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Strategy Report | Brazil

BRAZIL MACRO & STRATEGY

2ND PHASE OF TAX REFORM: MAIN ASPECTS AND IMPACT ON COMPANIES

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Net/Net: On June 25, the Economy Minister delivered to the Lower House the first draft of the income tax reform bill (PL 2337/2021), considered to be the second phase of the Tax Reform. Key proposed changes are: i) an increase in the exemption threshold for personal income tax to BRL2,500/mo from BRL1,903/mo and updated the tax brackets; ii) a lower corporate income tax rate to 22.5% from 25% in 2022 and 20% from 2023 onwards. These would be fiscally offset by: i) a 20% tax on dividends (currently not taxed in Brazil); ii) tax on investments (e.g. on the investment portfolios of high-net-worth individuals and real estate funds); and iii) an end to the tax break generated by Interest on Equity payments (JCP, acronym in Portuguese). If the end of IoE tax break and lower corporate income tax is approved and put into effect as proposed, the most impacted sectors among Santander equity coverage would be Telecom and Food & Beverage, with 2023E net income reduced by more than 9% compared to our current projections.

- On June 25, the Economy Minister delivered to the Lower House the first draft of the income tax reform bill (PL 2337/2021), considered to be the second phase of the Tax Reform (the first was the proposal to merge federal taxes (PIS and Cofins) into a VAT. An income tax overhaul has been a government plan since the last presidential run. The highlights of the second phase proposal are: i) raise the tax exemption threshold for personal income tax up to BRL2,500/month from BRL1,903/month and update the tax brackets; ii) cut the corporate income tax rate to 22.5% from 25% in 2022 and 20% from 2023 onwards. These would be fiscally compensated by: i) a 20% tax on dividends (currently not taxed in Brazil); ii) tax on investments (e.g. the stock of investment funds of high-net-wealth individuals and real estate funds); and iii) an end to the tax break generated by Interest on Equity payments (JCP, acronym in Portuguese).
- The proposal is an ordinary bill that requires only an absolute majority by one vote to be approved in each house of Congress. In a scenario where the new legislation is approved this year, most of the legislation would only take effect in 2022 due to the “principle of annuality”. According to government estimates, all changes will be fiscally neutral. In our view, from a revenue standpoint, the proposal seems to bring permanent increases in federal tax collection, given the gains from the tax on dividends and the end of the deduction of interest on equity (JCP), which more than offset the changes in the income tax for individuals, according to our estimates. There are also extraordinary revenues from the tax collection on property equity adjustments and the taxation on exclusive/closed funds. We believe the proposal will suffer some changes during debate in congress, but the core of the bill—both on personal and corporate taxes—will likely be preserved. The biggest risks are that pushback leads to a fiscally unbalanced outcome and a final increase in the tax burden for companies.
- As shown below, we note a potentially material impact to some company earnings, which could also impact fair values, all other factors unchanged, though the full impact for the market in aggregate should not be material. According to our estimates, sectors that could be materially hurt from the end of IoE tax break are Telecom and Food & Beverage, whose expected 2023E net income would be reduced by more than 9% compared to our current projections.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

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**Figure 1. Main Measures in the 2nd Phase of the Tax Changes**

Focus	Measure
Personal income tax (IRPF)	<p>Exemption for income up to BRL2,500/month from BRL1,903/month and New tax brackets 16 million people will be exempt from the income tax (+5.6 million compared to the current threshold) Simplified tax form will be limited for income up to BRL40,000/year Permission to update value of real state</p> <p>Profits and dividends taxed by 20% (currently dividends are not taxed in Brazil) Dividends: exemption for below BRL20,000/month for SME</p>
Investment	<p>New rules for taxation of selling of assets with intermediaries offshore Payments will be done on a quarterly basis IRPJ and CSLL tax collection will be on a quarterly basis. Deduction of losses in up to 3 quarters Single tax rate of 15% for investment funds in the year. The end of the "come-cotas" taxation in May Equities: tax rates in investment in 15% Simplification of the calculation method of IRPJ and CSLL taxes to reduce costs End of exemption of income distributed by real state funds (FII) to individual investors</p>
Corporate tax (IRPJ)	<p>Cut to corporate income tax rate from 25% to 22.5% in 2022 and 20% from 2023 onwards Deferred payment for companies' partners will not be deducted as operational expenditure The end of the tax break generated by interest on equity (JCP, acronym in Portuguese) payments New rules for the enterprise organization and taxation of capital gains with selling of shares</p>

Sources: Ministry of Economy, Santander

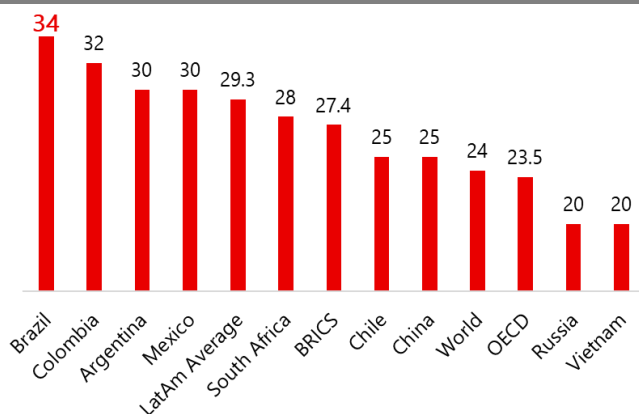
Figure 2. Federal Revenue Impact of the Proposal – Government Estimates

BRL Billion	2022	2023	2024
Changes in Personal Income tax	-13.5	-14.5	-15.4
Changes in Corporate Income Tax	-18.5	-39.2	-41.5
Taxation of exclusive/closed funds (stock)	14.5	-	-
Dividends (tax: 20%)	18.5	54.9	58.2
End of interest on equity (JCP)	2.8	7.2	7.6
Others	-2.8	-8.1	-8.3
Total	1.0	0.3	0.6

Sources: Federal Revenue of Brazil, Santander

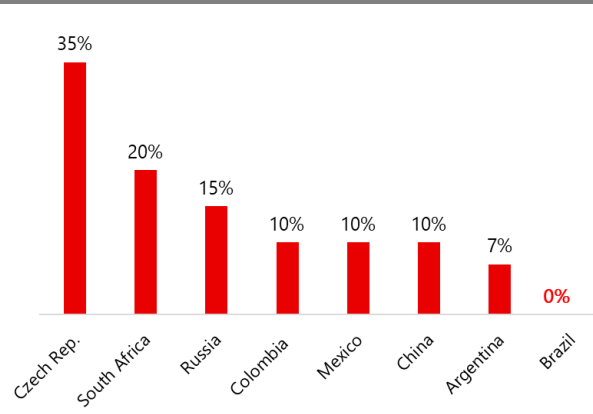


Figure 3. Average Corporate Taxes in 2020 (%)



Source: Tax Foundation, Santander.

Figure 4. Dividends - Withholding Tax Rates



Source: S&P, Santander.

Preliminary Assessment Impact to Corporate Earnings

- Regarding the new rules presented in the proposal, we asked our equity research team to preliminarily assess the impact on our coverage universe. As shown below, we note a material potential impact on future earnings for some companies and sectors, even though the full impact to the market in aggregate should not be material.
- The analysts ran a sensitivity exercise assuming: (i) the end of the tax benefit generated by Interest on Equity (IoE) from 2022 onwards; and (ii) a corporate income tax 5 p.p. lower from 2023 onwards. With these assumptions, we estimated a negative impact on consolidated net income of our coverage universe (market cap weighted) in 2023E of 1.5%, 2024E 2.3%, and 2025E 2.4%, which we view as limited.
- Also, according to our estimates, sectors that significantly benefit from IoE tax break are the ones that logically would likely be impacted by the changes, such as Telecom and Food & Beverage. We estimate a potential adverse impact on 2023E net income of more than 9% compared to current projections. On the flipside, sectors less dependent on Interest on Equity payments should have a neutral, or even positive combined effect, given that a lower corporate income tax more than offsets any revision to the IoE. Accordingly, we see Agribusiness, Financial Non-Banks, Retail and Utilities sectors among the most that stand to benefit, with 2023E net income potentially increasing between ~1% to ~4.5% compared to our current estimates.
- With respect to specific companies, we highlight potential negative effects on Ambev (-9.7% on 2023E net income), Hypera (-10.4%), and Telefonica Brasil (-15%), while those expected to have upward revisions to 2023E earnings are SulAmerica (+7.5% to net income), Braskem (+5.2%), and São Martinho (+4.5%). (See Figure 7 for the sensitivity analysis of the potential earnings impact on our coverage universe.)
- We acknowledge the tax reform proposal has yet to be approved by the Brazilian Congress and, therefore, is susceptible to meaningful changes, which could materially impact the accuracy of the sensitivity analysis in this report. In our estimates, we have not considered any tax over dividends paid from subsidiaries to holding companies (intra-company transactions).

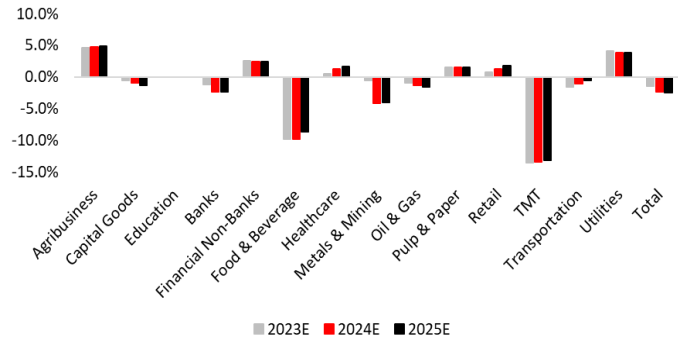


Figure 5. Potential Change in Net Income Adjusted by Proposed Tax Reform (Market Cap Weighted)

	Net Income		
	2023E	2024E	2025E
Agribusiness	4.6%	4.8%	4.8%
Capital Goods	-0.5%	-0.9%	-1.2%
Education	0.0%	0.0%	0.0%
Banks	-1.2%	-2.3%	-2.3%
Financial Non-Banks	2.5%	2.4%	2.5%
Food & Beverage	-9.7%	-9.7%	-8.7%
Healthcare	0.5%	1.3%	1.7%
Metals & Mining	-0.5%	-4.2%	-4.0%
Oil & Gas	-1.0%	-1.3%	-1.5%
Pulp & Paper	1.5%	1.5%	1.5%
Retail	0.7%	1.3%	1.8%
TMT	-13.5%	-13.4%	-13.2%
Transportation	-1.6%	-1.1%	-0.6%
Utilities	4.0%	3.9%	3.8%
Total	-1.5%	-2.3%	-2.4%

Source: Santander estimates. For Banks, 2024E and 2025E estimates consider only Banco Inter and Banco Pan.

Figure 6. Potential Change in Net Income Adjusted by Proposed Tax Reform (Market Cap Weighted)



Source: Santander estimates. For Banks, 2024E and 2025E estimates consider only Banco Inter and Banco Pan.



Figure 7. Earnings Sensitivity to 2nd Phase of Tax Reform - 2023-2025E Net Income (R\$ million)

Ticker	Company	Net Income 2023E			Net Income 2024E			Net Income 2025E		
		Current	Adjusted	Change (%)	Current	Adjusted	Change (%)	Current	Adjusted	Change (%)
SMT03	São Martinho	1,117	1,167	4.5%	1,093	1,143	4.6%	955	998	4.6%
JALL3	Jalles Machado	195	212	8.7%	230	250	9.0%	243	265	9.2%
Agribusiness		4.6%			4.8%			4.8%		
POMO4	Marcopolo	248	227	-8.6%	277	256	-7.6%	301	280	-7.0%
WEGE3	WEG	4,038	4,018	-0.5%	4,565	4,524	-0.9%	5,187	5,123	-1.2%
RAPT4	Randon	440	450	2.3%	473	483	2.2%	506	517	2.1%
MYPK3	Iochpe Maxion	178	165	-7.6%	216	200	-7.6%	251	232	-7.6%
FRAS3	Fras-le	202	198	-1.7%	221	217	-1.7%	236	232	-1.6%
TUPY3	Tupy	247	225	-8.8%	257	234	-8.7%	239	217	-9.4%
Capital Goods		-0.5%			-0.9%			-1.2%		
YDUQ3	YDUQS Part	960	960	0.0%	1,128	1,128	0.0%	1,258	1,258	0.0%
COGN3	Cogna	649	649	0.0%	862	862	0.0%	980	980	0.0%
SEER3	Ser Educacional	166	166	0.0%	181	181	0.0%	192	192	0.0%
CSED3	Cruzeiro do Sul	493	493	0.0%	591	591	0.0%	679	679	0.0%
ANIM3	Anima Educação	385	385	0.0%	514	514	0.0%	592	592	0.0%
Education		0.0%			0.0%			0.0%		
BBAS3	Banco do Brasil	21,183	19,828	-6.4%	-	-	NA	-	-	NA
BIDI11	Banco Inter	971	913	-6.0%	1,519	1,427	-6.1%	2,176	2,041	-6.2%
BPAN4	Banco PAN	1,683	1,722	2.3%	2,375	2,440	2.7%	3,062	3,166	3.4%
BRSR6	Banrisul	673	697	3.6%	-	-	NA	-	-	NA
BBDC4	Bradesco	30,767	30,629	-0.4%	-	-	NA	-	-	NA
ITUB4	Itaú Unibanco	31,391	31,188	-0.6%	-	-	NA	-	-	NA
Banks		-1.2%			-2.3%			-2.3%		
SULA11	Sul America	1,406	1,511	7.5%	1,545	1,664	7.7%	1,656	1,787	7.9%
B3SA3	B3	7,940	8,129	2.4%	8,457	8,673	2.6%	8,922	9,160	2.7%
CIEL3	Cielo	513	545	6.2%	487	523	7.2%	-	-	NA
PSSA3	Porto Seguro	1,428	1,300	-8.9%	1,507	1,372	-8.9%	1,584	1,442	-8.9%
BBSE3	BB Seguridade	5,039	5,221	3.6%	-	-	NA	-	-	NA
IRBR3	IRB	984	1,066	8.4%	-	-	NA	-	-	NA
Financial Non-Banks		2.5%			2.4%			2.5%		
ABEV3	Ambev	14,176	12,795	-9.7%	15,858	14,315	-9.7%	17,464	15,951	-8.7%
Food & Beverage		-9.7%			-9.7%			-8.7%		
AALR3	Alliar	77	77	-0.4%	90	90	0.6%	100	101	1.0%
HAPV3	Hapvida	1,792	1,782	-0.6%	2,030	2,023	-0.4%	2,268	2,297	1.2%
QUAL3	Qualicorp	606	620	2.3%	679	700	3.0%	750	777	3.5%
HYPE3	Hypera	1,805	1,618	-10.4%	1,905	1,815	-4.7%	2,120	2,029	-4.3%
GNDI3	GNDI	1,583	1,616	2.1%	1,822	1,863	2.2%	2,087	2,138	2.4%
RDOR3	Rede D'or	4,606	4,658	1.1%	6,256	6,361	1.7%	8,416	8,580	1.9%
ODPV3	OdontoPrev	387	391	1.1%	410	414	1.1%	434	439	1.1%
FLRY3	Fleury	409	402	-1.9%	441	432	-2.0%	476	468	-1.7%
Healthcare		0.5%			1.3%			1.7%		
ENAT3	Enauta Participacoes	(479)	(461)	-3.8%	358	385	7.5%	399	430	7.8%
BRKM5	Braskem	6,604	6,947	5.2%	6,451	6,794	5.3%	6,214	6,553	5.5%
PETR3	Petrobras	64,497	63,823	-1.0%	62,227	61,377	-1.4%	60,431	59,437	-1.6%
UGPA3	Ultrapar	1,657	1,783	7.6%	1,575	1,695	7.6%	1,582	1,704	7.7%
PRI03	Petro Rio	1,224	1,317	7.6%	3,343	3,598	7.6%	2,904	3,126	7.6%
Oil & Gas		-1.0%			-1.3%			-1.5%		
KLBN11	Klabin	2,637	2,676	1.5%	2,419	2,455	1.5%	2,529	2,567	1.5%
SUZB3	Suzano	6,808	6,909	1.5%	6,359	6,454	1.5%	7,095	7,202	1.5%
Pulp & Paper		1.5%			1.5%			1.5%		

Source: Santander estimates.



Figure 8. Sensitivity to 2nd Phase of Tax Reform - 2023-2025E Net Income (R\$ million)

Ticker	Company	Net Income 2023E			Net Income 2024E			Net Income 2025E		
		Current	Adjusted	Change (%)	Current	Adjusted	Change (%)	Current	Adjusted	Change (%)
BTOW3	B2W Digital	482	518	7.6%	634	683	7.7%	893	964	7.9%
CRFB3	Carrefour Brasil	2,865	2,750	-4.0%	3,147	3,023	-4.0%	3,429	3,293	-4.0%
CEAB3	C&A Modas	344	304	-11.7%	419	371	-11.4%	490	435	-11.3%
SBFG3	Grupo SBF	418	431	3.1%	534	553	3.6%	638	664	4.1%
ESPA3	Espaço Laser	222	230	3.6%	283	292	3.4%	343	353	3.1%
ARZZ3	Arezzo	359	352	-2.1%	417	411	-1.5%	467	461	-1.2%
GMAT3	Grupo Mateus	1,287	1,299	1.0%	1,524	1,540	1.1%	1,766	1,787	1.2%
GUAR3	Guararapes	504	498	-1.3%	571	564	-1.1%	680	674	-0.8%
HGTX3	Cia Hering	186	179	-3.7%	219	212	-3.4%	247	239	-3.3%
CVCB3	CVC Corp.	486	467	-4.1%	555	526	-5.2%	668	627	-6.2%
LAME4	Lojas Americanas	1,416	1,295	-8.5%	1,578	1,456	-7.8%	1,742	1,619	-7.1%
LREN3	Lojas Renner	1,729	1,665	-3.7%	2,001	1,925	-3.8%	2,288	2,199	-3.9%
MGLU3	Magazine Luiza	841	905	7.6%	1,248	1,343	7.6%	1,731	1,863	7.6%
TFCO4	Track & Field	110	119	7.7%	152	164	7.8%	200	216	8.0%
PGMN3	Pague Menos	230	236	2.9%	295	305	3.5%	345	358	3.7%
PETZ3	Petz	223	219	-1.6%	296	291	-1.6%	378	376	-0.7%
NTCO3	Natura	2,034	2,089	2.7%	2,628	2,701	2.8%	3,347	3,441	2.8%
VVAR3	Via Varejo	1,419	1,526	7.6%	1,556	1,675	7.7%	1,768	1,904	7.7%
RADL3	RD	1,471	1,471	0.0%	1,895	1,911	0.9%	2,267	2,287	0.9%
Retail		0.7%			1.3%			1.8%		
CSNA3	CSN	3,382	3,434	1.5%	3,368	3,421	1.6%	3,235	3,287	1.6%
CMIN3	CSN Mineração	4,440	4,504	1.4%	4,540	4,605	1.4%	4,611	4,677	1.4%
VALE3	Vale	9,566	9,505	-0.6%	5,920	5,622	-5.0%	6,147	5,856	-4.7%
GGBR4	Gerdau	3,440	3,388	-1.5%	3,446	3,394	-1.5%	2,919	2,859	-2.1%
USIM5	Usiminas	1,792	1,818	1.5%	1,265	1,285	1.5%	1,352	1,373	1.6%
Metals & Mining		-0.5%			-4.2%			-4.0%		
VIVT3	Telefonica Brasil	6,613	5,621	-15.0%	8,077	6,866	-15.0%	9,055	7,697	-15.0%
INTB3	Intelbras	577	577	0.0%	726	726	0.0%	860	860	0.0%
TIMS3	TIM	1,931	1,834	-5.0%	2,837	2,695	-5.0%	3,705	3,520	-5.0%
TOTS3	Totvs	519	519	0.0%	629	629	0.0%	740	740	0.0%
TMT		-13.5%			-13.4%			-13.2%		
AZUL4	Azul	854	764	-10.5%	1,223	1,094	-10.5%	1,555	1,392	-10.5%
STBP3	Santos Brasil	227	212	-6.5%	304	293	-3.5%	334	323	-3.1%
SIMH3	Simpar	543	542	-0.1%	615	614	-0.2%	711	709	-0.2%
GOLL4	Go!	469	407	-13.3%	610	534	-12.5%	771	682	-11.5%
MOVI3	Movida	459	449	-2.2%	554	546	-1.4%	648	642	-0.9%
CCRO3	CCR	1,841	1,864	1.2%	2,086	2,128	2.0%	2,367	2,431	2.7%
EMBR3	Embraer	31	28	-8.1%	100	90	-9.6%	140	126	-9.8%
HBSA3	Hidrovias do Brasil	424	413	-2.5%	573	565	-1.4%	702	702	0.0%
SEQL3	Sequoia	265	270	1.9%	336	343	2.1%	384	395	2.9%
RENT3	Localiza	2,127	2,138	0.5%	2,452	2,465	0.6%	2,842	2,864	0.7%
LCAM3	Unidas	900	885	-1.8%	1,038	1,025	-1.3%	1,204	1,194	-0.8%
TGMA3	Tegma	215	219	1.8%	223	226	1.6%	233	236	1.5%
ECOR3	Ecorodovias	684	707	3.3%	709	726	2.4%	747	759	1.6%
RAIL3	Rumo Logística	2,377	2,281	-4.0%	2,810	2,738	-2.6%	3,344	3,302	-1.3%
Transportation		-1.6%			-1.1%			-0.6%		

Source: Santander estimates. Note: Vale's estimates are in USD.



Figure 9. Sensitivity to 2nd Phase of Tax Reform - 2023-2025E Net Income (R\$ million)

Ticker	Company	Net Income 2023E			Net Income 2024E			Net Income 2025E		
		Current	Adjusted	Change (%)	Current	Adjusted	Change (%)	Current	Adjusted	Change (%)
ENBR3	Energias do Brasil	1,224	1,233	0.7%	1,248	1,256	0.6%	1,296	1,303	0.5%
ENGI11	Energisa	1,475	1,505	2.0%	1,396	1,424	2.0%	1,409	1,438	2.1%
CSMG3	Copasa	634	674	6.3%	676	701	3.8%	744	757	1.7%
POWE3	Focus Energia	163	166	2.3%	92	97	4.6%	111	114	3.5%
ALUP11	Alupar	704	714	1.5%	777	789	1.5%	850	863	1.5%
NEOE3	Neoenergia	2,637	2,685	1.8%	2,659	2,711	1.9%	3,029	3,084	1.8%
LIGT3	Light	958	1,031	7.6%	1,112	1,196	7.6%	1,151	1,238	7.6%
OMGE3	Omega Geração	270	274	1.4%	329	335	1.7%	467	473	1.5%
ENEV3	Eneva	1,161	1,161	0.0%	1,558	1,558	0.0%	1,790	1,790	0.0%
AESB3	AES Brasil	556	582	4.6%	622	651	4.6%	662	692	4.6%
CMIG4	Cemig	3,362	3,617	7.6%	3,206	3,449	7.6%	3,084	3,317	7.6%
CESP6	Cesp	199	215	7.6%	129	139	7.6%	165	177	7.6%
CPFE3	CPFL Energia	3,800	4,044	6.4%	3,688	3,917	6.2%	3,807	4,044	6.2%
SBSP3	Sabesp	3,015	3,091	2.5%	3,276	3,364	2.7%	3,452	3,547	2.8%
EGIE3	Engie Brasil	4,012	4,223	5.3%	3,680	3,874	5.3%	4,075	4,279	5.0%
TRPL4	Transmissao Paulista	1,745	1,663	-4.7%	1,689	1,611	-4.6%	1,563	1,491	-4.6%
Utilities			4.0%			3.9%			3.8%	

Source: Santander estimates.



Companies Mentioned

Company	Ticker	Rating	Current Price (Local Currency)	Target Price (Local Currency)
São Martinho	SMT03	Buy	35.2	36.5
Jalles Machado	JALL3	Buy	10.4	11.0
Marcopolo	POMO4	Hold	3.5	3.1
WEG	WEGE3	Hold	34.7	40.5
Randon	RAPT4	Hold	13.6	15.1
Iochpe Maxion	MYPK3	Buy	16.0	19.0
Fras-le	FRAS3	Buy	12.6	15.6
Tupy	TUPY3	Buy	23.6	27.0
YDUQS	YDUQ3	Buy	33.4	45.7
Cogna	COGN3	Hold	4.5	5.3
Ser Educacional	SEER3	Buy	18.4	23.3
Cruzeiro do Sul	CSED3	Buy	15.6	18.5
Anima Educação	ANIM3	Buy	13.9	20.7
Banco do Brasil	BBAS3	Buy	32.4	47.0
Banco Inter	BIDI11	Buy	73.8	74.0
Banco PAN	BPAN4	Buy	24.2	31.0
Banrisul	BRSR6	Hold	13.3	18.0
Bradesco	BBDC4	Buy	26.1	32.0
Itaú Unibanco	ITUB4	Hold	30.2	32.0
Sul America	SULA11	Buy	35.4	45.0
B3	B3SA3	Buy	17.0	24.7
Cielo	CIEL3	Underperform	3.6	3.0
Porto Seguro	PSSA3	Buy	53.1	60.0
BB Seguridade	BBSE3	Buy	23.7	37.0
IRB	IRBR3	Hold	5.9	8.0
Ambev	ABEV3	Hold	17.3	20.0
Alliar	AALR3	Hold	11.3	14.4
Hapvida	HAPV3	Buy	15.6	20.9
Qualicorp	QUAL3	Buy	29.0	42.9
Hypera	HYPE3	Buy	34.8	41.7
GNDI	GNDI3	Buy	85.7	116.1
Rede D'Or	RDOR3	Buy	69.5	86.6
OdontoPrev	ODPV3	Buy	13.0	17.5
Fleury	FLRY3	Hold	26.3	29.2
CSN Mineração	CMIN3	Buy	9.3	12.0
Vale	VALE3	Buy	112.5	120.0
Enauta	ENAT3	Buy	17.5	17.0
Braskem	BRKM5	Buy	59.3	58.0
Petrobras	PETR3	Hold	29.7	28.0
Ultrapar	UGPA3	Buy	18.5	24.0
Petro Rio	PRI03	Buy	19.0	21.0
Klabin	KLBN11	Buy	26.4	36.0
Suzano	SUZB3	Buy	60.3	95.0
B2W Digital	BTOW3	Buy	68.9	103.0
Carrefour Brasil	CRFB3	Buy	21.2	31.0
C&A Modas	CEAB3	Hold	14.4	16.0

Price as of 30 June, 2021.



Company	Ticker	Rating	Current Price (Local Currency)	Target Price (Local Currency)
Grupo SBF	SBFG3	Buy	37.6	35.0
Espaço Laser	ESPA3	Buy	19.3	22.0
Arezzo	ARZZ3	Buy	95.1	84.0
Grupo Mateus	GMAT3	Buy	7.9	11.0
Guararapes	GUAR3	Buy	20.7	19.0
Cia Hering	HGTX3	Hold	34.2	18.0
CVC Corp.	CVCB3	Hold	27.9	23.0
Lojas Americanas	LAME4	Buy	22.2	34.0
Lojas Renner	LREN3	Hold	44.2	50.0
Magazine Luiza	MGLU3	Buy	21.7	28.0
Track & Field	TFCO4	Hold	15.3	12.0
Pague Menos	PGMN3	Buy	11.3	16.0
Petz	PETZ3	Buy	25.8	20.0
Natura	NTCO3	Hold	56.4	55.0
Via Varejo	VVAR3	Buy	16.0	24.0
RD	RADL3	Hold	25.0	33.0
CSN	CSNA3	Buy	44.7	44.0
Gerdau	GGBR4	Buy	30.3	35.0
Usiminas	USIM5	Hold	19.2	19.5
Telefonica Brasil	VIVT3	Buy	42.4	61.0
Intelbras	INTB3	Buy	28.7	25.0
TIM Brasil	TIMS3	Buy	11.7	22.0
Totvs	TOTS3	Buy	37.4	35.0
Azul	AZUL4	Hold	44.5	45.0
Santos Brasil	STBP3	Hold	9.1	5.6
Simpar	SIMH3	Buy	54.8	47.0
Gol	GOLL4	Hold	23.3	33.0
Movida	MOVI3	Buy	19.7	29.0
CCR	CCRO3	Hold	13.3	15.1
Embraer	EMBR3	Hold	18.6	18.5
Hidroviás do Brasil	HBSA3	Buy	6.3	10.0
Sequoia	SEQL3	Buy	27.9	37.0
Localiza	RENT3	Buy	64.5	81.0
Unidas	LCAM3	Buy	27.5	35.0
Tegma	TGMA3	Hold	24.0	34.3
Ecorodovias	ECOR3	Buy	11.9	16.4
Rumo Logística	RAIL3	Buy	19.6	27.0
Energias do Brasil	ENBR3	Buy	17.8	25.2
Energisa	ENGI11	Buy	46.7	53.8
Copasa	CSMG3	Hold	15.8	18.6
Focus Energia	POWE3	Buy	16.6	24.9
Alupar	ALUP11	Buy	26.6	31.6
Neoenergia	NEOE3	Buy	17.7	25.1
Light	LIGT3	Hold	15.6	22.0
Omega Geração	OMGE3	Buy	38.2	44.9
Eneva	ENEV3	Hold	17.2	14.0
AES Brasil	AESB3	Underperform	13.9	15.0
Cemig	CMIG4	Buy	12.3	15.1
Cesp	CESP6	Buy	24.0	36.3
CPFL Energia	CPFE3	Buy	27.2	36.5
Sabesp	SBSP3	Hold	36.9	50.8
Engie Brasil	EGIE3	Buy	39.6	49.2
Transmissao Paulista	TRPL4	Underperform	25.4	27.6

Price as of 30 June, 2021.



São Martinho – Valuation & Risks

Our YEFY2021 target price is based on a DCF valuation.

Main risks include: (1) declining sugar and ethanol prices; (2) the company's hedging strategy; (3) capital discipline; and (4) acquisition/growth strategy.

Jalles Machado – Valuation & Risks

Our target price based on a DCF analysis. We use a WACC of 8% and 2% nominal growth in perpetuity. The main risks for Jalles Machado include: (i) declining sugar and oil prices; (ii) capital allocation discipline; (iii) M&A execution; (iv) capex execution; (v) removal of certain tax benefits in Goiás.

Marcopolo – Valuation & Risks

Our YE2021 target price is based on a DCF valuation analysis with a WACC of 9.2% and nominal perpetual growth rate of 4.0%.

Main risks include: challenges with international expansion; BRL appreciation pressuring the company's export profitability; higher-than-expected prices of key raw materials; disruption to operations; increasing competition; slowdown in Caminho da Escola Government orders; lower-than-expected global GDP growth; and increasing mobility restrictions resulting in further growth of the air transport mode.

WEG – Valuation & Risks

Our year-end 2021 target price is based on our DCF valuation analysis, which assumes a WACC of 7.3% and a nominal perpetual growth rate of 5.3% per year in Brazilian reais.

Risks include: increasing competition; a potential change in the company's tax rate (the company currently has a low effective tax rate helped by its corporate structure); higher-than-expected prices of key raw materials; BRL appreciation pressuring the company's exports; adverse changes in commodity prices; negative trends impacting its global investments in new projects; challenges with international expansion; disruption to operations; and lower-than-expected global GDP growth.

Randon – Valuation & Risks

Our year-end 2021 target price is based on our DCF valuation analysis, which assumes a WACC of 9.9% and nominal perpetual growth rate of 4.0% per year in Brazilian reais.

Risks include lower-than expected growth in the agricultural and industrial sectors, higher-than expected prices of key raw materials, disruption to operations; price pressure from OEMs in the auto parts segment; increasing competition with truck body manufacturers; and lower-than-expected global GDP growth.

lochpe Maxion – Valuation & Risks

Our YE2021 target price is based on a DCF valuation analysis, assuming a 10.9% WACC and nominal perpetual growth rate of 3.0%.

Risks include: lower-than-expected GDP growth in Brazil, Europe and the United States; contract dependency with OEMs; higher-than-expected prices of key raw materials; disruptions to operations; high exposure to foreign markets and FX volatility (mainly USD and EUR); high leverage and debt rollover difficulty; and sharp interest-rate hikes.

Fras-le – Valuation & Risks

Our YE2021 target price is based on a DCF valuation analysis, which assumes a WACC of 8.6% and nominal perpetual growth rate of 3.5%.

Main risks include: challenges with international expansion; BRL appreciation pressuring the company's exports; contract dependency with OEMs; integration of Nakata's acquisition; higher-than-expected prices of key raw materials; increasing competition (potentially with import products), disruptions to operations, and; lower-than-expected GDP growth in Brazil and the global economy.

Tupy – Valuation & Risks

Our year-end 2021 target price is based on our DCF valuation analysis, which assumes a WACC of 8.1% and nominal perpetual growth rate of -3.0% per year in Brazilian reais.

Risks include: increasing competition (from peers and potential new technologies); BRL appreciation pressuring the company's export profitability and revenues abroad; high contract dependency with OEMs; higher-than-expected prices of key raw materials; disruptions to operations; challenges with its international expansion; risks of Brazil's Antitrust Authority (CADE) not approving Tupy's proposed acquisition of Teksid; threat of a faster-than expected expansion in the electric vehicles market, and lower-than-expected GDP growth in Brazil and the global economy.



Yduqs – Valuation & Risks

Our YE21 target price is based on FCFE DCF model, using a Ke of 11.5% in reais and a perpetuity growth rate of 4%.

Main risks include regulatory risk, competitive environment, dependence on positive macroeconomics, execution and acquisition risks.

Cogna – Valuation & Risks

Our YE21 target price is based on FCFE DCF model, using a Ke of 10.7% in reais and a perpetuity growth rate of 5.4%.

Main risks include regulatory risk, competitive environment, dependence on positive macroeconomics, execution and acquisition risks.

SER Educacional – Valuation & Risks

Our YE21 target price is based on FCFE DCF model, using a Ke of 11.5% in reais and a perpetuity growth rate of 4%.

Main risks include regulatory risk, competitive environment, dependence on positive macroeconomics, execution and acquisition risks.

Cruzeiro do Sul – Valuation & Risks

Our YE21 target price is based on FCFE DCF model, using a Ke of 11.5% in reais and a perpetuity growth rate of 4%.

Main risks include macroeconomic scenario, customer behavior, continuity of tax benefits, competitive environment, and M&A.

Anima Educação – Valuation & Risks

Our YE22 target price is based on FCFE DCF model, using a Ke of 11.5% in reais and a perpetuity growth rate of 4%.

Main risks include regulatory risk, competitive environment, dependence on positive macroeconomics, execution and acquisition risks.

Banco do Brasil – Valuation & Risks

We valued the bank with a three-stage valuation model based on residual income approach, with a terminal cost of equity of 14.0%. In the first stage, we considered the explicit modeling of the next three years, and for the second stage, we evaluate until year seven using an ROAE of 14% with a dividend payout of 35%. Lastly, the final stage is based on terminal growth rate of 5.5% for a perpetual ROE of 14.0%.

Upside risks include: (i) Potential sale of assets that present lower ROAs; (ii) dividend payout ratio returning to 40%. Downside risks include: (i) higher than expected NPLs from potential weakening of the Brazilian economy given the current high household leverage ratios in the country; (ii) governance risk derived from its public sector ownership and control; (iii) high exposure to volatile weather and commodity prices affecting its agricultural loan book along with its insurance operations through its subsidiary (BB Seguridade).

Banco Inter – Valuation & Risks

We valued the bank with a three-stage valuation model based on residual income approach, with a terminal cost of equity of 11.5%. In the first stage, we considered the explicit modeling of the next ten years, and for the second stage, we evaluate until 2035 using an ROAE of 27% with a dividend payout of 25%. Lastly, the final stage is based on terminal growth rate of 5.8% for a perpetual ROE of 25.0%.

The main risks to our target price follow: (i) Execution risk is the main risk to monitor when talk about digital stories, as much of the valuation resides in the long term, when growth is expected to turn exponential and monetization expected to flourish; (ii) Regulatory risk for banks. One we can cite is the recurring discussion of a cap on payroll deductible lending interest. On other regulatory risks, we note that the BACEN's "BC#" agenda has fostered a favorable environment in Brazil for fintechs, potentially bringing competition to traditional banks; (iii) Competition from new and existing players. Exactly because Inter has one of the most complete digital stories in the country, it is also open form competition from several players such as digital banks, credit fintechs, investment platforms, acquirers and insurtechs and (iv) Economic environment: If the economy stalls longer than expected before resuming growth, our estimates could prove too optimistic.



Banco PAN – Valuation & Risks

We valued the bank with a two-stage valuation model based on residual income approach, with a terminal cost of equity of 12.0%. In the first stage, we considered the explicit modeling of the next eight years and the final stage is based on a terminal growth rate of 5.5% for a perpetual ROAE of 24.0%.

The main risks are as follows: (i) Execution risk (much of the valuation resides in the long term, when growth turns exponential and monetization starts flourishing); (ii) Regulatory risk on digital banks (The BACEN's "BC#" agenda); (iii) Competition from new and existing players; and (iv) Loan growth strategy on new client segmentation as well as risks of higher than expected NPLs.

Banrisul – Valuation & Risks

We valued the bank with a three-stage valuation model based on residual income approach, with a terminal cost of equity of 12.8%. In the first stage, we considered the explicit modeling of the next three years, and for the second stage, we evaluate until year seven using an ROAE of 10% with a dividend payout of 40%. Lastly, the final stage is based on terminal growth rate of 5.0% for a perpetual ROE of 13.5%.

The main risks to our investment thesis are: (i) lower-than-expected loan growth due to a weaker-than-expected economic recovery; (ii) higher than expected NPLs in the individual segment stemming from: high household indebtedness in Brazil, and/or government further payments arrears to public employees; (iii) regulatory risk of lower lending rates and spreads due to government intervention in the industry; and (iv) risks inherent to investing in preferred shares with no-voting rights.

Bradesco – Valuation & Risks

We valued the bank with a three-stage valuation model based on residual income approach, with a terminal cost of equity of 12.5%. In the first stage, we considered the explicit modeling of the next three years, and for the second stage, we evaluate until year seven using an ROAE of 17% with a dividend payout of 55%. Lastly, the final stage is based on terminal growth rate of 5.5% for a perpetual ROE of 17.0%.

Upside risks include the potential sale of assets that present lower ROAs. Downside risks include: (i) higher-than-expected NPLs from a potential weakening of the Brazilian economy given the current high household leverage ratios in the country or a crisis arising from the coronavirus lingering longer than expected; (ii) lower GDP growth than expected in the case that the crisis arising from coronavirus lingers longer than expected; (iii) lower-than-expected interest rates impacting credit spreads; and (iv) risks inherent to investing in preferred shares with no-voting rights.

Itaú Unibanco – Valuation & Risks

We valued the bank with a three-stage valuation model based on residual income approach, with a terminal cost of equity of 12.5%. In the first stage, we considered the explicit modeling of the next three years, and for the second stage, we evaluate until year seven using an ROAE of 18% with a dividend payout of 50%. Lastly, the final stage is based on terminal growth rate of 5.5% for a perpetual ROE of 18.0%.

Upside risks include: (i) Potential purchase of assets that present higher ROAs in order to foster the best usage of the current excess of capital. Downside risks include: (i) higher than expected NPLs from potential weakening of the Brazilian economy given the current high household leverage ratios in the country or crisis arising from coronavirus lingers longer than expected; (ii) lower GDP growth than expected in case crisis arising from coronavirus lingers longer than expected; (iii) lower than expected interest rates impacting credit spreads and (iv) investing in non-voting shares, which limit minority shareholders' voting rights.

Sul America – Valuation & Risks

We valued Sul America using a discounted surplus capital model, which discounts to the present the capital generated by the company in excess of the capital required to fund the growth we expect.

Risks: the company could engage in a strategy to grow via acquisitions; other risks include lower-than-expected growth; regulatory risks in the individual health segment; and increasing competition.

B3 – Valuation & Risks

Our valuation is based on a two-stage DCF. Risks to the company include trading volume being significantly different than our estimates, competition from foreign exchanges and other trading platforms, as well as regulatory and pricing policy.



Cielo – Valuation & Risks

Our valuation is based on a two-stage DCF model, with a Gordon Growth Model at perpetuity. Risks are mainly related to ongoing regulatory and legislative initiatives that could affect the profitability of the industry, stronger competition from new entrants and/or existing competitors, and the execution risk related to its prepayment business.

Porto Seguro – Valuation & Risks

We value Porto Seguro using a discounted surplus capital model, which discounts to the present the capital generated in excess of the capital required to fund expected growth. Risks includes: increasing competition, execution risk in the integration of Itaú's insurance portfolio, a change in mix in the company's noninsurance divisions, and the commoditization of insurance products.

BB Seguridade – Valuation & Risks

We valued the company using a SOTP - Sum Of The Parts valuation model, combining each one of the main companies which integrate BB Seguridade: SH1, BrasilPrev, Brasilcap and BB Corretora. For the valuation of each one of these companies, we use a DDM-dividend discount model with three stages.

Main risks are related to regulatory and political issues. We also note the Banco do Brasil-BB Corretora contract renegotiation risk, as well as risk to our growth estimates and Solvency II requirements.

IRB – Valuation & Risks

We valued the reinsurer with a three-stage valuation model based on residual income approach, with a terminal cost of equity of 13.1%. In the first stage, we considered the explicit modeling of the next three years, and for the second stage, we evaluate until year seven using an ROAE of 16% with a dividend payout of 50%. Lastly, the final stage is based on terminal growth rate of 5.5% for a perpetual ROE of 16.0%.

We list as risks to the company: (i) potential regulatory changes in order to foster the competitive environment (similar to the CNSP Resolution #325 from 2015); (ii) potential conflict of interest among the company's Controlling Shareholders, which may result in economic losses; (iii) the high concentration in the Brazilian insurance market (10 largest insurers holds ~70% of market share) may generate a stressed customer base or even cause a dependency on a few clients.

Ambev – Valuation & Risks

Our YE2021 target price is derived through a DCF methodology that incorporates a 13% cost of equity and a 4% cost of debt after tax, for a 12% WACC. The 2021E P/E and EV/EBITDA implied by our DCF-derived target price are 25x and 12x, compared to 10-year averages of 21x and 12x respectively. Main risks include changes to taxation of alcoholic beverages and deductible IOC, increasing competition from multinationals and micro-brewers, changes to consumption patterns and overall macroeconomic conditions.

Alliar – Valuation & Risks

Our YE2021 target price is based on a DCF analysis, assuming a Cost of Equity of 10.2% and a 5.5% nominal perpetuity growth rate (in Brazilian reais).

Risks include: M&A execution risk; stiffer competition; dependence on healthcare plan operators.

Hapvida – Valuation & Risks

Our YE2021 target price is based on the combination of Hapvida and GNDI and synergies, totaling R\$146.5 billion equity value and Hapvida's stake of 53.6%

Main risks include stronger competition, execution risk, heavy reliance on domestic demand and regulatory issues.

Qualicorp – Valuation & Risks

Our YE2021 target price is based on a DCF analysis with a Cost of Equity of 11.8% and a nominal perpetuity growth of 6% (in Brazilian reais).

Main risks include: regulatory changes, exposure to macroeconomics, competitive environment and execution risk.

Hypera – Valuation & Risks

Our YE2021 target price is based on a DCF analysis, assuming a Cost of Equity of 10.4% and a 6.5% nominal perpetuity growth rate (in Brazilian reais).

Main risks include stronger competition, execution risk, heavy reliance on domestic demand and regulatory issues.



GNDI – Valuation & Risks

Our YE2021 target price is based on the combination of Hapvida and GNDI and synergies, totaling R\$146.5 billion equity value and GNDI's stake of 46.4%

Main risks include HAVP-GNDI merger antitrust rejection lower-than-expected synergies, stronger competition, execution risk, macro environment, medical loss increase, management change, regulatory changes, public healthcare system obligations and contingency payments.

Rede D'Or – Valuation & Risks

Our YE2021 target price is based on a DCF analysis, assuming a Cost of Equity of 11% and a 6.5% nominal perpetuity growth rate (in Brazilian reais).

Risks include: organic growth hurdles, M&A execution, price pressure from payers, change in patient behavior, stronger competition, macroeconomic scenario and change in management.

OdontoPrev – Valuation & Risks

Our YE2021 target price is based on a DDM analysis with a Cost of Equity of 9.9% and a nominal perpetuity growth of 6% (in Brazilian reais).

Main risks include stronger competition, execution risk, heavy reliance on domestic demand and regulatory issues.

Fleury – Valuation & Risks

Our YE2020 target price is based on a DCF analysis, assuming a Cost of Equity of 10.2% and a 6% nominal perpetuity growth rate (in Brazilian reais).

Risks include: customers with bargaining power; stiffer competition; execution risk.

CSN Mineração – Valuation & Risks

Our YE2021 price target for CSN's shares is based on a EV/EBITDA multiple valuation. From our estimated asset value, we subtract net debt to set a target value of R\$12.0/share.

Main risks include: (i) Weaker-than-expected iron ore demand in China; (ii) Execution risk on growth initiatives and the ongoing decommissioning/de-characterization of existing tailing dams; (iii) Changes in the mining regulation, royalties and taxes.

Vale – Valuation & Risks

Our YE2021 price target for Vale's shares is based on an EV/EBITDA multiple of 4.5x. This is at a discount to the sector historical average to reflect iron ore at peak levels.

From our estimated asset value, we subtract net debt to set a target value of US\$23.0/share.

Main risks include: (i) decline in iron ore and nickel prices; (ii) weaker-than-expected macroeconomic growth in Asia; and (iii) FX appreciation.

Enauta – Valuation & Risks

Our year-end 2021 target price is based on a NAV valuation of Enauta's assets (Atlanta, Manati, and Overhead/Exploratory Assets) separately. Main risks include: (i) declining oil prices; (ii) capital discipline; and (iii) exploratory and production execution risks.

Braskem – Valuation & Risks

Our YE2021 target price is based on a DCF valuation, using a WACC of 10.5%. Risks include a sharp and sustained drop in chemical prices, a significant and long-lasting increase in oil/naphtha prices, and the appreciation of the Brazilian real.

Petrobras – Valuation & Risks

Our YE2021 target price is based on a DCF valuation using a WACC of 13.0%. Main risks include: oil prices, production growth, execution of divestment plan, and capital discipline.

Ultrapar – Valuation & Risks

Our YE2021 target price is based on a DCF valuation, using WACC of 7.7%. Main risks include: (1) a decline in the growth of the Brazilian economy; (2) a sharp and sustained drop in chemical product prices; and (3) the potential impact of a consolidation strategy on the company's balance sheet and working capital.

Petro Rio – Valuation & Risks

Our YE2021 target price is based on a NAV valuation of Polvo, Tubarão Martelo, Frade, Manati, Wahoo, and the company's overhead.

Main risks include: (1) declining oil prices; (2) execution of its development and drilling programs; (3) capital discipline; and (4) acquisition/growth strategy.

Klabin – Valuation & Risks

Our YE2022 price target for is based on a sum-of-the-parts EV/EBITDA valuation. From our estimated asset value, we subtract net debt to set a target value of R\$36.0/share.

Main risks include: (i) weaker-than-expected pulp and packaging/paper prices; (ii) weaker-than-expected domestic demand; and (iii) weaker-than-expected pulp demand.



Suzano – Valuation & Risks

Our YE2022 price target is based on a sum-of-the-parts EV/EBITDA valuation. From our estimated asset value, we subtract net debt to set a target value of R\$95.0/share. Main risks include: (i) weaker-than-expected pulp price; (ii) BRL appreciation; and (iii) weaker-than-expected pulp demand.

B2W Digital – Valuation & Risks

Our YE2021 target price is based on a multiples valuation analysis. We use a WACC of 9.8% and a perpetuity growth rate of 5.0%, with a target multiple of target 1.0x EV/GMV looking at 2025E GMV. Main risks to the case include (1) lower marketplace growth and its contribution to P&L; (2) Further deterioration of macroeconomic indicators in the country; (3) Increased competition and aggressive pricing policy from some players in the market; (4) Higher-than-expected capex needs in the following years; (5) Additional capital needs, driving to another equity capitalization; (6) Still very limited visibility regarding B2W's bottom-line figures.

Carrefour Brasil – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 10.1% and a perpetuity growth rate of 3.5%. Main risks are: (1) further deterioration in macro indicators, especially in food inflation (2) margin deterioration in the retail unit with slower than expected SSS (3) fiercer competition in the cash & carry business.

C&A Modas – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 9.9% and a perpetuity growth rate of 4.0%. Main risks include: (1) lower-than-expected SSS; (2) increased competition; (3) deterioration in the Consumer Finance business, with rising NPLs and delinquency rates; (4) disruptions in push & pull and supply initiatives implementation, leading to possible wrong orders or stock-outs at the store level; and (5) FX depreciation weighing on imported goods.

Grupo SBF – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 9.2% and a perpetuity growth rate of 4.5%. Main risks include: (1) lower-than-expected SSS; (2) increased competition in ecommerce; (3) acceleration of direct-to-consumer (DTC) trend from international sporting goods brands in Brazil; (4) execution risks in recent deal; and (5) fiscal reform resulting in the loss of tax incentives for the company.

Espaço Laser – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 9.6% and a perpetuity growth rate of 3.5%. Main risks include: (1) sustain high service level amid fast expansion; (2) increased competition; (3) the end of hair stock; (4) credit operation expansion; (5) new technologies; and (6) international expansion and new business.

Arezzo – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 9.4% and a perpetuity growth rate of 4.5%. Main risks include: (1) stronger-than-expected economic slowdown, (2) competitive environment, (3) delayed store opening, (5) lower profitability with new brands and (6) lower growth and profitability in US operation than expected.

Grupo Mateus – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 11.3% and a perpetuity growth rate of 5.0%. Main risks include: (1) Increased competition in their core states by national chains; (2) shortage of good locations (lowering new store's IRR); and (3) non-renewable of significant fiscal benefit in Maranhão state.

Guararapes – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 9.0% and a perpetuity growth rate of 4.5%. Main risks include: (1) lower-than-expected SSS; (2) increased competition; (3) deterioration in the Consumer Finance business; (4) slow pace in projects execution; and (5) fiscal reform resulting in the loss of tax incentives for the company.

Cia Hering – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 11.2% and a perpetuity growth rate of 4.0%. Main risks include (1) declining profitability in the franchise network, (2) misses in product collections, (3) elimination of current tax incentives, (4) economic slowdown and (5) increased competition from local and foreign players.



CVC Corp. – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 10.0% and a perpetuity growth rate of 4.5%. Main risks include: (1) delayed recovery in the economy, (2) FX volatility and limited credit availability, (3) tougher competition coming from players entering the franchise model and from pure OTC players, (4) store expansion may require new operators that do not necessarily share the same culture, (5) new stores could be less productive versus the current base, (6) significant changes in the suppliers' dynamics.

Lojas Americanas – Valuation & Risks

Our YE2021 target price is based on a sum of the parts model, composed of: (i) DCF analysis for LAME's B&M operation, for which we consider a WACC of 9.7% and a perpetuity growth rate of 4.0% and (ii) 62% stake at B2W, which we evaluate through a multiple analysis. Main risks include: (1) lower-than-expected SSS, (2) increased competition, (3) delayed store openings and (4) lower profitability from e-commerce (B2W Digital).

Lojas Renner – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 8.4% and a perpetuity growth rate of 4.5%. Main risks include: (1) lower-than-expected SSS; (2) increased competition; (3) deterioration in the Consumer Finance business, with rising NPLs and delinquency rates; (4) disruptions in push & pull logistics, leading to possible wrong orders or stock-outs at the store level; and (5) FX depreciation weighing on imported goods.

Magazine Luiza – Valuation & Risks

Our valuation is based on a sum-of-the-parts approach is comprised of Magazine Luiza's: (i) Bricks-and-Mortar (B&M) division; and (ii) e-commerce division, including 1P and 3P. To value the B&M business, we place a target EV/EBITDA of 10x on the company's estimated physical stores EBITDA in 2021E. For the e-commerce division, we place a target EV/GMV of 2.5x on our 2025E GMV, discounting it to present value using an 9.0% WACC.

Track & Field – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 10.4% and a perpetuity growth rate of 4.5%. Main risks include: (1) lower-than-expected SSS; (2) increased competition both new brands or ecommerce players; (3) governance risks due to its dual-share corporate structure; and (4) execution risks in its expansion plan.

Pague Menos – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 10.7% and a perpetuity growth rate of 5.0%. Main risks include: (1) increased competition, (2) higher cannibalization effect, (3) changes in sales mix (lower-margin categories), (4) changes in industry regulations, (4) end of fiscal benefits and (5) shortage of good locations (lowering new stores' IRR).

Petz – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 9.7% and a perpetuity growth rate of 4.5%. Main risks include: (1) Cobasi starting to ramp-up store openings; (2) ecommerce competition from other retailers and pure players from pet focused; (3) shortage of good locations (lowering new store's IRR).

Natura – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 9.7% and a perpetuity growth rate of 4.0%. Main risks are: (1) fiercer competition from local and foreign players, (2) problems integrating operations and capturing synergies from Avon acquisition, (3) Higher than expected investments Avon turnaround.

Via Varejo – Valuation & Risks

Our YE2021 target price is based DCF, we use a WACC of 8.5% and a perpetuity growth rate of 4.0%. Main risks include: (1) further deterioration in macroeconomic indicators; (2) increased competition online; (3) operational difficulties with marketplace scaling; (3) aggressive pricing policies from competitors.

RD – Valuation & Risks

Our YE2021 target price is based on a DCF analysis for which we consider a WACC of 8.7% and a perpetuity growth rate of 5.0%. Main risks include: (1) increased competition, (2) higher cannibalization effect, (3) changes in sales mix (lower-margin categories), (4) changes in industry regulations, (4) higher tax burden on medicaments and (5) shortage of good locations (lowering new stores' IRR).



CSN – Valuation & Risks

Our YE2021 price target for CSN's shares is based on a sum-of-the-parts EV/EBITDA multiple valuation. The consolidated EV/EBITDA multiple is 5.5x. This is at a discount to historical average to reflect earnings at peak levels.

From our estimated asset value, we subtract net debt to set a target value of R\$44.0/share.

Main risks include: (i) lower-than-expected iron ore and steel prices, (ii) weaker domestic steel demand and (iii) slower-than-expected deleveraging.

Gerdau – Valuation & Risks

Our YE2021 price target for Gerdau's shares is based on a sum-of-the-parts EV/EBITDA multiple valuation. The consolidated EV/EBITDA multiple is 6x. This is slightly below historical average to reflect earnings at peak levels. From our estimated asset value, we subtract net debt to set a target value of R\$35.0/share.

Main risks include (1) lower-than-expected steel prices, (2) weaker-than-estimated demand for main markets, and (3) higher-than-estimated increases in raw material prices.

Usiminas – Valuation & Risks

Our YE2021 price target for Usiminas's shares is based on a sum-of-the-parts EV/EBITDA multiple valuation. The consolidated EV/EBITDA multiple is 5x. This is below historical average to reflect earnings at peak levels. From our estimated asset value, we subtract net debt to set a target value of R\$19.5/share.

Main risks include (1) lower-than-expected steel prices and/or demand, (2) lower-than-expected economic growth in Brazil.

Telefonica Brasil – Valuation & Risks

Our 2021 year-end target price is based on DCF, discounted at a WACC of 10.3% and using a 3.5% perpetual growth rate (in nominal R\$).

Risks: Fiercer than expected competition, stricter regulatory rules, macroeconomic conditions, sector consolidation and technology changes, higher than expected investments needs and stricter fiscal rules.

Intelbras – Valuation & Risks

Our target price is DCF-based and assumes an 11.2% WACC in R\$ terms and a 4.5% perpetual growth rate (in R\$ nominal terms).

Risks: 1) Adverse macroeconomic conditions; 2) FX depreciation; 3) industry-related headwinds (technological obsolescence, heightened competition including from the grey market, erosion or loss of industrial and intellectual property rights due to weak protections); 4) disruptions and execution problems relating to operations; and 5) an end to the company's tax benefits, which are a key pillar of its pricing strategy and the continuation of the partnership with Dahua.

TIM Brasil – Valuation & Risks

Our target price is based on a DCF analysis, assuming a WACC of 9.5% and a 3.5% nominal perpetuity growth rate.

Risks: Fiercer than expected competition, stricter regulatory rules, macroeconomic slowdown, sector consolidation and technology changes, higher than expected investments need and stricter fiscal rules.

Totvs – Valuation & Risks

Our target price is DCF-based and assumes a 9.0% WACC in R\$ terms and a 6.0% perpetuity growth rate (in R\$ nominal terms).

Risks: Economic slowdown in Brazil, the pace of the implementation of the SaaS model, software obsolescence, integration of Bematech and end of tax benefits.

Azul – Valuation & Risks

Our YE2021 target price for Azul implies a 2022E FV/EBITDAR multiple of ~8.5x.

Risks include: stronger-than-expected competition; higher-than-expected volatility in jet fuel prices; unfavorable macroeconomic scenario; implementation of new aircrafts; and government influence.

Santos Brasil – Valuation & Risks

Our YE2021 target price is based on a DCF valuation, for which we discounted the company's estimated cash flow by a WACC of 9.2%, in BRL terms. Risks include: the expected performance of the Brazilian foreign trade not materializing; uncertainties about volume performance; Further deterioration in Economic Activity.



Simpar – Valuation & Risks

Our YE2022 target price for JSL's shares is based on a DCF valuation for which we have discounted our estimated cash flows by a WACC of 9.4% (in BRL).

Risk include: Loss of bargaining power with the OEMs, decrease in prices of used vehicles, thus increasing the spread between prices of new and used vehicles and loss of market share to other large competitors.

Gol – Valuation & Risks

Our YE2021 target price for Gol implies a 2022E FV/EBITDAR multiple of 8.5x.

Risks include: stronger-than-expected competition, leading to a potential pricing war and lower-than-estimated profitability; fuel price and FX volatility could lead to lower-than-expected earnings; and infrastructure bottlenecks could limit Gol's growth in the long term.

Movida – Valuation & Risks

For our DCF-based target price, we discounted the company's estimated cash flow by a WACC of 9.5% (in local currency). Risks include: weaker-than-expected GDP, higher-than-expected Brazilian interest rates, fiercer competition and an increase in the spread between the cost of new cars and the price Movida receives for its used cars.

CCR – Valuation & Risks

Our YE2021 target price is based on a DCF valuation in which we discount CCR' free cash flow by a WACC of 8.2%.

Risks include unexpected deceleration in Brazilian economic activity, leading to a slowdown in traffic volume in general, adverse government interference in the sector, stepped-up competition and lower returns on new projects.

Embraer – Valuation & Risks

Our YE2021 target price for Embraer is based on a DCF valuation analysis, assuming a WACC of 7.3% and nominal perpetual growth rate of 2.5%.

Risks include increasing competition with larger OEMs; lower-than-expected global GDP growth; appreciation of the BRL; delays in the deliveries of the E2; a slowdown or delay in scheduled airplane deliveries; reduction in both Brazilian and foreign government orders in the defense segment; significant shifts in global airline traffic; and disruptions to operations.

Hidrovias do Brasil – Valuation & Risks

For our DCF-based target price, we discounted the company's estimated cash flow by a Ke of 12.1% (in local currency).

Uncertainties related to potential changes in the Brazilian regulatory framework, uncertainties related to the return of new projects in which Hidrovias do Brasil might become involved, unfavorable government intervention, and potential increases in Brazilian interest rates affecting Hidrovias do Brasil's bottom line.

Sequoia – Valuation & Risks

For our DCF-based target price, we discounted the company's estimated cash flow by a WACC of 10.9% (in local currency).

Main risks include: E-commerce growth deceleration, higher competitive scenario in the logistic sector, e-commerce players in-house logistics solutions, M&A execution risks.

Localiza – Valuation & Risks

Our YE2021 target price is based on a DCF valuation in which we discount Localiza's free cash flow by a WACC of 8.2% in nominal Brazilian reais. Risks include an unexpected strong deceleration in Brazil's economic momentum, a higher-than-expected increase in Brazilian interest rates, an unexpected downturn in the financing market, and an increase in the spread between the cost of a new car for Localiza and the price it receives for its used cars.

Unidas – Valuation & Risks

Our YE2021 target price is based on a DCF valuation in which we discount Unidas' free cash flow by a WACC of 8.9% in nominal Brazilian reais. Risks include an unexpected strong deceleration in Brazil's economic momentum, a higher-than-expected increase in Brazilian interest rates, an unexpected downturn in the financing market, and an increase in the spread between the cost of a new car for Unidas and the price it receives for its used cars.

Tegma – Valuation & Risks

Our YE2021 target price is based on a DCF valuation, for which we discounted the company's estimated cash flow by a WACC of 11.5%, in BRL terms.

Risks include high dependency on the automotive sector, client concentration, execution risk when operating in nonautomotive markets, and low stock liquidity.



Ecorodovias – Valuation & Risks

Our YE2021 target price is based on a DCF valuation in which we discount Ecorodovias' free cash flow by a WACC of 8.2%.

Risks include: A macroeconomic downturn, leading to a slowdown in traffic volume in general, stepped-up competition, adverse government interference in the highways concession sector and lower returns on new projects.

Rumo Logística – Valuation & Risks

For our DCF-based target price, we discounted the company's estimated cash flow by a WACC of 9.8% (in local currency).

Uncertainties related to potential changes in the Brazilian railroad regulatory framework, uncertainties related to the return of new projects in which Rumo Logística might become involved, unfavorable government intervention, and potential increases in Brazilian interest rates affecting Rumo Logística's bottom line.

Energias do Brasil – Valuation & Risks

Our target price is based on a DCF model using a nominal WACC of 7.9%. Risks include overbidding for new investments, higher than expected distribution losses, and weak industrial activity.

Energisa – Valuation & Risks

Our target price is based on a DCF model. Risks include (1) lower GDP driving energy consumption downward; (2) bad regulatory decisions; (3) slower than expected improvements in the units acquired; and (4) delays in the construction of transmission projects.

Copasa – Valuation & Risks

Our price target is based on a 10-year DCF model. We assumed a WACC of 9.8%. Risks include uncertainty on tariff revision, provisions, lower volume curve, political interference and potential changes in sector regulation.

Focus Energia – Valuation & Risks

Our price target is based on a DCF valuation. Risks include: (1) delay of projects under construction; (2) lower than expected solar generation; (3) FX exposure on capex; and (4) dilution to conclude pipeline of projects under development.

Alupar – Valuation & Risks

Our price target is based on a DCF valuation. Risks include: (1) delay of projects under construction; (2) lower than expected wind generation; and (3) higher than expected hydro deficit.

Neoenergia – Valuation & Risks

Our price target is based on a DCF valuation. Risks include: (1) overbidding for new projects; (2) delay of projects under construction; (3) lower than expected wind generation; and (4) higher than expected hydro deficit.

Light – Valuation & Risks

Our price target is based on a DCF valuation. Risks include (1) lower GDP driving energy consumption downward; (2) non-achievement of the loss reduction target; and (3) a worse-than-expected tariff review parameters.

Omega Geração – Valuation & Risks

Our target price is based on a DCF valuation. Risks include lower-than-expected generation prices, wind output, losses in electricity trading, and related-party transactions.

Eneva – Valuation & Risks

Our is based on a DCF valuation using a WACC of 8.2% nominal terms in BRL. Main risks include: (i) lower-than-expected gas supply and, consequently, electric generation; (ii) greenfield projects; and (iii) procurement and construction (EPC) risk.

AES Brasil – Valuation & Risks

Our target price is based on a DCF valuation. Risks include: (1) lower-than-expected generation prices; (2) higher than expected hydro deficit; (3) wind speed in its parks; (4) M&A activity; and (5) problems in the construction of new projects.

Cemig – Valuation & Risks

Our target price is based on a DCF valuation. Risks include (1) lower-than-expected generation prices and economic recovery, (2) political interference, (3) negative results in non-consolidated projects, (4) delays in asset sale and (5) hydro deficit.



Cesp – Valuation & Risks

Our target price is based on a DCF valuation using a cost of equity of 9.3%. Risks include (1) lower than expected indemnification, (2) provisions off balance-sheet, (3) lower than expected long-term prices, and (4) higher than expected hydro deficit.

CPFL Energia – Valuation & Risks

Our price target is based on a DCF valuation. Risks include: (1) lower GDP driving energy consumption down; (2) overpayment in potential M&A opportunities; and (3) change in regulatory parameters.

Eletrobras – Valuation & Risks

Our target price is based on multiples. Risks include: (1) political interference; (2) privatizations newsflow; (3) hydro deficit; (4) energy prices; and (5) provisions.

Sabesp – Valuation & Risks

Our target price is based on a DCF valuation using a WACC of 9.6%. Risks include (1) tariff revision, (2) political interference, (3) higher capex; (4) reservoir levels, (5) U.S. dollar debt; (6) provisions; and (7) capital increase.

Engie Brasil – Valuation & Risks

Our target price is based on a DCF valuation. Risks include: (i) lower-than-expected generation prices; (ii) hydro deficit; (iii) losses in electricity trading; and (iv) related-party transactions.

Transmissao Paulista – Valuation & Risks

Our target price is based on a DCF valuation using a WACC of 7.6% until the end of CTEEP's concession contracts. Main risks include: (i) Capital allocation; (ii) worse regulatory parameters for revision cycles; (iii) worse than expected reimbursement for old transmission assets; and (iv) higher payments related to the Sefaz dispute.



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