BRZ Infra Portos

A Real-Asset Infrastructure Opportunity

Assuming Coverage

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BRZ Infra Portos (BRZP11)
A Real-Asset Infrastructure Opportunity

We introduce our Buy rating (TP of R$120, 64% upside), as we assume coverage and update estimates for *BRZ Infra Portos*. We believe this single-asset equity vehicle (FIP-IE) offers an attractive opportunity in Brazil infrastructure, based on a(n): (1) strategic investment-cycle positioning (new capacity to absorb future demand); (2) favorable competitive landscape (Maersk, world's largest shipping-line, in the controlling group); and (3) attractive valuation under several metrics (BRZP11 has underperformed its financial/fundamental performance).

Why read this report? (1) Understand the asset and this alternative investment opportunity (out of most investors' radar, in our view); **(2)** in-depth valuation analyses (including a DDM model, multiple global comps and an IRR-based analysis).

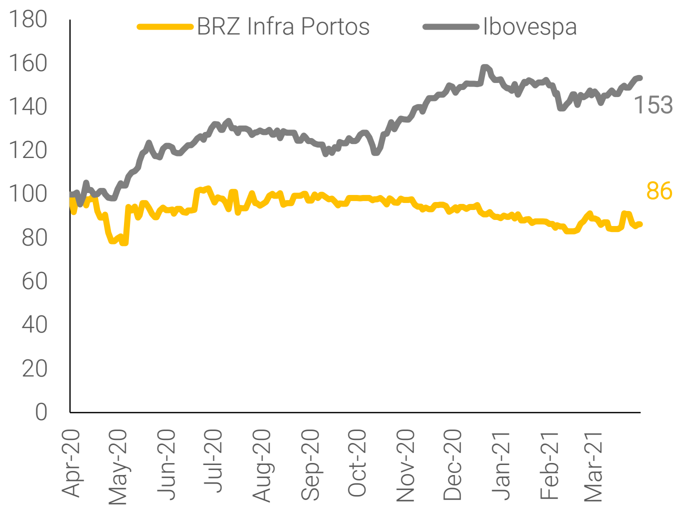
Strategic investment-cycle positioning. We see *BRZ Infra Portos'* single asset *(Itapoá Port)* as well positioned to capture future demand in Brazil's south region. In our base-case, we expect the current port capacity of 1.2mn TEUs (~60% utilized) to expand by 50% to 1.8mn by 2024 (when we also project ~60% utilization [~10% volume CAGR from 2020-24]). Such investment plan (and capacity expansion) implies a major competitive advantage to *Itapoá Port*.

Favorable competitive landscape. Our double-digit volume growth projection (+10% CAGR in 2020-24) is based on a combination of market growth (~4%) and market share gain in the South Cluster (~6%). We expect *Itapoá Port* (a perpetual asset) to absorb most of the demand from *ADM Itajaí* (competing terminal with 18% share) once its concession expires in 2022, as: (i) Maersk (the world's largest ship-owner), which fully-owns the concession and accounts for most of its demand, has a co-controlling 30% stake in *Itapoá Port* (a more efficient alternative); and (ii) Itapoá Port is in the process of building the capacity needed to accommodate such demand.

Attractive valuation. In our view, *BRZ Infra Portos'* weak NAV evolution since the pandemic outbreak (-30% since Feb/2020) detached from its positive financial performance (EBITDA +21% in 2020). We see the current valuation level as attractive both in absolute and in relative terms: (i) our DCF-based (DDM) model implies 64% upside potential; (ii) EV/EBITDA '21 of 7.5x, vs. ~14x of main peer STBP3; and (iii) equity real IRR at ~14% (high risk-free spread of ~10p.p.).

BRZ (BRZP11): Estimates Summary			
Recommendation	**Buy**		
Price Target	R$120.0		
Upside	*64.3%*		
Main Figures (R$ Mn)	**2021**	**2022**	**2023**
Net Revenues	**425**	**450**	**599**
YoY %	*18%*	*6%*	*33%*
EBITDA	**244**	**261**	**374**
YoY %	*27%*	*7%*	*43%*
EBITDA Margin	57.5%	57.9%	62.5%
EBIT	**197**	**214**	**322**
YoY %	*40%*	*8%*	*51%*
EBIT Margin	46.3%	47.4%	53.7%
Net Income	**110**	**124**	**193**
YoY %	*52%*	*12%*	*56%*
Other Indicators (R$ Mn)	**2021**	**2022**	**2023**
Net Debt (Cash)	**238**	**273**	**340**
Net Debt/EBITDA (x)	1.0x	1.0x	0.9x
Multiples (x)	**2021**	**2022**	**2023**
Dividend Yield	4%	5%	9%
P/E	*14.6x*	*13.0x*	*8.3x*
EV/EBITDA	*7.5x*	*7.2x*	*5.2x*

Figure 1: IBOV vs. BRZP11



Source: Bloomberg and XP Research.

Introducing the Investment Vehicle

Infrastructure As An Asset Class

FIP-IE consists in an infrastructure-dedicated equity investment fund. Although shares redemption are subject to the fund closing or special authorization (given the long-term profile of investments in infrastructure), shares can be negotiated in the secondary market through stock-market listing (as it is the case of BRZP11's listing on B3).

The main highlights are (i) tax exemption benefit for individuals (both in dividends and capital gain), materially improving investment attractiveness, and (ii) active professional management, aligning shareholder interest. On the other hand, attention points include (i) limited access to qualified and professional investors, and (ii) low liquidity relative to stocks.

Figure 2: Infrastructure-Related Investment Alternatives in Brazil

Investment Vehicles	FIP-IE (Equity)	FIP-IE (Debt)	Infra Debentures	REITs	Stocks
Income	Variable	Fixed	Fixed	Variable	Variable
Fiscal (Taxes)	Tax exemption for individuals	Tax exemption for individuals	Tax exemption for individuals	No income taxes charged in profits	15% tax on capital gain (no tax on dividends)
Return Profile	• Perpetual cash flow[1] • Unlimited upside potential • Income (dividends) subject to underlying-asset demand risk	• Pre-defined duration • Limited upside by pre-determined income (amounts, dates) • Asset collateral (value subject to underlying-asset demand risk) • Credit risk	• Stable revenue flow, with long term visibility • Limited upside by pre-determined income • Credit risk	• Long term leasing contracts provide revenue visibility for the contract duration; • Vacancy and delinquency are the main risks	• Perpetual cash flow[1] • Unlimited upside potential • Income (dividends) subject to underlying-asset demand risk
Risk Classification	High	Moderate[2]	Moderate[2]	Moderate[2]	High

[1] Assuming the underlying asset as a going-concern (unlike concession contracts, for example). [2] Subject to credit and colateral-asset risk.

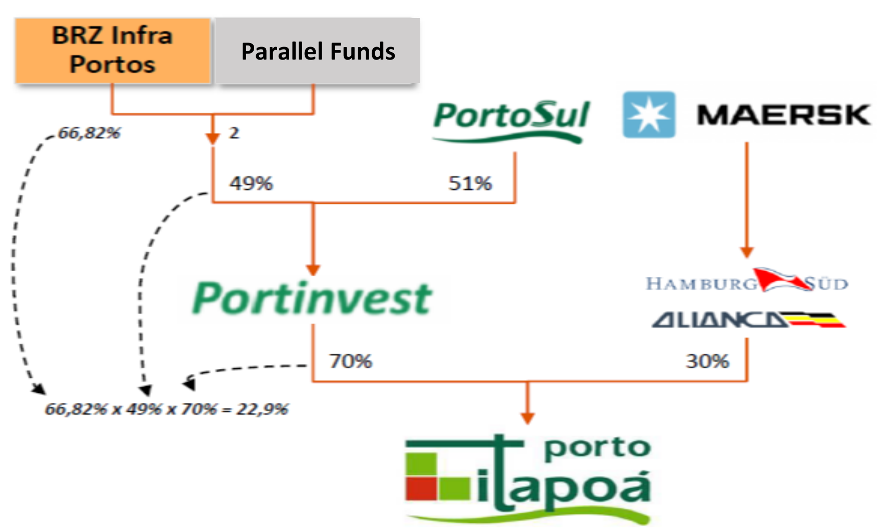
BRZ Infra Portos

BRZ Infra Portos (BRZP11) is a single-asset equity FIP-IE that aims to enhance dividend flow and share appreciation through investment in differentiated assets of the port industry. The Fund's strategy is to participate in the governance of invested companies with active management, favoring interest alignment of invested companies and investors.

The fund has a 22.9% indirect interest in the Itapoá Port (the sole underlying asset), with the acquisition made along with PortoSul (owned mostly by the Battistella Family) through a co-controlled vehicle (Portinvest) that holds a 70% stake in Itapoá Port.

Moreover, 30% of the underlying asset is owned by Maersk (the word's largest shipowner), through its subsidiary Hamburg-Sud, which we see as a strategic partnership and a positive alignment stablished with an important demand originator (~20% of Itapoá Port revenues in 2020).

Figure 3: Port of Itapoá Shareholders Structure



Source: Company data and XP Research.

Valuation – An Opportunity in Brazil Infra

Fund Shares are Underperforming the Underlying Asset

BRZP11 share performance does not reflect Itapoá Port's operational delivery since the fund inception in Feb/20.

- Figure 4 shows that BRZP11 is down 30% since its listing (versus +19% of its main listed peer, Santos Brasil), despite the positive absolute and relative operating performance during 2020, through the pandemic (EBITDA +21% vs. +2% for Santos Brasil).
- Nonetheless, although BRZP11 and STBP3 showed similar share performances through COVID-19 outbreak (-50% in Mar/20), BRZP11 has clearly lagged in share-price recovery relative to Santos Brasil (45% underperformance) despite (i) liquidity improvement and (ii) stronger operational performance.

Figure 4: BRZP11 vs. STBP3 Since Fund Inception

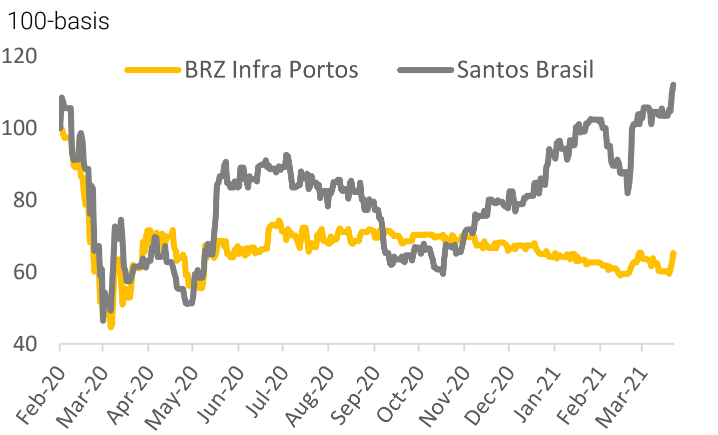
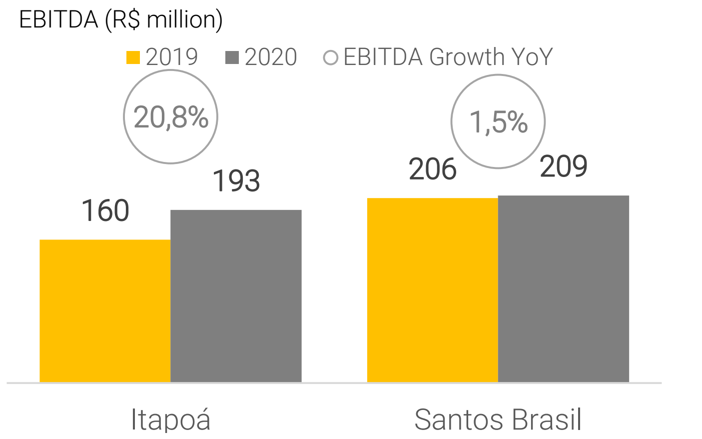


Figure 5: Operating Performance in 2020 vs. 2019



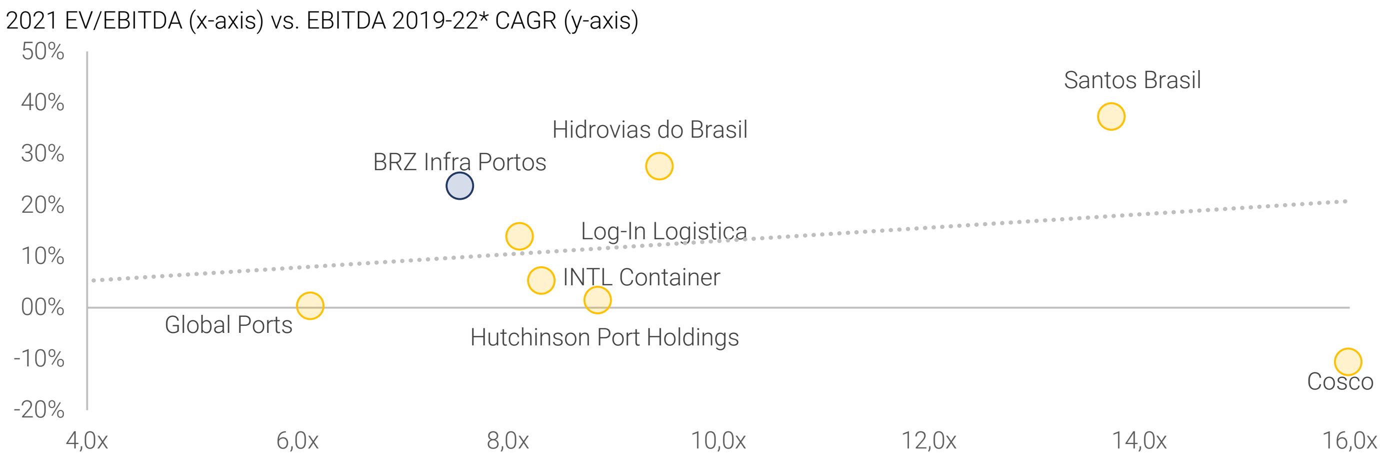
This mismatch has created a valuation opportunity, in our view, corroborated by a three-stage valuation analysis outlined in the following sections: (i) multiple global comps; (ii) IRR-based analysis; and (iii) DDM (dividend discount model).

Multiple Analysis – Materially Cheaper Versus Main Peer

***BRZ Infra Ports* trades at 7.5x EV/EBITDA for 2021E**, which we see as attractive in comparison with its main local peer Santos Brasil (currently at 13.7x), especially considering that STBP3 is a concession-based container operator (finite cash flow) while BRZP11 is a privately owned terminal (see a detailed comparison on page 13).

Versus global peers, BRZ Infra Portos trades roughly in line, except for Cosco and Port of Tauranga (both at significantly higher multiples). See Figures 6 (below) and Figure 7 (next page) for further details.

Figure 6: Growth Forecast Support Discounted Multiple



Source: Company data and XP Research. *2019-23 CAGR for BRZ Infra Portos given the lack of long-term figures for comparable companies.

Figure 7: Comps Table

Companies	Current Price	Rating	Market Cap ($ mi)	ADTV ($ mi)	P/E 2021	P/E 2022	EV/EBITDA 2021	EV/EBITDA 2022	ROIC 2021	ROIC 2022	EBITDA CAGR 2019-2022
Brazilian Port Operators					23.2x	14.7x	9.4x	8.4x	8.8%	12.6%	27.6%
BRZ Infra Portos	73.05	Buy	n.a.	n.a.	14.6x	13.0x	7.5x	7.2x	18.1%	17.8%	17.7%
Santos Brasil	7.17	N.C.	1,108	2.3	50.6x	24.6x	13.7x	9.8x	9.6%	15.7%	37.3%
Log-In Logistica	19.17	N.C.	362	0.6	14.2x	14.0x	8.1x	7.1x	n.a.	n.a.	13.9%
Hidrovias do Brasil	6.21	N.C.	846	0.7	23.2x	14.7x	9.4x	8.4x	7.9%	9.6%	27.6%
Global Port Operators					11.4x	10.6x	8.6x	8.2x	7.1%	7.7%	1.8%
Cosco	6.34	N.C.	2,707	5.3	8.3x	7.6x	16.0x	14.6x	1.8%	1.9%	-10.7%
Evergreen Marine Corp.	68.00	N.C.	12,594	475.6	4.8x	8.2x	3.9x	6.6x	35.1%	22.5%	41.2%
Rizhao Port	2.86	N.C.	1,351	7.3	11.4x	10.6x	n.a.	n.a.	n.a.	n.a.	n.a.
Global Ports	3.70	N.C.	707	0.1	8.4x	7.2x	6.1x	5.8x	7.0%	7.2%	0.3%
Hutchinson Port Holdings	0.24	N.C.	2,091	2.3	19.6x	19.2x	8.9x	8.8x	2.2%	2.3%	1.4%
INTL Container	129.00	N.C.	5,453	4.7	23.0x	18.5x	8.3x	7.7x	11.3%	13.6%	5.2%
Port of Tauranga	7.47	N.C.	3,650	0.8	52.6x	47.6x	33.0x	30.9x	7.2%	8.3%	2.1%

IRR Analysis – The Best Vehicle to Invest in Itapoá Port

There are two listed vehicles to have exposure to Itapoá Port: (i) FIP-IE *BRZ Infra Portos* (BRZP11), an equity investment; and (ii) FIP-IE *Endurance* (ENDD11), an indirect debt investment. **We see the equity exposure through BRZP11 as the most attractive alternative**, based on:

(i) higher expected return (we project 14.0% real equity IRR, versus 7.8% offered by ENDD11);

(ii) unlimited equity upside given full exposure to the long-term potential of the underling asset (details in coming sections) versus a pre-defined capped return in ENDD11 debt; and

(iii) similar risk (downside) profile, as although ENDD11 has a debt profile, its cash flow is fully dependent on Itapoá Port dividend flow and offers the underlying asset as debt collateral.

Figure 8: Attractive IRR

Real Equity IRR vs. NTN-B yield

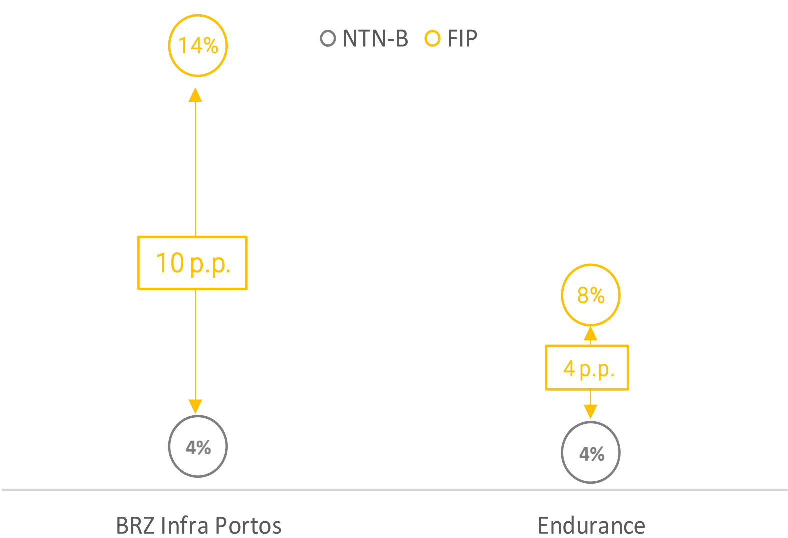
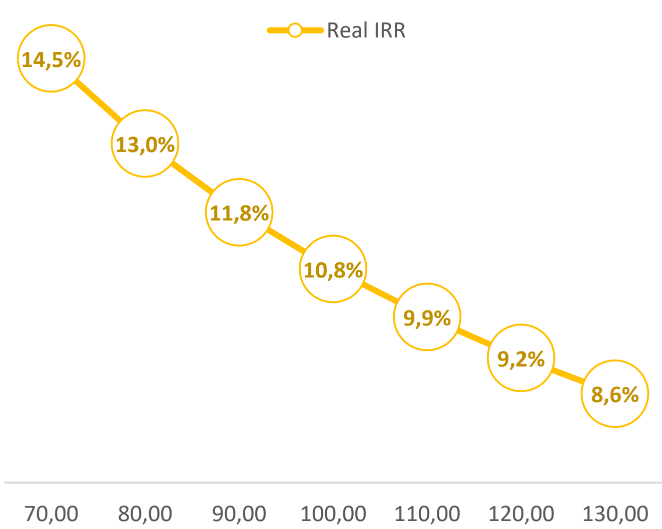


Figure 9: IRR Sensitivity Implies Discounted Valuation

Dividend Flow Implied Real IRR (%)



Source: Bloomberg, Company data and XP Estimates.

DDM Model - Our Target Price Implies 64% Upside

Our 2021YE DDM-based target price of BRL120 per share presents a 64% upside vs. current prices, with ~17% of the value at perpetuity.

We use a DDM (discounted dividend model) valuation approach, where our main assumptions are: (i) 3.3% long-term growth rate; (ii) 7.5% risk-free rate; (iii) 30% debt to capital ratio; and (iv) beta of 1.0x, implying 10.7%, 13.0% and 8.0% nominal WACC, cost of equity and cost of debt, respectively.

Figure 10: BRZ Infra Portos' DDM Main Assumptions

DDM (R$ Million)		**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**...**	**2045**	**Perp.**
Dividends Paid - Itapoá		**50**	**7**	**72**	**87**	**144**	**172**	**240**	**...**	**816**	**8,719**
Dividends Received - BRZ Infra Portos	**22.92%**	**11**	**2**	**16**	**20**	**33**	**39**	**55**	**...**	**187**	**1,998**
(-) Administration Fee		-	(6)	(6)	(6)	(7)	(7)	(7)	...	(7)	(79)
As a % of Market Value		0.0%	1.5%	1.5%	1.5%	2.0%	2.0%	2.0%	...	2.0%	2.0%
Net Inflow - BRZ Infra Portos		**11**	**(4)**	**11**	**14**	**26**	**32**	**48**	**...**	**180**	**1,920**
PV FCFE					**13**	**20**	**22**	**29**	**...**	**10**	**102**
% of Total Equity Value					*2%*	*3%*	*4%*	*5%*	*...*	*2%*	*17%*

Figure 11: CAPM Model – Summary

WACC	
Ke	**13.0%**
Rf	7.5%
β	1.0
ERP	5.5%
Kd (BT)	**8.0%**
T	34%
D/(D+E)	30%
WACC	**10.7%**
g	3.3%
Base Year	2021
Valuation	
Net Debt 2021	238
Target Enterprise Value	843
Target Equity Value	605
BRZ's Stake	22.92%
Target Market Cap	605
Number of Shares	5.040
Target Price	**120.00**

Figure 12: Bull and Bear Scenarios for Target Price

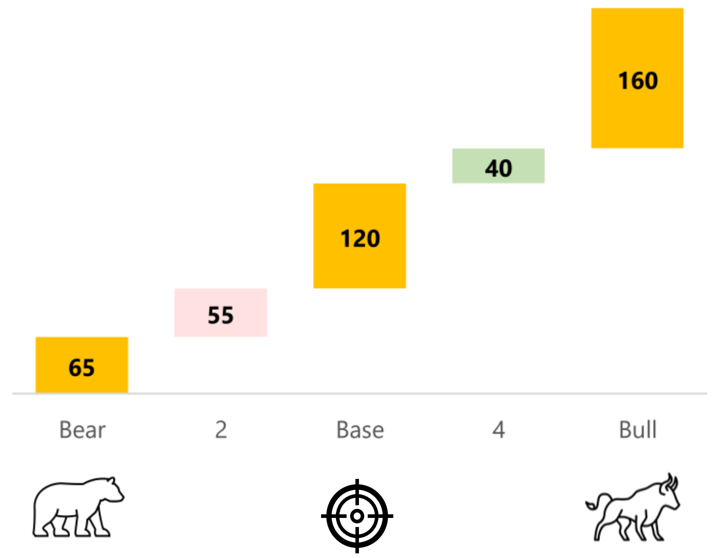


Figure 13: Bull and Bear Scenario Assumptions

Base-case: (i) 1.5x elasticity to GDP growth for containers volumes; (ii) 1.0x elasticity to inflation for tariffs from 2022 onwards; (iii) 0% cost efficiency for 2022; and (iv) maintenance capex at 11% of net revenues.

Bull-case: (i) 2.0x elasticity to GDP growth for containers volumes; (ii) 1.15x elasticity to inflation for tariffs from 2022 onwards; (iii) 0% cost efficiency for 2022; and (iv) maintenance capex at 7% of net revenues.

Bear-case: (i) 1.0x elasticity to GDP growth for containers volumes; (ii) 0.75x elasticity to inflation for tariffs from 2022 onwards; (iii) 2% cost inefficiency for 2022; and (iv) maintenance capex at 15% of net revenues.

Source: Company data and XP Estimates.

Positive Valuation Asymmetry At Current Prices

To illustrate potential risks to our TP of R$120/share, **we provide below two sensitivity analyses** (Figures 14 and 15) stressing: (i) elasticity of volumes to GDP + unit prices to inflation; and (ii) risk-free rate + terminal growth rate.

We see a positive risk-reward asymmetry considering BRZP11 current price of R$73/share, as we deem the illustrated downside scenarios as unlikely to materialize (port industry 10-year average elasticity of ~1.6x GDP vs. our forecast of 1.5x and conservative unit revenue elasticity of 1.0x inflation, despite the company's potential to improve volume mix – e.g.: higher share of import volumes implies higher overall prices).

Figure 14: Sensitivity to Pricing and Volume Evolution

Target Price (R$/share)

TP		GDP Multiplier (Containers)				
Inflation Elasticity (Containers)		0.5x	1.0x	1.5x	2.0x	2.5x
	1.5x	133	151	171	194	219
	1.3x	112	127	144	163	184
	1.0x	93	106	**120**	136	154
	0.8x	76	87	99	112	127
	0.5x	62	71	81	92	104

Figure 15: Sensitivity to Growth and Risk-Free Rates

Target Price (R$/share)

TP		Rf				
g		6.5%	7.0%	7.5%	8.0%	8.5%
	2.8%	137	127	119	112	105
	3.1%	137	128	120	112	105
	3.3%	138	129	**120**	112	106
	3.6%	139	129	121	113	106
	3.8%	140	130	121	113	106

Source: Company data and XP Estimates.

Sector Analysis – Brazil Container Terminals

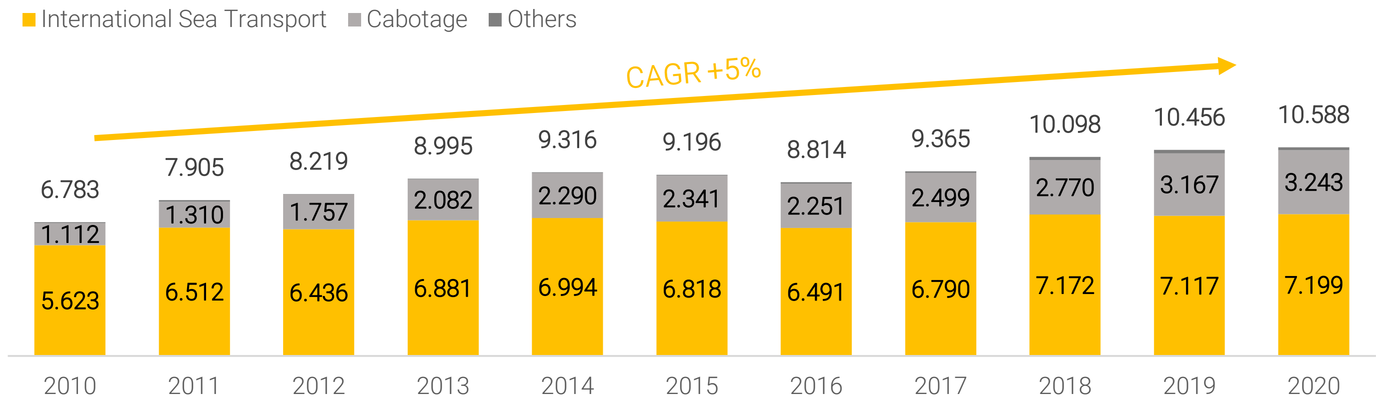
Resilient and Steady Growth Profile

The port industry in Brazil has shown a resilient and steady growth profile over the past decade, with container volumes increasing at a ~5% CAGR from 2010-20, often outperforming GDP growth throughout that period.

Despite international sea transport volumes dominance (~70% of the total), we notice that cabotage volumes were the positive highlight, with container units virtually tripling throughout the last decade. Going forward, backed by a positive legislation agenda with the purpose of incentivizing the sector *(BR do Mar)*, we expect cabotage volumes to remain driving industry growth in Brazil.

Figure 16: Brazil Containers Historical Growth Implies a Resilient Profile

TEUs Growth YoY



Comparing the industry growth with historical GDP, Figure 17 shows that **container units' growth have often surpassed macroeconomic activity in Brazil**, with an average GDP leverage of ~1.6x from 2010-20 (supporting our growth estimate of 1.5x GDP for Itapoá Port).

We believe such high elasticity levels derives from (i) under-utilization of foreign relations potential, with still-low trade levels relative to developed markets, and (ii) low container usage penetration versus other countries (see Figures 19 and 20, in the next page). As we see more room for the port industry to continue developing, we believe that growth expectations above GDP forecasts are reasonable for the industry ahead.

Figure 17: Sector Often Outpacing GDP Growth

TEUs Growth YoY vs. GDP Growth YoY

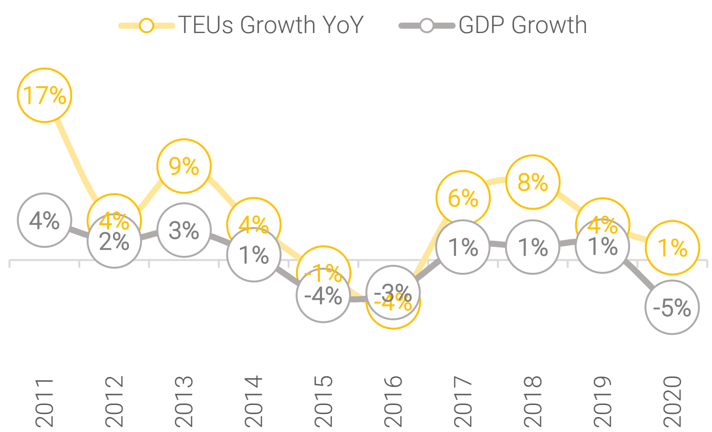
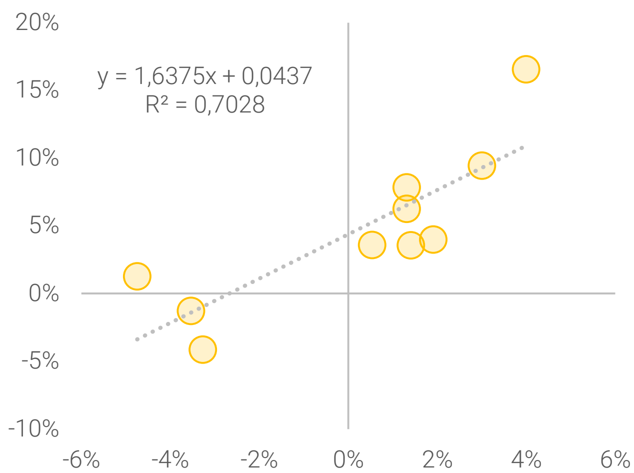


Figure 18: High Elasticity vs. GDP Growth

TEUs Growth YoY (y-axis) vs. GDP Growth YoY (x-axis)



Source: ANTAQ and XP Research.

Figure 19: Sector Highly Underpenetrated in Brazil…

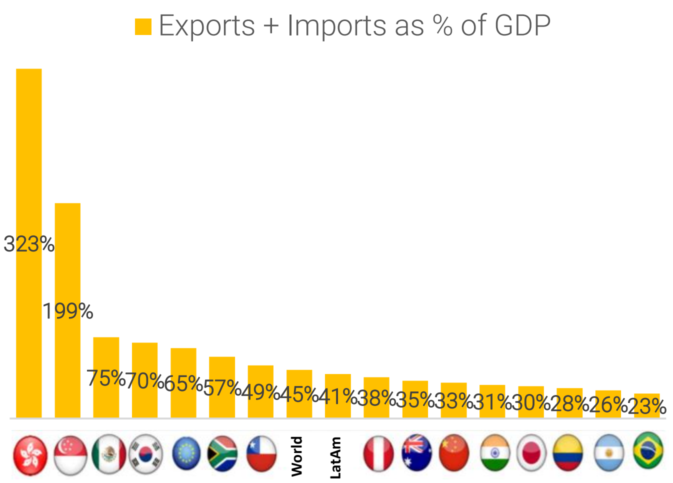
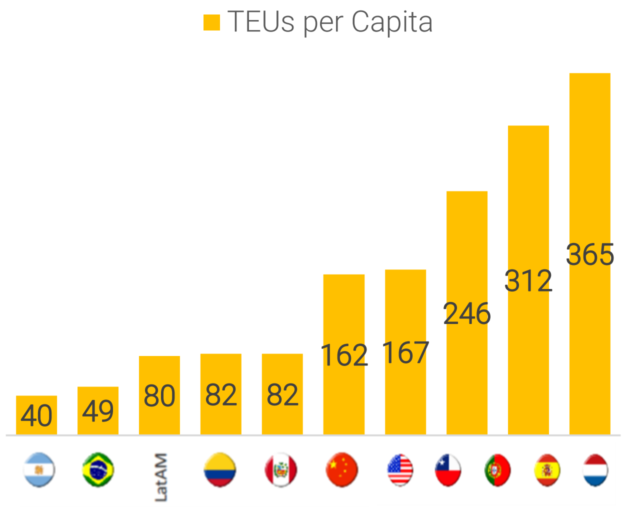


Figure 20: …Through Different Metrics



Geographical Footprint of Containers in Brazil

Given the proximity that large industrial and consumption centers must have to port terminals in order to reduce logistics costs, we note that **container terminals in Brazil are distributed along seven main clusters, with Santos' and South's clusters as the two largest ones**, with ~37% and 28% market share, respectively.

Analyzing each cluster separately, we highlight that the **South cluster positively aligns** <u>(i) relevance in Brazil's container industry</u> (2nd largest cluster), **with** <u>(ii) higher than average growth profile</u> (~7% 2010-20 CAGR vs. ~5% average for Brazil), reflecting the more accelerated industrialization pace of the South region in Brazil, with large manufacturing centers such as *Joinville* and *Jaraguá do Sul*.

Figure 21: Container Terminals Clusters in Brazil

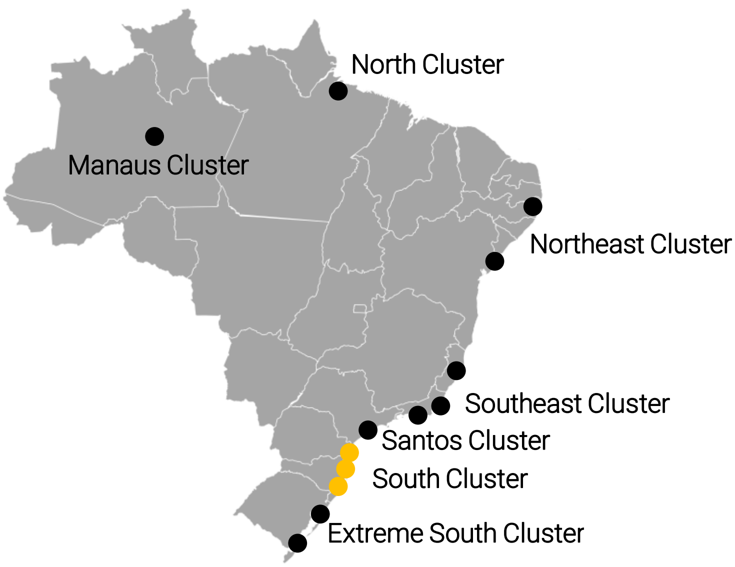
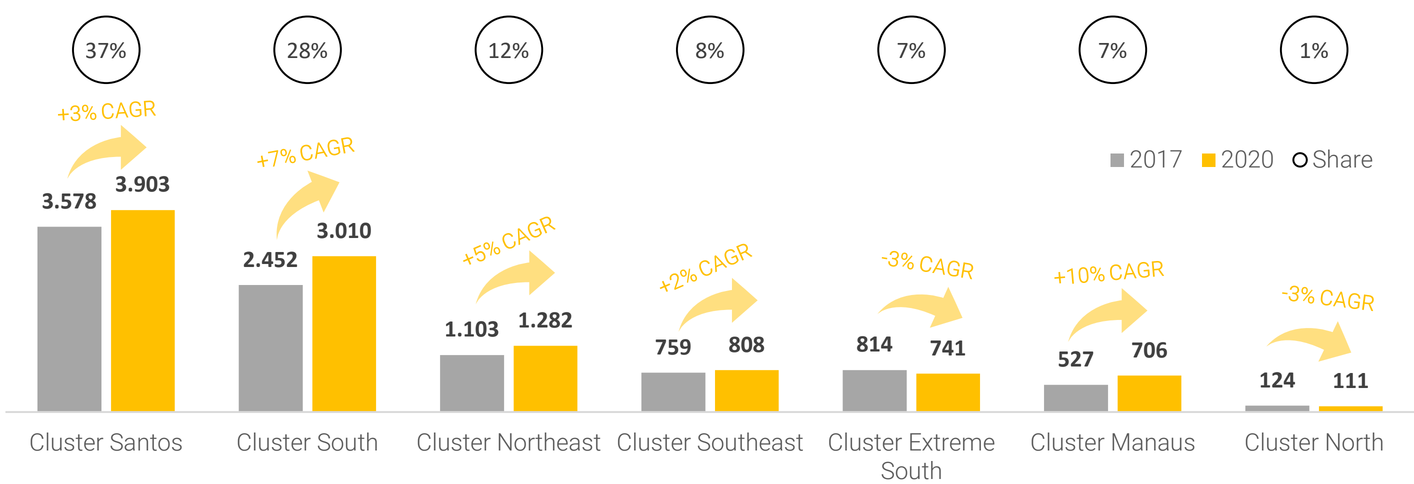


Figure 22: South Cluster Is The 2nd in Brazil – both in market share (after Santos) and in 2017-20 growth (after Manaus)

'000 TEUs

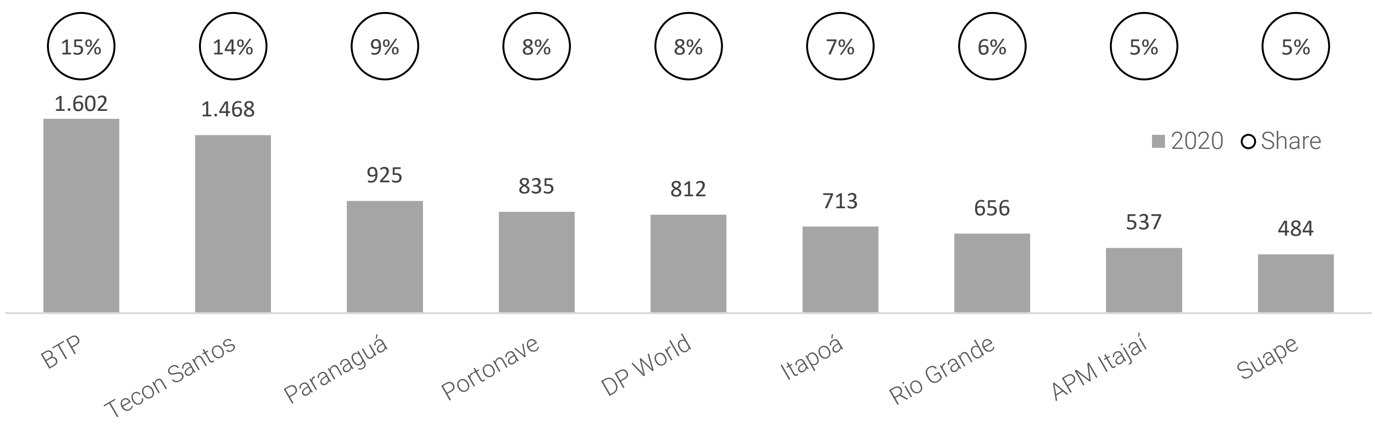


Source: ANTAQ, Company data and XP Research.

In Figure 23, we show the largest container terminals in Brazil by TEUs (2020), highlighting that the eight largest operators are situated in the Santos and South clusters.

Figure 23: Itapoá Is The 6th Largest Container Terminal in Brazil

'000 TEUs



Positive Competitive Outlook

We see Itapoá Port's competition as limited to the South Cluster (Paranaguá [TCP], Navegantes [Portonave] and Itajaí [APM]), as its main influence area consists of Paraná and Santa Catarina States. We do not expect competition from Santos and Extreme South clusters.

Furthermore, we see Itapoá Port as the best positioned terminal within the South Cluster. Figure 25 illustrates the South Cluster historical market share, with Itapoá positioned as the terminal with highest share gain (from ~20% in 2013 to ~24% in 2020).

Figure 24: A Better Look At The South Region

Santos, South and Extreme South Clusters

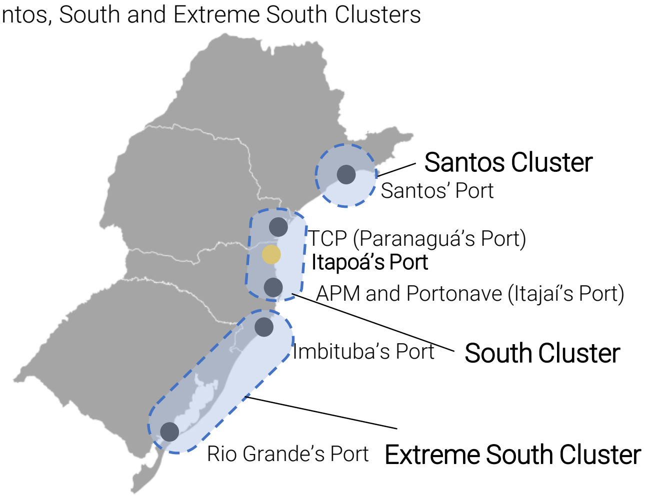
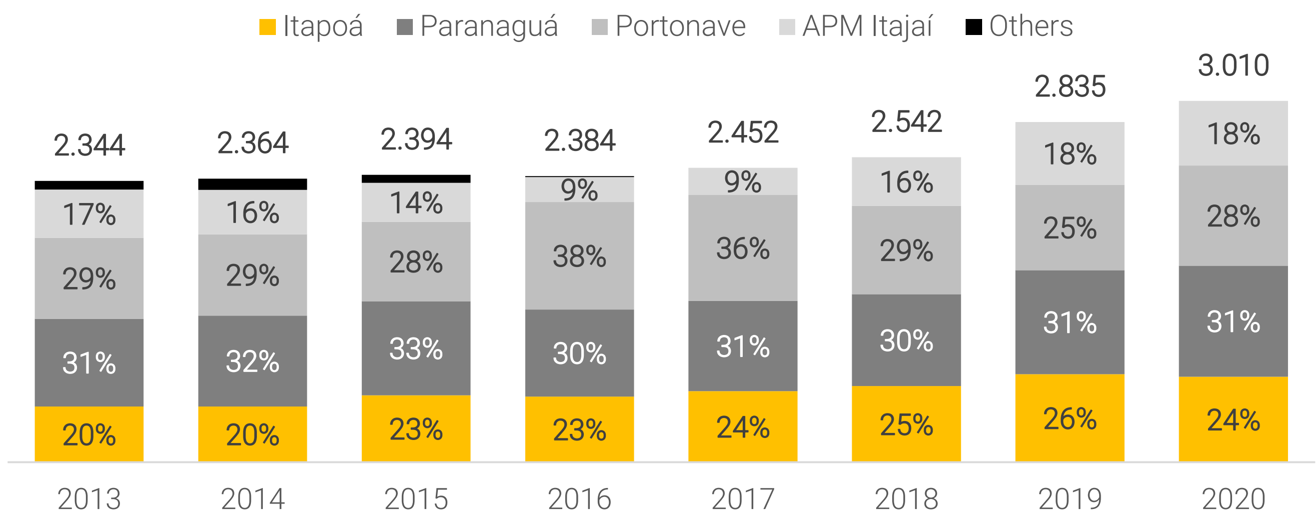


Figure 25: Itapoá Has Gained Most of Market Share Over The Past Decade

Market share (% of TEUs)



Source: ANTAQ, Company data and XP Research.

Why we see Itapoá Port As Best Positioned?

We highlight three main characteristics that, in our view, position Itapoá Port ahead of competition:

- <u>Perpetual asset:</u> Itapoá is a private terminal, posing no expiration date and no requirements for the asset to be renewed. Even though Paranaguá's recent renewal enables the terminal to continue operating until 2048, we note that APM Itajaí's concession expires in 2022, which could drive demand to other idle terminals in its cluster (mainly Itapoá as outlined in the following bullets).
- <u>Increasing capacity</u>: Currently with 1.2mn TEUs, Itapoá has the most available capacity in the South cluster (~59% utilization vs. 61%, 77% and 84% in Paranaguá, Itajaí and Portonave, respectively), which well-positions the company for future growth and share increase. Moreover, the terminal has an ongoing plan to add 50% capacity to 1.8mn TEUs.
- <u>Partnership with shipowner</u>: Shipowners often hold stakes in terminal operators, as a signal of alignment between service provider and client. We highlight that Maersk (world's largest shipowner) holds stakes both in Itapoá Port and Itajaí APM, which expires in 2022. So, we expect Itapoá Port to absorb most of Maersk services currently in Itajaí.

Figure 26: Terminals Main Metrics Summary

	Santos' Cluster			South's Cluster				Extreme South's Cluster	
Location	Santos			Paranaguá	Navegantes	Itajaí	Itapoá	Rio Grande	Imbituba
Terminal	BTP	Tecon Santos	DP World	TCP	Portonave	APM Itajaí	Porto Itapoá	Tecon Rio G.	Tecon Imbituba
Type	Public (Expiring in 2027)	Public (Expiring in 2047)	Private (Authorization)	Public (Expiring in 2048)	Private (Authorization)	Public (Expiring in 2022)	Private (Authorization)	Public (Expiring in 2047)	Public (Expiring in 2033)
Pier	1,108m	980m (+220m)	653m (+446m)	1,099m	900m	557m	800m (+410m)	900m	660m
Docks	3	3	2 (+1)	4	3	2	2 (+1)	3	2
Total Area	431k sqm	596k sqm	297k sqm (+133k sqm)	487k sqm	400k sqm	79k sqm	250k sqm (+205k sqm)	735k sqm	207k sqm
Draft	14.1m - 14.8m	13.6m - 14.5m	14.2m - 14.5m	11.5m - 12.5m	11.7m - 12.1m	11.9m - 12.2m	16.0m (11.0m - 12.8m access)	12.8m	15.0m
Portainers	8	13 and 1 MHC	6	6 Super Post Panamax and 2 MHCs	6 Post Panamax	2 and 3 MHCs	6 Super Post Panamax	9 Super Post Panamax	2 and 2 MHC
Capacity (000' TEUs)	1,500	2,000	1,200	1,500	1,000	700	1,200	1,400	450
Volume (000' TEUs)	1,602	1,468	812	925	835	537	713	656	52
Utilization Factor	106.8%	73.4%	67.6%	61.7%	83.5%	76.7%	59.4%	46.9%	11.5%
Shipowner	MSC/Maersk	Maersk	-	-	MSC	Maersk	Maersk	-	-

Below we provide more details about the financial performance of Itapoá and its main competitors in the South:

- <u>Portonave and TCP have the highest EBITDA margins</u>, as a reflection of its (i) higher capacity utilization in the case of Portonave (84% vs. 59% in Itapoá); and (ii) mature profile in the case of Paranaguá compared to Itapoá.
- <u>We see room for Itapoá margins to converge to 60-65% in the medium term</u> (by 2023 in our estimates), as volume and utilization increases driving operational leverage.

Figure 27: Historical EBITDA Margin

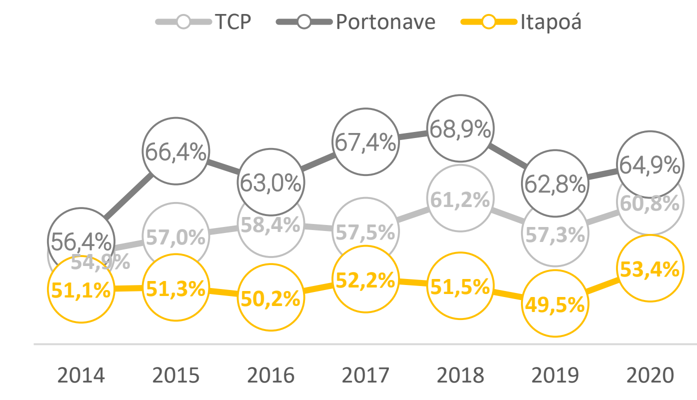
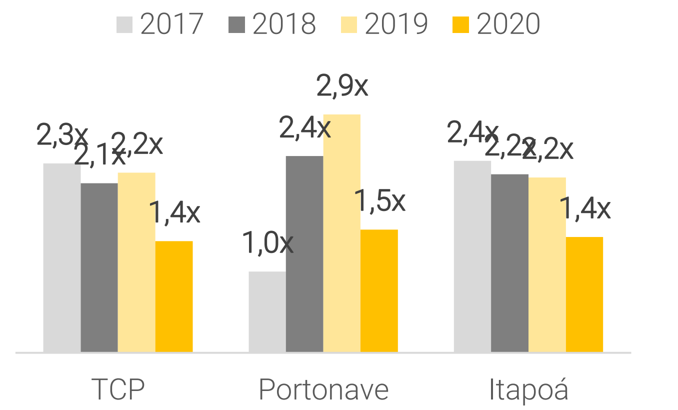


Figure 28: Historical Leverage Levels (Net Debt/EBITDA)



Source: Company data and XP Research.

Private Terminal Benefits Versus Public Concessions

The Brazilian port system consists of public and private facilities. Public terminals are installed in government-owned areas and operated by companies that go through a bidding process, while private use terminals (TUP's), on the other hand, are projects in which port activity takes place under a private initiative regime through authorization granted by ANTAQ (National Waterway Transportation Agency).

The main characteristics of each regime are summarized below:

Figure 29: Public Ports vs. Private Ports Comparison

Criteria	Public Ports - PPs	Private Ports - TUPs
Initial Contribution	Auction - Different Formats	Authorization - No Initial Contribution
Duration	Up to 70 years (35 + 35)	Undetermined, can be renewed indefinitely
Regulation	Terms of the concession contract defined by the Granting Power	Defined by Law 12,815/13
Port Tariffs	Port tariffs (reversed upon maintenances conditions)	No port tariffs (maintanance to be performed by the company)
Terminal Tariffs	Regulated by ANTAQ (Federal Regulation Agency)	Regulated by ANTAQ (Federal Regulation Agency)
Infrastructure	Public Asset - to be conceeded	Private Asset - greenfield
PP&E	Reversable	Non-reversable
Clients	Defined before the auction	Non-defined, relationship to be build by the operator
Work Force	Only workers under OGMO - free negotiation between parties	Any worker under CLT (registered) or via Union Agreements

Source: ANTAQ and XP Research.

Itapoá Is Well-Positioned in the South

Strategic Location

The South Cluster presents favorable climatic behavior with less frequency of operation interruptions when compared to the large Brazilian port terminals. Itapoá Port is located in Babitonga Bay, north coast of Santa Catarina state, less than 80 km from Joinville (SC) and 140 km from Curitiba (PR).

The port has a great logistical advantage in the flow and arrival of products, as it is near Joinville, the most industrialized city in the state of Santa Catarina and to Curitiba (capital of Paraná). Road access to the port does not conflict with other cargo or urban centers.

Finally, the berths have a deep draft of 16m, making it possible to operate all models of container transshipping vessels that sail on the Brazilian coast.

Figure 30: Main Highway Connections With The Port

Figure 31: Aerial View From Itapoá Port

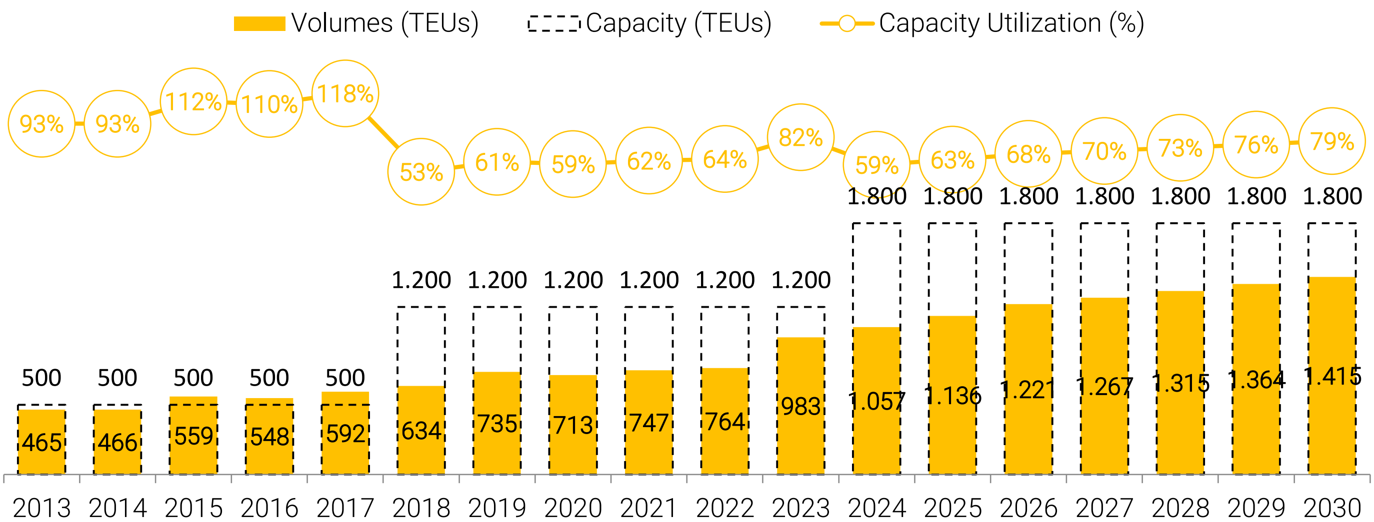
Relevant Expansion Ahead

In 2015, Itapoá Port reached maximum container handling capacity of 500k TEUs (Tweenty-foot Equivalent Unit), triggering an expansion concluded in 2018 to increase capacity to the current level of 1.2 million TEUs.

We expect the next round of capacity expansion to be triggered by utilization reaching ~80% (~60% today). We then expect capacity to increase by 50% to reach 1.8 million TEUs (our base-case), potentially reaching as much as 2.5 million TEUs. Details on Figure 32, below.

Figure 32: Recently Build Extra Capacity And New Expansion Phases Should Support Utilization To Remain Under 80%

Itapoá's volumes ('000 TEUs), Capacity ('000 TEUs) and Capacity Utilization (%)



Source: Company data and XP Estimates.

We are conservatively assuming a partial expansion plan in our model, as Itapoá Port's privileged set up allows for a relevant expansion (50% capacity increase, in our base-case) with relatively low investment complexity and value, mainly through (i) investments in the parking area expansion; and by (ii) adding a new portainer.

The main volume trigger in our model happens in 2023, increasing volumes by 29% to 980,000 TEUs (82% utilization of the current capacity). We base such volume growth on APM Itajaí concession expiration in 2022, when we expect Maersk (co-controller of Itapoá Port) to migrate most of its volumes. A relatively quick market share shift is expected given: (i) Itapoá Port's significantly higher eficiencly levels; and (ii) the operational benefits for the shipowner to operate in a port with more spare capacity (e.g.: lower lead-time, higher predictability, etc).

Should volumes surprise to the upside in the long term, a full expansion plan could take place, taking total capacity as high as 2.5 million TEUs by adding a third berth/dock (a more complex/expensive engineering project).

Figure 33: Partial and Complete Expansion Phases of Itapoá Port

Characteristics	Original Infrastructure	Partial Expansion	Post Partial Expansion	Complete Expansion	Post Complete Expansion
Docks	2 (800m)	-	2 (800m)	+1 (410m)	3 (1,210m)
Portainers	6	+1	7	+4	11
Capacity (million TEUs)	1,200	+600	1,800	+700	2,500
Parking Area	250,000 sqm	+115,000 sqm	365,000 sqm	+100,000 sqm	465,000 sqm

Fast Recovery Following the COVID-19 Pandemic

We noticed an immediate volume impact due to the pandemic outbreak (volumes -18% YoY during the May-Sept/20 period). **However, volumes have shown a quick recovery** once the main economic impacts started to soften.

Early-2021 data (Jan-Feb) shows Itapoá Port volumes in-line with the same period in 2020 (before COVID-19), corroborating the top-line resilience of Itapoá and the port sector.

Figure 34: Itapoá Port Volumes Seasonality Analysis

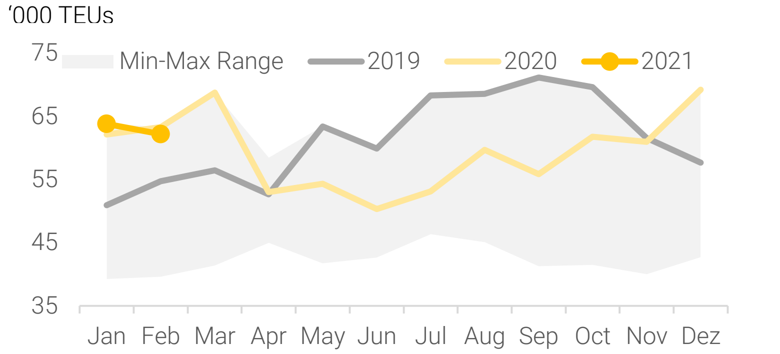
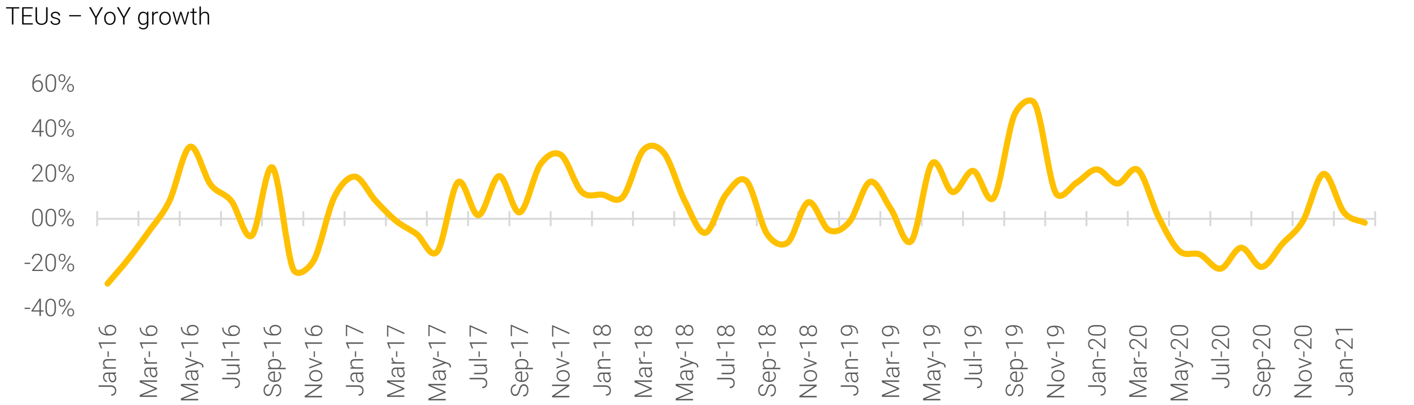


Figure 35: Itapoá Port's Historical Monthly Volumes YoY Increase



Source: ANTAQ, Company data and XP Research.

Resilient Financial Figures

Given its low penetration levels, the container industry in Brazil naturally has an accelerated activity compared to macroeconomic growth – we assume Itapoá Port's volumes to grow at a 1.5x GDP going forward. In addition, given the expiration of APM Itajaí in 2022, we expect Maersk (owner of the terminal) to migrate part of its volumes to Itapoá, which supports our 33% top-line increase in 2023 vs. 2022 – see Figure 36.

Due to the high composition of fixed costs in a terminal operation, we expect margins to progressively expand as the company further occupies its idle capacity (~80% utilization is reached before further investments on capacity are required). See Figure 37 for our capex curve, already including the expansion plan in 2022-24.

Figure 36: EBITDA Margin Should Expand As The Company Further Occupies Its Idle Capacity

Revenues, EBITDA (R$ million) and EBITDA Margin (%)

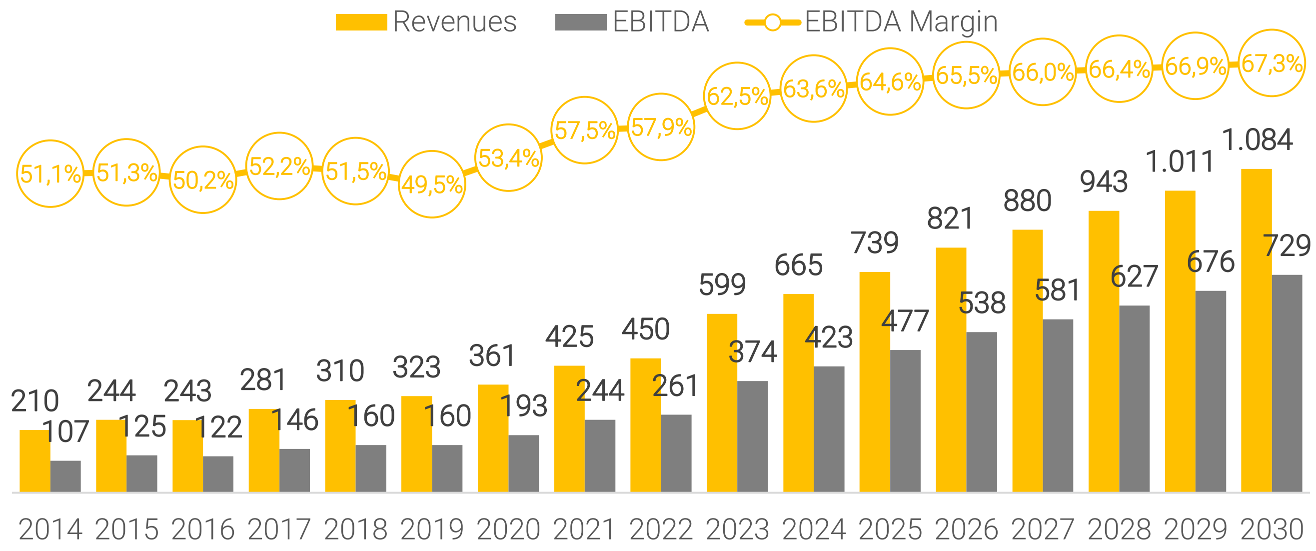
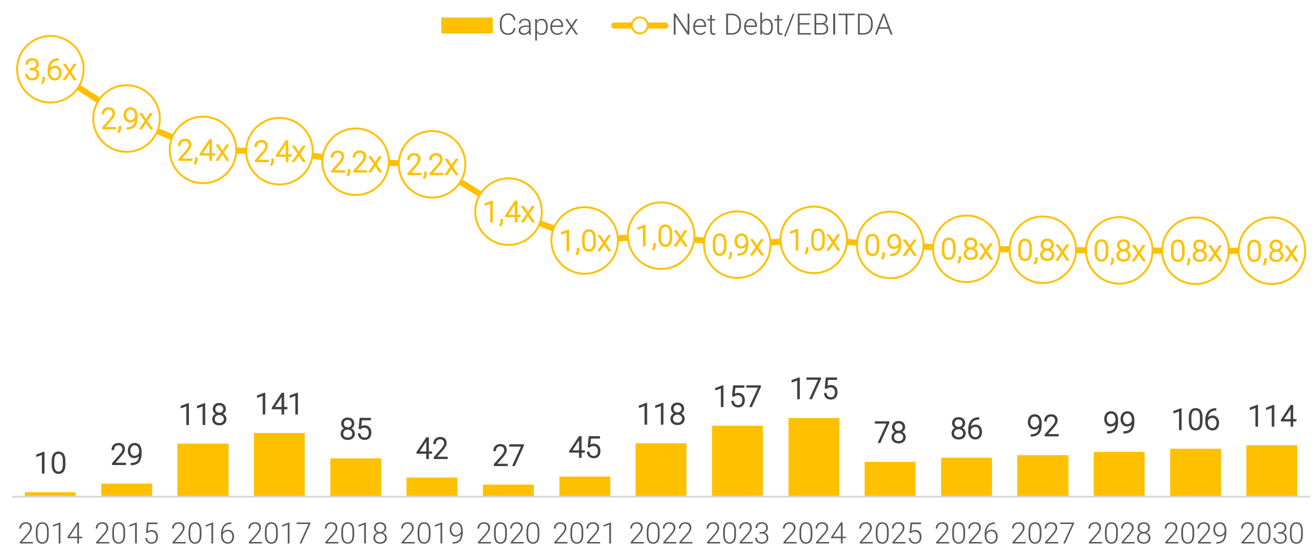


Figure 37: Itapoá Should Continue To Deleverage Going Forward

Capex (R$ million) and Net Debt/EBITDA (x)



Source: Company data and XP Estimates.

Investment Highlights and Risks

Investment Highlights	
Favorable Competition Landscape	Itapoá Port is well-positioned to increase its volumes, since it has the most available capacity in the South Cluster after its recent expansion (~59% utilization). Additionally, considering Itajaí's (one of its most relevant competitors) concession expires next year, we expect volumes to migrate from Itajaí to Itapoá, as both terminals share the same owner (Maersk).
Positive Legislation Agenda	Brazil's Government is advancing on the infrastructure's legislation agenda, hoping to propel private activities and improve its overall regulation. For the port industry, "BR do Mar" project was designed, aiming to incentivize overall activities, likely driving cabotage volumes growth over the next years once the project is approved.
Resilient Revenue Profile	The Brazilian port industry has shown a resilient and steady growth profile over the past decade, with container volumes increasing at a ~5% CAGR from 2010-2020, outperforming GDP growth during this period. This resiliency proved itself during 2020, with volumes still growing by ~1% on a YoY basis in spite of the COVID-19 pandemic.
Attractive Valuation	BRZP11 has underperformed its financial/fundamental performance over the last quarters, with its NAV falling 30% since Feb/2020. Furthermore, current EV/EBITDA '21 levels are very attractive vs. peers (7.5x vs. ~14x of main peer STBP3), with equity real IRR of ~14% (10p.p. spread vs. risk-free rates).

Investment Thesis Risks	
Overcapacity in the South Cluster	We expect Itapoá to absorb part of Itajaí's volumes once its concession expires in 2022. However, if the government decides to reauction the area or if other players add new sources of container capacity, Itapoá could not be able to expand its volumes the way we expect it to.
Fiercer than expected competition landscape	Even though Itapoá has the lowest utilization rate within the South Cluster, other ports still have room for improvement in capacity and productivity. Additionally, if competitors show an irrational price behavior, our revenue expectations could be impacted.
BR do Mar not approved	BR do Mar is an important project for the port industry. If it suffers major changes or does not get approved by Lower and Upper Houses, the industry's volumes expectations could be jeopardized.
Execution risks	Margins should improve as the port of Itapoá further increases its capacity utilization and dilute fixed costs. However, if the company fails to properly address its tight grip on expenses as it continues to grow on volumes, our estimates could be impacted.
Macro risks	Despite the sector's overall resilience vs. Brazilian economy, we note that the port industry growth has a high correlation to Brazil's macro environment. If our GDP assumptions are overestimated, there could be impacts to our organic volumes' growth forecasts.

Source: Company data and XP Research.

XP Estimates (Summary)

Figure 38: Port of Itapoá Financials

	2020a	2021e	2022e	2023e
Operating Data				
Volumes (TEUs)	713	747	764	983
Capacity (TEUs)	1,200	1,200	1,200	1,200
Capacity Utilization (%)	59.4%	62.2%	63.6%	81.9%
Average Tariffs	571	641	663	685
Consolidated income statement (R$mn)				
Net Revenues	361	425	450	599
EBIT	141	197	214	322
EBIT Margin	*39.0%*	*46.3%*	*47.4%*	*53.7%*
EBITDA	193	244	261	374
EBITDA Margin	*53.4%*	*57.5%*	*57.9%*	*62.5%*
Net Financial Results	-31	-30	-26	-30
Pre-tax income	109	167	187	292
Pre-tax margin	*30.3%*	*39.2%*	*41.6%*	*48.7%*
Net Income	72	110	124	193
Net margin	*20.0%*	*25.9%*	*27.5%*	*32.2%*
Adjusted Net income	72	110	124	193
Adjusted Net margin	*20.0%*	*25.9%*	*27.5%*	*32.2%*
Shares out	5.0	5.0	5.0	5.0
Consolidated balance sheet (R$mn)				
Total Debt	473	477	489	505
Net Debt	275	238	273	340
Equity	442	480	517	565
Assets	967	1,013	1,063	1,134
Net working capital	-2	-5	-1	-10
Fixed assets	677	674	745	850
Consolidated cash flow (R$mn)				
D&A	52	47	47	52
Capex	27	45	118	157
Free Cash Flow	43	113	63	93
Dividends	7	72	87	144

Source: Company data and XP Estimates.

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