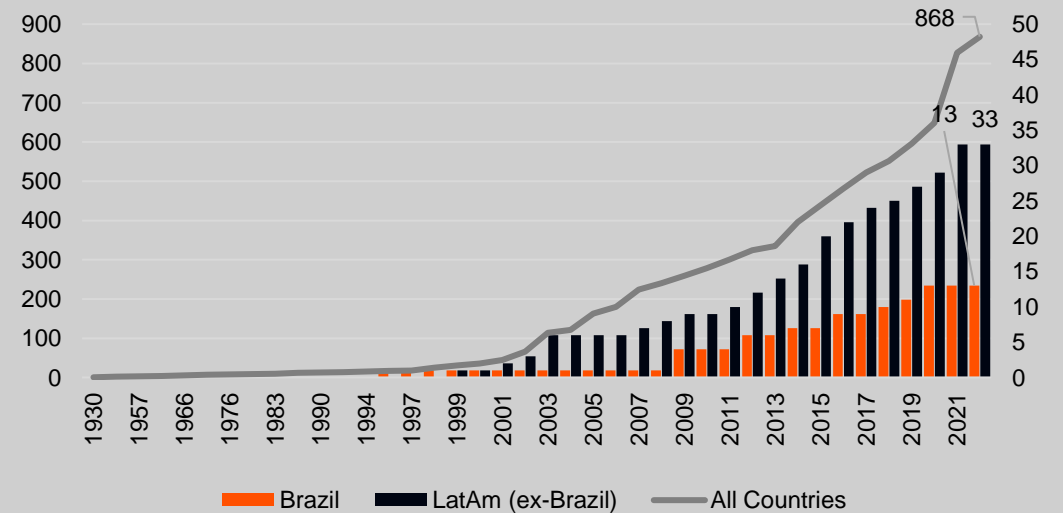
UN Global Compact: Signatories in Brazil, 2023



PRI: Cumulative Number of Policy Interventions, 2023



PRI: Signatories, 2023



The Most Pressing Challenge in ESG – Reporting and Standardization

- From an investor's perspective, reporting quality is the most pressing issue in ESG today. The multitude of sustainability frameworks, standards and indices, each with its own definitions, scope and uses, has led to an overly complex landscape of ESG reporting. These frameworks are designed to guide what information should be covered and disclosed, pushing organizations toward a more sustainable future. However, their diversity and lack of universal applicability can create confusion and lead to inconsistencies in reporting and interpretation. Companies often have a difficult time determining which guidelines to follow, which in turn can result in a patchwork of reports that are difficult to compare and assess.
- In our opinion, a consolidation of these frameworks and standards would greatly benefit the reporting process. A more unified approach could simplify reporting for companies, allowing them to focus on the quality of data presented rather than navigate numerous reporting requirements. It would also enable investors to more easily compare and understand the ESG information that is reported, enhancing transparency and accountability in the market.
- Establishing a more standardized, general and comprehensive reporting system would also be a key step in combating greenwashing. When companies are held to common standards and reporting quality improves, it becomes more difficult for less-principled players to make unsubstantiated or misleading claims about their ESG practices. Although not sufficient by itself, a robust and universally applied reporting framework would be a significant deterrent to greenwashing.

Frameworks, Standards and Ratings Providers



The Most Pressing Challenge in ESG – Reporting and Standardization

Frameworks, Standards and Ratings – Summary

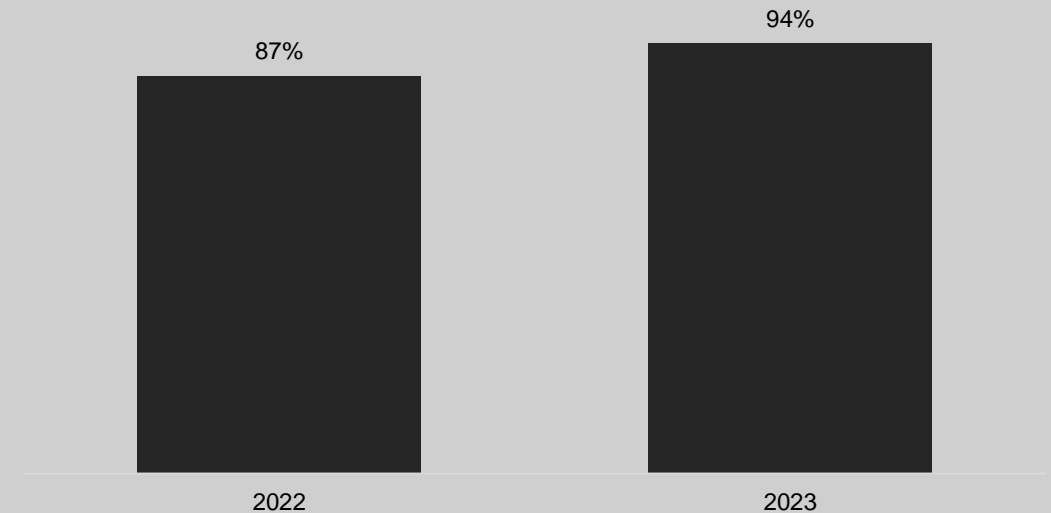
	Sustainability Frameworks	Sustainability Standards	Sustainability Ratings
Definition	<ul style="list-style-type: none"> A broad set of principles-driven guidance on what information should be covered, and how it should be prepared and disclosed. 	<ul style="list-style-type: none"> A document issued by a standard-setting body, designed to make a framework actionable by dictating the specific rules for what should be reported. 	<ul style="list-style-type: none"> Assessment of a company's material ESG performance/risk management measured using quantifiable indicators and aggregated into a single score/rating.
Scope	<ul style="list-style-type: none"> Guidance for all organizations to move the world towards more sustainable future. 	<ul style="list-style-type: none"> Disclosure of information concerning the ESG issues within and related to business management. 	<ul style="list-style-type: none"> Absolute ESG performance (often industry weighted to remove industry bias).
Use	<ul style="list-style-type: none"> Used to showcase commitment to ESG and Sustainability. Provides the baseline metrics to further demonstrate current environmental impact. Allows to define and formulate the metrics to track current ESG progress. 	<ul style="list-style-type: none"> Provides transparency - as a response from the government and society toward factors that jeopardize social structure. Provides internal monitoring to external communication toward the stakeholders. 	<ul style="list-style-type: none"> Provides stock-specific/fund-specific information on ESG performance/risk management. Used to monitor specific equities and funds. Used to construct ESG indices.

94% of Global Investors Notice Greenwashing in Corporate Reports

- The concept of greenwashing has been evolving ever since the term was coined in 1989. At the beginning, it denoted solely the practice of misleadingly portraying products or companies as environmentally friendly. As time passed, its meaning expanded to embrace a wide range of deceptive ESG practices, not only those related to the environment. Such deceptive practices have become more common as the demand for sustainable products has increased, creating a need for more stringent regulation and scrutiny.
- Regulatory bodies like the SEC and EU Commission have intensified their oversight, implementing stricter disclosure requirements for ESG practices. In Brazil, similar steps have been taken by the Central Bank and CVM (Securities and Exchange Commission). The tighter regulation is aimed at enhancing transparency and preventing greenwashing.
- In a 2022 PwC survey of investors, 87% of the respondents agreed that corporate reporting contains at least some greenwashing. This perception had worsened when the consulting firm asked the same question in 2023: in this latest survey, 94% of respondents agreed that corporate reporting on sustainability performance contains at least some unsupported claims.
- Misleading practices in sustainability reporting have a gamut of potentially damaging consequences. Greenwashing erodes investors' trust, potentially leads to inappropriate investments, distorts ESG investing statistics on corporate performance, feeds the narrative that ESG is just an advertising gimmick, and hampers real progress for society.
- A global survey by Harris Poll indicated that 29% of C-level executives view sustainability as a publicity stunt. This skepticism underscores the importance of accurate and transparent ESG reporting.
- Combating greenwashing is a complex task that involves all links of the investment chain: i) investors must be diligent in their analysis and penalize wrongdoing by companies despite possible good financial results; ii) companies must establish effective governance and ensure strict compliance – and third-party auditing is increasingly being requested; and iii) regulators must exercise rigorous stewardship, enhance regulations, increase reporting demands, and punish sustainability-related misrepresentations as readily as they do financial ones.

- According to INBS (the Brazilian sustainability institute), there are at least seven practices that should be considered greenwashing:
 - Lack of evidence: claims without substantiation.
 - Vagueness: broad, unclear statements.
 - Hidden trade-offs: failing to disclose ESG costs.
 - Irrelevant claims: boasting about compliance with legal obligations.
 - False labels: misrepresentation of company practices.
 - Misleading consumers about products' negative impacts.
 - Outright false statements.

Proportion of Investors Who Believe Some Greenwashing Is Present in Corporate Reporting



Materiality Mapping – GRI and SASB Dominate the Market

- Materiality mapping is a strategic analysis tool used to identify and prioritize the sustainability issues that are most significant to a given organization and its stakeholders. It involves a process where the business assesses the relative importance of specific ESG factors based on their impact on the organization. This analysis helps companies focus their efforts and reporting on the areas that truly matter, ensuring the efficient allocation of resources and enhancing the transparency of their ESG reporting. Starting with a broad set of general issues, companies select the ones that are the most material to their businesses and produce reports that explore these issues deeply. Final reports may provide additional information on other issues beyond those mapped as the most material ones.
- Double materiality extends this original concept by recognizing that businesses face two types of materiality in ESG considerations: i) financial materiality, or the impact of ESG issues on a company's financial condition and operating performance; and ii) impact materiality, or the company's impact on society and the environment. The advantage of using double materiality over simple materiality is that it provides a more comprehensive view of a company's overall footprint and performance, considering both inward and outward effects. This approach aligns with the broader stakeholder perspective, taking into account long-term, sustainability-related risks and opportunities, not just those with immediate financial implications.
- Although materiality mapping is not uniform across frameworks, the most used ones (namely GRI and SASB) tend to be similar and somewhat comparable. Regardless of the framework used, materiality maps are much more efficient and useful when they are generated by a double-materiality analysis.

MSCI ESG Materiality Map



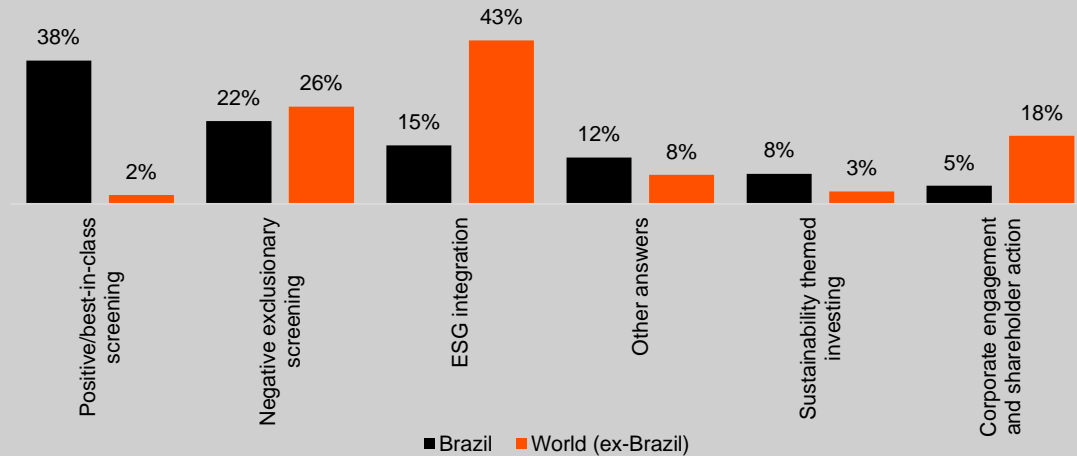
The ESG Investor

Players, Alpha, and Fiduciary Duty

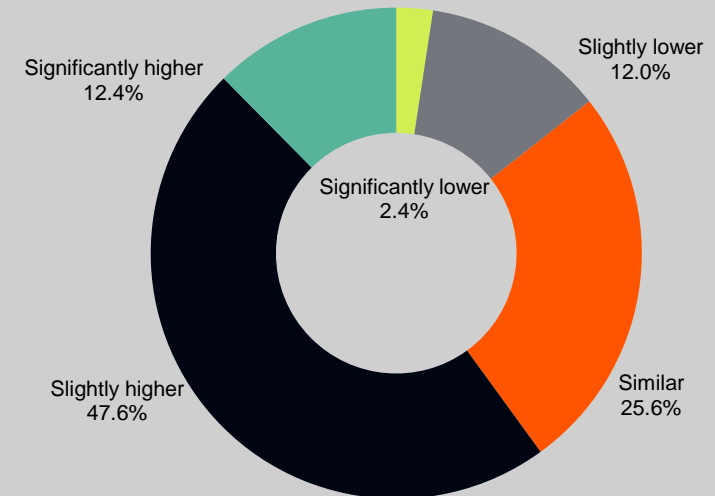
Best-in-Class Strategies Dominate in Brazil; ESG Integration Is the World's Preference

- The ESG investing strategies preferred in Brazil differ from the prevailing strategies in the rest of the world.** Globally, investors' approach to ESG has been changing as ESG integration gains importance. Negative screening, previously the main method used, is losing steam: according to PRI, as of 2020, ESG integration accounted for 43% of global AuM, while negative screening accounted for only 26%. In Brazil, according to ANBIMA (the Brazilian Financial and Capital Markets Association), best-in-class strategies dominate, with a 38%* share, while negative screening is also the second-most-used method.
- Yes, accounting for ESG is a fiduciary duty.** As sustainability awareness grows, the view that prioritizing ESG is a breach of fiduciary duty is rapidly becoming outdated. Asset managers are increasingly recognizing that ESG factors can materially affect a company's financial performance and risk profile. In our opinion, integrating ESG analysis into investment processes is essential for fulfilling fiduciary responsibilities, as it aligns investor values with broader societal concerns, such as climate change, social justice and corporate governance, while helping to ensure sustainable, long-term returns. We would also note that academic analyses, consultancy surveys, and empirical evidence all point to the probability that factoring in ESG enhances long-term results when compared with traditional, non-ESG analysis.
- When PwC surveyed global institutional investors on ESG incorporation in 2022, more than 85% affirmed that financial products that account for ESG yield similar, slightly higher, or significantly higher returns than their non-ESG equivalents.
- Brazil ranks higher than LatAm in ratings diffusion.** MSCI Brazil ESG and MSCI LatAm ESG have twice the proportion of companies rated A or higher compared with their respective non-ESG indexes, according to MSCI ESG. Furthermore, MSCI Brazil ESG surpasses MSCI LatAm ESG on the same metric.
- ESG strategies in Brazil have yielded excess returns:** The MSC Brazil ESG index has delivered a 212% gain since 2013, compared with a 182% gain for the MSCI Brazil index.

Responsible Investment Assets by Strategy

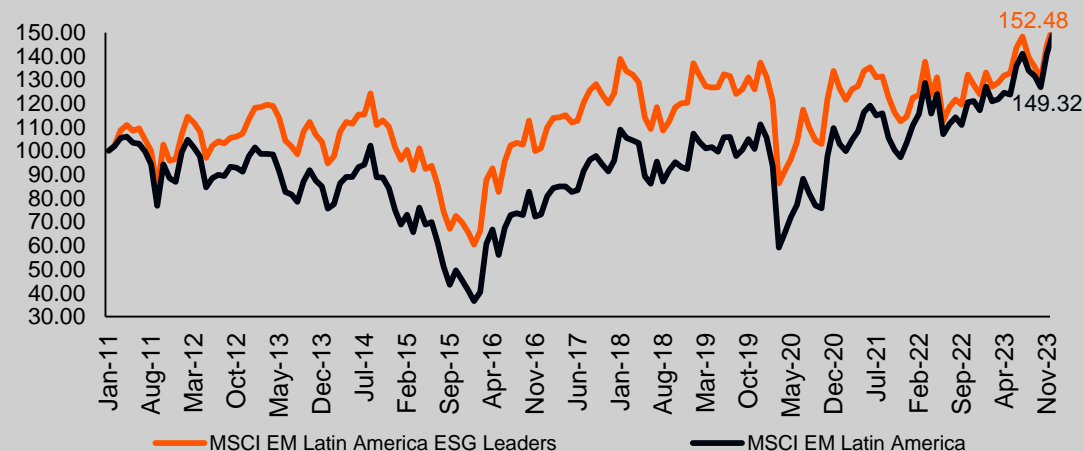


Reported Yields of ESG Incorporation According to Asset Managers, 2022

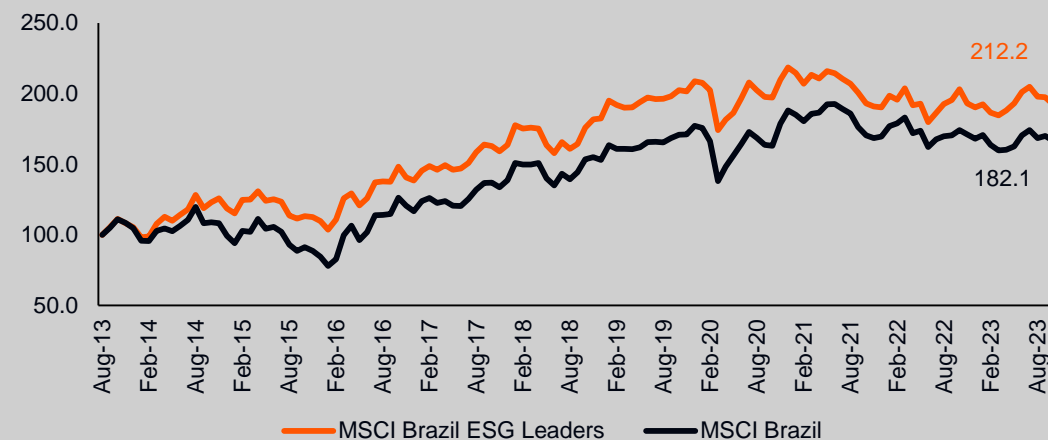


Brazil Ranks Higher Than LatAm; ESG Indexes Tend to Outperform Non-ESG Peers in the Long Run

Factoring In ESG: MSCI LatAm vs. MSCI LatAm ESG (USD)



Factoring In ESG: MSCI Brazil vs. MSCI Brazil ESG (BRL)



Indexes – Top 10 Constituents: Proportion Above “A” According to MSCI ESG

22%

MSCI BRAZIL

- Vale (13.7%)
- Petrobras PN (9.7%)
- Petrobras ON (8.2%)
- Itaú (7.6%)
- Bradesco (4.3%)
- B3 (3.8%)
- Ambev (3.6%)
- Weg (3.2%)
- Localiza (2.7%)
- Itausa (2.6%)

45%

MSCI BRAZIL ESG

- Itaú (18.7%)
- Bradesco (10.7%)
- Weg (8.0%)
- Localiza (6.6%)
- Prio (5.5%)
- Raia Drogasil (4.8%)
- Equatorial (4.6%)
- Rumo (4.2%)
- Gerdau (3.6%)
- Sabesp (2.9%)

23%

IBOVESPA

- Vale (12.4%)
- Petrobras PN (7.3%)
- Itaú (6.5%)
- Petrobras ON (5.2%)
- B3 (3.9%)
- Bradesco (3.8%)
- Eletrobras (3.7%)
- Banco do Brasil (3.3%)
- Ambev (3.1%)
- Localiza (2.7%)

17%

MSCI EM LATAM

- Vale (8.6%)
- Petrobras PN (6.0%)
- Petrobras ON (5.1%)
- Itaú (4.7%)
- Femsa (4.0%)
- Grupo Banorte (3.9%)
- Walmart Mex (3.4%)
- America Movil (2.9%)
- Bradesco (2.7%)
- B3 (2.4%)

34%

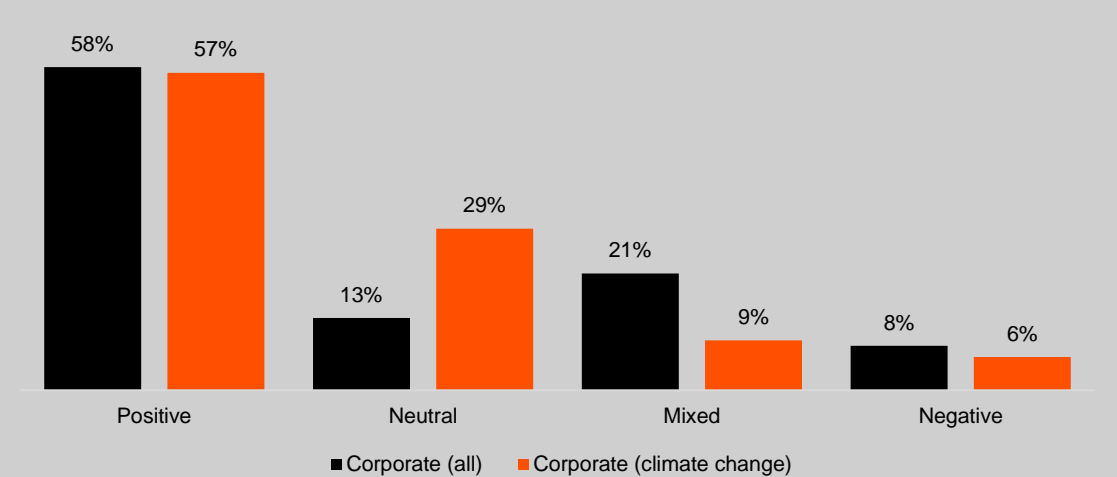
MSCI EM LATAM ESG

- Itaú (9.9%)
- Femsa (8.5%)
- Grupo Banorte (8.1%)
- America Movil (6.0%)
- Bradesco (5.7%)
- Weg (4.2%)
- Localiza (3.5%)
- Cemex (3.5%)
- Credicorp (3.2%)
- Prio (2.9%)

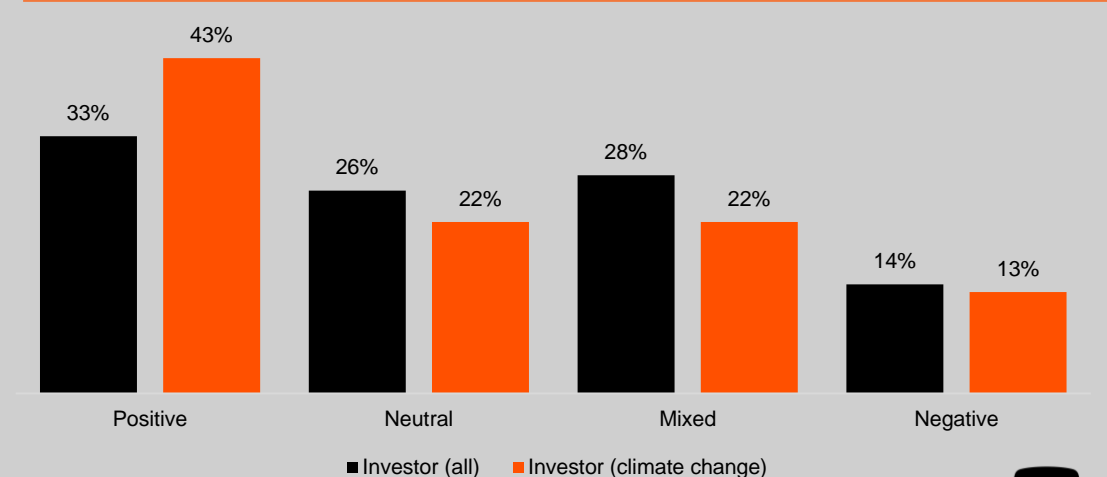
59% of Academic Studies Conclude That ESG Generates Similar or Better Portfolio Returns

- Academia's takes on ESG returns.** A plethora of studies on this subject has been produced in the last couple of decades. Depending on the parameters used, the results have been hard to reconcile. More than one meta-study has attempted to address the apparent inconsistency by compiling studies into a broader analysis of the issue.
- A 2021 NYU meta-study analyzed over 1,000 research papers from 2015 to 2020 to evaluate the relationship between ESG metrics and financial performance. By examining a wide range of research frameworks, metrics and definitions, the study provides a comprehensive overview of the subject. Here are its key takeaways:
 - Time horizon:** The positive impact of ESG on financial performance becomes more apparent over longer time frames. This finding suggests that a long-term investment approach can enhance the benefits of ESG-focused strategies.
 - Investment strategies:** ESG integration strategies yield better results than negative screening strategies.
 - Downside protection:** ESG investing provides downside protection during economic or social crises. This could indicate that ESG-conscious companies have lower risk profiles, which is particularly valuable in volatile market conditions.
 - Corporate sustainability:** Companies engaging in sustainability initiatives often see improved financial performance. This improvement is attributed to better risk management and innovation.
 - Low-carbon future:** Companies actively managing for a low-carbon future tend to experience better financial outcomes. This finding aligns with the global shift toward sustainability and the increasing importance of environmental stewardship in corporate strategy.
 - ESG disclosure:** Merely disclosing ESG information without strategic implementation does not lead to enhanced financial performance.
- In a nutshell, the NYU study found that factoring ESG into traditional financial analysis resulted in non-negative financial performance in 92% of the corporate studies in the meta-analysis, as measured by operational metrics such as ROE and ROA. For investment studies, which typically focus on risk-adjusted attributes such as alpha or the Sharpe ratio in a portfolio of stocks, ESG yielded a non-negative contribution in 86% of the studies analyzed.

Correlation Between ESG and Financial Performance – Company Perspective



Correlation Between ESG and Financial Performance – Portfolio Perspective



ESG in the Corporate World

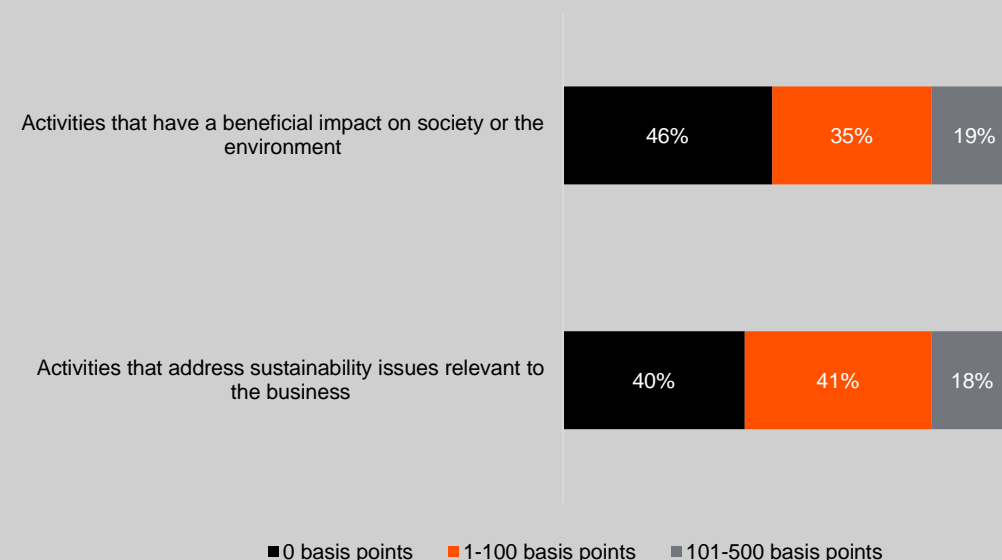
Six Ways ESG Adds Value

Six Ways ESG Adds Value for the Corporate World

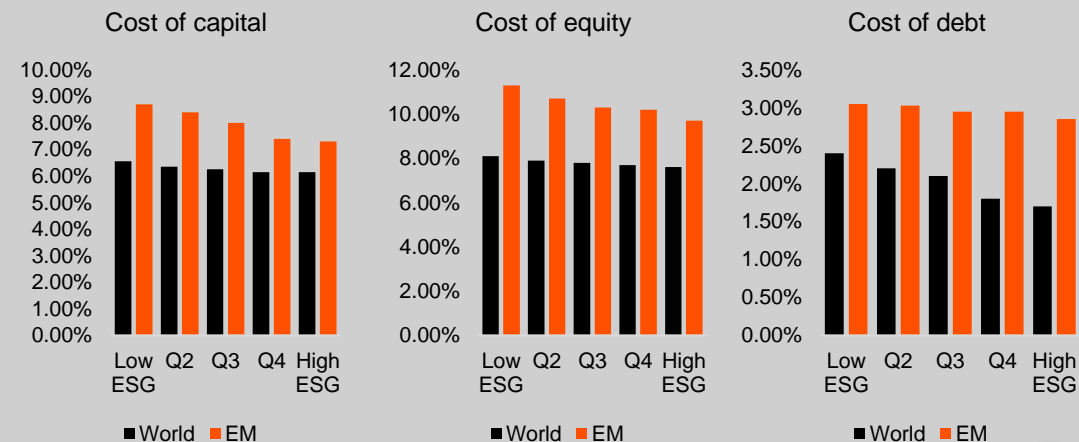
How does ESG adds value to companies? Here are some pathways.

- **Top-line growth:** ESG initiatives help companies tap new markets, expand in existing ones and gain consumer preference.
- **Cost reduction:** ESG-oriented strategies can combat rising operating expenses (such as raw-material costs and the true costs of water or carbon).
- **Reduced regulatory and legal interventions:** A stronger external-value proposition can enable companies to achieve greater strategic freedom, ease regulatory pressure, reduce companies' risk of adverse government action, and engender government support.
- **Employee productivity improvement:** Companies can attract and retain quality employees, enhance employee motivation by instilling a sense of purpose, and increase their overall productivity.
- **Investment and asset optimization:** Investment returns can be enhanced by allocating capital to more promising and more sustainable opportunities. An ESG-conscious approach can also help companies avoid stranded investments that may not pay off because of longer-term environmental issues.
- **Cost of capital:** According to a MSCI study, companies with better ESG ratings have lower costs of equity, costs of debt and overall costs of capital, both globally and in emerging markets.
- **Committed ... but to what extent?** Although sustainable investing has gained in importance, now representing roughly 40% of total invested assets in the U.S. and Europe, investors still have limited tolerance for any possible short-term underperformance that might arise from companies' ESG initiatives: according to PwC, only 18% of investors would accept a reduction of one percentage point or more in the overall returns of companies in their portfolios that take sustainability measures.

Investors' Willingness to Accept Lower Returns as the Cost of Companies' Sustainability Measures



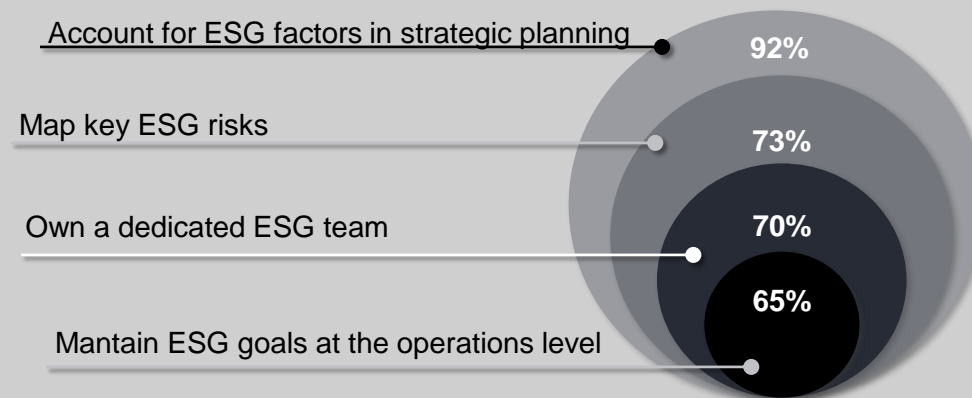
Companies' Cost of Capital Ranked by ESG Score



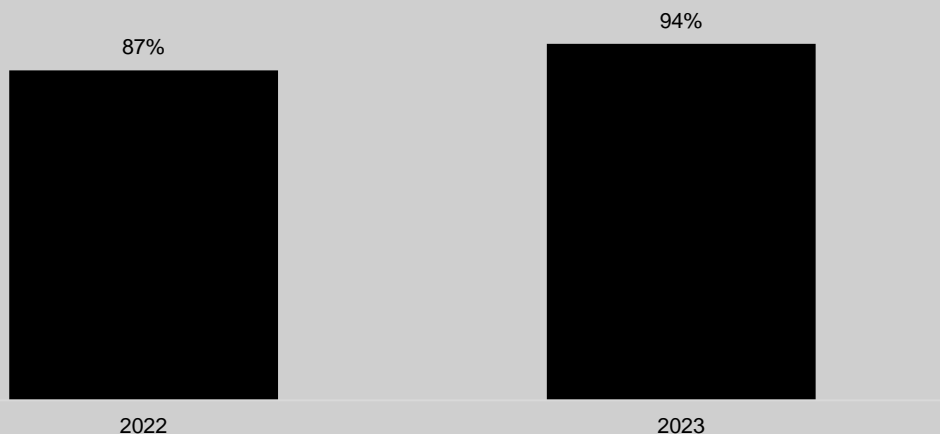
ESG Has Reached the Operating Level for Only 65% of Brazilian Companies

- Although awareness of ESG is increasing, Brazilian companies still have a long way to go. Many are incorporating ESG and recognize its advantages, but ESG is far from entrenched at the operational level, and perceptions of its benefits skew toward reputation preservation and image enhancement.
 - Only 65% of the 190 companies responding to a recent Falconi survey had established operating-level ESG goals, implying that there is a gap between intention and action.
 - Investors are eager to see companies' commitment to enhanced reporting. According to PwC surveys, global ESG investors are somewhat dissatisfied with companies' current disclosure practices – 94% of them believe that at least some greenwashing is present in companies' sustainability reports.
 - In October 2023, Brazil announced that it would be the first country to adopt the IFRS Sustainability Disclosure Standards. Brazilian companies can voluntarily adopt the new framework starting in 2024, and it will become mandatory from 2026 onward.

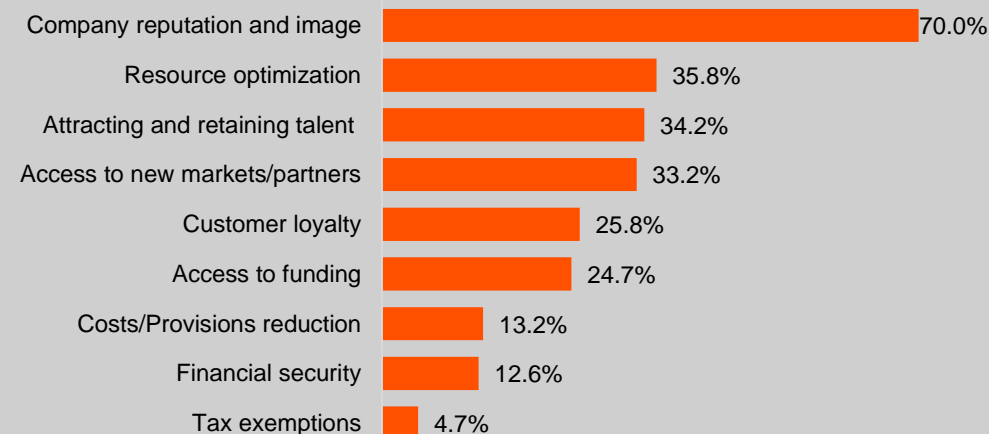
Brazilian Companies' ESG Efforts



Proportion of Investors Who Believe Some Greenwashing Is Present in Corporate Reporting



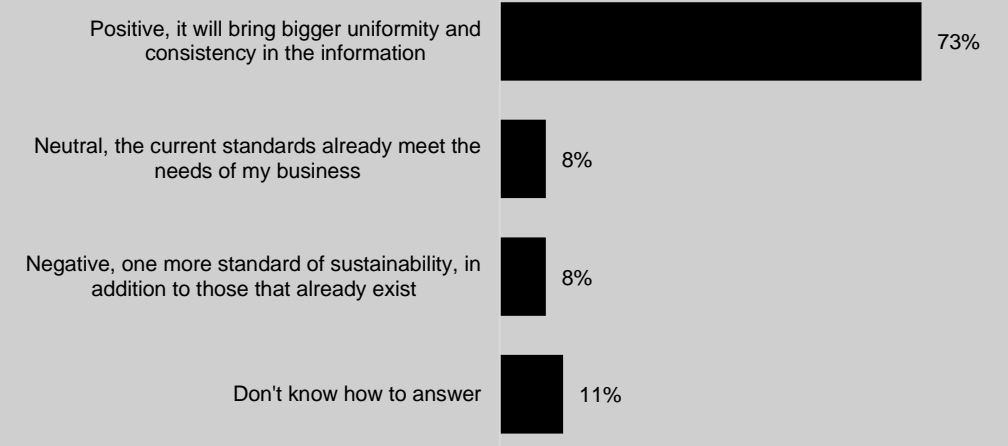
Brazilian Companies Perceive Benefits From Factoring In ESG



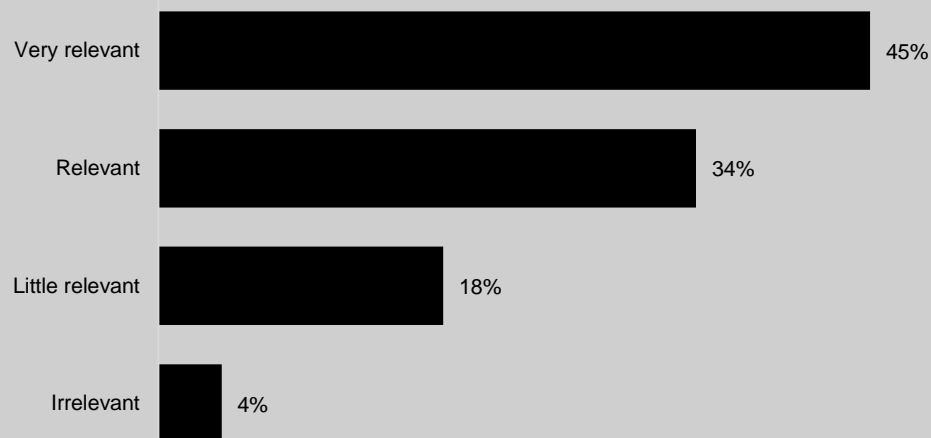
Eight out of Ten Brazilian CFOs Believe Taxation Is Key to ESG Development

- Taxation is a key variable for companies when it comes to ESG. It can work both ways, promoting sustainable companies with tax incentives and punishing the less-committed ones with increased “green taxation”.
 - In a PwC survey of 80 Brazilian CFOs, almost 80% affirmed that tax incentives are an important or very important means of advancing the ESG agenda. Instituting such incentives would likely help ease CFO’s worries related to ESG investment returns.
 - The potential introduction of new green and/or social taxes is a growing concern among corporate executives. Most CFOs believe that such mechanisms should only be adopted after broader tax reform is instituted and after careful consideration of the total tax burden.
- The creation of the International Sustainability Standards Board (ISSB), which developed IFRS S1 and S2, was well received not only by investors, but also among executives: 73% of Brazilian CFOs surveyed believe that companies will also reap benefits from the new standards.

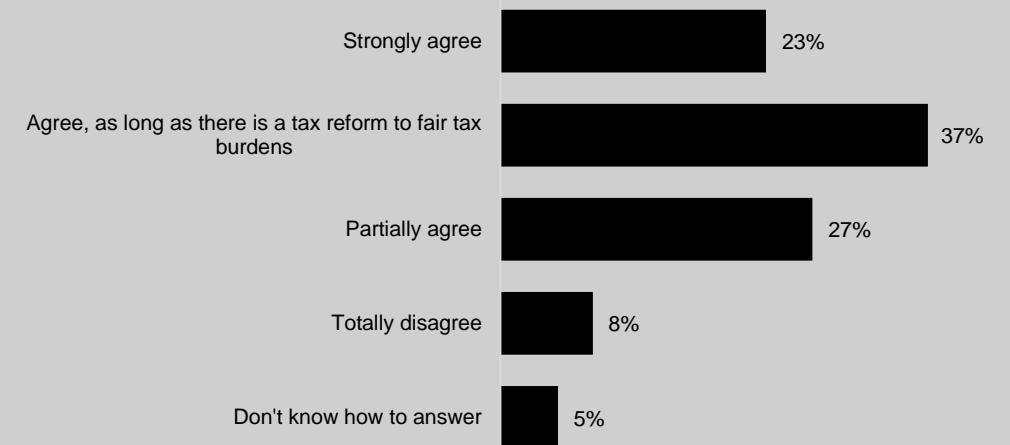
Perceived Benefits of the Creation of the ISSB



Importance of Tax Incentives for the ESG Agenda



Green and/or Social Taxes Are Efficient Mechanisms to Promote the ESG Agenda



ESG in Brazil:

Fund Classification, IFRS, and the Carbon Market

ANBIMA's New Fund Classifications

- In January 2022, ANBIMA (the Brazilian Financial and Capital Markets Association) established new rules for identifying sustainable funds ("IS" funds) and funds that integrate ESG into their management criteria. The new rules distinguish between funds with sustainability as their primary goal (IS funds) and funds that consider ESG risks and opportunities without that being their main objective.
- ANBIMA's changes align with international trends, taking into account the maturity and specificities of Brazil, and aim to discourage greenwashing while ensuring the robust growth of sustainable investment alternatives in Brazil. Now, if a fund is not classified as "IS", it cannot use terms like "green", "ESG", "sustainable", or "impact", among others, in its name and description.
- ANBIMA's previous classification system was specific to equity funds and limited to setting standards for a subcategory known as "Sustainability/Governance". This subcategory was the only one that explicitly encompassed sustainable investments. It included funds that invested in companies demonstrating high levels of corporate governance or that were distinguished by their long-term social responsibility and corporate sustainability.
- In addition to further regulating funds, the changes also give fund managers the responsibility of incorporating ESG factors into their investment analyses and management processes. This includes documented policies, ongoing activities (such as governance and team qualifications) and transparency.
- The guidelines encourage the incorporation of ESG analysis and are not restrictive regarding the methods of achieving ESG goals, allowing for flexibility and innovation in fund management strategies. Each manager must submit its fund methodology for analysis by ANBIMA.
- The framework is designed to evolve with international trends and market needs, ensuring that the Brazilian funds industry remains competitive and up-to-date with global standards. Additionally, it is important to note that the entity aims to encourage all managers to include ESG metrics in their analyses going forward – in other words, integrating ESG should not be considered a competitive advantage.

ANBIMA's Rules for IS Funds

	Manager	"IS" Fund	Fund that takes into consideration ESG issues
Commitment to sustainability	Sustainability policy (approved document)	The fund has sustainable investment as its objective Sustainable Investment objective summarized in the fund's bylaws and investment policies that seek portfolio alignment; "do no harm" (bylaws, policies, and declaration)	Fund's investments consider ESG Investment policy or technical material includes ESG consideration (formal documentation)
Ongoing actions	Governance structure (approved report)	<ul style="list-style-type: none"> Strategy (methodologies and data) other tools and engagement Limitations of methodologies, data, and tools Due diligence and monitoring measures (periodic statements/report) 	<ul style="list-style-type: none"> Methodology and data; limitations Other tools and engagement (where applicable) Due diligence measures (periodic statements/report)
Transparency	Disclosure of policy and governance (manager's website/materials)		
Important!	Refers to the management activity. Commitments accompanied by respective actions. Manager will not be classified	<ul style="list-style-type: none"> Monitoring the goal with metrics and indicators, as well as a commitment to "do not harm" Specific risks and opportunities 	<ul style="list-style-type: none"> Differentiation in advertising materials Monitoring of established parameters for ESG consideration Portfolios with different objectives

Reporting: IFRS S1 and S2 – Brazil Leads the Pack

- To improve trust and confidence in company disclosures about sustainability and help investors make investment decisions based on ESG, the International Sustainability Standards Board (ISSB) has issued its inaugural standards, IFRS S1 and IFRS S2, ushering in a new era of sustainability-related disclosures. IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1. Both fully incorporate the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
- The implementation of these standards represents one of the most significant changes for publicly traded companies, connecting the reporting of sustainability-related financial information with financial statements. Additionally, globally comparable disclosures related to sustainability will help investors make more informed decisions, so their impact is expected to be extremely positive. That said, adopting them presents significant challenges.
- Brazil became the first country in the world to announce the adoption of sustainability reporting rules, namely the IFRS S1 and S2 standards. The Brazilian Ministry of Finance and the Comissão de Valores Mobiliários (CVM) have announced that the ISSB IFRS Sustainability Disclosure Standards will be incorporated into the Brazilian regulatory framework, setting out a roadmap to move from voluntary use, starting in 2024, to mandatory use, starting on January 1, 2026. Brazil is the first country to announce that it will adopt S1 and S2 on a mandatory basis. CVM has also issued Resolution 193, which will allow listed companies and investment funds to disclose sustainability-related information using the standards from 2024.

IFRS S1

- **Materiality-focused:** Shifts the focus to financially material sustainability-related risks and opportunities, emphasizing the impacts on the entity's value creation and financial performance.
- **Value chain consideration:** Requires entities to consider their entire value chains (including upstream and downstream activities) when identifying and reporting on sustainability-related risks and opportunities.

- **Integration with financial reporting:** Encourages the integration of sustainability-related disclosures with general-purpose financial reporting, fostering a holistic view of the entity's performance and prospects.
- **Standardized reporting framework:** Establishes a structured framework for reporting sustainability information, enhancing comparability and consistency across different entities and industries.
- **Governance and strategy disclosures:** Introduces detailed requirements for disclosing information about governance structures, strategies and processes related to managing sustainability-related risks and opportunities.

IFRS S2

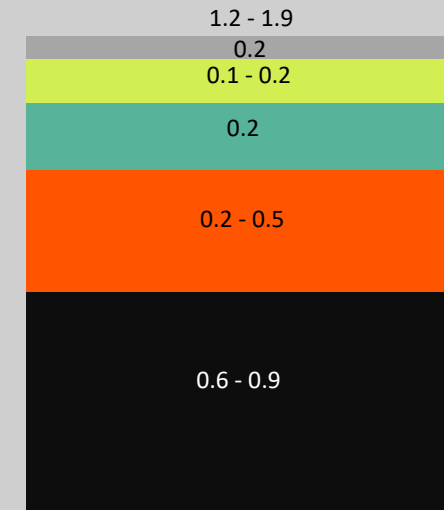
- **Detailed climate-related disclosures:** Mandates comprehensive disclosure of climate-related risks, including both physical and transition risks, and how these are managed and mitigated.
- **Climate scenario analysis:** Introduces the requirement for entities to conduct and disclose climate-related scenario analyses, assessing the resilience of their strategies under different climate-related scenarios.
- **Greenhouse gas emissions reporting:** Requires detailed disclosure of Scope 1, 2, and 3 GHG emissions in accordance with the GHG Protocol Corporate Standard, providing a more complete picture of the entity's climate impact.
- **Climate-related metrics and targets:** Mandates the use of quantifiable and qualitative targets related to climate, including creating plans to achieve these targets and monitoring progress.
- **Focus on climate opportunities:** Along with risks, emphasizes the need to disclose climate-related opportunities, such as revenue streams from low-carbon products or innovations in response to climate change.

Brazilian Carbon Markets – a USD 120 Billion Opportunity

- **Approval of Regulated Carbon Market Bill.** After years of public and private discussions, the Brazilian Chamber of Deputies' approved Bill No. 2148/2015 on December 21, 2023, to create a regulated carbon market in Brazil. The bill now moves to the Senate for approval.
- Although considered the best of the three drafts that had been developing in the matter, the approved bill excludes agribusiness from the list of sectors obliged to reduce/offset emissions within the regulated carbon framework. This decision has sparked debate among experts and stakeholders.
- **Establishment of SBCE.** The bill proposes the creation of the Brazilian System of Greenhouse Gas Emissions Trading (SBCE), an emissions trading system that would serve as a regulated environment for limiting greenhouse gas emissions and trading emission-related assets. The SBCE would be implemented in phases, starting with regulation within 12 months (extendable by another 12), followed by a three-year period to put operations in place before the first National Allocation Plan takes effect.
- The proposed regulated carbon market would adopt a cap-and-trade model, setting acceptable emission limits on an emitter-by-emitter basis. Emissions must meet the permitted figures – if they do not, emitters must purchase carbon permits.
- **National allocation plan.** Key to the SBCE operation, it would define the maximum emission caps and the allocation of Brazilian Emissions Quotas (CBEs, carbon permits), methods of CBE allocation, and limits on Emission Reduction or Removal Certificates (CRVE).
- **Regulated entities.** The bill defines regulated agents not by economic sectors but by a minimum emission threshold. Entities responsible for emissions over 10,000 tons of CO₂ equivalent per year are subject to reporting requirements. Those emitting over 25,000 tons must acquire carbon permits.
- **Infractions and penalties.** Non-compliance with SBCE rules can lead to penalties, including fines of up to 5% of a company's gross revenue, activity embargos, partial or total suspension, license cancellation, or prohibition from contracting with public administrations.

- **Brazil's potential in the carbon market.** Brazil's biodiversity positions it as a natural candidate for carbon trading. Studies by ICC Brasil suggest a revenue generation potential of up to USD 120 billion from carbon credits by 2030. The regulated market could signal Brazil's commitment to the climate agenda and to valuing its forests.
- **The voluntary carbon market.** Existing for years in Brazil, this market allows companies, individuals or organizations to voluntarily offset their emissions. The system used in the voluntary market differs from the one in the regulated market, using carbon credits.
- **Connection with the voluntary market.** Carbon credits from outside SBCE could be accepted as Certificates of Verified Emission Reductions or Removals, with usage capped by the National Allocation Plan.

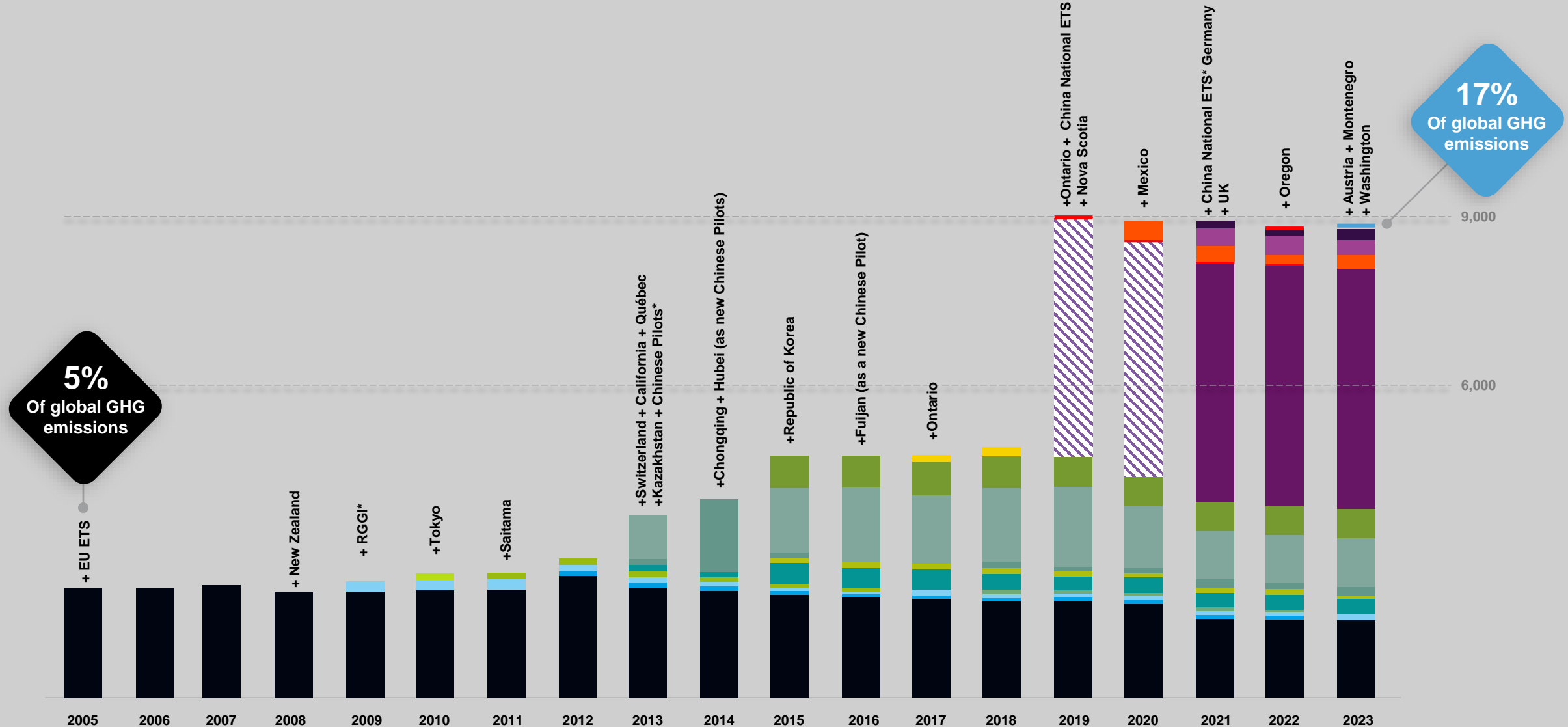
Brazilian Carbon Credit Potential (GtCO₂e) – Voluntary Market



- Forest density and enrichment
- Total reforestation
- REDD+ jurisdictional
- Agriculture and land use
- Energy recovery from waste, blue carbon and others

Brazilian Regulated Carbon Market

Global Expansion of Emission Trading Systems (ETS)



5%
Of global GHG emissions

17%
Of global GHG emissions

*RGGI includes New Jersey (as of 2020) and Virginia (as of 2021)

*Beijing, Guangdong, Shanghai, Shenzhen, Tianjin

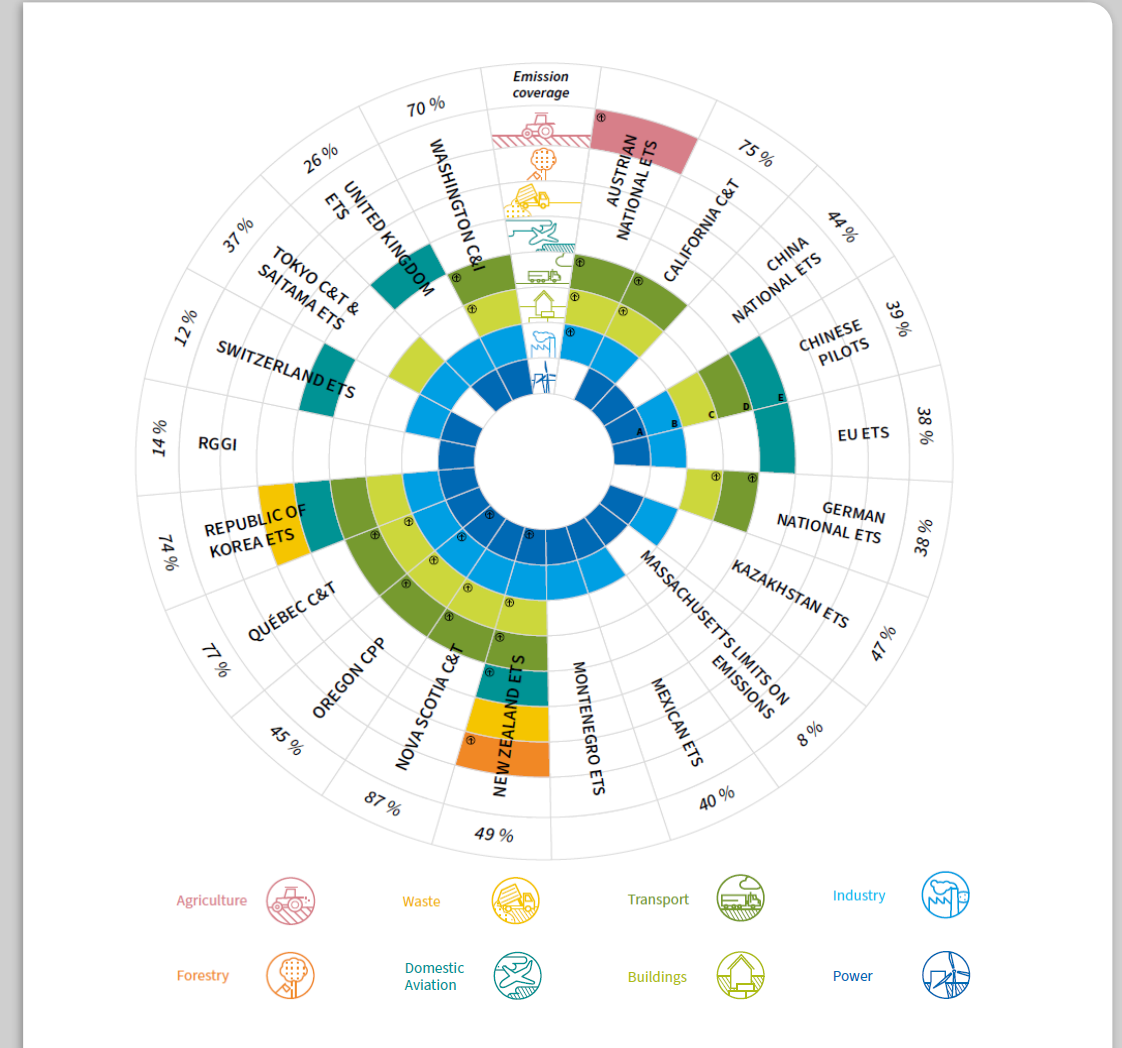
*The Chinese National ETS came into force in 2021 but has retroactive compliance obligations in 2019 and 2020, indicated above by the striped bar

** In 2021 the UK launched its own ETS, which required an adjustment in the EU ETS caps

Brazilian Regulated Carbon Market

- **Exclusion of agribusiness from Brazil's regulated carbon market.** The Environment Committee of the Brazilian Senate approved the bill excluding the agricultural sector from the obligations of the regulated carbon market. This decision has sparked debate among experts and stakeholders.
- **Arguments for the exclusion:**
 - **Technical challenges.** There are no practical, proved methods to accurately measure emissions from individual farms or animals.
 - **Global precedent.** Globally, only Austria includes farms in its carbon market, and even this is limited to energy use and does not include land use, deforestation or cattle GHG emissions. Attempts in the Netherlands and New Zealand to include dairy cows and sheep, respectively, have been unsuccessful.
 - **Alternative instruments needed.** The regulated carbon market is seen by some specialists as not an appropriate tool for reducing agricultural emissions. Other economic, financial, or legal instruments are suggested.
- **Arguments against the exclusion:**
 - **High emission contribution.** Land use change is responsible for 75% of Brazil's emissions – agribusiness emissions represent roughly one-third of this total. Excluding it diminishes the market's potential impact on carbon reduction.
 - **Global comparison.** In other countries with regulated carbon markets, the primary emission sources, usually fossil fuels, are included. Brazil's main source of emissions is agriculture.
 - **Feasibility of emission measurement.** Critics argue that emission measurement is indeed possible, as demonstrated by the sugarcane industry for ethanol production.
 - **Need to target major emitters.** A carbon market should address the principal emission sources for effective reduction.
- In our opinion, the exclusion of the agribusiness sector from the list of regulated activities is not negative in itself. Considering the theme's double materiality, the true environmental impact will depend more on future decisions about how to address the agribusiness sector – strong carbon markets are not the ultimate goal of the world's push for emissions reduction, temperature control, and climate mitigation. The next steps in reducing agribusiness emissions are key, and will determine the effectiveness of Brazilian initiatives going forward.

Sectorial Coverage of ETSs



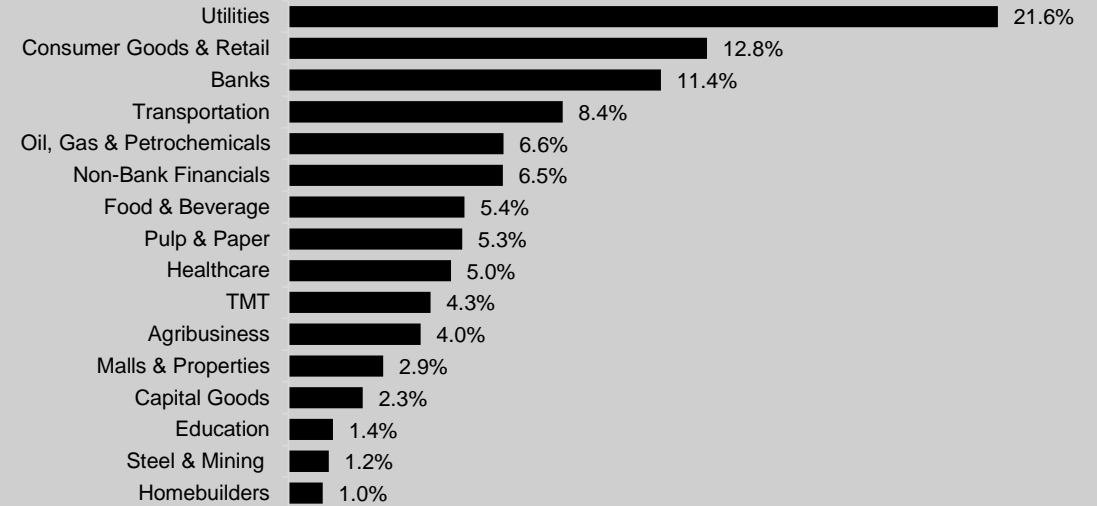
Itaú BBA's ESG Picks:

Matching the Traditional and the Sustainable

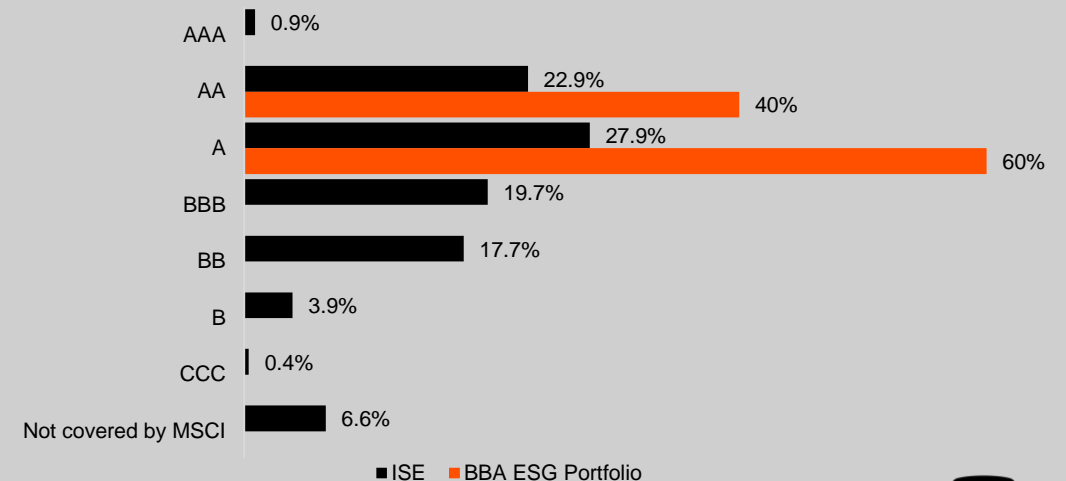
Our Methodology and MSCI ESG

- Starting with a combined methodology.** We focus on a positive screening approach, favoring best-in-class and best-in-progress companies, coupled with ESG engagement. Since every portfolio manager has a different methodology for accounting for ESG, a screening methodology gives us the opportunity to evaluate all the companies under our coverage, providing a deep assessment of all material variables, and gives our clients the opportunity to use it as they wish. Are you negatively screening? Controversies will be scrutinized. Integrating ESG? Value our insights using your framework without sacrificing comparability.
- MSCI ESG is our partner of choice.** As we initiate our ESG coverage, we take advantage of MSCI's rich database and framework. MSCI's materiality map is solid, and we will build on top of it using a broader double-materiality perspective.
- Focusing on A+ companies.** MSCI's ESG ratings provide a great starting point for selecting companies. At this point, we prefer companies rated AAA, AA, and A, but deviations can occur if: i) a company is rated below A but shows a positive trend with recent upward revisions by MSCI; ii) there is no A+ company in the given sector in Brazil; iii) there are A+ companies in the given sector in Brazil but we do not actively cover them; or iv) there is an A+ company in the sector but it is rated underperform by our team (from a traditional finance perspective).
- Adding traditional finance.** From the universe of highly ESG-rated companies, we narrow the field using the expertise of our team. Finally, we take into account our strategy team's opinion on portfolio composition and put together a 10-position, equal-weight portfolio.
- B3's ISE is our benchmark of choice.** ISE, B3's Corporate Sustainability Index, measures the stock performance of firms committed to corporate sustainability. Launched in 2005, it was the fourth sustainability index ever created. Additionally, it is readily available and restricted to Brazilian companies.
- Next steps.** We intend to fully replace all ratings and data from external providers with our own. To this end, our subsequent reports will present sector deep dives, exploring the current ESG situation of every company under our coverage.

ISE Composition - Sector



ISE Composition – ESG Rating

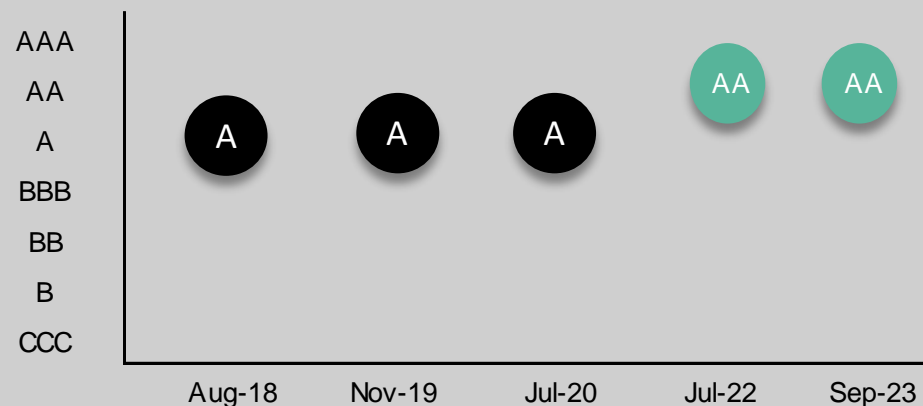


Our Methodology and MSCI ESG

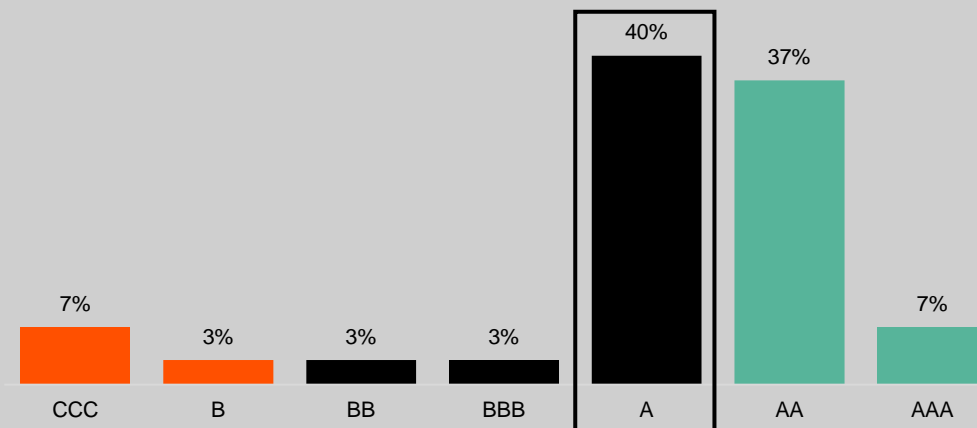
MSCI ESG features we use:

- **Materiality maps.** In line with other internationally accepted standards, MSCI's materiality analysis addresses the most important issues in each of the three ESG pillars.
- **Controversy flags** indicate overall company performance regarding controversies. They can be red, orange, yellow, or green. Categorization accounts for both the severity of controversies and the company's action to remedy or resolve them.
- **ESG letter ratings** range from CCC to AAA and represent the relative rating of a company compared with its sector peers. We favor companies rated A+ and those presenting a positive tendency over time.
- **Key-issue scores** range from 0 to 10 and compare specific companies with industry averages.

Rating Evolution



Rating Distribution



Materiality Map and Controversies

Environment	Social	Governance
Biodiversity & Land Use	Human Capital Development	Corporate Governance
Opportunities in Renewable Energy		Corporate Behavior
Water Stress		
Carbon Emissions		

Our Methodology and Selected Portfolio

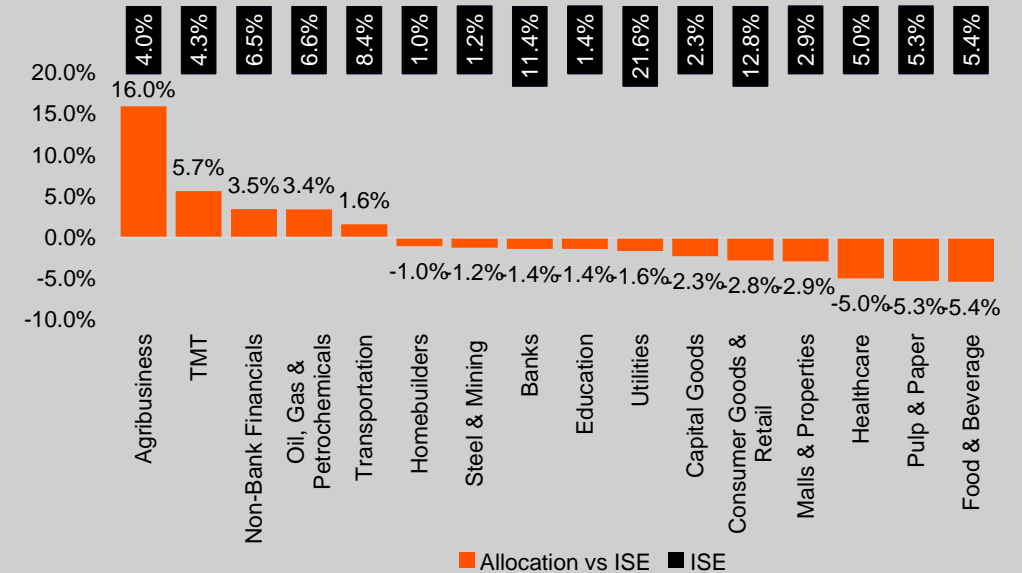
Constituents' Information

Ticker	Sector	Weight in Portfolio	Weight (ISE)	Allocation vs ISE	Weight (IBOV)	Allocation vs IBOV	Beta	Upside	ADTV 3m (BRL mn)	6m	12m	P/E	Diff vs 5y Avg.	Diff vs 5y Avg. (std)	P/B	Diff vs 5y Avg.	Diff vs 5y Avg. (std)	EV/EBITDA	Diff vs 5y Avg.	Diff vs 5y Avg. (std)	EPS Growth 2024	EPS 3M Revision	EBITDA Growth 2024	EBITDA 2024 3M Revision	ROE	FCF Yield 2024	Dividend Yield 2024	PEG Ratio	MSCI Rating
RAIL3	Agribusiness	10%	2%	8%	1%	9%	0.99	27%	307.2	4%	30%	21.1x	-35.4%	-2.1	2.7x	-8.5%	-0.3	8.1x	-18.7%	-1.7	146%	4%	25%	2%	6%	-1%	1%	2.80	A
TTEN3	Agribusiness	10%	0%	10%	0%	10%	1.11	44%	16.1	-16%	21%	6.7x	-9.4%	-0.7	1.7x	-24.7%	-0.6	n.a.	n.a.	n.a.	23%	-1%	36%	-2%	22%	n.a.	3%	1.59	A
BBAS3	Banks	10%	2%	8%	3%	7%	1.10	8%	506.9	15%	61%	4.2x	-19.1%	-0.6	0.9x	7.3%	0.2	n.a.	n.a.	n.a.	6%	1%	n.a.	n.a.	21%	-9%	10%	3.36	A
B3SA3	Non-Bank Financials	10%	2%	8%	3%	7%	1.45	28%	489.9	-1%	9%	16.0x	-18.5%	-0.7	3.9x	5.0%	0.3	n.a.	n.a.	n.a.	10%	-3%	n.a.	-4%	21%	6%	6%	1.48	A
LREN3	Consumer Goods & Retail	10%	2%	8%	1%	9%	1.30	18%	297.5	-9%	-17%	13.6x	-41.0%	-1.3	1.7x	-66.5%	-1.2	7.2x	-42.0%	-1.2	19%	-4%	26%	-5%	10%	4%	3%	0.67	AA
CSAN3	Oil, Gas & Petrochemicals	10%	2%	8%	1%	9%	1.27	18%	120.6	2%	16%	11.9x	-15.0%	-0.5	2.0x	-19.4%	-0.6	6.1x	0.3%	0.0	170%	-9%	7%	-2%	-2%	13%	6%	1.04	AA
TOTS3	TMT	10%	0%	10%	1%	9%	1.11	11%	131.2	9%	21%	24.4x	-25.2%	-1.0	4.1x	-16.2%	-0.6	13.5x	-27.2%	-1.1	16%	-1%	20%	0%	17%	4%	1%	1.31	AA
RENT3	Transportation	10%	0%	10%	2%	8%	1.20	28%	399.8	-11%	19%	16.9x	-34.0%	-1.1	2.6x	-51.2%	-1.5	7.8x	-45.3%	-1.4	77%	0%	22%	-1%	7%	-28%	2%	1.14	A
CPFE3	Utilities	10%	2%	8%	0%	10%	0.71	4%	55.7	8%	17%	9.5x	-4.4%	-0.2	2.4x	-1.1%	-0.1	6.1x	-8.9%	-0.5	-4%	-1%	-3%	0%	32%	n.a.	8%	5.40	A
EGIE3	Utilities	10%	2%	8%	1%	9%	0.63	6%	69.6	-2%	16%	9.9x	-11.2%	-0.7	4.2x	-5.6%	-0.4	7.9x	-1.1%	-0.1	6%	0%	6%	0%	41%	-8%	7%	1.32	AA

Sector Allocation Over Benchmark

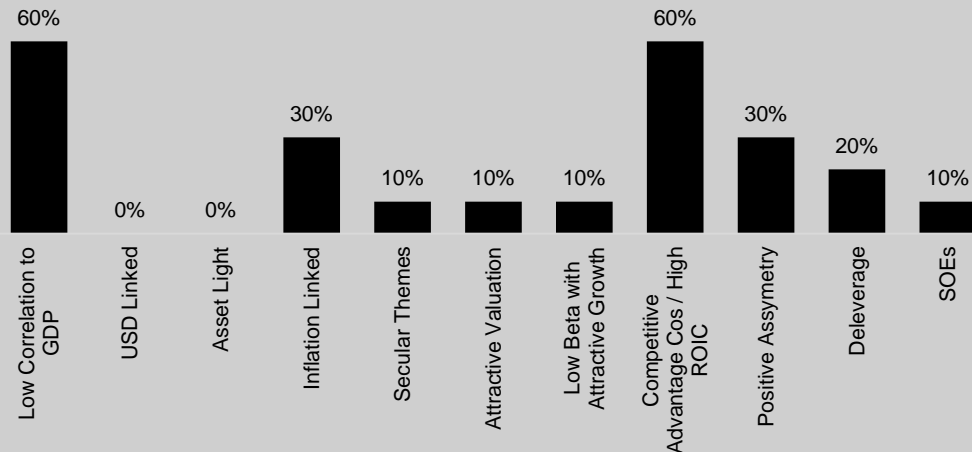
Sector	ISE	Portfolio	Allocation vs ISE
Agribusiness	4%	20%	16%
Banks	11%	10%	-1%
Capital Goods	2%	0%	-2%
Consumer Goods & Retail	13%	10%	-3%
Education	1%	0%	-1%
Food & Beverage	5%	0%	-5%
Healthcare	5%	0%	-5%
Homebuilders	1%	0%	-1%
Malls & Properties	3%	0%	-3%
Non-Bank Financials	7%	10%	3%
Oil, Gas & Petrochemicals	7%	10%	3%
Pulp & Paper	5%	0%	-5%
Steel & Mining	1%	0%	-1%
TMT	4%	10%	6%
Transportation	8%	10%	2%
Utilities	22%	20%	-2%

Portfolio Weight by Sector

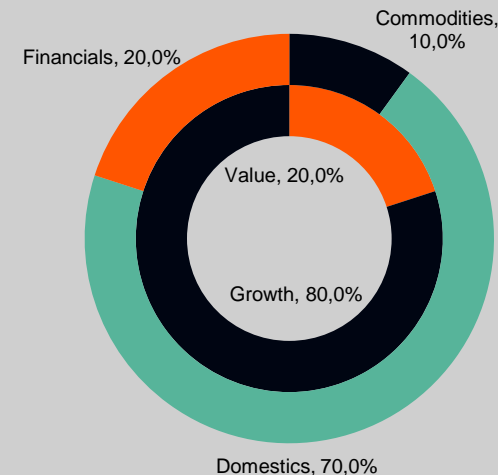


Our Methodology and Selected Portfolio

Portfolio Weight by Theme



Portfolio Allocation by Category and Value



Constituents' Information

Ticker	Sector	Weight in Portfolio	Weight (ISE)	OW/UW	Low Correlation to GDP	USD Linked	Asset Light	Inflation Linked	Secular Themes	Attractive Valuation	Low Beta with Attractive Growth	Competitive Advantage Cos / High ROIC	Positive Assymetry	Deleverage	SOEs
CPFE3	Utilities	10%	2%	8%	✓			✓				✓			
RAIL3	Agribusiness	10%	2%	8%	✓						✓	✓	✓		
TOTS3	TMT	10%	0%	10%	✓			✓	✓			✓			
TTEN3	Agribusiness	10%	0%	10%	✓							✓			
LREN3	Consumer Goods & Retail	10%	2%	8%						✓			✓		
B3SA3	Non-Bank Financials	10%	2%	8%								✓			
RENT3	Transportation	10%	0%	10%									✓	✓	
BBAS3	Banks	10%	2%	8%								✓			✓
CSAN3	Oil, Gas & Petrochemicals	10%	2%	8%	✓									✓	
EGIE3	Utilities	10%	2%	8%	✓			✓				✓			
	Portfolio				60%	0%	0%	30%	10%	10%	10%	60%	30%	20%	10%

An All-Renewables Genco with Transmission and Midstream Assets (EGIE3 – YE24 Target Price: BRL 46.1)



Investment Thesis

- We see the name trading at an attractive implied real IRR (above 10%) and at a discount to most generation names under our coverage. In the short term, we expect the dividend payout to be reduced, given the company's recent acquisition of a solar complex from Atlas Renewable. Nevertheless, we believe that Engie has enough room to pay rich dividends in the medium to long term.
- The company has a diversified portfolio, with exposure to different businesses such as generation, transmission, and natural gas transportation, which increases cash flow predictability. We expect Engie to maintain its strategy of focusing on consumers and its ability to generate value through its portfolio.

Company Background

- Engie is the leader in renewable power generation in Brazil, with an installed capacity of roughly 10 GW from over 60 power plants using renewable sources, including hydro, solar, wind, and biomass power plants.
- With the acquisition of TAG back in 2019, Engie also owns the largest natural gas transportation network in Brazil.
- The company recently started operating in the transmission segment in Brazil. The Gralha Azul project was Engie's first transmission line project in the country, with an extension of roughly 1,000 kilometers.

2024 Outlook, Valuation & Earnings Comments

- Engie is trading at an implied EV/EBITDA of 7.9x, at a discount to all generation companies under our coverage.
- Back in 2022, the company anticipated the drop in energy prices and stepped up its PPA sales, leading to an almost fully contracted portfolio for 2024 (98.2%) at attractive prices. Therefore, Engie is not exposed to short-term energy price volatility.

Key Themes to Monitor and Risks

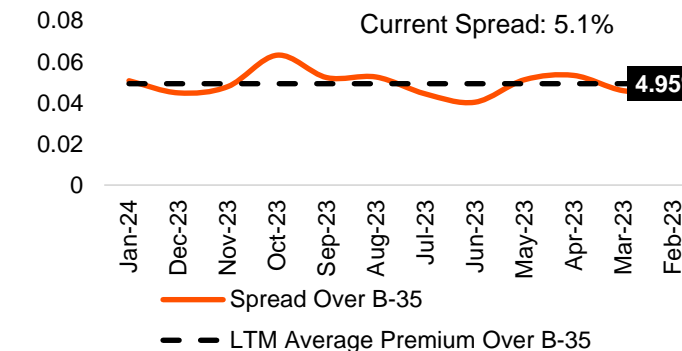
- Dividend payout level for 2024 onward.
- Renewal of TAG's contracts with Petrobras. 70% of TAG's revenues come from Petrobras and these contracts expire in 2026.
- Energy prices outlook.
- Reserve capacity auction expected to happen in 2024.

Key Indicators & Factors

	2024E	2025E	2026E
EV/EBITDA	7.9x	7.5x	7.0x
Implied EV/RAB*	n.a.	n.a.	n.a.
FCF Yield	-8.2%	8.0%	n.a.
Dividend Yield	6.9%	9.0%	n.a.
Net Debt EBITDA	3.0x	3.0x	2.7x
EPS Growth	6.3%	8.0%	5.8%
Earnings Revisions 3M	-0.2%	-1.5%	-4.7%
EBITDA Growth	6.1%	9.0%	6.6%
EBITDA Revisions 3M	0.1%	1.1%	-0.7%

*Itaú BBA estimates

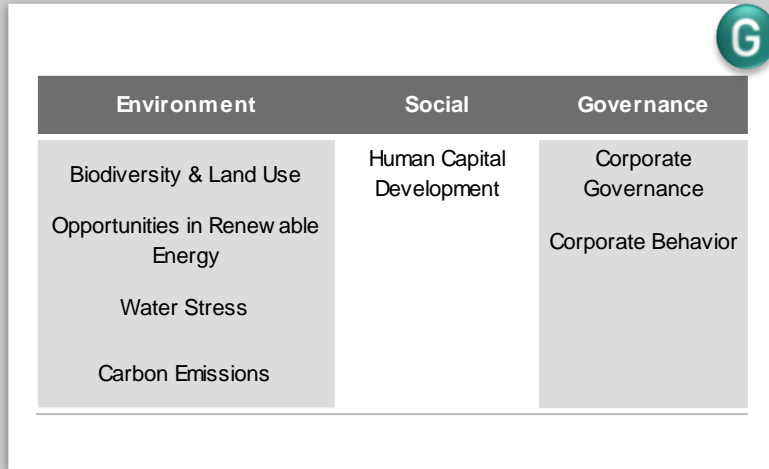
Historical IRR Spread Over Brazilian Treasury



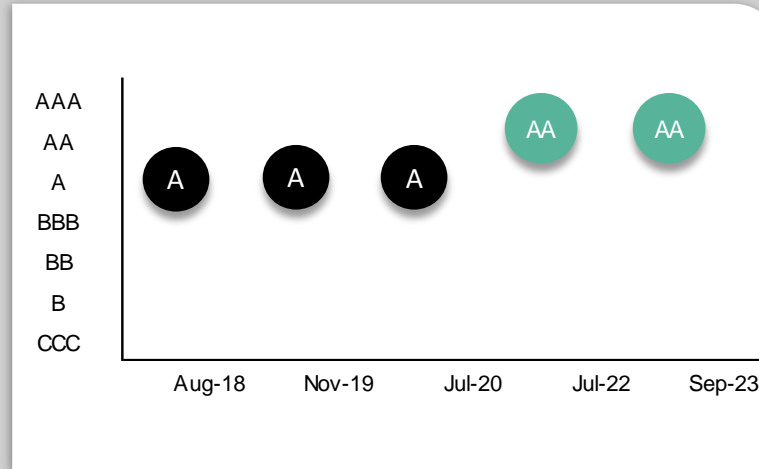
An All-Renewables Genco with Transmission and Midstream Assets (EGIE3 – YE24 Target Price: BRL 46.1)



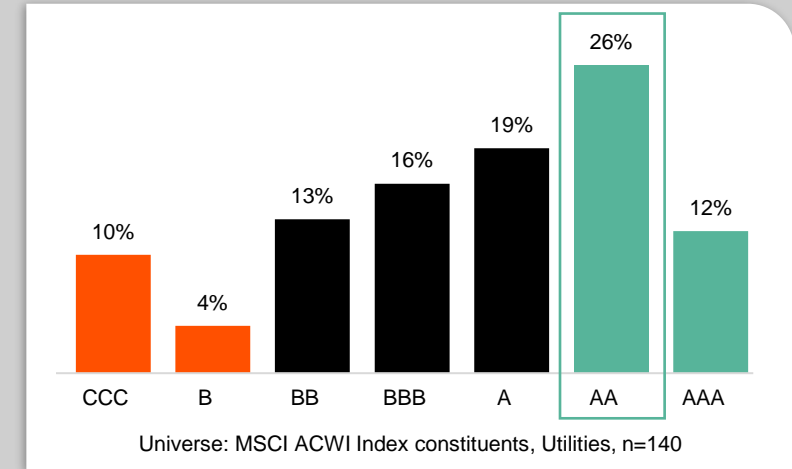
Materiality Map and Controversies



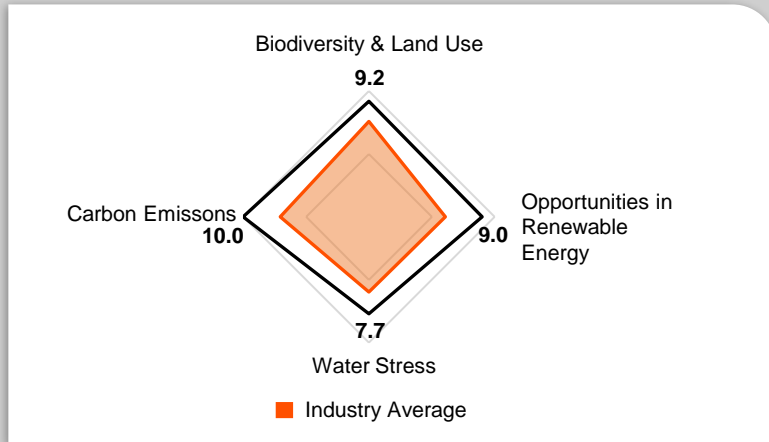
Rating Evolution



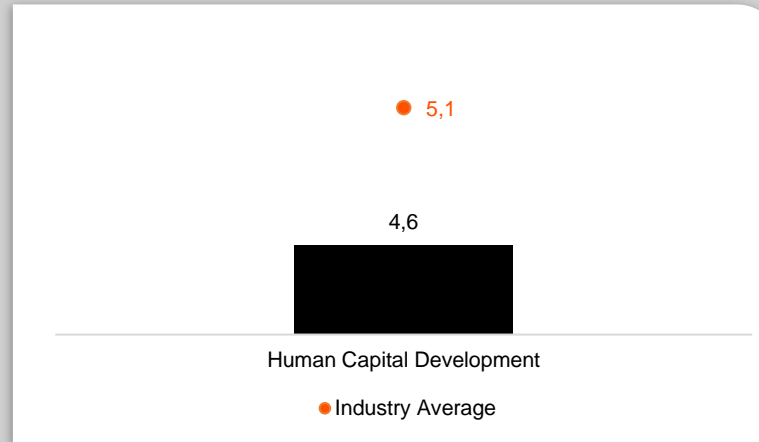
Rating Distribution



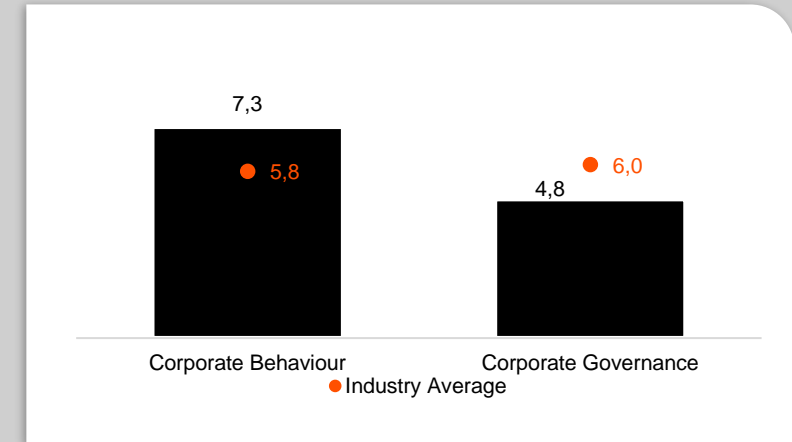
Environment Rating



Social Rating



Governance Rating



An All-Renewables Genco with Transmission and Midstream Assets (EGIE3 – YE24 Target Price: BRL 46.1)



Highlights

- **Positives:** Great performance in the environmental area – producing 100% renewable energy, committed to reducing GHG emissions and investing in protecting fauna, biodiversity, and water.
- **Room for improvement:** Low percentage of women both on the Executive Board and on the Board of Directors; no individual disclosure of executive pay and limited conversion of ESG metrics into variable compensation; controlling shareholder holds almost 70% of voting power.

Disclosure

- Engie has its own sustainable annual report, which is audited by an independent auditor.
- **ESG reporting.** Engie has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), Integrated Reporting (IR), the Sustainability Accounting Standards Board (SASB), the Financial Stability Board (FSB), and the Task Force on Climate-Related Financial Disclosures (TCFD).
- **Sustainability indices.** The company is included on four sustainability indices in Brazil (the ISE Index, the IGC Index, the ICO2 Index and the IDiversa Index) and one international index (the Dow Jones Sustainability Index).

Governance

- **Board of Directors.** The board comprises nine members, four of whom are independent, with an equal number of alternates. The positions of Chairman of the Board and Chief Executive Officer may not be held by the same person, as established in the Internal Charter of the Board of Directors. The Executive Board has 8 members.
- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.

- **Board compensation.** The variable remuneration of the Chairman of the BoD is based on the results achieved by the company, considering individual, financial, and operational indicators – among them being strategic ESG objectives (greenhouse gas emissions, occupational health and safety, and gender diversity in the workforce). The company does not disclose the percentage of this variable remuneration, nor does it mention the variable remuneration of the other members of the BoD. For the Executive Board, which includes the CEO, the methodology applied to the variable remuneration is 65% financial objectives, 15% ESG objectives and 20% individual targets.

Social

- **Relationship with the community.** Based on the demands identified in each community, Engie allocated more than BRL 21 million in 2022 to projects – local and corporate – that promote access to culture, education, sports, and health, among other topics important to society, projects such as “Mulheres do Nosso Bairro” and “Parcerias do Bem”. In 3Q23, the company invested BRL 1.3 million in social responsibility, an increase of 149.6% QoQ.
- **Diversity.** The company's Board of Directors has one woman out of nine members. There is one woman out of eight members on the Executive Board. Women's participation in the company's leadership positions is 26.6%. The goal for 2030 is to expand this participation to 50%. Of all of Engie's employees, 28.8% are women. Technical intern, graduate, and junior apprentice programs ensure that 50% of the vacancies go to women, particularly in the affirmative trainee program for engineers. 4.8% of the company's employees are disabled.
- **Ethics and integrity.** Since 2002, the company has included an Ethics Committee in its organizational structure; this committee reports directly to the Board of Directors. Engie is also a signatory of the Business Pact for Integrity and Against Corruption.
- **Supply chain.** The company's goals for 2030 are: i) to reach 100% on the responsible purchasing index (excluding energy purchases), which involves socio-environmental assessments and includes purchases; and ii) for 100% of its 250 preferred suppliers to be committed to Science-Based Targets (SBTi) – as of 2022, this proportion was 38%.

An All-Renewables Genco with Transmission and Midstream Assets (EGIE3 – YE24 Target Price: BRL 46.1)



- **Professional development.** In 2022, the company invested BRL 5.7 million in training and skill upgrades for its employees. With a focus on professional development, performance assessments are conducted annually. In 3Q23, 13.7% of the company's employees received formal training, an increase of 5.7 percentage points compared with 3Q22.

Environment

- **Carbon emissions.** Engie has been committed to the decarbonization of its generation complex since 2015, with recent developments including the signing in September 2022 of an agreement for the sale of the Pampa Sul thermoelectric power plant, the only remaining coal-fired operation in its Brazilian power complex. Between 2016 and 2022, more than BRL 20 billion was allocated to the energy transition. The Engie Group has committed to a 59% reduction in emissions (Scopes 1 and 3) by 2030 and to being net-zero by 2045. In Brazil, Engie has committed to reducing its carbon emissions by 30% by 2025 and by 56% by 2030. In 3Q23, the company's total carbon emissions were reduced by 81% QoQ (from 309,426 tons to 58,821 tons). The company does not report its carbon emissions in the public record
- **Opportunities in renewable energy.** Engie's renewable-energy potential has increased with the approval of two major projects in the Northeast of Brazil, expected to be implemented in 2023 and 2024, that will accelerate its growth in renewable generation. The first is the Serra do Assuruá wind complex in Gentio do Ouro (BA), with a 846 MW installed capacity, which will require an investment of approximately BRL 6 billion. The other is the Assú Sol fotovoltaic complex in Assú (RN), with a 752 MW capacity. These two new projects represent the largest wind project and largest fotovoltaic project, respectively, ever to be implemented by the ENGIE Group in Brazil. The proportion of renewable sources in the company's global energy production capacity mix is 38%, and the goal is to increase this number to 58% by 2030.
- **Carbon credits.** The Trairi Wind Complex, located in the state of Ceará, has concluded the first issuance of carbon credits for four of its plants installed in the municipality. Over a period of seven years (2013 to 2020), 1,238,487 carbon credits were obtained. This volume is sufficient to offset one year of CO₂ emissions from 23,000 cars traveling 30 kilometers per day, or five years of emissions equivalent to the annual energy consumption of the state of Ceará.

- **Water consumption.** The company's goal for 2030 is to reduce the water-consumption intensity rate (consumption/energy produced) for its industrial activities by 70%, from 0.301 m³/MWh in 2022 to 0.100 m³/MWh in 2030. In 3Q23, the company reduced its water consumption by 54.8% compared with 3Q22.
- **Water and effluents.** Engie has programs for monitoring the quality of surface water, the results of which are regularly reported to the environmental control agencies on a voluntary basis. Since 2010, the company has been developing its Headwater Springs Conservation Program in various regions of Brazil. In 2022, 152 springs were protected with the support of local communities.
- **Biodiversity.** Engie's Biodiversity Matrix Program – in its sixth year in 2022 – proposes mapping opportunities for the preservation of biomes. In this way, it is possible to identify threatened species, conservation units, and areas where priority should be given to their protection in proximity to the company's assets. The status of habitats for endangered species on the International Union for Conservation of Nature (IUCN) Red List is also monitored within a radius of 50 kilometers.
- **Fauna programs.** Because nearly 80% of the company's energy generation capacity lies in hydropower plants, fish have a significant place in the company's environmental management programs. Programs to protect ichthyofauna (the fish life of a region) have been developed in different hydrographic basins of the country, incorporating plant reservoirs to prevent or mitigate impacts caused by its operations in the aquatic environment.
- **Land use.** Among its assets, ENGIE Brasil Energia operates eight forestry nurseries in seven Brazilian states, contributing to the conservation of local biomes through the production of seedlings of native species. The forestry nurseries supply seedlings of native species for planting in areas associated with the company's operations or with third parties, through donations to local communities.

A Dividend Play in the Utilities Sector (CPFE3 – YE24 Target Price: BRL 39.7)



Investment Thesis

- CPFL is a bond proxy with double-digit real IRR compared to NTN-B below 6%.
- We see CPFL as the main dividend player among the Utilities names under our coverage, given the company's comfortable balance sheet position and the more challenging inorganic growth avenues in the transmission and generation segments going forward. We see the potential for double-digit dividend yields.
- The company's leverage is under control, with adjusted net debt/EBITDA at 1.7x as of Q3 2023, and it generates a significant amount of cash for the coming years. We see the name trading at an implied real IRR above 10%.

Company Background

- CPFL is an integrated company that operates in the transmission, generation, and distribution segments across all regions of Brazil.
- The company is the country's largest energy distributor in terms of volume of energy sold, with a 13% share of the national market and over 10 million customers.
- CPFL is also the third-largest private energy generator in Brazil, with an installed capacity of 4.4 GW. The company began to play a significant role in the transmission segment with the acquisition of CEEE-T.

2024 Outlook, Valuation & Earnings Comments

- Because of the recent heat waves in Brazil, we expect to see solid yearly volume growth in Q4 2023 in the company's distribution concessions.
- CPFL plans to invest roughly 3.0x the regulatory depreciation of its distribution concessions not only in 2024 but until 2027. The same investment plan applies to the transmission segment.
- CPFL expects to spend BRL 3.2 billion on its transmission business between 2023 and 2027.
- CPFL is trading at an implied EV/RAB of 1.3x, while at our target price, the discos' valuation would be close to 1.5x.

Key Themes to Monitor and Risks

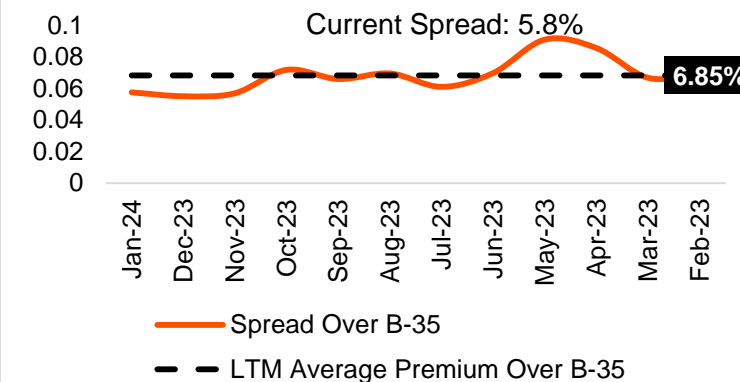
- Disco concession renewal process: The publication of Technical Note 19/2023 by the Ministry of Mines and Energy was a major de-risking event, as it supported our view that the disco concession renewal process is unlikely to be onerous. Nonetheless, the final resolution has yet to be published. The TCU recently decided to postpone the discussion of the disco concession renewal proposal to January ([note](#)).
- Organic growth: Robust investments in the distribution segment are projected from 2024 onward.
- The main risks to our thesis include: i) the disco concession renewal process; and ii) lower-than-expected dividends ahead.

Key Indicators & Factors

	2024E	2025E	2026E
EV/EBITDA	6.1x	6.2x	n.a.
Implied EV/RAB*	1.3x	1.2x	1.2x
FCF Yield	n.a.	n.a.	n.a.
Dividend Yield	7.8%	8.3%	n.a.
Net Debt EBITDA	2.1x	2.2x	n.a.
EPS Growth	-3.7%	1.7%	n.a.
Earnings Revisions 3M	-0.8%	-1.9%	n.a.
EBITDA Growth	-3.3%	1.8%	9.3%
EBITDA Revisions 3M	0.4%	-0.9%	-3.0%

*Itaú BBA estimates

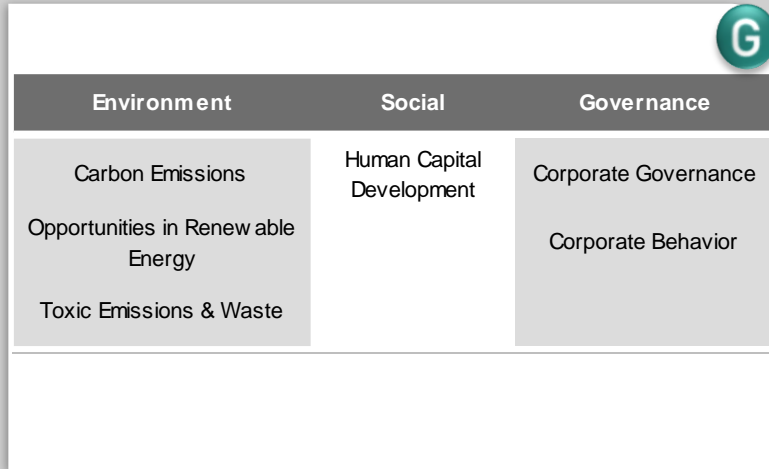
Historical IRR Spread Over Brazilian Treasury



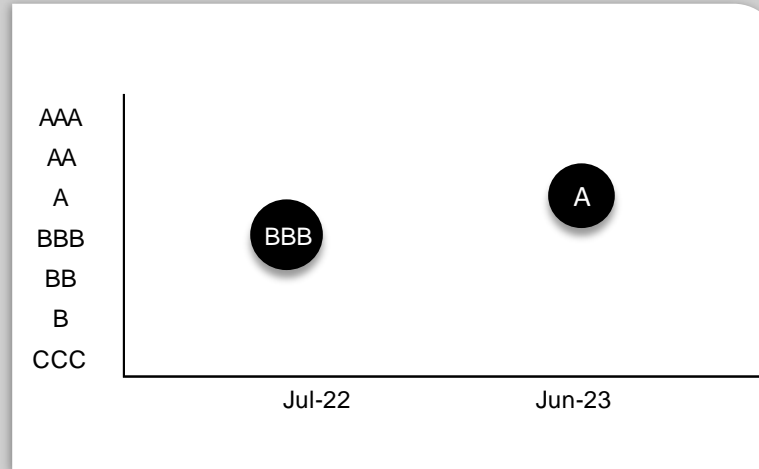
A Dividend Play in the Utilities Sector (CPFE3 – YE24 Target Price: BRL 39.7)



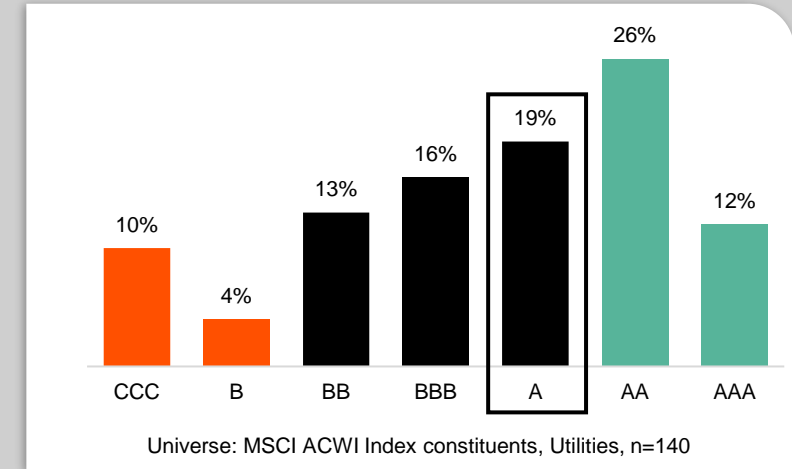
Materiality Map and Controversies



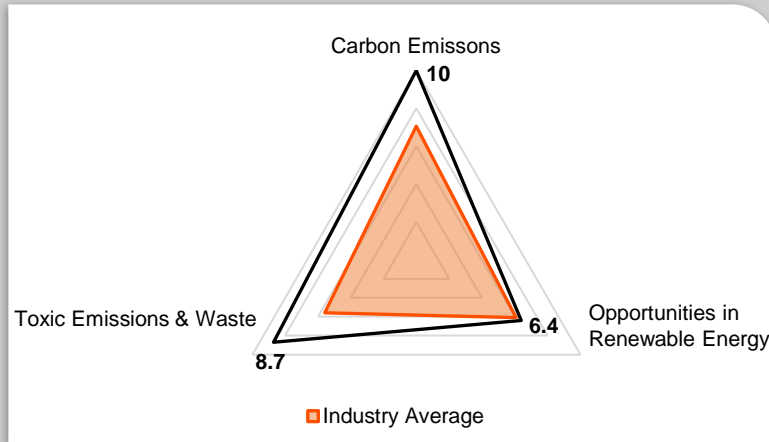
Rating Evolution



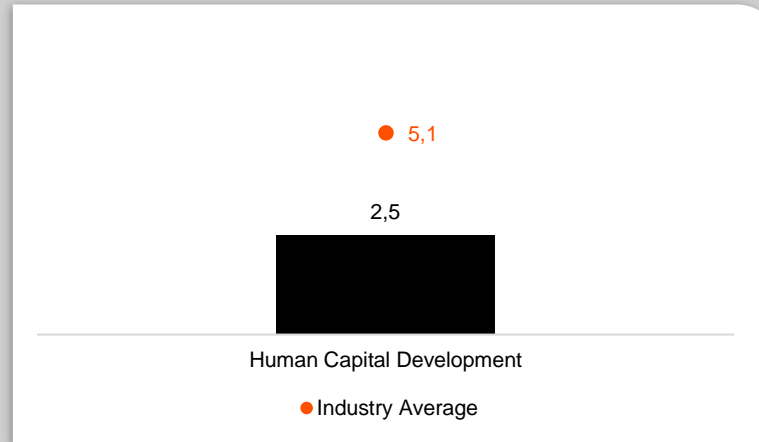
Rating Distribution



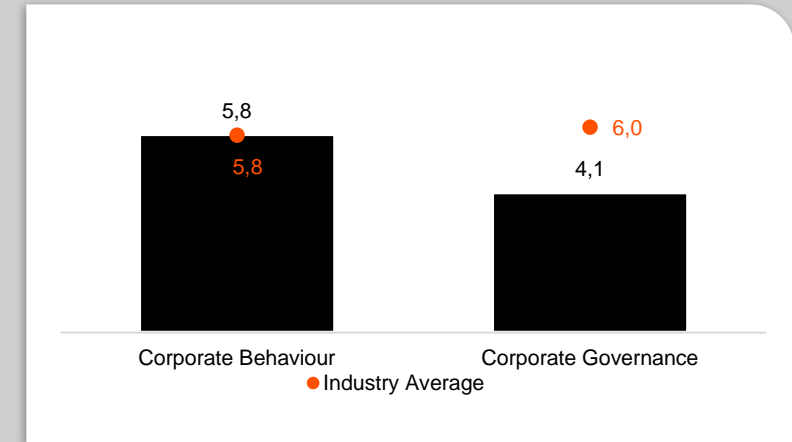
Environment Rating



Social Rating



Governance Rating



A Dividend Play in the Utilities Sector (CPFE3 – YE24 Target Price: BRL 39.7)



Highlights

- **Positives:** Above-average performance in the environmental pillar – producing 96% renewable energy, committed to reducing GHG emissions, investing in waste reduction and reforestation.
- **Room for improvement:** Low proportion of women in leadership roles, both on the Executive Board and on the BoD; low number of independent members on the BoD – the CEO and CFO are also directors; no individual disclosure of executive pay or clear conversion of ESG metrics into variable compensation; controlling shareholder holds almost 84% of voting power.

Disclosure

- CPFL has its own sustainable annual report, which is audited by an independent auditor.
- **ESG reporting.** CPFL has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-Related Financial Disclosures (TCFD). Additionally, CPFL actively participates in organizations committed to the ESG theme, such as the UN Global Compact.
- **Sustainability indices.** The company is included on four sustainability indices in Brazil: the ISE Index, the IGC Index, the ICO2 Index and the IDiversa Index.

Governance

- **Board of Directors.** The BoD comprises seven members – two of whom are independent and one of whom is a woman – with two-year terms and the possibility of reelection. The small number of independent members is a risk factor. The Executive Board is composed of a Chief Executive Officer and seven Vice-Presidents, all serving two-year terms, with reelection permitted. The Chief Executive Officer appoints the Vice-Presidents.
- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.

- **Corporate governance.** In 2019, the Corporate Governance management area was elevated to the level of a department to better manage, control, and guarantee the constant improvement of the CPFL Group's governance processes. The Corporate Governance Office reports functionally to the Board of Directors of CPFL Energia.
- **Remuneration.** CPFL does not have clear disclosure regarding executive remuneration. According to the company, the variable remuneration contracts for all executives include ESG targets, with subgoals related to the 2020-2024 Sustainability Plan, performance on the B3 ISE, decarbonization strategy, diversity in the company, and ethical conduct training.
- **Advisory committees.** To assist in the BoD's decision-making and monitoring of important and strategic themes, the board is supported by five advisory committees: the Strategy, Growth, Innovation, and ESG Committee; the People Committee; the Finance and Risk Management Committee; the Related-Party Transactions Committee; and the Audit Committee.

Social

- **Relationship with the community.** In 2022, CPFL invested BRL 26 million in energy efficiency initiatives in low-income communities (such as improving public lighting points) and BRL 18 million in social projects, and it achieved the goal of investing BRL 150 million in energy efficiency projects in public hospitals, such as installing photovoltaic panels for energy self-generation and replacing older lights with LEDs. In 3Q23, the company invested BRL 12.8 million in energy efficiency initiatives in public hospitals and BRL 13.7 million in socio-environmental projects. The company has committed to investing at least BRL 230 million in socio-environmental projects that maximize community transformation by 2030; an additional BRL 140 million in energy efficiency initiatives in public hospitals by 2025; BRL 200 million in energy efficiency actions for low-income communities by 2024; and BRL 50 million in projects to raise awareness and reduce risks for the population by 2030.

A Dividend Play in the Utilities Sector (CPFE3 – YE24 Target Price: BRL 39.7)



- **Diversity.** The company's Board of Directors has one woman among its seven members. The Executive Board has one woman out of eight members, and 20% of all the company's employees are women. Of its leadership and management positions, 22% are held by women. CPFL is committed to having 30% of its leadership positions held by women by 2030 and is working continuously to increase diversity and representativeness. In terms of racial diversity, 30% of all CPFL employees are Black.
- **Data protection.** In 2022, the CPFL Group established a commitment to the UN Global Compact related to personal data protection.
- **Safety.** The company is supported by the Health and Safety Management System (SGSS), which is responsible for implementing procedures for identifying and assessing risks in the various activities carried out by the company's teams. All of CPFL Energia's own employees and third parties are covered by the SGSS, a total of 26,610 people. Additionally, third parties undergo periodic audits and inspections to assess their compliance with legal requirements, procedures and SGSS requirements. In 3Q23, there were two fatal accidents involving company employees, the same number as was registered in 3Q22.
- **Employee development.** In 2022, CPFL Energia offered over 826,000 hours of training and qualification activities to its employees. The company provided more than 287,000 hours of training to its employees in 3Q23, an increase of 46% compared with 3Q22.

Environment

- **Renewable energy.** The company is committed to investing at least BRL 40 million in green hydrogen technologies by 2030 and to deploying at least BRL 560 million in investments in smart energy solutions by 2027. In 3Q23, the total energy generated by renewable sources increased by 9.0% QoQ. The company's portfolio is 96% composed of renewable sources. CPFL has committed to generating 100% renewable energy by 2030.

- **Carbon emissions.** CPFL has committed to being carbon-neutral by 2025, to reducing 35% of Scope 1, 2 and 3 emissions by 2030, to offering customers low-carbon solutions with annual revenue targets from IRECs and carbon credits, and to achieving at least 15% electrification of its technical operational fleet in the state of São Paulo by 2030. The number of its projects qualified to sell carbon credits and renewable energy certificates in 3Q23 was 67, representing an increase of 67.5% QoQ.
- **Energy and water consumption.** The company's water consumption in 3Q23 (19,000 m³) was 13% higher than its 3Q22 consumption (17,000 m³), while its energy consumption in the same period was 7.4% lower QoQ (from 9,174 MWh to 8,492 MWh).
- **Waste reduction.** Some 98% of the company's main network components are designated for recycling or reverse logistics systems. CPFL has committed to phasing out single-use plastics in its administrative plants, and to ensuring that 100% of its main network components are destined for recycling or reverse logistics systems, by 2025.
- **Biodiversity.** The company does not currently have a policy on biodiversity but is committed to creating one by 2025, to maximize the benefits and value generated by its operations for the environment and society.
- **Reforestation.** "Arborização + Segura" is CPFL Energia's forest revitalization program, implemented in partnership with public authorities. Between its inception in 2015 and December 2022, the program served 107 municipalities, replaced a total of 8,434 trees and adopted and planted over 50,000 seedlings.

A High-Quality Play at an Attractive Valuation (RENT3 – YE24 Target Price: BRL 80.0)



Investment Thesis

- In our view, investors are overly concerned about depreciation, an issue that has been putting pressure on 2024 earnings estimates for Localiza. We believe that this concern is unjustified, given Localiza's already-high depreciation levels and the fact that its fleet mix is poised to improve in the coming quarters.
- The company's 2.8x net debt/EBITDA as of 3Q23 leaves room for a growth acceleration fueled by the BRL 4.5 billion follow-on offer executed in June 2023, which in turn could lead to an upward revision in earnings estimates.
- Localiza remains a high-quality name with a solid track record and exposure to an underpenetrated segment that offers ample growth opportunities.

Company Background

- Localiza is one of the largest car rental companies in the world. It operates in three segments: i) the Rent a Car division, which offers short-term rental contracts, primarily for retail clients but also for corporates, ride-hailing app drivers, and insurance replacements; ii) the Fleet Management division, which offers car rental services under long-term contracts for both corporate and retail customers; and iii) the Seminovos division, which sells the company's used car fleet through its own stores across Brazil and also through wholesale channels.

2024 Outlook, Valuation & Earnings Comments

- We see the stock trading at 17x P/E 2024, compared with an over-20x historical average.
- The company's earnings CAGR for 2023-26 is likely to be around 44% as Localiza clears out rapidly depreciating cars from its fleet and non-recurring negative expenses tied to the Unidas incorporation fade away.
- Localiza's historical ROE and ROIC levels suggest that it has substantial earnings power, which we expect to yield a 12x P/E.

Key Themes to Monitor and Risks

- New vehicles and Seminovos pricing and its impact on Localiza's depreciation trend.
- Monthly direct sales vs. retail vehicle sales, which can provide insights into car rental companies' bargaining power with OEMs.
- Potential Seminovos bottlenecks, given the large volumes to be sold in the coming quarters/years.
- The competitive scenario in the rental businesses, especially the rent-a-car segment.

Key Indicators & Factors (Consensus)

	2024E	2025E	2026E
P/E	17.0x	13.5x	n.a.
EV/EBITDA	7.9x	7.2x	n.a.
FCF Yield	-27.8%	n.a.	n.a.
Dividend Yield	2.1%	1.6%	n.a.
Net Debt EBITDA	2.9x	2.8x	n.a.
EPS Growth	76.8%	26.5%	n.a.
Earnings Revisions 3M	0.3%	0.7%	n.a.
EBITDA Growth	22.1%	15.2%	n.a.
EBITDA Revisions 3M	-1.2%	-2.0%	n.a.

P/E 12-Month Forward (Consensus)

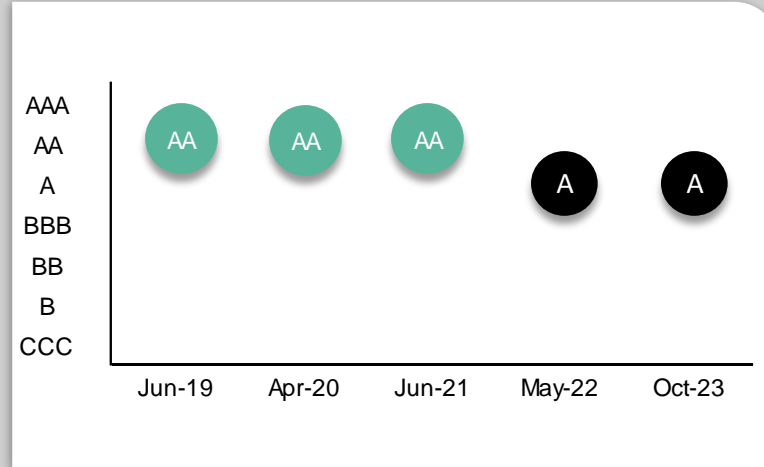


A High-Quality Play at an Attractive Valuation (RENT3 – YE24 Target Price: BRL 80.0)

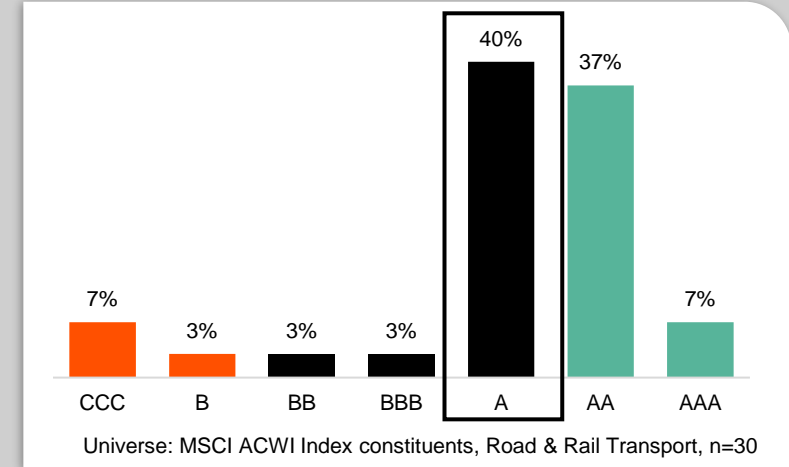
Materiality Map and Controversies



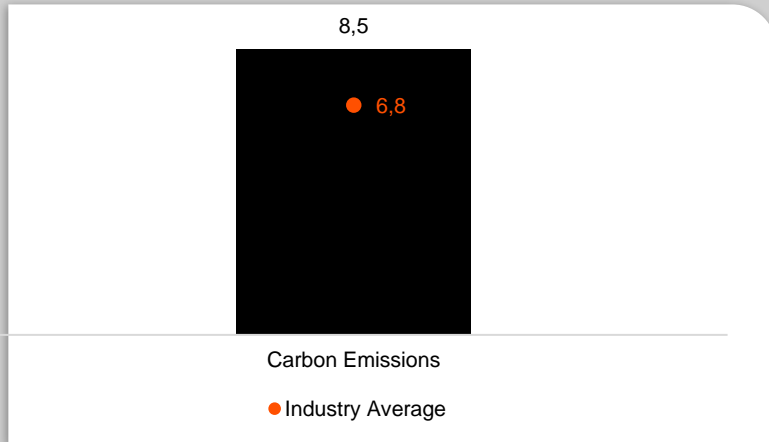
Rating Evolution



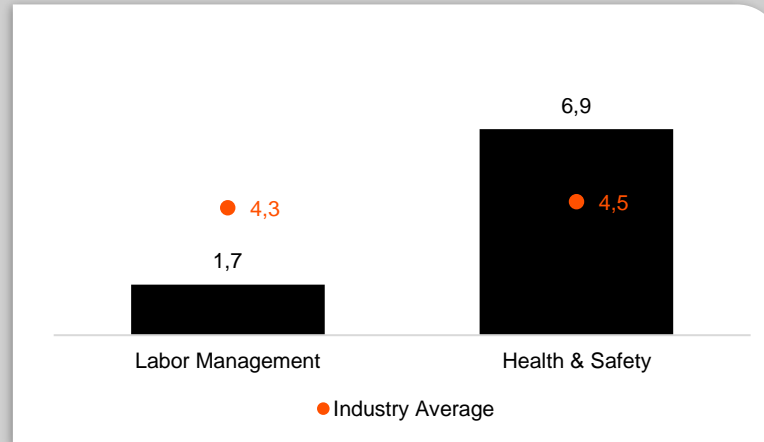
Rating Distribution



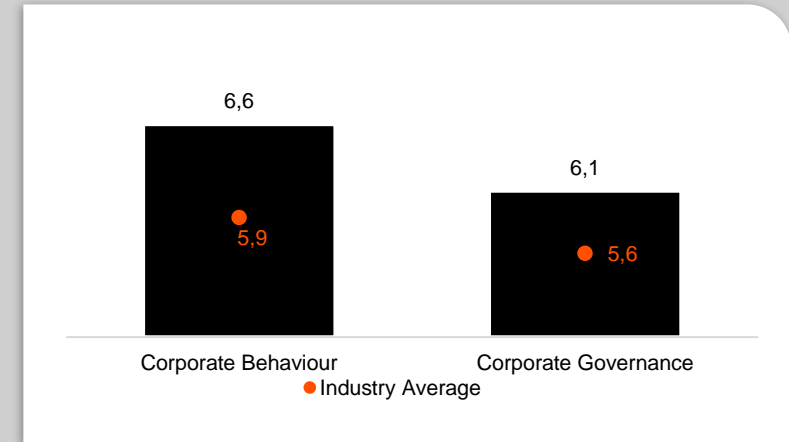
Environment Rating



Social Rating



Governance Rating



A High-Quality Play at an Attractive Valuation (RENT3 – YE24 Target Price: BRL 80.0)



Highlights

- **Positives:** 100% of the energy used by the company comes from clean, renewable sources. On labor management, we believe that Localiza deserves a better score – the company has not seen strikes or carried out massive layoffs and has been recognized as a great place to work.
- **Room for improvement:** No individual disclosure of executive pay or clear conversion of ESG metrics into variable compensation.

Disclosure

- Localiza has its own sustainable annual report, which is audited by an independent auditor.
- **ESG reporting.** Localiza has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-Related Financial Disclosures (TCFD). Localiza actively participates in organizations committed to the ESG theme, such as the UN Global Compact, the Forum for Businesses and LGBTI+ Rights, UN Women, the Forum of Companies with Refugees, and the Business Coalition for Racial and Gender Equity.
- **Sustainability indices.** The company is included on four sustainability indices in Brazil: the GPTW Index, the IGC Index, the ICO2 Index, and the IDiversa Index.

Governance

- **Board.** Localiza's Board of Directors has 8 members, 5 of whom are independent. The Executive Board has 12 members, all of whom reside in the country and were elected by the Board of Directors. The Fiscal Council has 6 active members.
- **Committees.** Localiza has three committees subordinate to the BoD: Audit, Risk and Compliance; Personnel Management and Compensation; and Governance and Sustainability. Subordinate to the CEO are the Integrity Committee and the Sustainability Committee. There is also a Disclosure Committee, which is subordinate to the Financial and Investor Relations Officer.

- **Remuneration.** For the Executive Board, depending on the employment regime, there are fixed and/or variable compensation plans and long-term incentive plans, which are linked to the achievement of the company's corporate results and to the achievement of individual and ESG goals in accordance with the scope of each director.

- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.

Social

- **Suppliers.** All suppliers are trained in accordance with the company's anti-bribery and anti-corruption policy.
- **Traffic safety.** To mitigate labor risks and accidents, Localiza develops initiatives to promote traffic safety among employees and customers, such as the Frota Experience, a program that provides free management training to develop teams and drivers, and the Verde Vida program, which promotes traffic safety through an education platform provided free of charge to clients and employees. In November 2022, the company launched a machine-learning model to identify collisions involving its vehicles, the so-called Collision Detection system, which transforms and analyzes data from the trackers installed in the Localiza fleet's cars.
- **Employee training.** In 2022, Localiza implemented 295,000 training hours for employees and invested more than BRL 6.9 million in learning.
- **Relationship with the community.** In 2022 Instituto Localiza completed its first year of operation, in which it reached more than 12,000 young people and supported 49 projects across the country, funded by an investment of BRL 3.6 million in direct donations. The company also invested more than BRL 1.5 million in incentive laws related to culture, sports, education, and care for the elderly.
- **Social development.** Localiza invested BRL 1.9 million in incentive laws and the Rouanet Law in 2022.
- **Diversity.** Women constitute 44.3% of the company's workforce and 47% of the its leadership. Women and LGBTI+ individuals make up 25% of the BoD. On the Executive Board, there is one woman out of 12 members.

A High-Quality Play at an Attractive Valuation (RENT3 – YE24 Target Price: BRL 80.0)

Environment

- **Carbon Emissions.** In 2022, 100% of the energy used by the company came from clean, renewable sources. That was the year Localiza launched Neutraliza, a program to neutralize emissions related to its direct operations through the acquisition of carbon credits from the Jari Amapá Project; the program has already offset more than 14,000 tons of CO₂. By the end of 2022, the company had a fleet of more than 2,000 electrified vehicles, including electric and hybrid vehicles, with an emphasis on cargo vehicles. According to the public record of carbon emissions, in 2022 (the last year for which data is available), the company emitted a total of 805,734 tCO₂ in all scopes, an increase of 54% compared with 2021 (519,882 tCO₂).
- **Water consumption.** Since 2015, Localiza has adopted dry cleaning in all of its car rental agencies, which has reduced the average water consumption per operation. In 2022, more than 80 million liters of water were saved through the use of dry cleaning.



An Extremely Discounted Valuation With Superior Profitability (BBAS3 – YE24 Target Price: BRL 59.0)

Investment Thesis

- Earnings growth at discounted valuations. Banco do Brasil has a solid track record of execution and profitability, with favorable earnings momentum ahead and an extremely discounted valuation.
- Resilience. The bank's exposure to Brazil's flourishing agribusiness sector in the corporate segment and to public employees in the retail segment is likely to sustain its loan book growth with limited NPL volatility. High capital ratios and profits from insurance provide dividend visibility.
- Thematic. BB has relatively low exposure to the three main regulatory issues currently putting pressure on the sector: CARF disputes, the end of the IoC, and the revolving credit card cap.

Company Background

- Banco do Brasil is Brazil's oldest bank, founded in 1808, and its second-largest by total assets. The bank currently has a credit portfolio of approximately BRL 1.1 trillion, which is roughly equally divided among agribusiness, individual, and corporate loans. BB is a key player in agribusiness credit, enjoying more than a 50% market share. It is also the largest player in payroll loans (with an approximately 20% market share) and the largest bank in asset management (with an approximately 25% market share).
- With close to 4,000 branches, Banco do Brasil serves a diverse clientele, including individuals, businesses and government entities. It is a state-owned enterprise, with the federal government controlling 50% of the total shares.

2024 Outlook, Valuation & Earnings Comments

- Our estimates are above consensus. For 2024 we are forecasting another round of double-digit earnings growth, to BRL 39 billion, and a 20% ROE. Among the large banks in Brazil, BB is likely to deliver the highest loan book growth in 2024 (12% YoY), with at least similar growth in NII (post-cost of risk) and further efficiency gains.
- Deep value. BB is trading at 4x P/E and 0.8x P/BV, despite the ~20% ROEs we are forecasting for FY24. The bank today offers an 11% dividend yield, with room for a higher payout. Based on our target price of BRL 59/share, we see the bank re-rating to 0.85x P/BV, which is still discounted, considering both its FY24 and medium-term projected profitability levels.

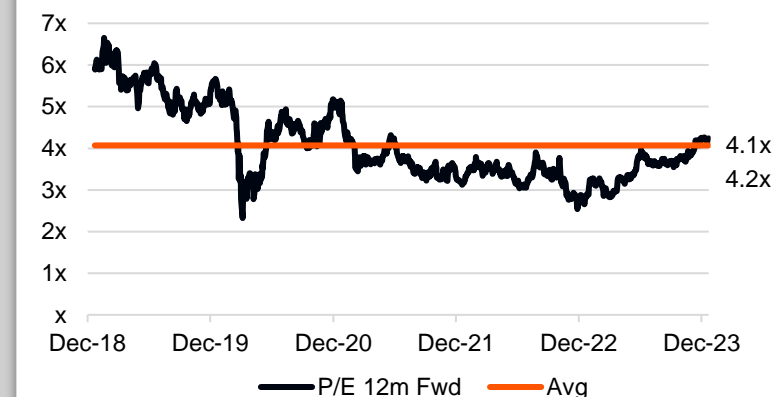
Key Themes to Monitor and Risks

- Unfriendly policy interference.
- Competition in key credit lines, especially payroll loans.
- Regulatory themes (e.g., the end of IoC and caps on credit lines).
- Client spreads widening going into FY24.
- Cost-of-risk declines in FY24.
- Potential increases in dividend/IOC payout.
- Banco Patagonia earnings headwinds.

Key Indicators & Factors (Consensus)

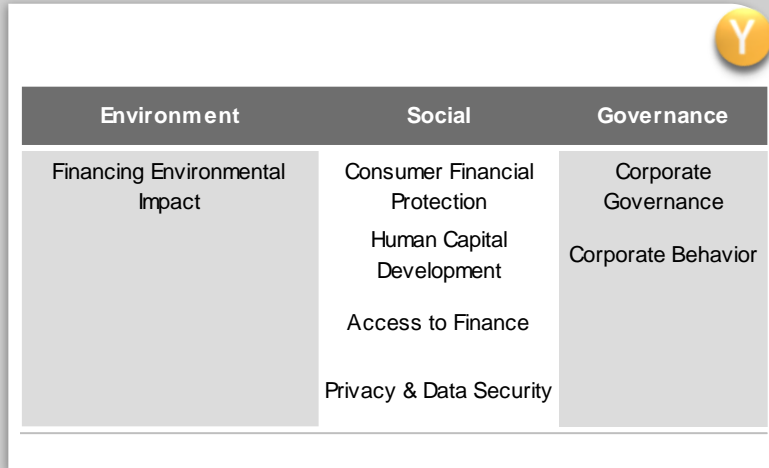
	2024E	2025E	2026E
P/E	4.2x	4.2x	3.9x
ROE	20.4%	18.7%	18.2%
Dividend Yield	9.6%	10.2%	12.8%
EPS Growth	5.6%	1.3%	7.7%
Earnings Revisions 3M	0.9%	1.4%	1.0%

P/E 12-Month Forward (Consensus)

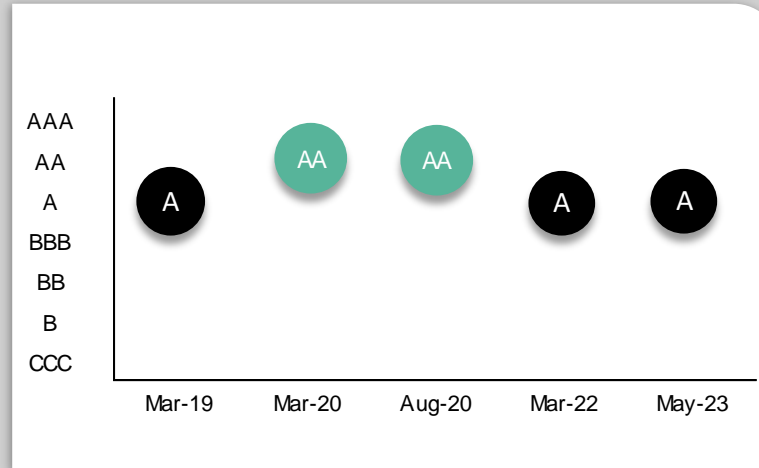


An Extremely Discounted Valuation With Superior Profitability (BBAS3 – YE24 Target Price: BRL 59.0)

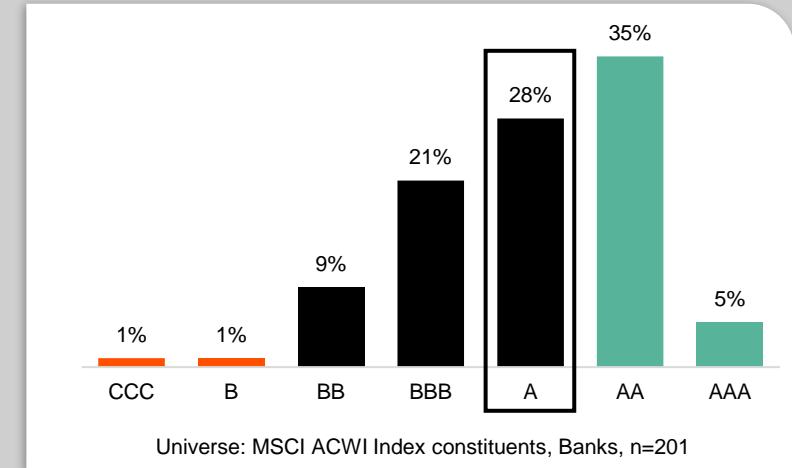
Materiality Map and Controversies



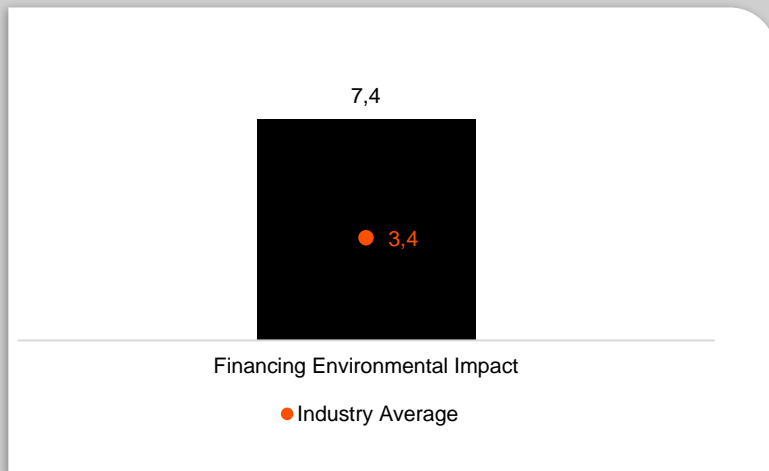
Rating Evolution



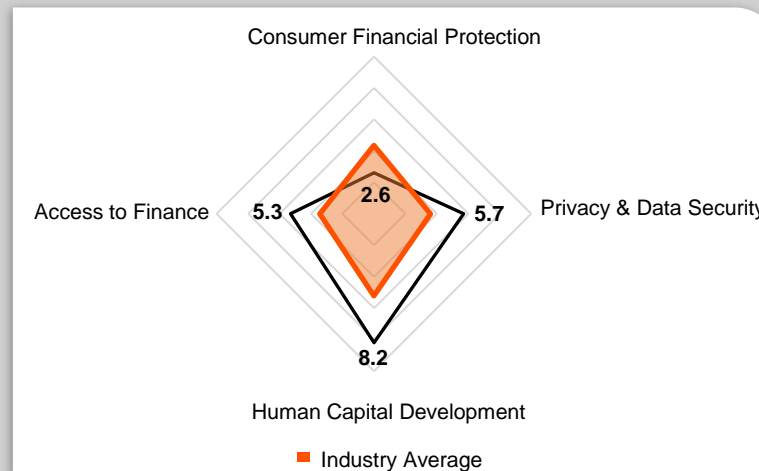
Rating Distribution



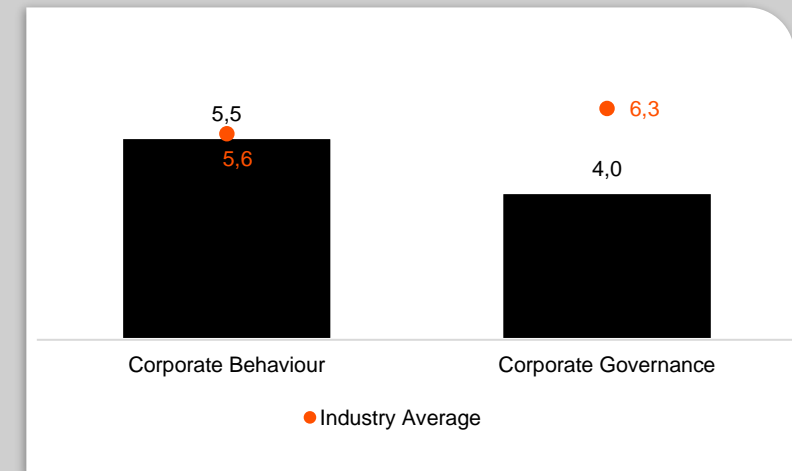
Environment Rating



Social Rating



P/Governance Rating



An Extremely Discounted Valuation With Superior Profitability (BBAS3 – YE24 Target Price: BRL 59.0)

Highlights

- **Positives:** As a signatory to the Equator Principles, BB assesses ESG risks for all of its corporate finance and project finance operations.
- **Room for improvement:** No individual disclosure of executive pay or clear conversion of ESG metrics into variable compensation; Brazilian government controls 50% of voting power; CEO has a seat on the Board of Directors.

Disclosure

- Banco do Brasil has its own sustainable annual report, which is audited by an independent auditor.
- **ESG reporting.** Banco do Brasil has adopted the Global Reporting Initiative (GRI) standards, and the bank is a signatory to the Equator Principles, the Green Protocol, and the Principles for Responsible Investment (PRI).
- **Sustainability indices.** The company is included on four sustainability indices in Brazil (the ISE Index, the IGC Index, the ICO2 Index and the IDiversa Index) as well as two global indices (the Dow Jones Sustainability Index and the FTSE4 Good Index Series).

Governance

- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.
- **Tax strategy.** Transactions carried out between the companies of the Banco do Brasil economic group observe market transfer pricing rules. Additionally, the company endeavors not to transfer generated value to low-tax jurisdictions or to use tax structures for the purpose of tax evasion. BBAS also complies with the rules on Taxation on a Universal Basis (RTBU) in operations carried out in countries with favorable tax systems (tax havens); accordingly, the respective revenues are duly taxed in Brazil, where the Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) are levied.

- **Board compensation.** A part of the bank's Variable Compensation Plan is aligned with the fulfillment of its Master Plan, which measures the institution's overall performance. The Master Plan's fulfillment is assessed through indicators for customer experience, sustainable finance, ESG strategy, digital transformation, and strengthening of organizational culture.
- **Board composition.** The Board of Directors has 8 members, 2 of whom are independent and 4 of whom are from the Ministry of Economy; the CEO has a seat on the BoD. The Executive Board has 9 members. The Supervisory Board, which has 5 members (2 of them independent), is an independent body separate from the directors that reports to the shareholders and is installed by a decision at the annual general shareholders' meeting; its purpose is to preserve the organization's value.

Social

- **Data privacy.** The bank utilizes an Integrated Supplier Due Diligence process to measure and prevent exposure to data privacy (LGPD) and going-concern (GCN) issues.
- **Relationship with the community.** Banco do Brasil operates Fundação BB, a foundation established in 1985 that focuses on aiding the community through donations and social programs. More than 2,700 municipalities have been assisted. In 2022, the social investments made by Fundação BB amounted to BRL 149.3 million.
- **Over indebted customers.** Overly indebted customers are covered by BB's credit strategies and, in addition to being continuously monitored, are addressed through initiatives to encourage and guide them on how to better plan their personal financial budgets. These customers are also included in credit limit methodologies that promote preventive behavior and as a target group in debt profiling campaigns, as well as in strategies to preventively mitigate indebtedness and promote the responsible use of credit.

An Extremely Discounted Valuation With Superior Profitability (BBAS3 – YE24 Target Price: BRL 59.0)

- **Diversity and inclusion.** Almost 42% of Banco do Brasil's total workforce are women, and 24% are people of color. Additionally, 37% of management positions are occupied by women, and 23% by people of color. The company is committed to achieving 30% representation of women and underrepresented ethnicities in leadership positions by 2030 (the current levels are 25% and 23.6%, respectively). On the Board of Directors, 2 of the 8 members are women, 2 are people of color, and 2 belong to the LGBTQIAPN+ community. On the Executive Board, 4 of the 9 members are women, 2 identify as people of color, and 2 are from the LGBTQIAPN+ community.
- **Training.** In 2022, the minimum number of annual training hours per employee was 40, and the proportion of employees who fulfilled the minimum number of annual training hours was 98.51% (the company's goal was 90%); the average hours of training per year per employee was 114.4, a 22.54% increase compared with 2021.
- **Human rights.** Banco do Brasil formally committed to respecting human rights in its document "BB's Commitment to Human Rights". Regarding the supply chain, to improve its documentary due diligence for contracts and payments, the bank conducted its fourth annual BB Integrated Supplier Due Diligence process in 2022, reviewing environmental, human rights, and integrity aspects as part of its Supplier Risk Management Program. The company included specific actions on human rights applicable to the supply chain in its Sustainability Plan in the BB 2030 Agenda.
- **Financial education and inclusion.** The company offers a portfolio of products, services, and programs developed to serve less-advantaged stakeholders, such as the "Aprende que Rende" on its YouTube channel and a Debt Renegotiation Virtual Assistant. BB is committed to renegotiating the debts of 2.5 million clients by 2025. In 2023, 518,000 clients renegotiated their debts.
- **Ethics and transparency.** To combat and prevent actions and crimes, BB is a member of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF), the National Anti-Corruption and Anti-Money Laundering Strategy (ENCCLA), Febraban's Anti-Money Laundering and Terrorism Financing Sectoral Council, and the Anti-Money Laundering and Terrorism Financing Executive Squad.

Environment

- **Sustainability guidelines for credit.** Banco do Brasil requires its borrowers to submit documents proving their good environmental standing (environmental licenses, environmental impact reports, and water grants, where appropriate). Before any credit is contracted, borrowers must submit documentation accounting for the origin of any animal or plant production, such as a Document of Forest Origin. For properties located in any Amazon Biome Municipalities and for rural properties, checks are conducted to ensure that they are not listed as properties embargoed for deforestation or illegal burning. Additionally, the bank does not take credit risks in connection with customers that subject workers to degrading work conditions, nor does it accept as collateral any properties located on archaeological sites or areas that are contaminated or occupied by legally protected ethnic groups (indigenous people, quilombolas, etc.).
- **Water consumption.** In 2022, BB's water consumption was 1,128 m³. Banco do Brasil's target from 2023 to 2028 is a 1% reduction in consumption per year, totaling a 5% reduction over five years, a target which can be revised as its actions progress.
- **Waste management.** In line with the commitments stated in Agenda 30 (BB's sustainability plan with 2030 targets), the bank is implementing the BB Zero Waste Program, an integrated waste management system aligned with circular-economy principles.
- **Forest conservation.** BB is dedicated to ensuring that 1 million hectares are conserved and/or reforested by 2025. In 2023, the total area conserved surpassed 500,000 hectares.

An Extremely Discounted Valuation With Superior Profitability (BBAS3 – YE24 Target Price: BRL 59.0)



- **Energy management.** BB had committed to achieving a 90% renewable energy supply by 2024, but it actually achieved that goal in 2023, reaching 100% renewable energy use. The bank already sources energy from eight solar power plants, with six additional renewable energy plants under construction and 15 being commissioned, for a total of 29 power plants by the end of 2024. Once they are all operational, these 29 plants will generate enough energy to power 1,428 bank branches, enabling the institution to save BRL 436 million over 15 years. Since 2020, the bank has ensured that 100% of the energy it consumes is linked to renewable energy sources.
- **Climate commitment.** BB is a founding member of the Empresas pelo Clima (Businesses for the Climate) Initiative, or EPC, and the Programa Brasileiro GHG Protocol (Brazilian GHG Protocol Program), and it is a member of the Thematic Chamber on Climate Change (Weather Chamber). At the end of 2019, Banco do Brasil set goals to reduce GHG emissions with a long-term horizon. BB is committed to reducing its GHG emissions (Scopes 1 and 2) by 30% by 2030. In 2021, BB offset 100% of Scope 1 emissions through the purchase of carbon credits, and in 2020, it offset 100% of its Scope 2 GHG emissions through the use of I-REC Renewable Energy Certificates (International REC standard), thereby fulfilling its commitments. The bank is also committed to achieving carbon neutrality by 2050.

Strong Momentum to Continue in 2024 (RAIL3 – YE24 Target Price: BRL 30.0)

Investment Thesis

- Brazil is the world's leading soybean producer and the third-largest corn producer, with almost two-thirds of the country's grain exports directed to China. Over the past two decades, Brazil has tripled its soybean harvest and quadrupled its corn production, yet there is still considerable room for growth.
- To transport these increasingly large volumes while reducing the country's dependence on truck transportation, heavy investment in railways is necessary. Rumo is the largest and most efficient railway operator in the country and stands to benefit directly from this trend.

Company Background

- Rumo is the largest railway operator in Brazil, with over 13,000 kilometers of railway extending across eight Brazilian states through five concessions. The company has a presence in the principal Brazilian export corridors, accessing key ports such as Santos and Paranaguá.
- With approximately 1,200 locomotives and 33,000 railcars, the company transported over 67 million tons of cargo in 2022 (or approximately 75 billion revenue ton kilometers, or RTKs), of which 75% was agricultural cargo and 13% was industrial. The company also operates several transshipment terminals.

2024 Outlook, Valuation & Earnings Comments

- In 2024, the company is likely to benefit from another year of robust freight prices (we forecast a 13% year-over-year increase in the consolidated yield next year, and we acknowledge that there might be some upside here), with rates rising due to the tight supply market amid record-high crops.
- Valuation-wise, we currently see the stock trading at 8x EV/EBITDA 2024, below our estimated fair multiple of 9.0x. Our target price of BRL 30.00/share accounts for 50% of the net present value (NPV) of the Lucas do Rio Verde Project, or approximately BRL ~4.0/share (i.e., the full project adds around BRL 8.00/share).

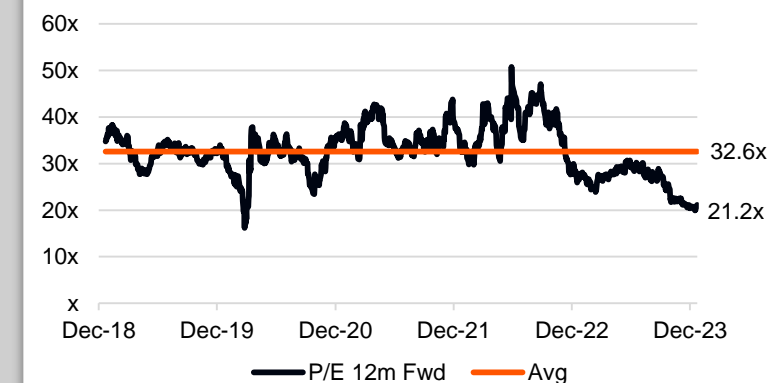
Key Themes to Monitor and Risks

- El Niño evolution: Should there be a major corn crop failure in the 2023-24 season, Rumo's volumes could be affected, and this effect would be only partially offset by take-or-pay clauses.
- Although Rumo typically passes through diesel prices in its contracts, lower fuel prices tend to benefit the Northern Arch due to its higher reliance on truck transportation.
- Capex: Rumo is in the midst of a significant investment cycle owing to the LRV project; should capital expenditures exceed expectations, this could negatively affect cash flow generation.

Key Indicators & Factors (Consensus)

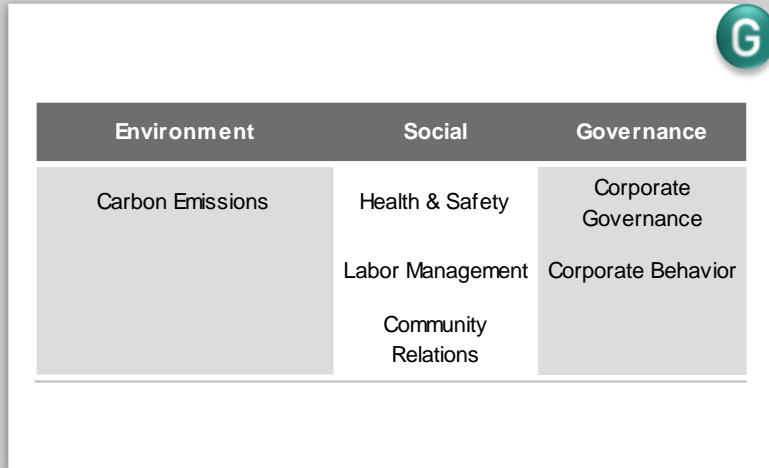
	2024E	2025E	2026E
P/E	21.2x	17.8x	19.6x
EV/EBITDA	8.1x	7.4x	7.0x
FCF Yield	-1.4%	3.3%	10.9%
Dividend Yield	0.8%	1.6%	0.0%
Net Debt EBITDA	1.9x	2.0x	2.1x
EPS Growth	146.2%	18.6%	-9.1%
Earnings Revisions 3M	3.9%	2.8%	0.0%
EBITDA Growth	25.5%	14.0%	10.7%
EBITDA Revisions 3M	2.4%	2.4%	3.1%

P/E 12-Month Forward (Consensus)

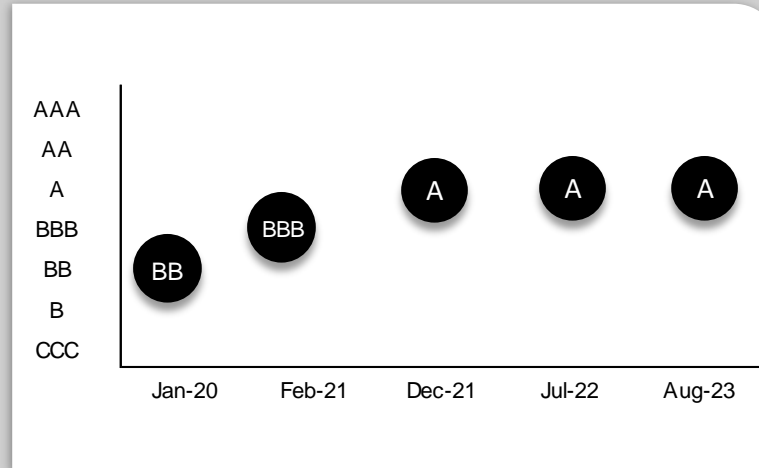


Strong Momentum to Continue in 2024 (RAIL3 – YE24 Target Price: BRL 30.0)

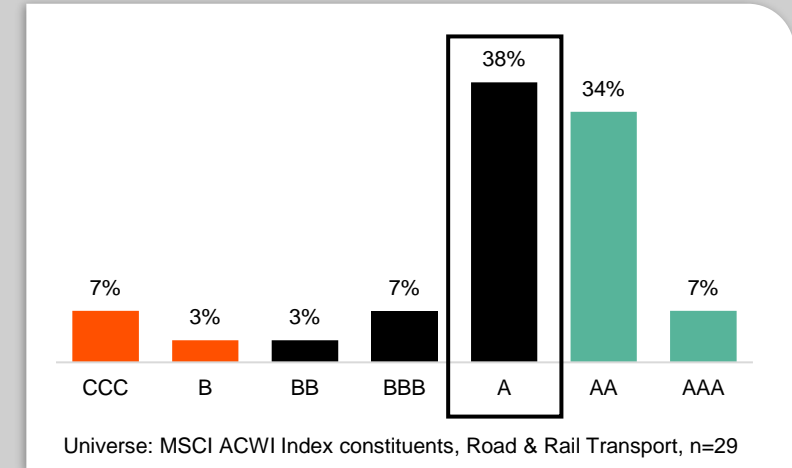
Materiality Map and Controversies



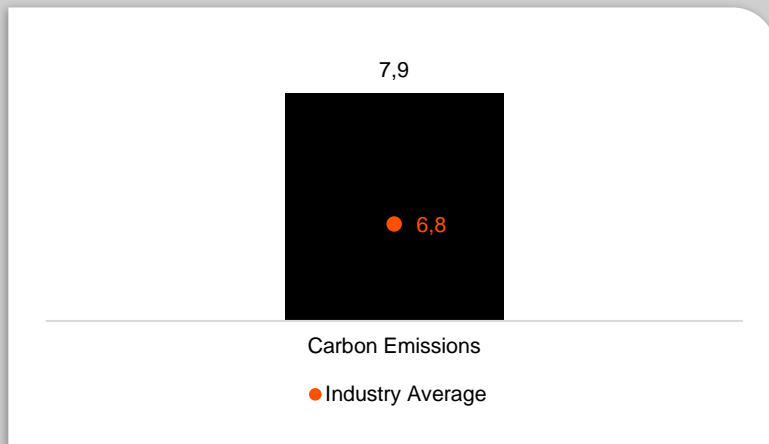
Rating Evolution



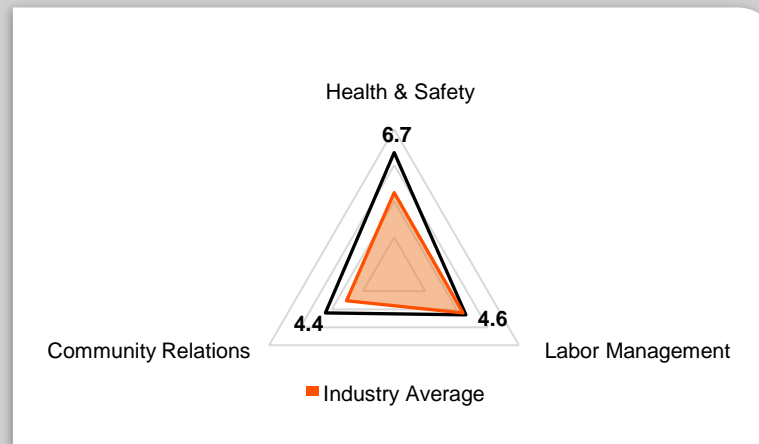
Rating Distribution



Environment Rating



Social Rating



Governance Rating



Strong Momentum to Continue in 2024 (RAIL3 – YE24 Target Price: BRL 30.0)

Highlights

- **Positives:** Company is committed to reducing Scope 1 emissions by 21% by 2030 (based on 2020 levels); it aims to maintain an LTIF rate of 0.15 by 2025, in line with the best railroads in the world.
- **Room for improvement:** No individual disclosure of executive pay or clear conversion of ESG metrics into variable compensation; low number of women on the BoD and absence of women on the Executive Board; insufficient number of independent members on the BoD; founding family is active and controls 34% of voting power.

Disclosure

- Rumo has its own sustainable annual report, which is audited by an independent auditor.
- **ESG reporting.** Rumo has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Sustainable Development Goals (SDG), and the Task Force on Climate-Related Financial Disclosures (TCFD). Rumo actively participates in organizations committed to the ESG theme, including the UN Global Compact, the UN Women's Empowerment Principles, the Instituto Ethos Business Compact for Integrity and Anti-Corruption, Coalition Brazil, the Brazilian Business Commitment to Biodiversity, and the Group of Institutes, Foundations, and Companies (GIFE).
- **Sustainability indices.** The company is included on three sustainability indices in Brazil (the ISE Index, the IGC Index and the ICO2 Index) and one international index (the Dow Jones Sustainability Index).

Governance

- **Board.** The Board of Directors is composed of 10 members, elected by the Ordinary General Assembly; at least 2 members or 20%, whichever is higher, must be independent. The Chairman of the Board cannot concurrently hold the position of company CEO.
- **Board remuneration.** Members of the Board of Directors receive fixed remuneration. In 2022, for the short-term variable remuneration, social and environmental indicators were also linked to collective goals for employees.
- **Fighting corruption.** In 2022 the company submitted 100% of its suppliers, donations and sponsorship beneficiaries to integrity analysis that encompasses corruption-related issues; a total of 447 evaluations were conducted during the period.
- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.

Social

- **Diversity.** Three of the 10 members of the Board of Directors are women, and 11.6% of all employees are women. There are no women on the Executive Board.
- **Impact on society.** In 2022, Rumo conducted socio-environmental activities in 53 municipalities, as well as 23 volunteer projects. The company also allocated BRL 3.8 million to 32 projects focused on social impact, culture, education, health for the elderly/children, and sports, reaching around 5.2 million people.
- **Health and safety.** Rumo is committed to ensuring the safety of teams, processes, and operations, with the quantitative goal of maintaining an LTIF rate of 0.15 by 2025, in line with the best railroads in the world. In 2022, the occurrence of one additional accident event compared with 2021 resulted in an increase in the company's LTIF rate.

Strong Momentum to Continue in 2024 (RAIL3 – YE24 Target Price: BRL 30.0)

- **Career development.** To support the career development and engagement of its employees, Rumo sponsored more than 514,000 training sessions that were completed by employees over the course of 2022, with a total investment of over BRL 4.4 million.
- **Data security.** In 2022, over 81% of the company's administrative and operational employees completed LGPD training. Additionally, the company reinforced provisions in its supplier contracts aimed at reducing risks.
- **Operational safety.** Rumo has developed partnerships with public bodies to implement contingency technologies for accident occurrences, and it has made investments in the revitalization and maintenance of roads and rolling stock. Constant training and awareness campaigns for its employees aim to reduce accident rates. In 2022, the company reached an important milestone in operational safety: the corridor connecting Rondonópolis (MT) to the Port of Santos (SP) saw a 78% reduction in accidents over the prior five years.
- **Accidents.** In 2022, there were 339 accidents, including 217 collisions and 122 cases of runovers. This number represented a 25% increase from 2021, with a 15% increase in collisions and a 45% increase in runovers. The increase in incidence was attributed to the significant increase in the volume transported and the consequent greater circulation of trains, as these accidents typically occur due to third-party interference. Since 2020, the company's fatality rate has been zero, and Rumo has worked incessantly to maintain this level, achieving the milestone of 1,000 days without a fatal accident.
- **Suppliers.** In 2022, Rumo continued to conduct reputational analysis (background checks) for all suppliers, extending a practice previously reserved for strategic contracts.

Environment

- **Eco-efficiency.** In 2022, Rumo saved around 10 million liters of diesel, compared with 2021, by optimizing its trips, which equates to a 23,000-ton reduction of CO₂ emissions.
- **Supplier impact.** In 2022, Rumo conducted environmental impact assessments on 506 supplier companies, including 47 new suppliers. Fifteen companies were identified as potential sources of environmental impact.

- **Carbon emissions.** In 2022, Rumo's direct carbon emissions were 981.114 tCO₂. The company acquired two hybrid locomotives that combine diesel engines and batteries to reduce diesel consumption and, consequently, CO₂ emissions. The company has also achieved a 15% reduction in Scope 1 emissions (compared with the 2019 level) and is committed to reducing them by 21% by 2030 (compared with the 2020 level).
- **Green bond.** In 2020, the company issued the first Green Bond for freight railroads in Latin America, raising USD 500 million with Climate Bonds Initiative (CBI) certification.
- **Water effluents.** Rumo has effluent treatment plants (ETEs) at facilities where locomotives, wagons, and parts are washed, which generate industrial effluents containing oily or organic substances. The ETEs are operated by third-party companies that perform chemical analyses for the monthly monitoring of effluent parameters; after treatment, the effluents are discharged into the stormwater/river system or public collection networks.
- **Fossil fuels.** Rumo has not set out specific targets for reducing its direct consumption of fossil fuels.

A Compounding Name With Solid Momentum (TOTS3 – YE24 Target Price: BRL 38.0)



Investment Thesis

- Totvs is a compounding story with a resilient profile (recurring revenues and product stickiness) that is primarily exposed to the still-maturing Brazilian software market.
- Totvs is the absolute leader in the ERP market in Brazil, backed by its strong distribution platform with national coverage.
- The company has solid growth opportunities, such as: i) the ramp-up of the joint venture with Itaú, Totvs Techfin; and ii) scaling up the Business Performance division, contributing to higher profitability ahead.

Company Background

- Totvs leads the Brazilian ERP market with more than 30 years of history and 70,000 clients (one-third of public companies listed on B3 are Totvs clients). Totvs develops specialized solutions in 12 business segments, offering integrated business management software, credit (Techfin), and digital marketing solutions (Business Performance).

2024 Outlook, Valuation & Earnings Comments

- We see the stock trading at 24.6x P/E for 2024, which compares with nearly 30x P/E for U.S. software players compounding at similar levels.
- The earnings CAGR for 2023-26 is likely to be around 32% as the company increases profitability through i) scaling up its BP division, ii) decreasing its funding costs for the Techfin division, and iii) migrating clients to the cloud (less than half of the base is currently in the cloud).
- We foresee Totvs maintaining strong operating momentum in 2024.

Key Themes to Monitor and Risks

- The ramp-up of B2B credit for SMB operations through the JV with Itaú, Totvs Techfin.
- The potential for new M&As given the company's strong balance-sheet position.
- Increasing competition from international players.
- A worsening macro environment leading to lower IT investments from clients (Totvs's management revenues have a high correlation with GDP).
- A worsening credit environment affecting both suppliers and Totvs's Techfin operations.

Key Indicators & Factors (Consensus)

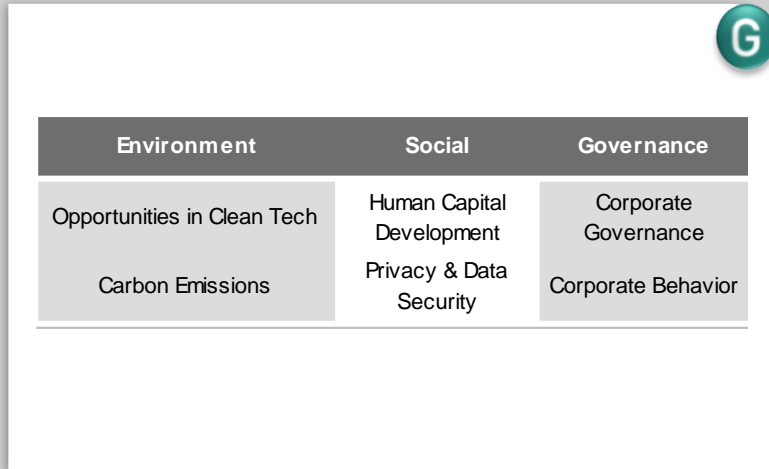
	2024E	2025E	2026E
P/E	24.6x	20.2x	16.9x
EV/EBITDA	13.6x	11.3x	n.a.
FCF Yield	4.3%	4.9%	n.a.
Dividend Yield	1.1%	1.2%	n.a.
Net Debt EBITDA	-1.6x	-1.5x	n.a.
EPS Growth	15.8%	21.7%	19.2%
Earnings Revisions 3M	-0.8%	-2.0%	-3.3%
EBITDA Growth	20.1%	18.7%	n.a.
EBITDA Revisions 3M	0.0%	0.0%	n.a.

P/E 12-Month Forward (Consensus)

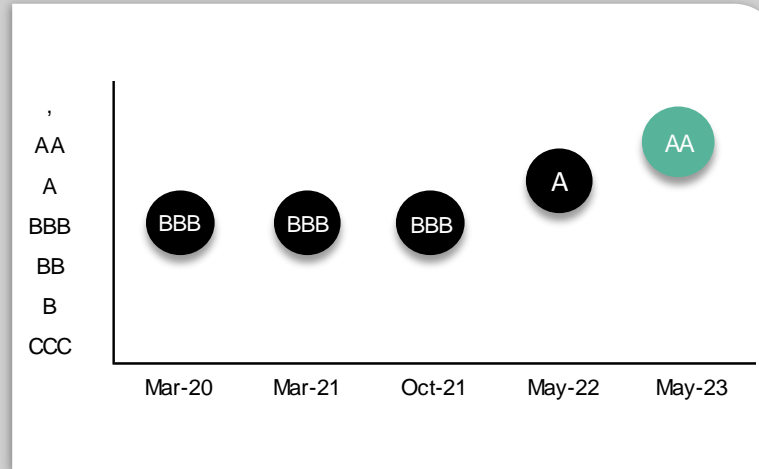


A Compounding Name With Solid Momentum (TOTS3 – YE24 Target Price: BRL 38.0)

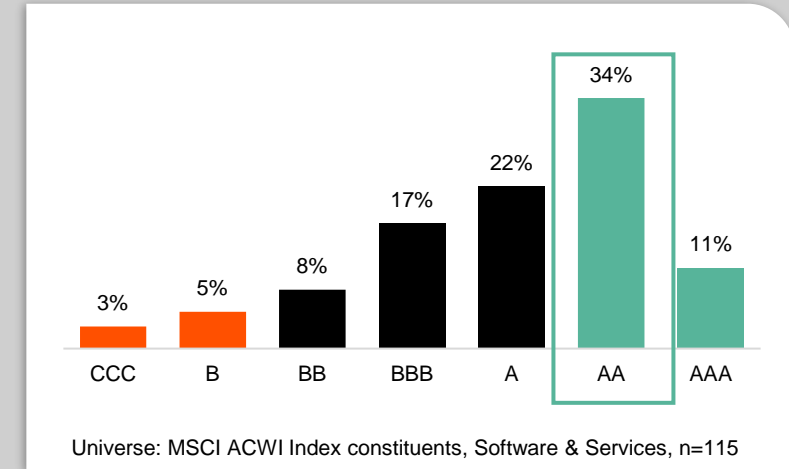
Materiality Map and Controversies



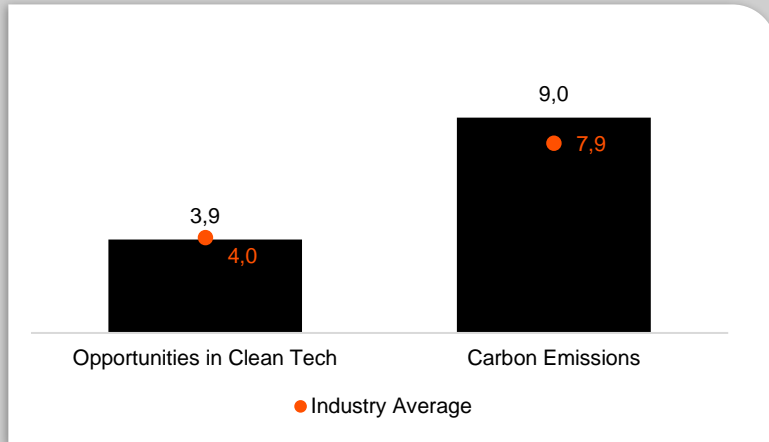
Rating Evolution



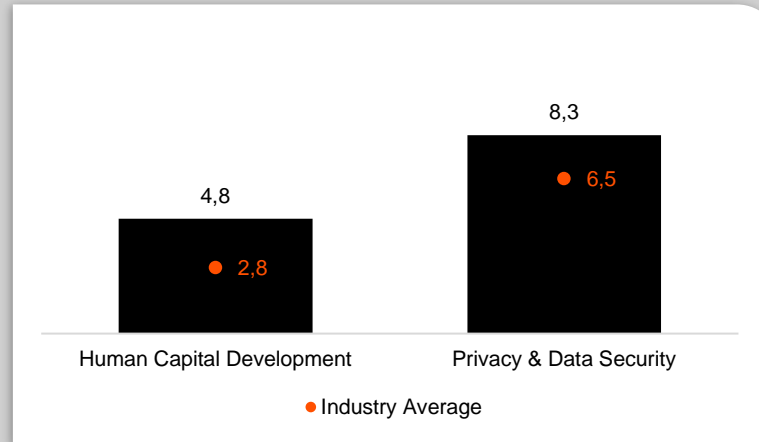
Rating Distribution



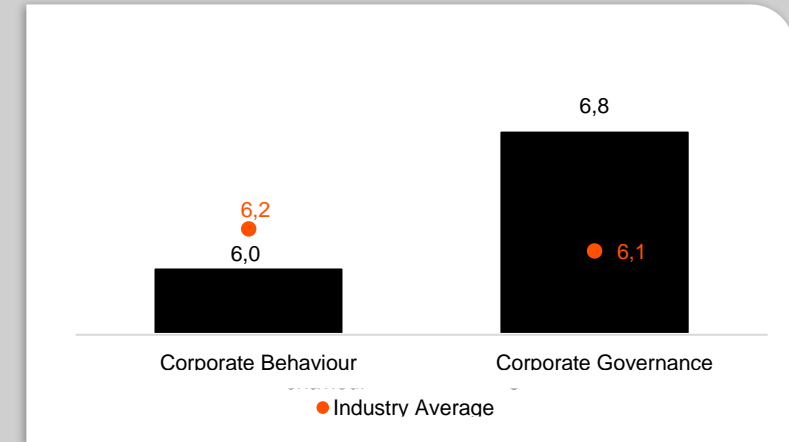
Environment Rating



Social Rating



Governance Rating



A Compounding Name With Solid Momentum (TOTS3 – YE24 Target Price: BRL 38.0)



Highlights

- **Positives:** Totvs has limited access to end-user information, and its processes are aligned with ISO 27001; it provides robust compensation (pay and non-pay); it is recognized as a great place to work, and performs two annual surveys to assess workforce satisfaction – 83.8% of employees consider Totvs a healthy place to work.
- **Room for improvement:** No individual disclosure of executive pay or clear conversion of ESG metrics into variable compensation.

Disclosure

- Totvs has its own sustainable annual report, which is audited by an independent auditor.
- **ESG reporting.** Totvs has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainable Development Goals (SDGs). Totvs actively participates in organizations committed to the ESG theme, such as the UN Global Compact and the Instituto Ethos Business Compact for Integrity and Anti-Corruption.
- **Sustainability indices.** The company is included in four sustainability indices in Brazil (the GPTW Index, the IGC Index, the ICO2 Index, and the IDiversa Index).

Governance

- **Governance standards.** Totvs adheres to the standards outlined in the Code of Best Corporate Governance Practices as defined by the Brazilian Institute of Corporate Governance (IBGC).

- **Board of Directors.** The company's Board of Directors comprises a majority of independent members (86% – 6 out of 7 members). The Executive Board has 8 members.
- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.

Social

- **Development and training.** In 2022, Totvs trained 10,626 employees, totaling 336,510 hours of learning, focusing on two pillars: i) new education opportunities and career development; and ii) leadership development.
- **Diversity.** Three of the seven members of Totvs's Board of Directors are women; on the Executive Board, one out of eight members is a woman. Women compose 35% of leadership positions and 37% of all employees. Regarding racial diversity, 15% of all leaders and 25% of all employees identify as Black. Additionally, 8% of employees identify as LGBTQIAPN+.
- **Privacy and data security.** Totvs implemented a tool to automate the governance of corporate identities and access, reducing the risk of improper access. The company completed an initiative to measure information security maturity in certain areas using the NIST Cybersecurity Framework (CSF). Totvs also updated and added new Data Mapping (RoPA) processes in all areas, generated new Impact Reports (RIPD), and provided conceptual and specific training for data protection and privacy to 19,740 employees.

- **Employee performance.** In 2022, 89% of all employees participated in the performance management and career development program.
- **Suppliers.** In 2022, 96% of the company's suppliers underwent background checks to ensure compliance with anti-corruption laws, the absence of forced or child labor, and respect for environmental standards.
- **Relationship with the community.** Totvs is the principal supporter of the Institute of Social Opportunity (IOS), a nonprofit institution that collaborates with other social organizations and private entities to provide free courses. In 2022, the company invested BRL 6.8 million in the program, and 1,945 students graduated from it across the country.
- **Engagement.** According to a survey conducted twice a year that covers all employees, the company's eNPS score is 70 points, and 83.8% consider Totvs a healthy place to work.
- **Pay gap.** In 2022, there was a gender pay gap ranging from 4% to 14% for different positions at Totvs.

Environment

- **Carbon emissions.** In 2022, Totvs conducted its second inventory of greenhouse gas (GHG) emissions, following the GHG Protocol Brazil and the guidelines of the Carbon Disclosure Project (CDP). Totvs has made progress in its global CDP rating, advancing from F to C- as of 2022.
- **Water consumption.** Water consumption increased by 60% in 2022 compared with 2021 (12,336 m³), which was a year of remote work. However, compared with pre-pandemic levels (47,866 m³), water consumption has been reduced by almost 59%.

A Compounding Name With Solid Momentum (TOTS3 – YE24 Target Price: BRL 38.0)

- **Energy consumption.** 98% of Totvs's energy at the headquarters, data center, and Joinville unit (the most populous offices) comes from renewable sources, through a contract with an external company, which corresponds to 83% of the company's total consumption in 2022. Its total energy consumption in 2022 (41,079 GJ) showed a 14.70% increase from 2021, but compared with 2020, there was a reduction of 21.93%, and compared with 2019 (41,079 GJ), a decrease of 12.91%.
- **Waste management.** Over 90% of furniture is donated to social organizations during decommissioning and/or restructuring of offices. In 2022, 28.40 tons of waste were sent to landfills, and 28.17 tons were recycled, a 139% increase compared with 2021.



A Unique Business Model With Plenty of Room to Grow (TTEN3 – YE24 Target Price: BRL 16.0)



Investment Thesis

- Brazil is the world's number-one soybean producer and third-largest corn producer, with almost two-thirds of the country's grain exports directed to China. In the past two decades, Brazil has tripled its soybean harvest and quadrupled its corn production, yet there remains substantial potential for growth.
- In this context, further increases in the country's average productivity are likely to be driven by the heightened use of agricultural inputs, benefiting resellers like 3tentos. Moreover, the company has significant growth opportunities in Mato Grosso, Brazil's largest producing state.

Company Background

- Founded in 1995 by the Dumoncel family, 3tentos is a Brazilian agribusiness company with a unique business model encompassing three main units.
 - First, the resale of agricultural inputs such as seeds, fertilizers, and pesticides through its network of over 50 stores in the states of Rio Grande do Sul and Mato Grosso.
 - Second, the processing of soybeans to produce meal and biodiesel at its three industrial plants (two in RS and one in MT).
 - Third, the origination and trading of grains.

2024 Outlook, Valuation & Earnings Comments

- 3tentos has considerable growth potential in Mato Grosso over the medium term, in terms of both number of stores and crushing volumes for biodiesel and soy meal production. We believe that this potential is only partially reflected in the current price, and we see almost 42% upside potential in our DCF valuation.
- Valuation-wise, the company is trading at 4.9x EV/EBITDA 2024e and 6.7x P/E 2024e, which are attractive levels, in our opinion. Although we anticipate 3tentos facing some challenges in the short term following the normalization of commodity prices, we still view the company as a long-term compounder.

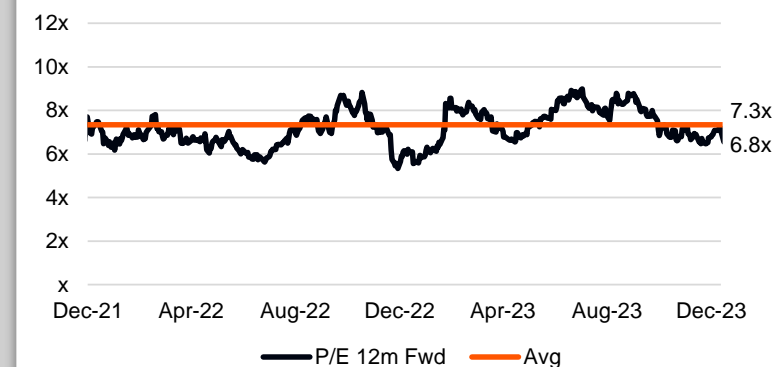
Themes to Monitor

- In the Inputs segment, risks include increased competition (especially in Mato Grosso) and sustained low prices as fertilizer/pesticide costs return to historical norms with the normalization of grain prices.
- In the Industry segment, risks include a slower-than-expected recovery in crushing margins if there are delays in the scheduled gradual increase in the proportion of biodiesel mixed into diesel.
- Higher SG&A could erode margins, as occurred in 3Q23, primarily due to increased freight expenses.

Key Indicators & Factors (Consensus)

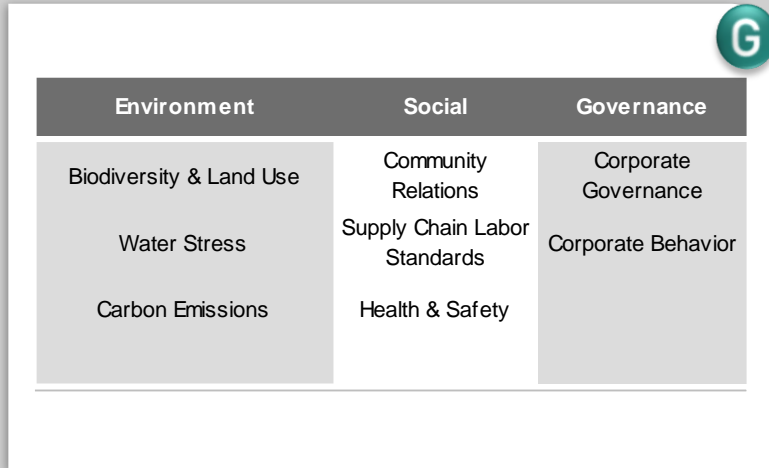
	2024E	2025E	2026E
P/E	6.7x	6.3x	n.a.
EV/EBITDA	4.9x	n.a.	n.a.
FCF Yield	n.a.	n.a.	n.a.
Dividend Yield	2.8%	5.1%	n.a.
Net Debt EBITDA	-0.8x	n.a.	n.a.
EPS Growth	23.1%	5.2%	n.a.
Earnings Revisions 3M	-0.7%	-1.1%	n.a.
EBITDA Growth	35.7%	13.7%	n.a.
EBITDA Revisions 3M	-1.6%	4.4%	n.a.

P/E 12-Month Forward (Consensus)

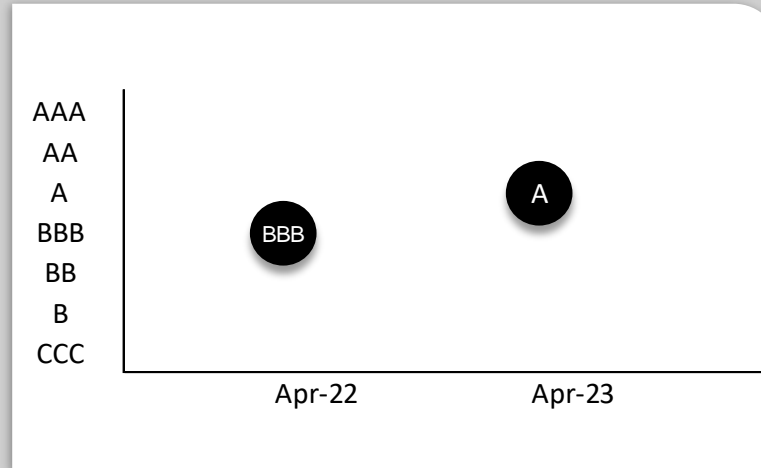


A Unique Business Model With Plenty of Room to Grow (TTEN3 – YE24 Target Price: BRL 16.0)

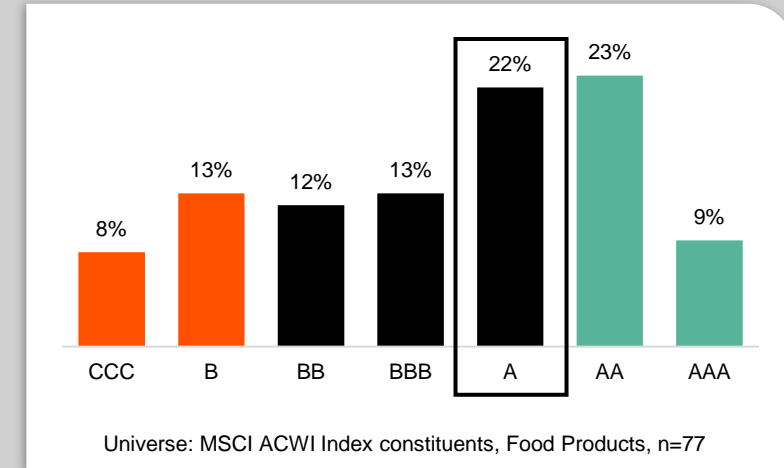
Materiality Map and Controversies



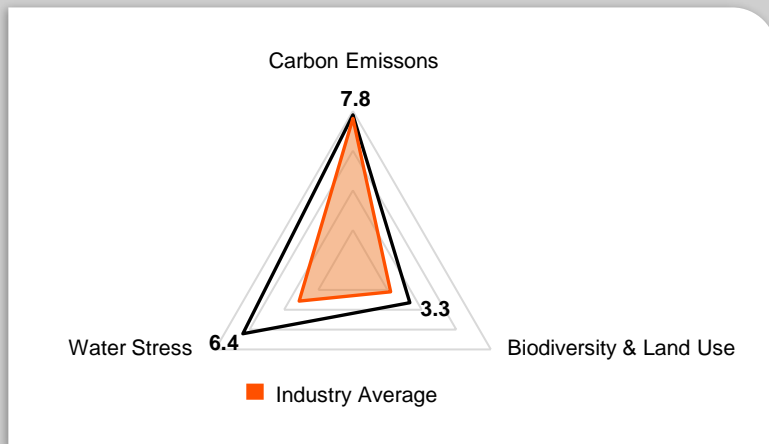
Rating Evolution



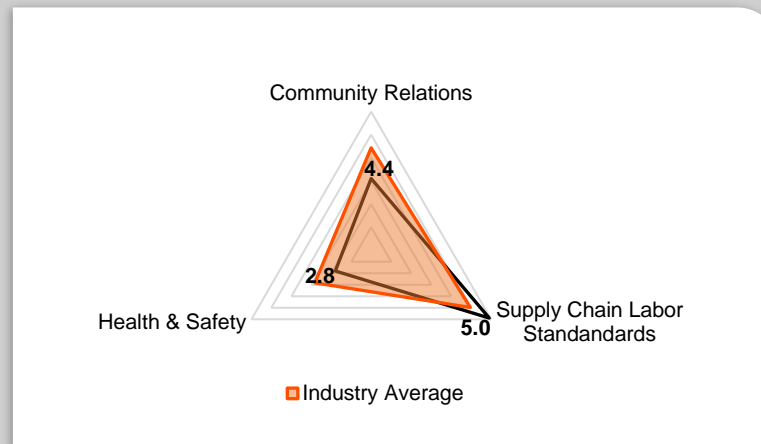
Rating Distribution



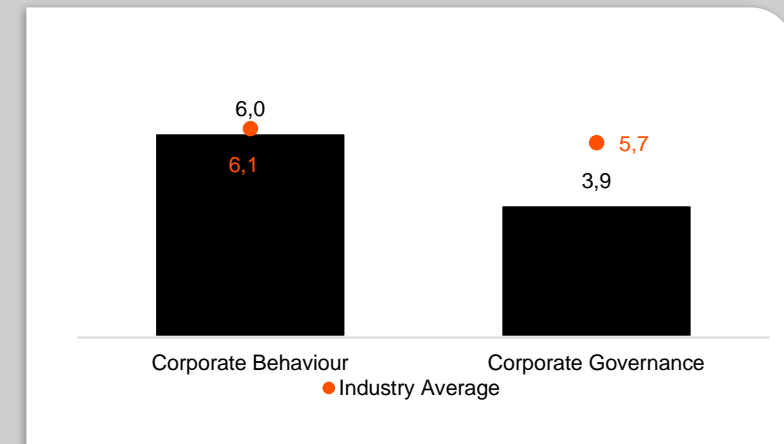
Environment Rating



Social Rating



Governance Rating



A Unique Business Model With Plenty of Room to Grow (TTEN3 – YE24 Target Price: BRL 16.0)

Highlights

- **Positives:** Zero-water-effluent system in place; renewable energy sources representing 90% of the total consumption; diverse supplier management initiatives; and adherence to associations and programs that ensure that no acquired soy comes from deforestation areas.
- **Room for improvement:** No individual disclosure of executive pay or clear conversion of ESG metrics into variable compensation; low number of women on the BoD and absence of women on the Executive Board; insufficient number of independent members on the BoD (the CEO also serves as deputy chair); founding family is active and holds 75% of voting power.

Disclosure

- 3tentos has its own sustainable annual report, which is audited by an independent auditor.
- **ESG reporting.** 3tentos has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), Integrated Reporting (IR), the International Sustainability Standards Board (ISSB), the Sustainability Accounting Standards Board (SASB), the Sustainable Development Goals (SDG) and the Task Force on Climate-Related Financial Disclosures (TCFD).
- **Sustainability indices.** The company is included on one sustainability index in Brazil (the IGC Index).

Governance

- **Board of Directors.** The BoD has six members, two of whom are independent. The Executive Board has 10 members.

Listing. The company is listed on B3's Novo Mercado with 100% of common shares.

Social

- **Employee benefits.** In 2022, the total employee benefits totaled more than BRL 14 million, representing an increase of 152% YoY. This increase was due to constant improvement in the benefits program, company expansion, and staff growth.
- **Diversity.** Almost 20% of all 3tentos employees are women, representing an increase of 10% YoY. On the BoD, there is only one woman out of six members. No members of the Executive Board are women.
- **Human development.** In 2022, 3tentos implemented Projeto Rota, which aims to professionally develop its employees. Throughout the year, 104 employees benefited from the program. Accounting for all of its programs, the company provided its employees more than 35,000 hours of training.
- **Health and safety.** 3tentos offers Health and Safety Training at Work (Treinamentos de Saúde e Segurança do Trabalho – SST, in Portuguese), annual first aid training, and an annual event focused on providing information related to occupational health and safety for employees.
- **Suppliers.** In 2022, considering all 3tentos's suppliers, 22.7% of the new suppliers were selected based on social and environmental criteria. Of the raw material it uses for biodiesel production, 51% comes from family agriculture.

- **Work accidents.** There were a total of 23 work accidents in 2022, 11 involving machines and equipment, four related to the raw materials used in the process, four with work tools, two with involuntary movements of the body itself, and one related to unit layout. No deaths were registered. All risks that could lead to work accidents or occupational illnesses, whether or not they have had serious consequences, are checked annually by an internal and external team. These risks are described in the PGR and Occupational Risk Management Program (PGREC). The company invested more than BRL 2.5 million in workplace health and safety in 2022.
- **Supply chain.** 3tentos belongs to the Brazilian Association of Vegetable Oil Industries (ABIOVE) and adheres to this organization's socio-environmental criteria for Management, Promotion of Production, and Purchase of Soy in Brazil. This means that all suppliers and grain production areas negotiated and sold at 3tentos's units in Mato Grosso undergo careful social-environmental analysis to ensure that the products come from reliable sources. All suppliers in Rio Grande do Sul also undergo a thorough social-environmental analysis.

Environment

- **Carbon emissions.** Scope 1 greenhouse gas emissions amounted to 30,236 tCO₂ in 2022, an increase of 3.1% year over year. Scope 2 emissions in the same year totaled to 1,341 tCO₂, representing a 78% decrease. Regarding Scope 3 emissions, 3tentos began collecting this data in 2022.

A Unique Business Model With Plenty of Room to Grow (TTEN3 – YE24 Target Price: BRL 16.0)

- **Energy consumption.** Ten of 3tentos's units use renewable energy, from hydroelectric power plants (PCH), biomass thermoelectric plants, wind plants, and solar plants. In 2022, there was a 7.2% reduction in the company's total energy consumption compared with 2021. Renewable energy sources represent 90% of total consumption.
- **Deforestation.** In 2022, 3tentos became a signatory of the Soy Moratorium, which ensures that soy produced in the Amazon and commercialized by its signatories is free from deforestation occurring after July 22, 2008.
- **Water consumption.** 3Tentos has implemented a zero-effluent system, meaning that all effluent generated within the industry is treated and reused without being released into the environment. The company also has a rainwater capture and storage system with a capacity of 7,000 m³. After capture, the water is reused in the industrial process.

A Good Risk-Reward Proposition (LREN3 – YE24 Target Price: BRL 20.0)

Investment Thesis

- Despite expectations of a weak 3Q23, the company is likely to see an operational improvement in 4Q23 (favored by easy comparisons), which is likely to mark an inflection point in its earnings momentum and could be a trigger for the stock to rebound.
- The new distribution center (DC) is expected to play a key role in both the online and brick-and-mortar (B&M) businesses: i) it allows 100% shipment to stores on a per-SKU basis; ii) it enables full utilization of the B&M stores to fulfill e-commerce sales; and iii) it is located on a better e-commerce logistics route.
- Marginal store expansion to the streets of smaller cities, with higher ROIC and EBITDA margins.

Company Background

- Lojas Renner is one of the largest fashion retailers in Brazil. Established in 1965, it operates 675 stores, including the Renner (412), Camicado (107), Youcom (124), and Ashua (18) store networks along with 10 Renner units in Uruguay and 4 in Argentina. In 2022, the company acquired Uello, a digital-native express-delivery-logistics technology firm. In terms of logistics, it has three distribution centers (DCs), including a new omnichannel center in Cabreúva (SP) that is in the ramp-up phase and a cross-docking unit. To complement the retail operation, a wide range of financial services and products are offered through Realize CFI. The administrative headquarters is located in Porto Alegre (RS), with offices in China, Vietnam, and Bangladesh for import operations and the development of new products and suppliers.

2024 Outlook, Valuation & Earnings Comments

- We see the stock trading at 13.7x P/E 2024, compared with a 23x historical average.
- Earnings CAGR for 2024-27 is likely to be around 18%, resulting in a PEG ratio of 0.8x.
- We expect a gradual recovery of Renner's ROIC, from 13% in 2024 to 18% in 2027.

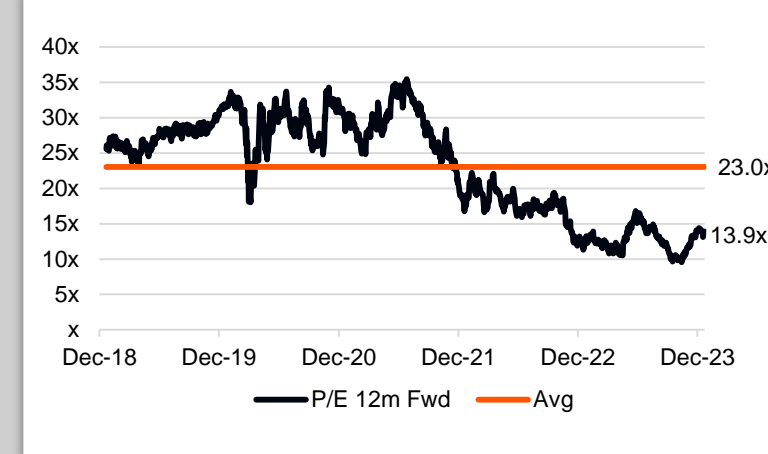
Key Themes to Monitor and Risks

- The potential revocation of the ICMS tax exemption.
- The potential reduction of the IoE benefit.
- Fiercer competitive environment (cross-border).
- Challenging momentum for Realize.
- The exposure of the fintech arm to the revolving credit facility, given the likely implementation of a cap.

Key Indicators & Factors (Consensus)

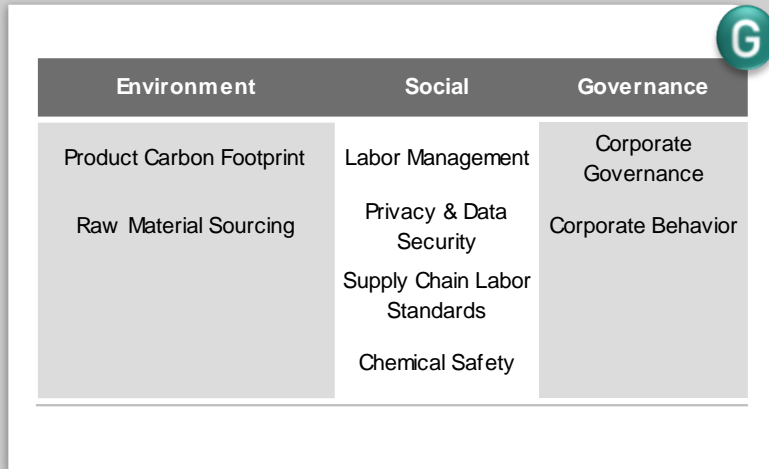
	2024E	2025E	2026E
P/E	13.7x	11.0x	9.0x
EV/EBITDA	7.2x	5.7x	4.7x
FCF Yield	3.7%	5.7%	9.1%
Dividend Yield	3.0%	3.7%	6.2%
Net Debt EBITDA	0.4x	0.2x	0.1x
EPS Growth	19.3%	24.5%	22.2%
Earnings Revisions 3M	-4.3%	-4.9%	-3.8%
EBITDA Growth	26.1%	25.3%	17.9%
EBITDA Revisions 3M	-5.1%	0.0%	2.2%

P/E 12-Month Forward (Consensus)

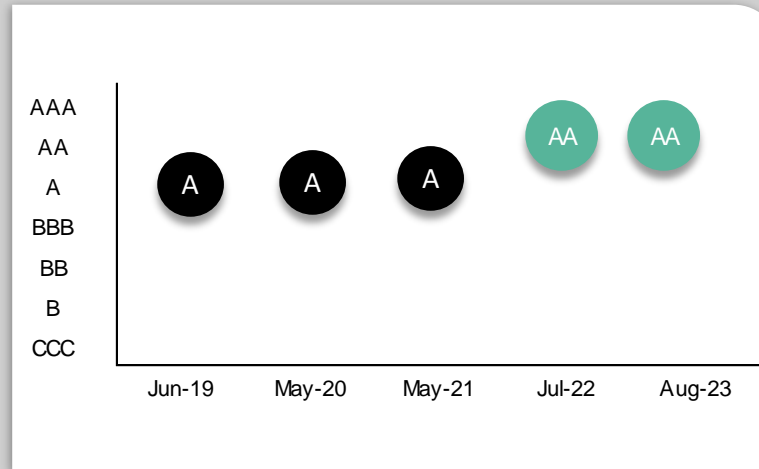


A Good Risk-Reward Proposition (LREN3 – YE24 Target Price: BRL 20.0)

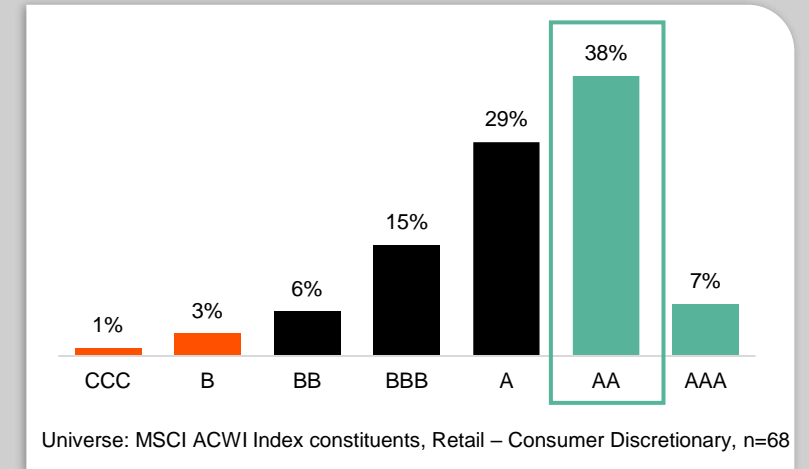
Materiality Map and Controversies



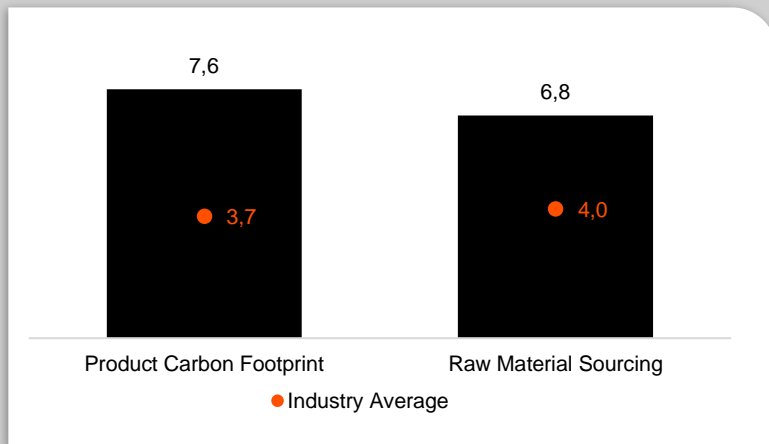
Rating Evolution



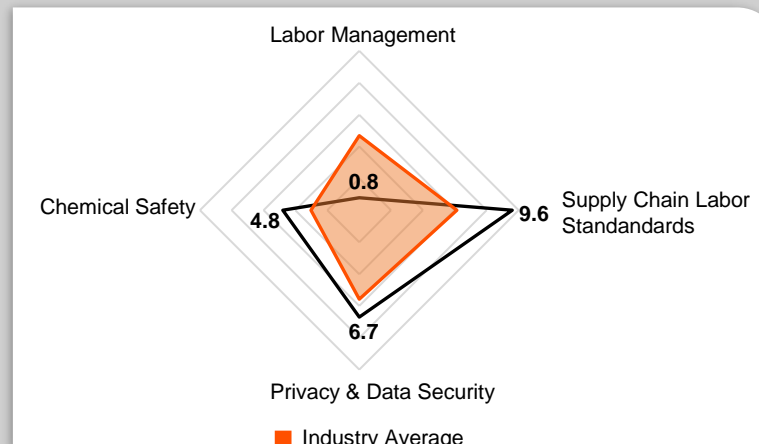
Rating Distribution



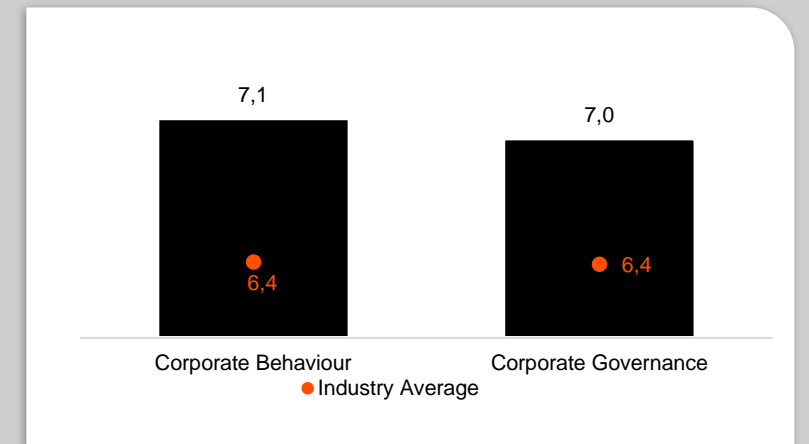
Environment Rating



Social Rating



Governance Rating



A Good Risk-Reward Proposition (LREN3 – YE24 Target Price: BRL 20.0)

Highlights

- **Positives:** Seven out of eight members of the Board of Directors are independent; compensation for the Board of Executive Officers is formally linked to ESG metrics; raw material sourcing certified for cotton and cellulose fiber; 100% of energy comes from renewable sources (I-REC); committed to being net-zero by 2050; 61% of leadership positions are occupied by women; 50% of employees identify as Black.
- **Room for improvement:** No individual disclosure of executive pay and limited information on conversion of ESG metrics into variable compensation.

Disclosure

- Renner has its own annual report on sustainability, which is audited by an independent auditor.
- **ESG reporting.** Renner has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), Integrated Reporting (IR), the Sustainability Accounting Standards Board (SASB), the Sustainable Development Goals (SDG), and the Task Force on Climate-Related Financial Disclosures (TCFD). Renner actively participates in organizations committed to the ESG theme, such as the UN Global Compact, the Brazilian Business Council for Sustainable Development (CEBDS), the National Pact Institute for the Eradication of Slave Labor (InPACTO), the LGBTI+ Business and Rights Forum, the UN Women's Empowerment Principles, and MOVER (Movement for Racial Equity).
- **Sustainability indices.** The company is included in four sustainability indices in Brazil (the ISE Index, the IGC Index, the ICO2 Index, and the IDiversa Index) and one international index (the Dow Jones Sustainability Index).

Governance

- **Compensation linked to ESG.** Since 2021, the compensation of the Board of Executive Officers is formally linked to ESG goals related to the company's public commitments for 2030, with semiannual monitoring of result indicators. The company does not provide precise information about goal metrics or weights.

- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.
- **Board of directors.** The Board of Directors (BoD) has eight members, seven of whom are independent. The positions of Chairman of the Board of Directors and Chief Executive Officer may not be held by the same person. The Executive Board has five members. The Fiscal Council cannot include members of the Board of Directors, Executive Officers, employees, or the spouses or relatives, up to the third degree of its management, of either Lojas Renner or a company in the Lojas Renner group.

Social

- **Diversity and inclusion.** Renner's workforce is already 64% female. 61% of leadership positions are occupied by women, 50% of employees identify as Black, and 23.7% of employees identify as LGBTQIAPN+. Among the company's 2030 goals are 50% of leadership positions being held by Black people and 55% of senior leadership positions being held by women. The BoD is 25% female, and 40% of the Executive Board is composed of women.
- **Lojas Renner Institute.** The institute's projects are divided into three major areas: generation of jobs and income, agriculturally ecological cotton, and women protagonists. Since 2008 the company has invested over BRL 82 million in 950 projects, benefiting more than 225,000 people.
- **Supply-chain standards.** In 2022, Renner conducted a new cycle of human rights diligence on its supply chain, based on the UN Ruggie Framework methodology. The company's entire national and international resale chain has socio-environmental certification. Renner has a specialized team of 20 professionals that evaluates its suppliers. As 2030 goals, Renner aims to certify its supplier chain through socioenvironmental criteria, to focus purchases on suppliers with strong management performance, and to foster the adoption of living-wage policies by strategic suppliers.

A Good Risk-Reward Proposition (LREN3 – YE24 Target Price: BRL 20.0)

- **Chemicals.** Renner's chain is trained by SENAI in the storage of chemicals and restricted substances, with eight hours of training and testing in the jean production chain.
- **Privacy and data security.** Renner fully complies with the General Data Protection Law and relies on the direct involvement of the Board of Directors in the management, approval, and validation of the strategy.

Environment

- **Commitment to low-carbon-economy transition.** The company is committed to the quest to be net-zero by 2050, but this goal has not yet been submitted to the Science-Based Targets initiative (SBTi) for approval. The company's goal of reducing Scope 1, 2 and 3 emissions by 2030 has already been approved by SBTi.
- **Commitment to climate.** Renner is one of the supporters and members of the Climate Commitment's management committee and is also a participant in the GHG Protocol.
- **Circularity.** Renner offers collection points, called Ecoestilo, in more than 330 stores throughout Brazil. Customers and employees can visit any participating store to dispose of their clothes or their empty perfume bottles and packaging, whether they were purchased at Renner stores or elsewhere. The packages discarded in the Ecoestilo collectors are collected and forwarded to a Renner partner that ensures that they are dealt with in an environmentally appropriate manner. In 2022, 40.5 tons were collected through the project.
- **Sustainable products.** The company launched the Re Responsible Fashion seal in 2018 to highlight its products made with raw materials and processes that have less impact on the environment. In 2021, Renner exceeded its goal, with products bearing the seal representing 81.3% of total production.

- **Water consumption.** In 2021, 40% of the jeans delivered to Renner were classified by the company as low-water-consumption during the production and finishing stages.
- **Waste reduction.** In 2021, Renner acquired Repassa, a digital-native platform for the resale of used clothes and accessories, focused on promoting circular fashion. Renner reached 92.7% in waste recycling and for 2023 has established the goals of gradually becoming zero-waste in its distribution centers and of eliminating plastic packaging that cannot be reused or recycled from its stores and e-commerce channels.
- **Raw materials.** Renner requires the use of certified sources for raw materials that have a higher potential impact on biodiversity (cotton and viscose), confirming good practices related to biodiversity preservation. The cotton used as a raw material for its products has a Better Cotton certificate, ensuring that during the production process, cotton farmers adopt a biodiversity management plan that conserves and improves the ecosystem. The company's cellulose fiber, also used as a raw material, is audited by Canopy, a nongovernmental organization that advocates for the responsible supply of raw materials originating from wood, seeking the protection of native forests.
- **Energy management.** The company purchases energy from the free market, seeking long-term contracts only with low-impact generators, and fosters investment in this type of undertaking. It acquires International Renewable Energy Certificates (I-REC) for 100% of the electricity consumption of all its consumer units. Additionally, it relies on three operating solar farms and a wind farm that supply a portion of the stores and the new distribution center in Cabreúva (SP).

Good Exposure to a “Better Brazil” (B3SA3 – YE24 Target Price: BRL 17.0)



Investment Thesis

- Good exposure to a “better Brazil”. As investors start to consider the next chapters for Brazil in 2024, we expect B3 to screen well on earnings and valuation, and thematically. Lower interest rates are likely to move capital markets before they have a positive impact on the economic and credit cycles.
- B3 is currently trading at a 16.1x P/E 2024e, below the historical average of approximately 20x. We expect B3 to re-rate to a P/E reflecting our fair value of BRL 17/share due to positive momentum for earnings revisions and a lower Brazil risk premium. Relative to global exchanges, B3 is now trading at a 30% discount, compared with its historical 14%. The gap usually narrows with lower long-term interest rates in the country.

Company Background

- B3 is the main financial exchange in Brazil. It was formed in 2017 through the merger of BM&FBOVESPA, the country’s futures and commodities exchange, and CETIP, a major securities clearinghouse. B3 operates as a multi-asset-class exchange, providing a platform for trading equities, commodities, futures, and options. The exchange contributes significantly to the development of Brazil’s capital markets and is an essential component of the country’s financial infrastructure.

2024 Outlook, Valuation & Earnings Comments

- Our average daily trading volume (ADTV) estimate for B3 in 2024 is now BRL 29 billion. We see trading volumes increasing by 11% in 2024.
- Overall, we project revenue growth of around 11% YoY in 2024, while adjusted expenses will likely increase more slowly, by 8% YoY, as B3 passes the peak of its investment cycle and lowers core costs.
- The company’s guidance for 2024 implies controlled expenses, slightly below the expected IPCA. At the midpoint of the guidance, the projected 2024 number indicates a ~3.7% YoY increase.
- Capex continues to be controlled at BRL 240 million at the midpoint for 2024. This compares with the 2023 midpoint guidance of BRL 245 million and our 2023 estimate of BRL 241 million.

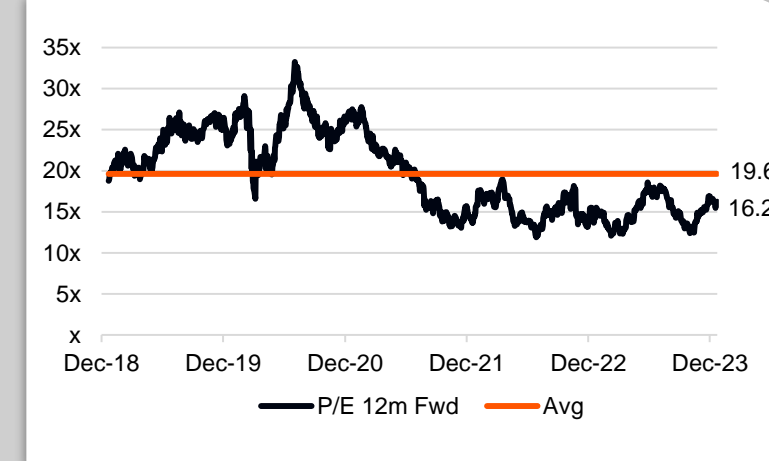
Key Themes to Monitor and Risks

- CARF-related tax disputes.
- Competition from foreign exchanges.
- Equities ADTV.
- Foreign inflows to Brazilian equities.
- Yield curve movements.

Key Indicators & Factors (Consensus)

	2024E	2025E	2026E
P/E	16.1x	14.4x	13.2x
EV/EBITDA	10.9x	9.5x	n.a.
FCF Yield	6.3%	6.6%	n.a.
Dividend Yield	6.2%	6.6%	6.2%
Net Debt EBITDA	-0.5x	-0.4x	n.a.
EPS Growth	9.6%	11.9%	8.6%
Earnings Revisions 3M	-3.3%	-2.2%	-0.5%
EBITDA Growth	11.8%	14.6%	7.3%
EBITDA Revisions 3M	-3.9%	-1.2%	-0.3%

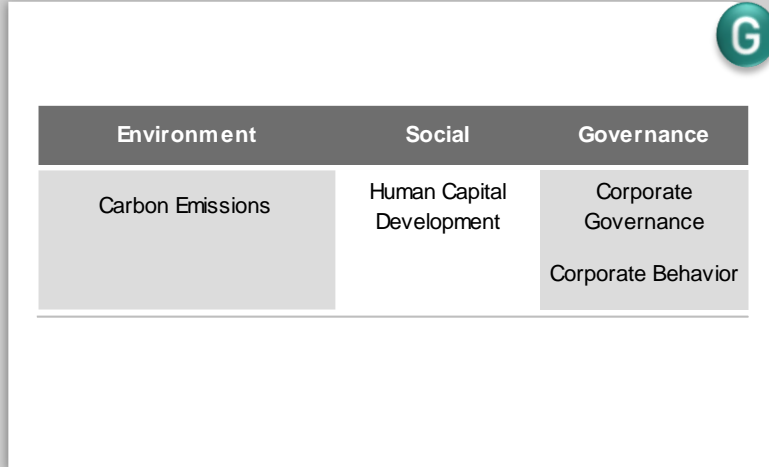
P/E 12-Month Forward (Consensus)



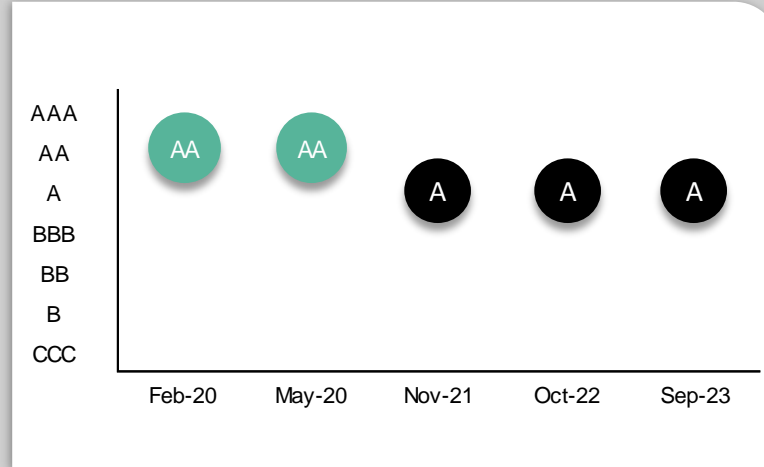
Good Exposure to a “Better Brazil” (B3SA3 – YE24 Target Price: BRL 17.0)



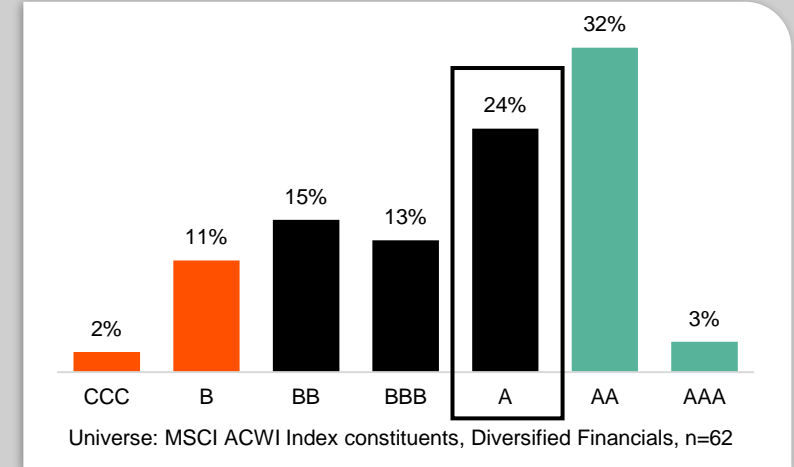
Materiality Map and Controversies



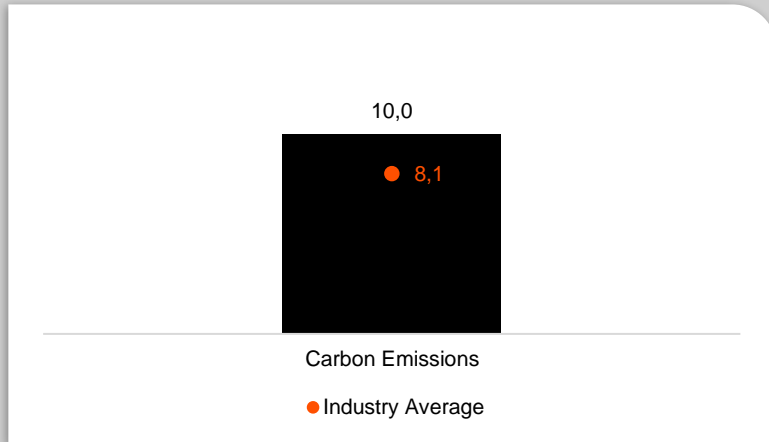
Rating Evolution



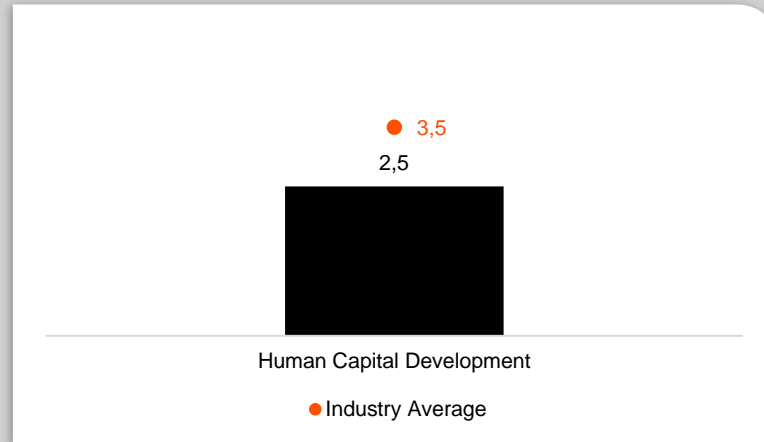
Rating Distribution



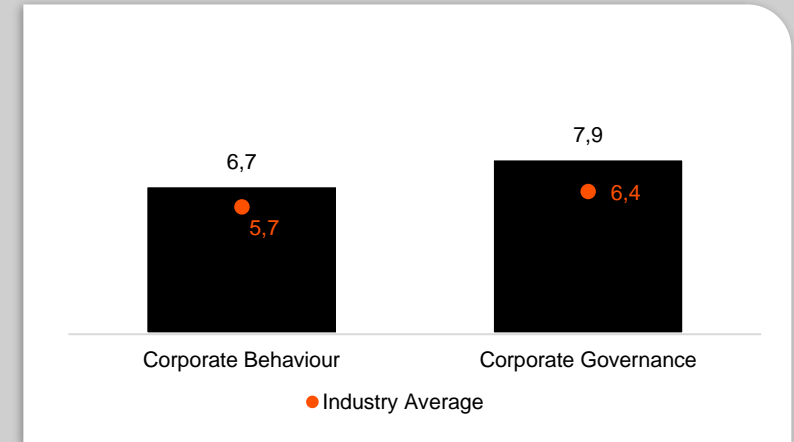
Environment Rating



Social Rating



Governance Rating



Good Exposure to a “Better Brazil” (B3SA3 – YE24 Target Price: BRL 17.0)



Highlights

- **Positives:** Every member of the Board of Directors is independent under the terms of Novo Mercado regulations, and women make up 37% of the total; B3 has been a carbon-neutral company since 2011, as the company offsets its GHG emissions.
- **Room for improvement:** No individual disclosure of executive pay or clear conversion of ESG metrics into variable compensation; low presence of Black people.

Disclosure

- B3 has its own sustainability annual report, which is audited by an independent auditor.
- **ESG reporting.** B3 has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), the Sustainable Development Goals (SDG), and the Task Force on Climate-Related Financial Disclosures (TCFD). B3 actively participates in organizations committed to the ESG theme, such as: the UN Global Compact, Women on Board (WOB), the Principles for Responsible Investment (PRI), the Sustainability Work Group of the World Federation of Exchanges (WFE), and Sustainable Stock Exchanges (SSE).
- **Sustainability indices.** The company is included in four sustainability indices in Brazil (the GPTW Index, the IGC Index, the ICO2 Index, and the IDiversa Index) and one international sustainability index (the S&P/B3 Brazil ESG Index).

Governance

- **Board of Directors.** In 2022, B3 had 11 members on its Board of Directors (BoD), all of them independent under the terms of Novo Mercado regulations. In addition, seven of the members are “Non-Connected Directors,” in line with CVM (the Securities and Exchange Commission of Brazil) regulations applicable to market infrastructures, as defined by the company’s bylaws. None of the BoD members can hold executive positions in the company, nor can they be appointed to management positions in subsidiaries. The Executive Board has 11 members.

- **Listing.** The company is listed on B3’s Novo Mercado with 100% of common shares.

Social

- **Relationship with the community.** Through B3 Social, in 2022, the company invested more than BRL 56 million in 256 social projects across the country, supporting the structuring of education projects and work to tackle urgent problems, such as fighting hunger and supporting families living in areas affected by extreme rainfall. Through this initiative, B3 has benefited 13.3 million people. In 2022, more than BRL 77 million was directed to social and cultural projects.
- **Financial education.** The company also has projects to educate and simplify investing for the population, and it has created a financial education hub – an online platform to assist individuals on their learning journey in the investment universe. This platform ended 2022 with 90 courses, more than 500 pieces of content, and more than 234,000 registered users, boasting over 1.8 million logins.
- **Employee training.** The company provided 107,900 hours of training and capacity-building for the development of human capital in 2022. In the same year, 100% of the company’s professionals received some type of training and underwent performance and career development reviews. Additionally, B3 offers training on topics such as codes of conduct, anti-corruption, anti-money laundering, and information security. More than 96% of all employees have completed the training.
- **Culture support.** In 2022, the company invested more than BRL 21 million in culture, such as sponsorships for MASP (the São Paulo Museum of Art) and OSESP (the São Paulo State Symphony Orchestra).
- **Data privacy and protection.** During 2022, no incidents of violation of the LGPD that resulted in leaks, theft, or loss of data affecting the company’s customers, as defined by this legislation, were identified. Employees annually undergo mandatory training in data privacy, which reached 96% of the company in 2022.

Good Exposure to a “Better Brazil” (B3SA3 – YE24 Target Price: BRL 17.0)



- **Diversity.** On B3's BoD and Executive Board, four out of 11 members are women. In 2022, women made up 28% of its employees in non-leadership positions (a 2-pp increase YoY), 7.3% of employees in leadership positions (a 0.1-pp decrease YoY), and 35.7% of all employees (an increase of 1.9 pp). The company has set the goal of 35% of its leadership positions being held by women by 2026. Regarding racial diversity, 5.9% of employees in non-leadership positions are Black (an increase of 0.7 pp YoY), and 0.7% in leadership positions are Black (an increase of 0.2 pp YoY). Additionally, 5.1% of all employees are persons with disabilities.

Environment

- **Carbon emissions.** B3 has been a carbon-neutral company since 2011, as the company offsets its GHG emissions that are not subject to reduction. In 2022, B3's total emissions dropped by 60.4% compared with 2021. Scope 1 emissions increased from 60.2 tCO₂ in 2021 to 345.7 tCO₂ in 2022, mainly due to the replacement of refrigerant gases. In Scope 2, there was a 67.91% reduction in total gross emissions (from 4,140 tCO₂e to 1,812 tCO₂e). In Scope 3, there was a 21.44% increase in total emissions (from 1,019 tCO₂e to 1,238 tCO₂e), primarily due to the impact of the significant increase in emissions from business travel.
- **Scope 2 emissions.** B3's Data Center accounts for approximately 62% of the company's total electricity consumption, which is reflected in Scope 2 emissions. After researching how to reduce this impact, the company decided to migrate to the free energy market in January 2023. B3 has set a target to cut Scope 2 GHG emissions to zero by 2030.
- **Energy consumption.** In 2022 the company's total energy consumption (112,2017 GJ) was 8.7% higher than in 2021, due to an increase in the hybrid work model (coming from fully remote). Diesel oil consumption increased by 12.7% compared with 2021, due to the completion of a retrofit of the XV de Novembro building. With a commitment to using energy more efficiently and reducing GHG emissions by purchasing energy from sustainable sources, B3 opted to migrate its main administrative buildings to the Free Energy Market, effective from 2023.

- **Water consumption.** The company's water consumption in 2022 (31,356 m³) was 2% lower than in 2021.
- **Compliance with the environment.** In 2022, no fines or sanctions were imposed on B3 for non-compliance with environmental laws and/or regulations.
- **Waste management.** In 2022, the total amount of recyclable waste generated (35,575 kg) increased by 102% compared with the previous year. Non-recyclable waste sent to landfills increased by 46% from the previous year (from 34,144 kg to 49,869 kg). Total waste generation increased by 65.2% YoY, mainly due to a higher employee occupancy rate of at least 60%.

Irreplicable Assets in Brazil's Most Promising Sectors (CSAN3 – YE24 Target Price: BRL 23.0)



Investment Thesis

- Cosan has committed to a strategy of portfolio diversification and capital allocation that increasingly comprises investments in irreplicable assets in sectors where Brazil has clear competitive advantages, including renewable energy, oil and gas, high-quality mining, and carbon-capture credits.
- The company's portfolio consists of companies with strong growth prospects, which could catalyze the growth of renewable energy in Brazil while ensuring energy security along the way.
- Our outperform rating on the name is also supported by our belief that the stock has been trading at a higher-than-fair holding discount.

Company Background

- Cosan is a holding company whose current portfolio includes:
- **Raízen:** an integrated energy company, comprising sugar, ethanol, and fuel distribution.
- **Compass:** a company that operates and invests in natural gas distribution, infrastructure, and commercialization.
- **Moove:** one of Brazil's largest lubricant companies, which also operates globally in the U.S. and Europe.
- **Rumo:** a logistics operator that offers a broad range of rail transportation logistics, port loading, and storage services.
- **Vale:** the mining company, of which Cosan acquired a 4.9% stake in October 2022, enhancing its portfolio in the mining sector.
- **Cosan Investimentos:** investments in ports, productive land, and low-carbon technology.

2024 Outlook, Valuation & Earnings Comments

- We estimate EBITDA of BRL 22.8 billion (+13% YoY) and net income of BRL 4.2 billion (EPS of 2.2) for 2024.
- We see the stock trading at 12x P/E for 2024, which compares with an 14x historical average.
- Pro forma leverage (net debt/EBITDA LTM) ended 3Q23 at 1.7x, vs. 3.1x in 3Q22.

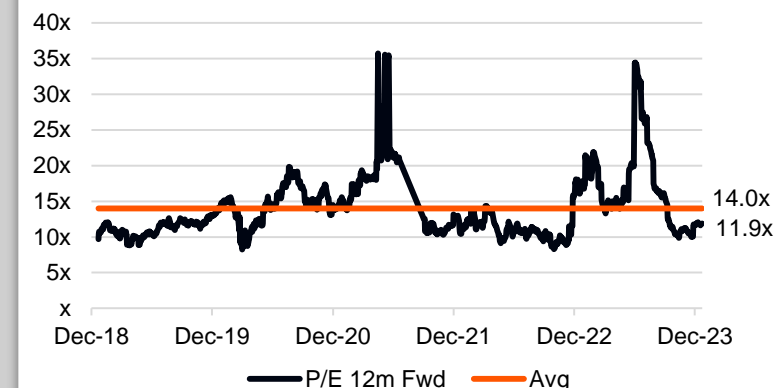
Key Indicators & Factors (Consensus)

	2024E	2025E	2026E
P/E	12.0x	9.1x	n.a.
EV/EBITDA	6.1x	5.4x	n.a.
FCF Yield	12.6%	7.7%	24.0%
Dividend Yield	6.1%	6.4%	n.a.
Net Debt EBITDA	2.9x	2.5x	n.a.
EPS Growth	170.3%	31.2%	n.a.
Earnings Revisions 3M	-9.3%	-7.7%	n.a.
EBITDA Growth	7.5%	12.5%	4.0%
EBITDA Revisions 3M	-2.1%	0.3%	0.0%

Key Themes to Monitor and Risks

- **Raízen:** El Niño evolution; normalization in fertilizer and diesel prices; maintenance capex; sugar prices.
- **Rumo:** El Niño evolution (a major corn crop failure in 2023-24 could hurt Rumo's volumes); diesel prices (lower fuel quotes tend to benefit the Northern Arch); capex levels.
- **Compass:** Ramp-up of operations of Edge, Compass's marketing and services segment, including operations at the TRSP LNG terminal and natural gas trading, and the development of regulatory discussions about the Subida da Serra pipeline and the Comgás tariff revision.
- The possible IPO listing of Moove and Compass.
- Developments related to tax reform in Brazil, including the end of the interest on equity (IOE) tax regime and the selective tax on the Oil & Gas sector.

P/E 12-Month Forward (Consensus)

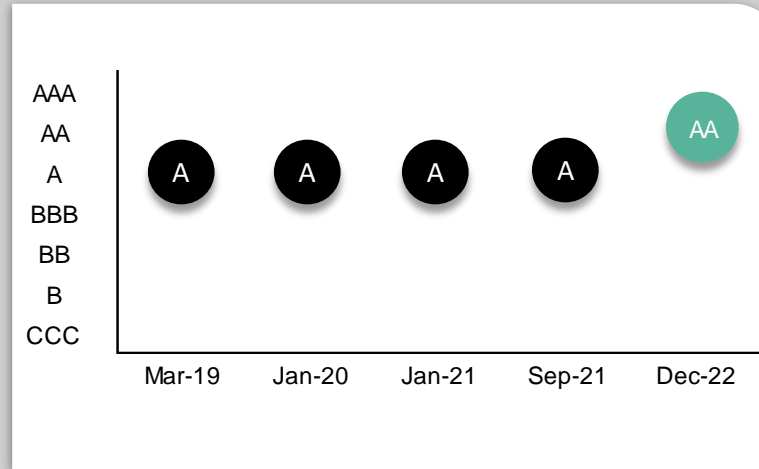


Irreplicable Assets in Brazil's Most Promising Sectors (CSAN3 – YE24 Target Price: BRL 23.0)

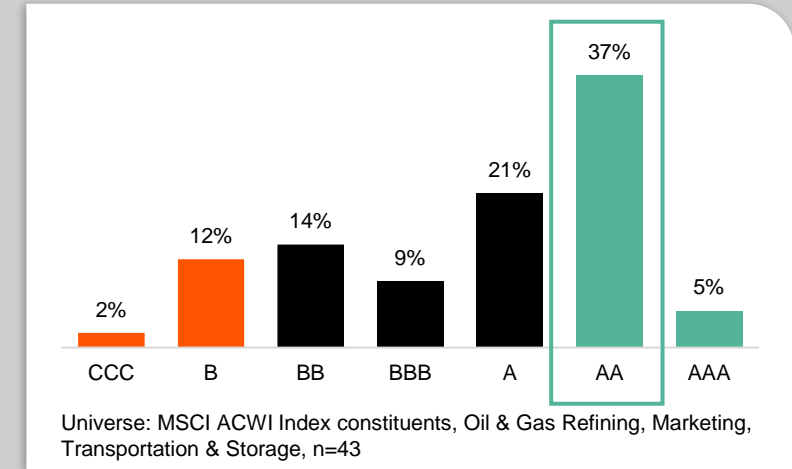
Materiality Map and Controversies



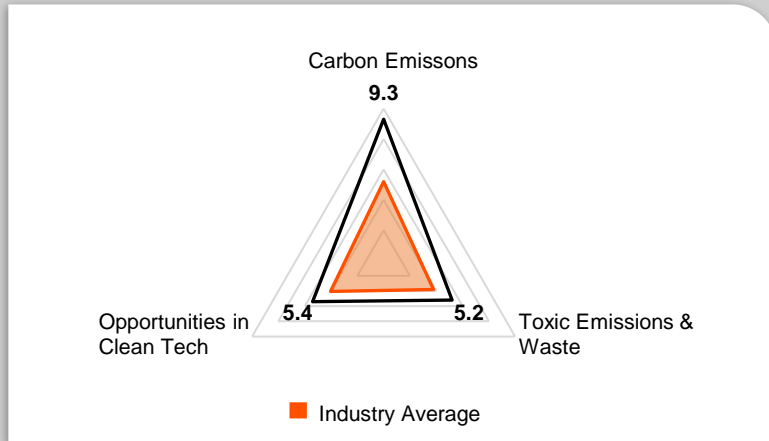
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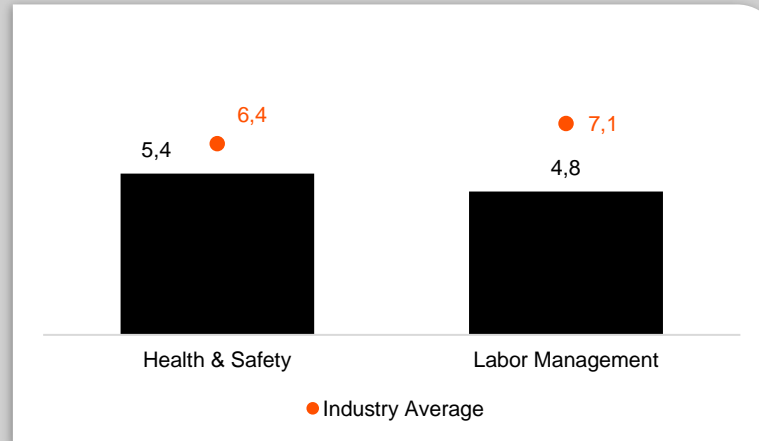
Rating Distribution



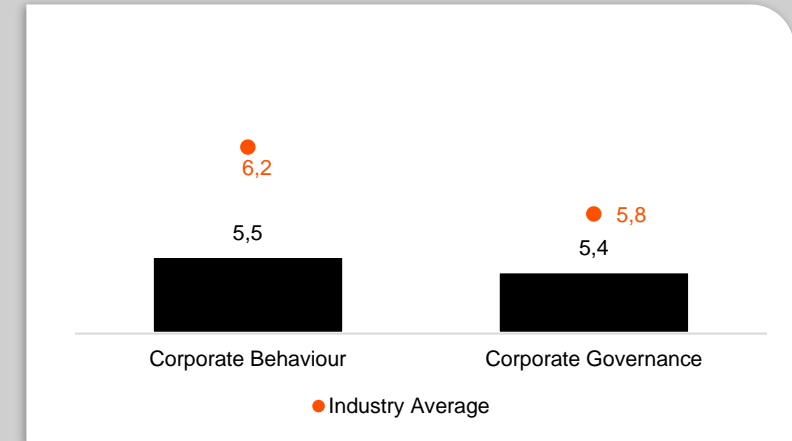
Environment Rating



Social Rating



Governance Rating



Irreplicable Assets in Brazil's Most Promising Sectors (CSAN3 – YE24 Target Price: BRL 23.0)



Highlights

- **Positives:** Environmental pillar is a plus compared with peers. Women's presence is above average; ESG metrics are factored into variable compensation.
- **Room for improvement:** No individual disclosure of executive pay; low number of Black employees; founding family is active and holds 36% of voting power; CEO has a seat on the BoD.

Disclosure

- Cosan has its own sustainability annual report, which is audited by an independent auditor.
- **ESG reporting.** Cosan has adopted the following frameworks and standards: the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), the Sustainable Development Goals (SDG), and the Task Force on Climate-Related Financial Disclosures (TCFD). Cosan actively participates in organizations committed to the ESG theme, such as the UN Global Compact.
- **Sustainability indices.** The company is included on four sustainability indices in Brazil (the ISE Index, the IGC Index, the ICO2 Index, and the IDiversa Index).

Governance

- **Anticompetitive actions.** In 2020, the Administrative Council for Economic Defense (CADE) – the Brazilian antitrust authority – alleged that several fuel distributors, including Cosan, had engaged in anticompetitive practices in the aviation gasoline market.

- **Best practices.** Cosan conducted training throughout the year for employees and executives directly involved in internal control processes to enhance best practices and knowledge about internal controls and risk management related to financial statements. Approximately 3,000 hours of workshops were conducted, including over 1,000 employees and executives (including C-level).
- **Board of directors.** There are 10 members, of which 50% are qualified as non-independent members and 50% as independent members. There is no formal process for reporting crucial concerns to the board. However, any such issues are included in the agenda of quarterly meetings for awareness and decision-making. The Executive Board has four members.
- **Transparency.** Cosan joined the "100% Transparency Movement," an initiative of the Brazil Network of the United Nations Global Compact, where companies commit to and give visibility to the fulfillment of five goals to be achieved by 2030, with a letter of commitment: 100% transparency on interactions with the public administration, 100% transparency on the remuneration of senior management, 100% integrity-trained high-risk value chain, 100% transparency on the structure of compliance and governance, and 100% transparency regarding reporting channels. As of now, the company only reports some compensation metrics for its executives and directors.
- **Remuneration.** Since 2021, the variable compensation of Cosan's executives considers ESG metrics. No further details are available.
- **Listing.** The company is listed on B3's Novo Mercado with 100% of common shares.

- **Control.** Ometto family has 36% of the voting power.

Social

- **Information security.** The company intends to exceed its 2022 goal and raise its maturity level to 3.12 (on a scale from 0 to 5, based on the CMMI and NIST Framework) by 2025, which will mean more robust governance, with more critical processes and controls, cyber-crisis testing and drills, vulnerability management with technological intelligence, and extensive 24x7 monitoring with incident and attack response.
- **Corruption.** In 2022, 100% of Cosan's employees were informed about integrity and anti-corruption policies and procedures. Additionally, 88% of employees actively participated in online training courses. Anti-corruption policies and the company's code of conduct are shared with all third parties during the engagement process, and for contracts classified as high risk, individualized mitigation plans are created and applied.
- **Contracts.** All of Cosan's partners undergo due diligence and adhere to contractual terms and conditions to ensure that their business is conducted with integrity and in compliance with the company's guidelines and rules on corruption, human rights, labor issues, and other non-negotiable behaviors.
- **Performance assessment.** In 2022, all employees underwent a performance cycle, and at the end of the assessment process, the company offered robust training and development plans to provide clarity on how everyone can grow and develop at Cosan.

Irreplicable Assets in Brazil's Most Promising Sectors (CSAN3 – YE24 Target Price: BRL 23.0)



- **Diversity.** At Cosan, 36% of leadership positions are held by women. The company has set a goal of having and maintaining at least 30% female leadership by 2025. Two out of 10 members of the BoD are women, and one out of four members of the Executive Board are women. Considering only Cosan's employees, 56% are women, but when considering all companies in the group, 16% of all employees are women. No directors or managers identify as Black, and 19.6% of all employees are Black. People with disabilities represent 1.5% of all employees and 7.1% of managers. Cosan does not have specific targets for the inclusion of Black people and people with disabilities.
- **Health and safety.** In 2022, there were 38 accidents with leave in the company, a 111% increase compared with 2021 (18 accidents with leave). The company is focused on eliminating accidents, but has not set a specific date for achieving this goal.

Environment

- **Renewable energy.** The company has 23 projects in progress related to energy efficiency and clean and renewable energy. These projects account for BRL 23.8 million in investments for research and development. Among its companies, Raízen has committed to an 80% increase in renewable energy production by 2030.
- **Carbon emissions.** Cosan registered a drop in greenhouse gas emissions when adjusted by EBITDA. Cosan emitted 213 tCO₂/BRL in 2020, 183 tCO₂/BRL in 2021 and 151 tCO₂/BRL in 2022. Cosan's Scope 1 emissions rose by a slight 0.4% in 2022 (from 166.23 tCO₂e in 2021 to 166.65 tCO₂e in 2022). Scope 2 emissions dropped significantly in 2022, by 66% (from 37.79 tCO₂e in 2021 to 12.86 tCO₂e in 2022). Scope 3 emissions rose significantly in 2022, by 328% (from 20.61 tCO₂e in 2021 to 88.23 tCO₂e in 2022). Among its companies, Compass is the one most committed to reducing carbon emissions – the goal is to neutralize GHG emissions by 2030. Raízen has committed to reducing the carbon intensity of ethanol by 20% by 2030 and reducing the carbon intensity of product use by 15% by 2030. Cosan is committed to establishing GHG emissions reduction targets in Scopes 1 and/or 2 by 2024.

- **Opportunities in clean tech.** Among Cosan companies, Raízen is the one with the most commitment to clean-tech opportunities focused on renewable fuels such as second-generation ethanol and biogas. Through its ecosystem and its cutting-edge, proprietary technologies, Raízen has expanded its renewable energy portfolio, including second-generation ethanol (E2G), first-generation ethanol for various applications, bioelectricity from 100% clean sources, and biogas. The company currently has 35 bioenergy farms with an installed crushing capacity of 105 million tons of sugarcane from around 1.3 million hectares of agricultural areas that are planted using state-of-the-art technology and have fully mechanized harvesting.

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Analysts	Disclosure Items				SIG
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Daniel Gewehr					OK
Victor Natal					OK
Matheus Marques					OK
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