

Brazil 10SIM™

April 10SIM (10 Stock Ideas for the Month)

The Ibovespa looks more attractive, but risks are higher

Even though the Ibovespa rose in March, listed companies' (mainly commodity exporters) better-than-expected earnings drove local equities' valuations down (the Ibovespa (ex-Petrobras & Vale) is back trading in line with its historical average (12.8x), a level not seen since April 2020. While valuations are more attractive, concerns over the country's fiscal situation, a deep public health crisis and political jitters are keeping investors, mainly foreigners, on the sidelines.

Keeping exposure to the global economy; Gerdau joins the fold

Heightened local risks and the expected global economic rebound mean we keep decent exposure to companies directly benefiting from a growing global economy. We are keeping Vale and Suzano, but replaced oil giant Petrobras with steelmaker Gerdau. The company combines strong top line growth, low leverage, gains from a rebounding local real estate market and its US operations (38% of sales) may gain from sizable infrastructure investments in the US. Cyrela is also leaving the portfolio this month.

Locaweb and Cosan are the other new additions this month

Cosan joins the 10SIM this month as we see the company very well positioned to embark on a new growth cycle with opportunities across sectors, supported by superior capital allocation capacity. Locaweb is our other addition this month, replacing LAME. Locaweb shares plunged 21% in March despite strong operating results and an unchanged growth strategy. M&A opportunities may work as a potent trigger.

Oi & Totvs, B3 & PAGS, and Rede D'Or round out the 10SIM

B3 & PAGS, Oi & Totvs and Rede D'Or round out this month's 10SIM portfolio.

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Table 1: Brazil 10SIM™ Portfolio for April 2021

Company	Ticker	Weight (%)	ADTV (R\$m)	Mkt Cap (R\$m)	Upside (%)	PE 2021E
Vale	VALE3	15%	2,930.4	502,577	55%	3.5x
Rede D'Or	RDOR3	10%	120.7	126,089	31%	47.6x
B3	B3SA3	10%	1,046.2	111,107	39%	20.1x
Suzano	SUZB3	10%	706.7	92,489	47%	5.9x
PagSeguro	PAGS34	10%	640.0	84,703	56%	38.1x
Gerdau	GGBR4	10%	484.8	47,989	22%	7.4x
Cosan	CSAN3	10%	365.1	42,672	42%	11.3x
Totvs	TOTS3	10%	171.2	16,425	31%	33.7x
Locaweb	LWSA3	10%	283.2	13,377	-2%	n.a.
Oi	OIBR3	5%	254.3	11,489	62%	na.

Source: BTG Pactual estimates and Economatica

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 20

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How much worse can it get?

The Ibovespa rose 6.0% in BRL (+4.1% in USD) in March but it is still one of the worst performing equity markets in Latin America YTD (-10.8% in USD; *chart 1*).

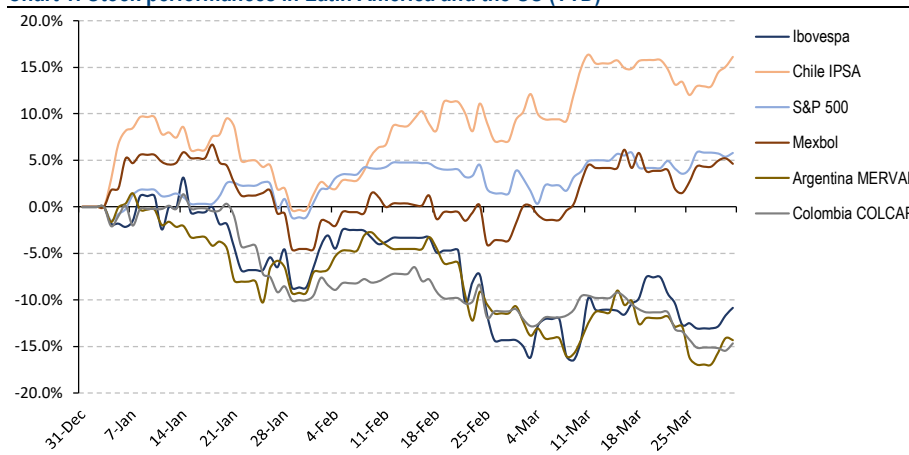
In February, equities were pressured by concerns over Brazil's fiscal predicament and governance issues, while in March pressure stemmed from major deterioration in the country's health situation (COVID-19 deaths soared in recent weeks), followed by lockdowns and mobility restrictions, and renewed political pressure for additional aid packages.

The government's political support in Congress, which just a month ago looked strong, started to wane as congressmen demand a more effective pandemic response. A few days ago, President Bolsonaro announced a mini-cabinet reshuffle, probably in a renewed attempt to secure enough political clout to move forward with his government's agenda.

To make matters worse, the 2021 Budget approved by Congress (~3 months behind schedule), with increased expenses directed to congressmen's individual projects, may prove tough to execute. Concerns over Brazil's fiscal situation look set to mount as Congress and the government work on a new Budget.

The convoluted political environment and delicate fiscal situation pressured the BRL again in March, ending the month at 5.63/USD, a decline of 0.6% in the month alone - 7.8% YTD.

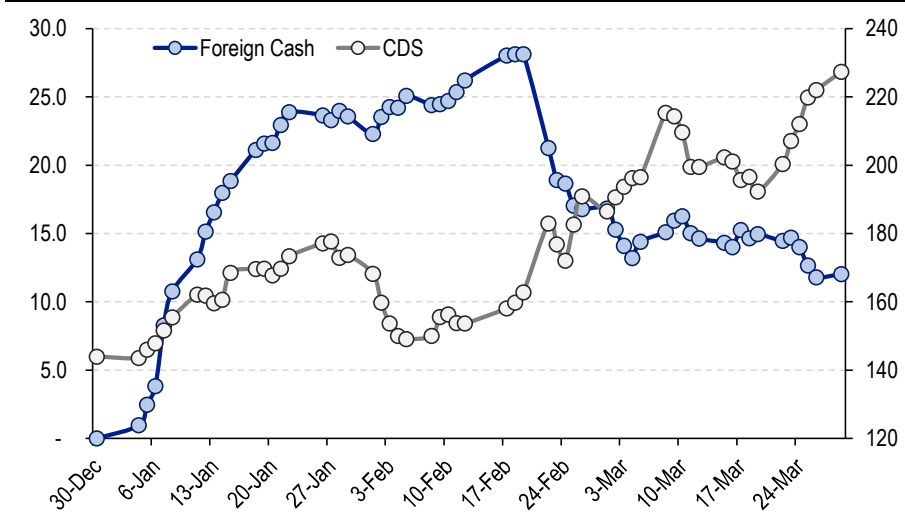
Chart 1: Stock performances in Latin America and the US (YTD)



Source: Bloomberg

Concerns over the country's fiscal situation, a deep health crisis and political jitters led foreign investors to withdraw R\$7bn from Brazilian equities in February and an additional R\$5bn in March. As its country risk perception goes up, appetite for Brazil goes down (*chart 2*).

Chart 2: Daily foreign flows into Brazilian equities and CDS Brazil (bps)

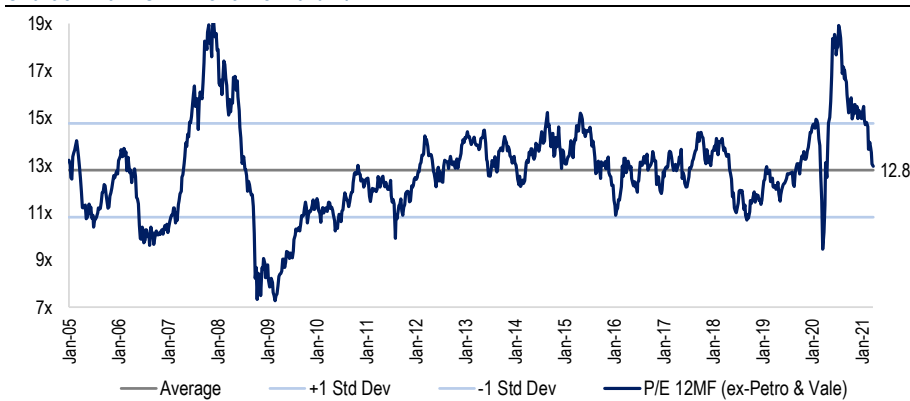


Source: B3

Valuations continue to come down...and now look compelling

With the Ibovespa performing poorly and companies' earnings surprising to the upside, mainly due to commodity exporters, the Ibovespa's valuation (ex-Petro & Vale) has fallen. The 12-month forward P/E (ex-Petro & Vale) returned to its historical average of 12.8x at end-March, the lowest since April last year, at the beginning of the pandemic (chart 3).

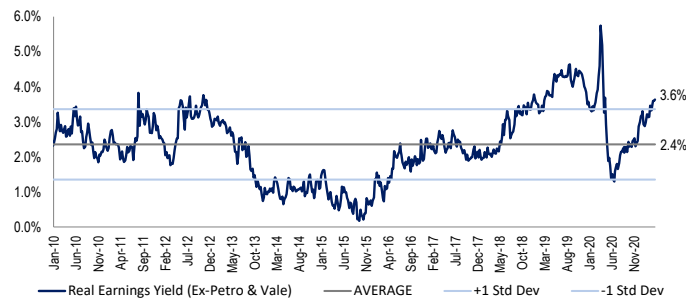
Chart 3: Brazil's 12-month forward P/E



Source: Economatica, BTG Pactual estimates

Following the trend caused by the P/E decline, the Ibovespa's (ex-Petr&Vale) earnings yield rose to 3.6% (more than one standard deviation above historical average), and would have risen more if it weren't for the increase in LT rates, which are now at 4.08% (charts 4-5).

Chart 4: Earnings Yield (E/P minus 10-year interest rates)



Source: BTG Pactual estimates

Chart 5: Long-term government bonds (NTN-B 2035)

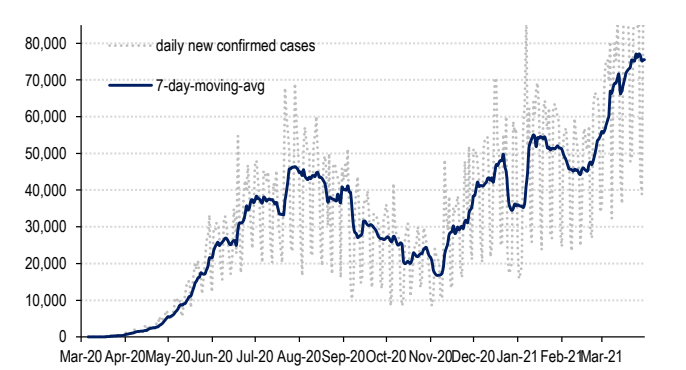


Source: Central Banks

COVID-19: Brazil's predicament demands drastic measures

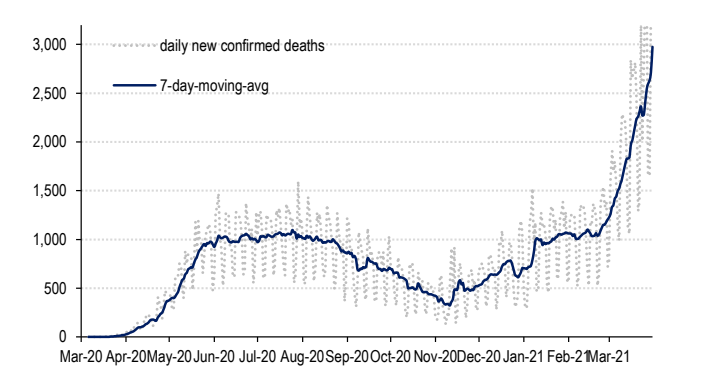
In Brazil, most data indicate the pandemic is at its worst. Based on latest data, the 7-day moving average of daily infections (75.5k vs. 54.7k in February) soared vs. last month. Avg. # of daily deaths was no different, skyrocketing to 2.976 (vs. 1,205 in February), easily the highest since the start of the pandemic.

Chart 6: Daily new COVID-19 cases in Brazil



Source: Brazilian Health Ministry, BTG Pactual

Chart 7: Daily new deaths by COVID-19 deaths in Brazil



Source: Brazilian Health Ministry, BTG Pactual

Brazil's hospitals are at breaking point

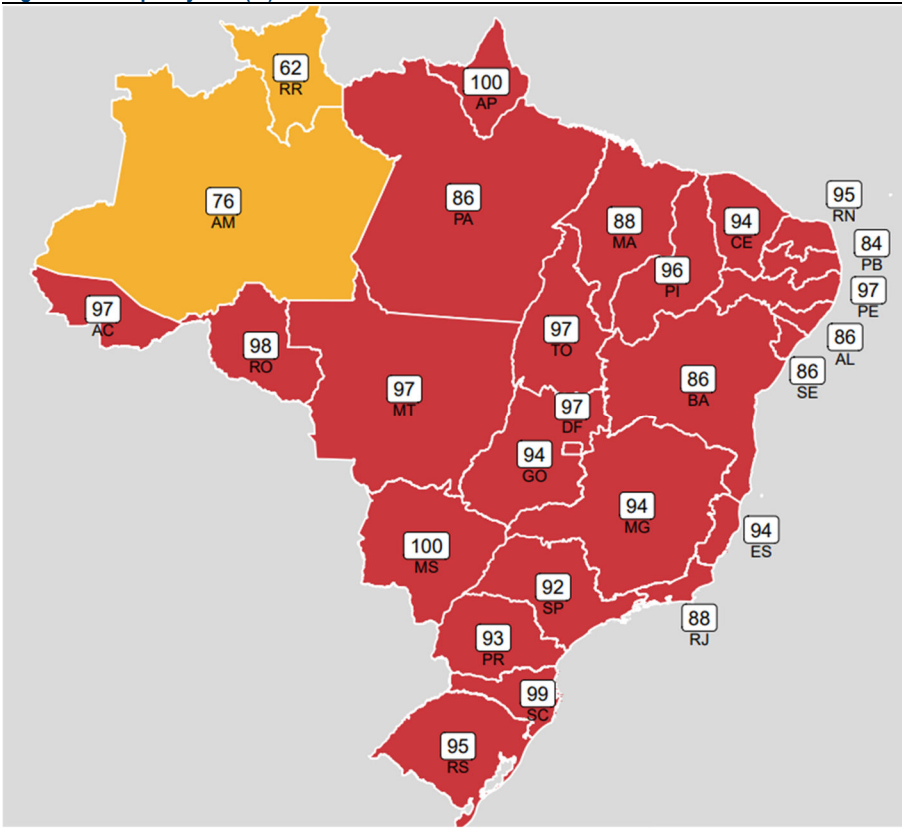
As per Fiocruz, Brazil faces the biggest hospital collapse ever. Most states are in alarming situations of ICU availability, explaining draconian measures in several states.

At the beginning of this week, 25 of the 27 states had +80% usage in ICUs (Roraima and Amazonas have 62% and 76%, respectively). Of those 25, 7 were in the alarming range of 80-90% usage and 16 states were critical, with +90% of their ICU capacity taken up.

The situation is very worrying in the South and in the Midwest, where Santa Catarina, Rio Grande do Sul, Mato Grosso, Mato Grosso do Sul and Goiania have ~100% of their ICU beds already occupied. In these states, the situation is so dramatic that doctors may soon face the dreadful decision of which patients would be taken care of.

In 25 out of 27 state capitals, ICU usage rates for adults are equal to or above 80%, with 19 above 90%. The situation is absolutely critical.

Figure 1: Occupancy rate (%) of Covid-19 ICU beds for adults

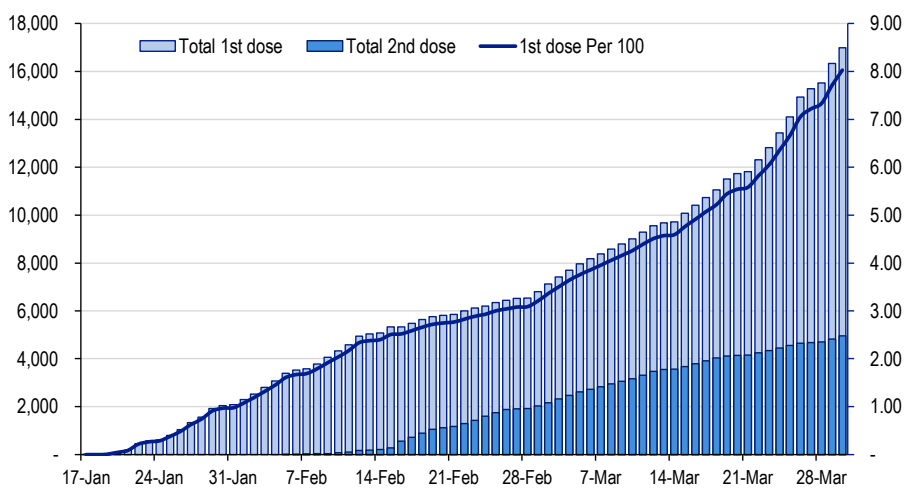


Source: Fiocruz

Numbers are alarming...and they aren't exactly a surprise

The government started its vaccination plan on January 17. Since then, Brazil has already vaccinated 17mn people (8.0% of population).

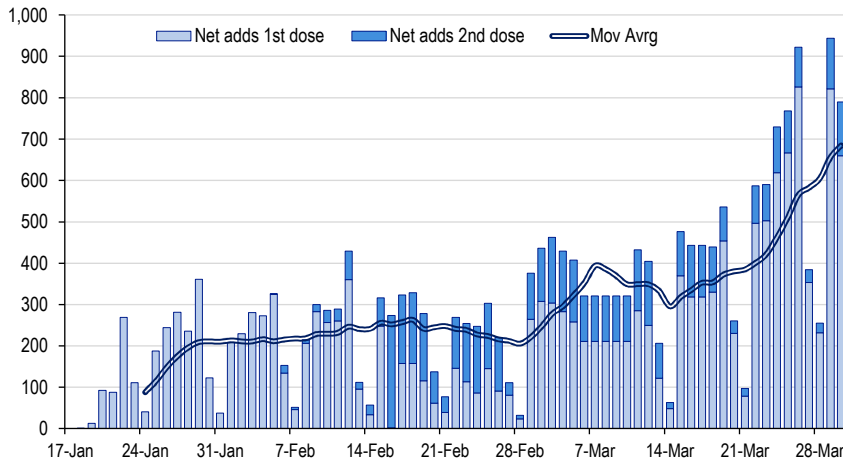
Chart 8: Vaccinated and fully vaccinated people (total and per 100 inhabitants)



Source: Coronavirusbra1 database, BTG Pactual estimates

Brazil is, on average, administering ~685k doses a day, too few if we consider that Brazil has more than 200mn people. At that pace, to vaccinate the entire adult population, Brazil would take 209 days.

Chart 9: Daily doses in Brazil ('000)



Source: Coronavirusbra1 database, state health departments

World-class production + distribution = Brazil always a reference in vaccination

An effective public healthcare system (SUS) and a history of government support for immunization programs made Brazil a benchmark in vaccination. Despite recent skepticism on vaccination programs, the country is known for its exemplary immunization programs and unique capability to structure large public vaccination campaigns with major success.

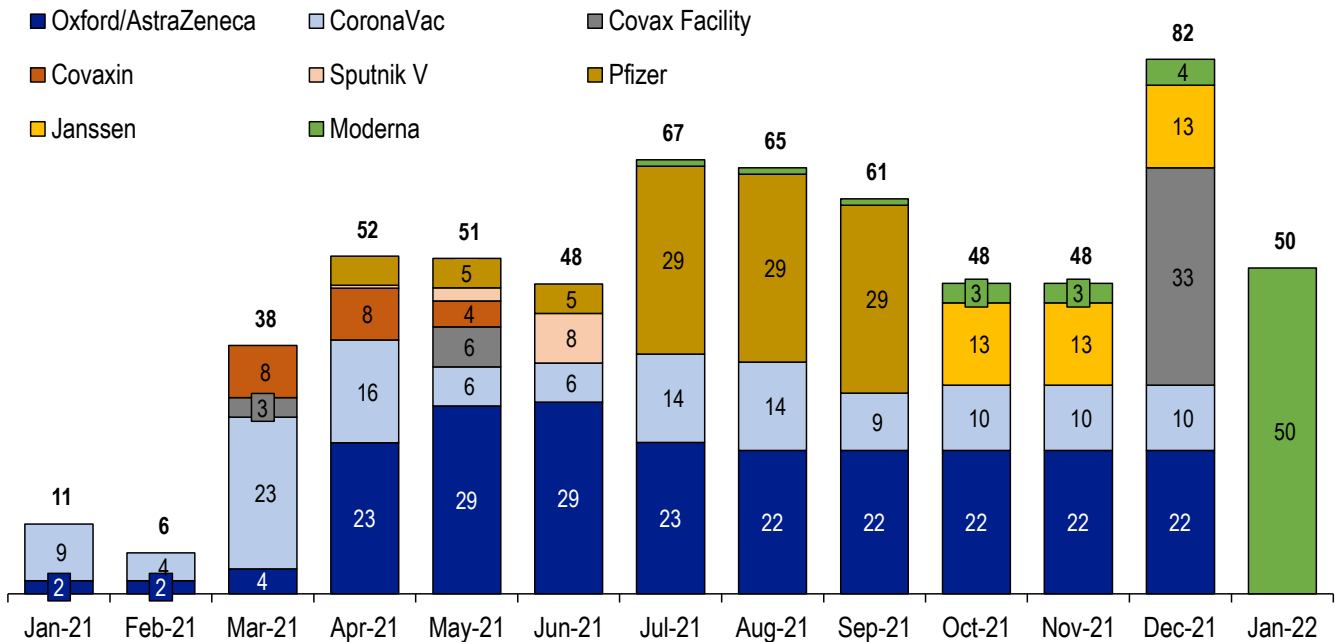
Via Fiocruz and Instituto Butantan, Brazil is also a benchmark in vaccine production capacity and, with the help of SUS great distribution network, can be instrumental in accelerating vaccination. Brazil is now working to produce its own inputs. With inputs produced locally, Brazil may even become a vaccine exporter.

Doses have been purchased. But when will they arrive?

The Brazilian government has bought or is in negotiation to buy, different vaccines from different producers around the globe.

Below you can find the latest forecast of when the vaccines already bought or being negotiated (Moderna) should be delivered in Brazil (chart 17). If all the doses are received as planned Brazil would receive 559mn doses of vaccines between March and December this year, enough to fully vaccinate the entire population.

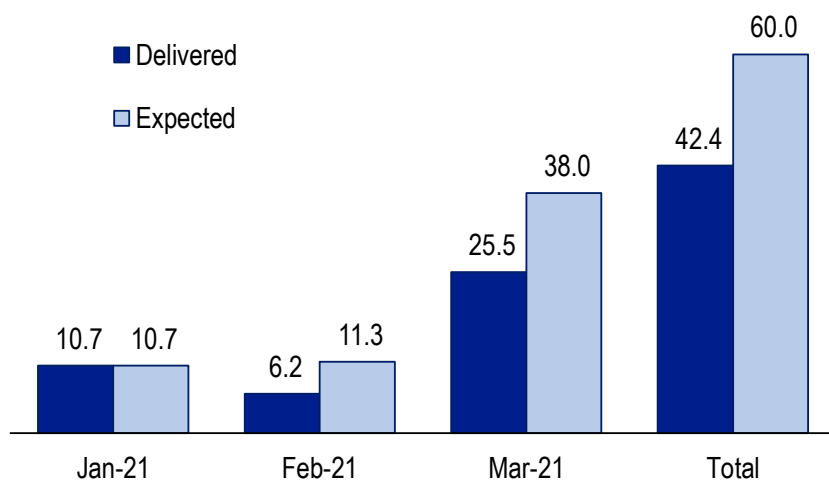
Chart 10: Monthly vaccine dose delivery in Brazil - estimated timeline (March 19)



Source: Health Ministry, Fiocruz, Butantan Institute and local news. Future deliveries without specific monthly breakdown were equally distributed between the monthly range informed. Numbers are subject to revisions. Vaccine dose purchase agreement with Moderna is under negotiation and has yet to be concluded.

However, these numbers, although from government sources, cannot be taken as ultimate truth. In the last 3 weeks, they were changed six times by the government. When we compare the doses promised by the government at the start of the year to those actually delivered, the numbers are much lower (chart 11).

Chart 11: Expected vs. delivered vaccines



Source: Health Ministry, Fiocruz, Butantan Institute, local news

Light at the end of the tunnel...but it's hard to see right now

As highlighted before, the government has reached deals to buy enough vaccines to fully inoculate the entire population by the end of the year. But acquired vaccines do

not necessarily mean delivered vaccines. Vaccine producers are falling behind schedule across the globe and vaccines are often delivered weeks or months after the expected date.

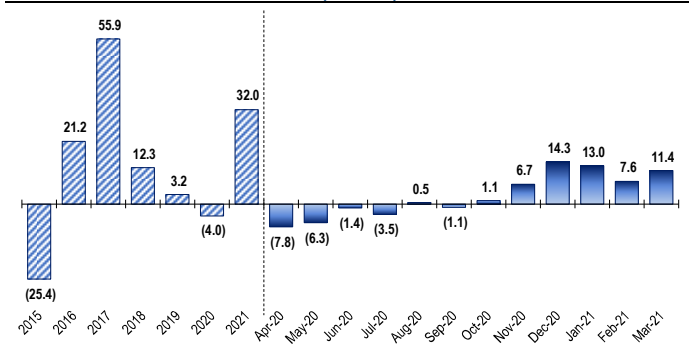
New strains must also be considered. Of these variants, it was discovered that some have more capacity to spread, jacking up the number of cases, as in South Africa, the UK and, now, Brazil.

The new strain in Brazil is also more aggressive, and no one knows for sure if the vaccines available (mostly Corovac and Oxford/AstraZeneca) will be effective (although all studies indicate that they should provide at least some protection). If they are, it is likely that with the arrival of the next doses, the pandemic will begin to lose some steam.

Inflows into the Brazilian market: What's the outlook?

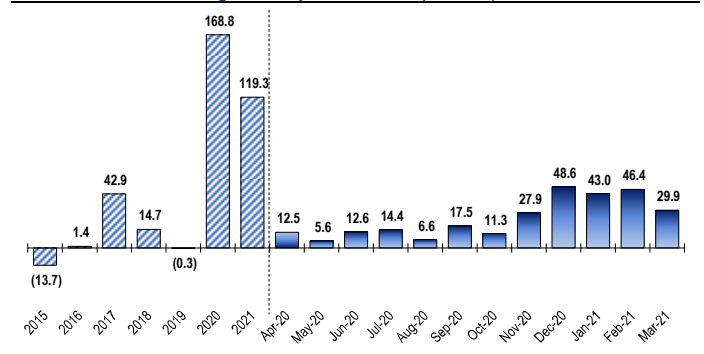
Strong liquidity since mid-2020 has triggered major inflows into equity funds. This scenario is unlikely to change in the ST, as interest rates globally remain historically low.

Chart 12: Inflows into GEM funds (USDbn)



Source: EPFR

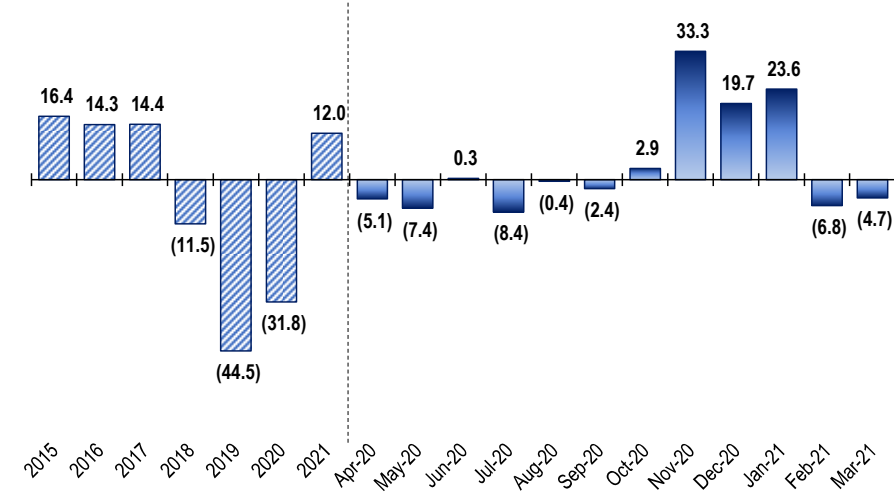
Chart 13: Inflows into global equities funds (USDbn)



Source: EPFR

With money in hand, funds increased their interest in emerging markets, and this is exactly where Brazil comes in. Since November, foreign investors have sent extremely high flows into the local stock market, averaging over R\$25bn per month from November to January. To put this in perspective, 2015 posted the highest inflows in the last 6 years, averaging R\$1.4bn per month. That's less than 20x the amount seen in November last year (R\$33.3bn).

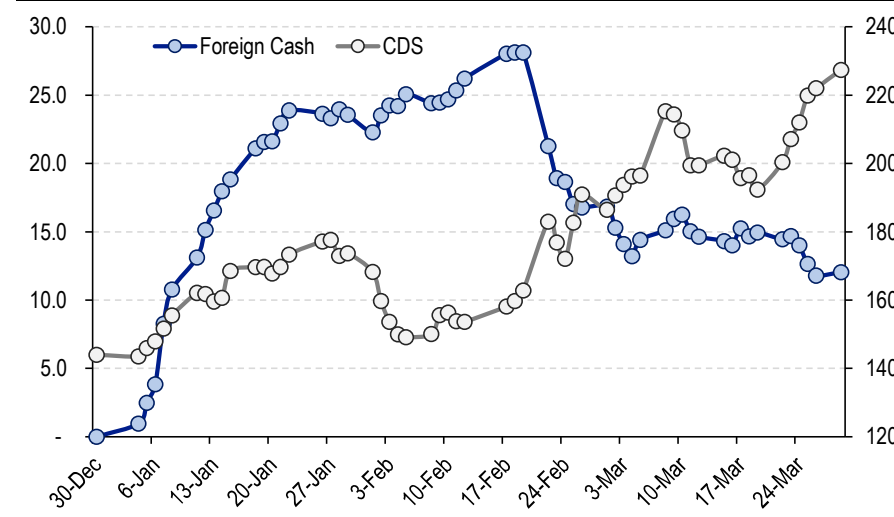
Chart 14: Foreign flows into Brazilian equities (R\$bn)



Source: B3

Concerns over the country's fiscal situation and a deep healthy crisis followed by political jitters ended up causing foreigners to withdraw R\$7bn from Brazilian equities in February and an additional R\$5bn in March. As the country's risk perception goes up, the appetite for Brazil goes down.

Chart 15: Daily foreign flows into Brazilian equities, and Brazil CDS (bps)



Source: B3

Reflecting the trend of greater exposure to emerging markets, GEM, Global, LatAm and BRIC funds upped their allocations to Brazilian equities at the end of 2020. But exposure fell in January and February and will likely fall further in March on fiscal and governance concerns. These funds have only parked a fraction of their money in Brazil.

Table 2: Funds' allocations in Brazil

Funds Allocations in Brazil				
Date	G.E.M.	Global	LatAm	BRIC
Dec-11	16.40%	1.94%	65.36%	33.32%
Dec-12	11.91%	1.02%	57.81%	27.56%
Dec-13	10.99%	0.90%	53.62%	22.46%
Dec-14	8.63%	1.08%	50.55%	20.67%
Dec-15	5.59%	0.58%	43.09%	12.60%
Dec-16	8.15%	0.68%	56.03%	17.51%
Dec-17	6.73%	0.52%	56.42%	14.69%
Dec-18	7.69%	0.54%	59.85%	18.49%
Dec-19	8.18%	0.45%	65.86%	17.44%
Mar-20	5.41%	0.28%	60.30%	9.03%
Apr-20	4.98%	0.17%	57.72%	8.77%
May-20	5.21%	0.18%	59.31%	10.15%
Jun-20	5.17%	0.18%	61.50%	10.41%
Jul-20	5.30%	0.20%	64.15%	10.76%
Aug-20	4.67%	0.18%	62.09%	9.42%
Sep-20	4.40%	0.17%	61.08%	11.53%
Oct-20	4.31%	0.18%	60.15%	8.82%
Nov-20	4.98%	0.20%	60.17%	9.93%
Dec-20	5.29%	0.25%	62.71%	10.37%
Jan-21	4.65%	0.22%	60.96%	9.44%
Feb-21	4.30%	0.20%	58.43%	8.87%

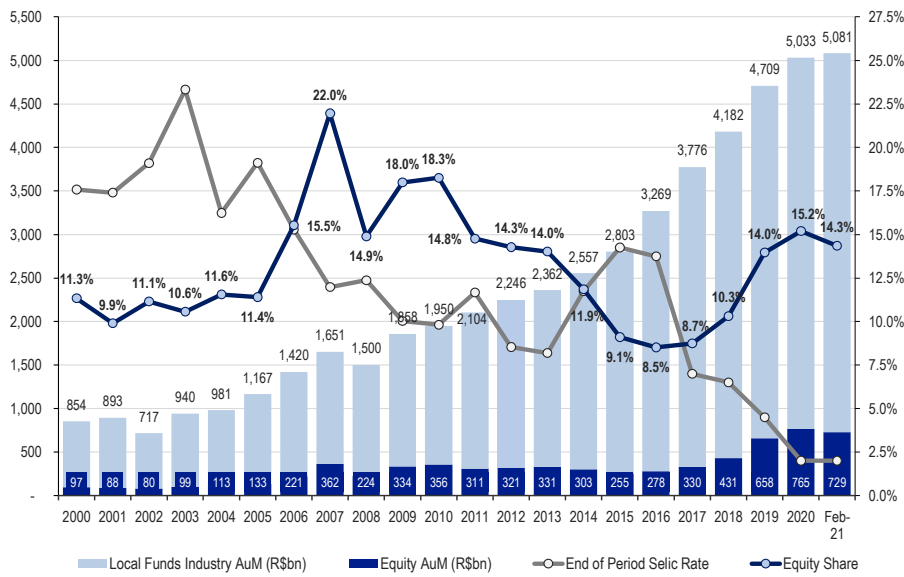
Source: EPFR

Domestic equity allocations on the rise

Funds' allocations into equities have been rising since the 2015/16 recession, reaching 15.2% at YE20, the highest since 2010. Allocations in January and February fell a bit, to 14.3%, but part of this was related to market losses (Ibovespa fell 8% in the period).

Even though Brazil's Central Bank has started a process of normalization of the Selic rate (the Selic may end the year at 5%, up from 2.75%), we believe allocation to equities may continue to grow.

Chart 16: Local fund allocations

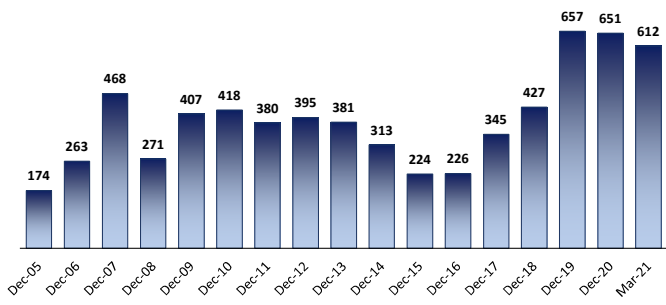


Source: Anbima, BTG Pactual estimates

Flows and AuM also on the rise

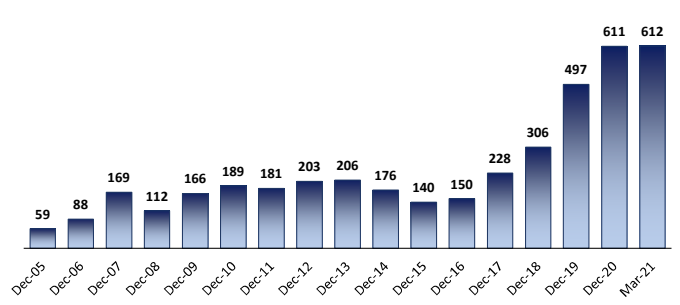
Following the trend of stronger equity allocations, equity funds are becoming more and more capitalized. Since 2010, the AuM of these funds more than tripled, from R\$189bn to R\$612bn, though the result is a bit less impressive if we factor in inflation.

Chart 17: Equity funds' AuM (adjusted by IGP-DI), R\$bn



Source: Anbima

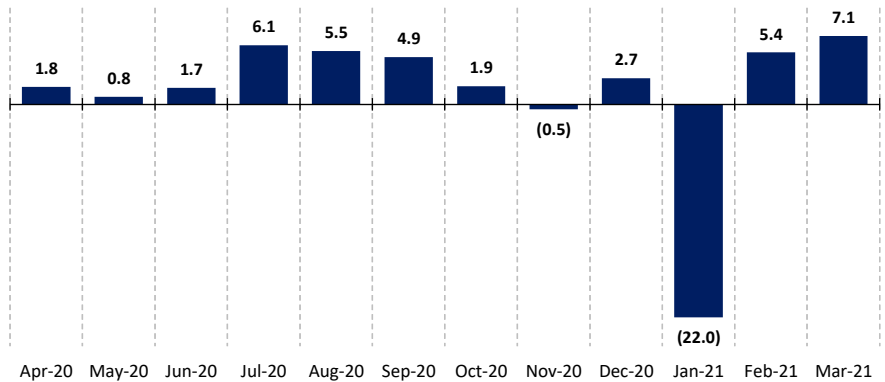
Chart 18: Equity funds' AuM, R\$bn



Source: Anbima

Flows into equity funds have been net positive in 10 of the last 12 months (chart 19). January flows were impacted by non-recurring events, leading to giant outflows of R\$22bn.

Chart 19: Inflows into equity funds



Source: Anbima

April 10SIM: Locaweb, Cosan and Gerdau are the newcomers

Even though the Ibovespa rose in March (+6.0% in BRL; +4.1% in USD), listed companies' (mainly commodity exporters) better-than-expected earnings drove local equities' valuations down. The Ibovespa (ex-Petrobras & Vale) is back trading in line with its historical average, a level not seen since April 2020.

While valuations are more attractive, concerns over the country's fiscal situation, a deep public health crisis and political jitters are keeping foreigner investors at bay. And with inflation expectations on the rise, LT interest rates (currently 9.5%) are moving up, making fixed-income investments more competitive vs. equities. We still think Brazilian equities are attractive, offering an equity risk premium of 3.6%, more than one standard deviation above average.

As in previous months, heightened local risks and the expected global economic rebound mean we keep decent exposure to companies directly benefiting from a growing global economy. We maintain iron ore exporter Vale and paper and pulp producer Suzano, but replace oil giant Petrobras with steelmaker Gerdau.

We are adding Gerdau, as the company combines strong top line growth, low leverage, FCF generation and a thematic (real estate) play. We believe in the structural strength of real estate markets in Brazil, and expect long steel demand to become a multi-year growth story. Strong demand and rising revenues/unit in Brazil's steel market should secure strong earnings momentum in the next couple of quarters. We also see upside in its US operations (38% of sales), as the US is about to embark on a massive infrastructure investment cycle. To make room for Gerdau, which trades at a cheap 4.2x EV/EBITDA 21, we removed Cyrela.

We also decided to remove Petrobras as we still have very low visibility on if the company, under new management, will carry on with the plan to sell 50% of its refining capacity, and the new gasoline and diesel pricing policy.

We are replacing it with Cosan, which is positioned to embark on a new growth cycle with opportunities across sectors: energy, gas and retail, to name a few. Its capital

allocation capacity has always been a key strength of its business model and one of the reasons that made it one of the most successful conglomerates in Brazil. This should once again be the main driver in this new growth cycle. While we're above consensus in our short-term estimates and our fair NAV, we're still scratching the surface in some areas since our model doesn't fully capture growth opportunities such as E2G, biomass and biogas, leaving plenty of upside.

Our other change is the addition of ecommerce player Locaweb, replacing Lojas Americanas. Locaweb shares plunged 21% in March despite strong operating results and an unchanged growth strategy. In 4Q20, its profitable ecommerce division grew 87% y/y organically, and we expect 2021 to be another year of strong growth. And after raising R\$2.3bn in a follow-on, it is prepared to accelerate growth via M&A.

We keep exposure to financial service companies PagSeguro and B3, and to healthcare player Rede D'Or.

We round out our 10SIM with telecom operator Oi and software developer Totvs. In a nutshell, our portfolio starts April with: Vale, Suzano, Oi, Totvs, Rede D'Or, PAGS, B3, Locaweb, Cosan and Gerdau.

Table 3: 10SIM™ changes (Mar vs. Apr)

March 10SIM				April 10SIM			
Sector	Company	Ticker	Weight	Sector	Company	Ticker	Weight
Healthcare	Rede D'or	RDOR3	10%	Healthcare	Rede D'or	RDOR3	10%
TMT	Oi	OIBR3	5%	TMT	Oi	OIBR3	5%
Metal & Mining	Vale	VALE3	15%	Metal & Mining	Vale	VALE3	15%
Financials	PagSeguro	PAGS34	10%	Financials	PagSeguro	PAGS34	10%
Real Estate	Cyrela	CYRE3	10%	Metal & Mining	Gerdau	GGBR4	10%
TMT	Totvs	TOTS3	10%	TMT	Totvs	TOTS3	10%
Financials	B3	B3SA3	10%	Financials	B3	B3SA3	10%
Pulp and Paper	Suzano	SUZB3	10%	Pulp and Paper	Suzano	SUZB3	10%
Retail	Lojas Americanas	LAME4	10%	TMT	Locaweb	LWSA3	10%
Oil & Gas	Petrobras	PETR4	10%	Oil & Gas	Cosan	CSAN3	10%

Source: BTG Pactual

A summary of our April picks

Rede D'Or: As a low Beta and a more resilient sector, we now favor exposure to healthcare, particularly for investors seeking more protection in times of acute market volatility. Hence, after its recent landmark IPO (2020's largest one in Brazil and 2nd largest ever in global hospital industry), Rede D'Or (our top pick in healthcare) remains in our 10SIM portfolio. In addition to attractive momentum in earnings and M&A activity (2021 should be a remarkable year on this front), RDOR offers a unique combination of sizeable growth drivers and high returns in an industry that is far from being consolidated and is constantly growing. With a robust 35% EBITDA CAGR (2011-2019), Rede D'Or has one of the best track records among LatAm large caps. And the growth drivers behind the company so far are set to remain in place: (i) consolidation (ten largest hospital players with less than 20% share); (ii) industry's high-growth

fundamentals (private HC spending to grow double digits yearly); (iii) powerful M&A platform; and (iv) benchmark profitability (double the industry average), reflecting its solid execution and full-service scalability. Factoring-in RDOR's strong earnings growth prospects (3-year EPS CAGR of 38%), valuation is not as rich as one might think. At 47x P/E 21 and 1.2x PEG (21-24), it trades at a decent discount to other premium/high-growth names in Brazil.

PagSeguro: We believe the recent global weakness in "tech" and high-growth stocks has opened up attractive entry points, so we decided to keep PagSeguro's shares in the portfolio for another month. Its Q4 results, published last week, showed an acceleration in revenues and net income in 2021. To top it off, PagBank TPV is nearly half of acquiring TPV and bank revenues are accelerating with the new initiatives and the resumption of credit concessions. Indeed, given the recent valuations of digital banks, we believe that very little of PagBank is currently priced in. We remain positive on the stock, thus reiterating our Buy!

B3: We are keeping B3 in the portfolio. The combination of small EPS growth expected for B3 in 2021 combined with global exchanges share prices flat in recent months very likely is contributing for B3's recent underperformance. The Brazilian exchange reported strong 4Q20 results, with record equities ADTV/Futures ADV. In addition, Q1 is already showing very strong volumes, with Equities ADTV of ~R\$37bn QTD. That said, we expect upwards earnings revisions in the horizon, which we expect to be an important trigger for B3 shares to go back to outperformance mode.

Cosan: We're adding Cosan to our portfolio. As argued in our recent update, after a very successful diversification plan executed in the last decade, when the company debuted in logistics, natural gas and lubricants, Cosan's business units matured and we now see the company ready to embark in a new growth cycle that shall attempt to tap opportunities across several sectors: energy, gas mid and downstream, and retail, to name a few. This should also mean that the way the market approaches and prices the stock needs to change. With the rerating at least partially completed, it's time to value Cosan's capital allocation capacity for its next growth cycle. In that sense, we once again emphasize the company's ability to retain and promote talents while building partnerships in areas where it needs to develop competencies, both of which allowed Cosan to be one of the most successful conglomerates operating in Brazil. Also, as the company completes its long-awaited shareholder simplification and speed up renewables development, it's clear the ESG agenda remains a focus. While we're above consensus both in terms of our near-term estimates and our fair NAV, we also acknowledge that we're still scratching the surface in some areas since our model doesn't fully capture growth opportunities such as E2G, biomass and biogas, leaving plenty of upside still to be captured.

Gerdau: We are adding Gerdau to our portfolio, as the company combines a series of qualities we value: strong top-line growth, low leverage, FCF generation and a thematic (real estate) play. We believe in the structural strength of real estate markets in Brazil, and expect long steel demand to become a multi-year growth story. We believe the company is well positioned to continue to pass-through price hikes and outperform expectations (for the first time in years!). Strong demand along with rising rev/unit in the Brazilian Steel market should warrant a strong earnings momentum for the

company for the next couple of quarters (at least), which we see as priced-in. We also believe there is upside from expanding profitability in US operations, especially from the approval of an infrastructure package, and we see Gerdau as one of the few stocks benefitted from this theme in the Ibovespa. Gerdau trades at inexpensive multiples of 4.2x EV/EBITDA 21.

Vale: The transformation story over the past years has been noteworthy, marking the rebirth of a mining giant. The Brumadinho tragedy exerted shockwave forces on management to change the direction of the company. Consequently, safety and a broader ESG agenda have become paramount long-term targets, as Vale looks to restore its credibility with society. Still, we are convinced that Vale will remain highly “shareholder friendly” going forward (we expect a 13-14% dividend yield in 2021). Iron ore S/D fundamentals remain strong, as demand from China continues to surprise us (CSP growing double digits at the margin), which has been sustaining prices above US\$160/t (the beginning of another super cycle?). While Vale’s shares are undeniably cheap under any metric, we believe the de-risking of the equity story will be a gradual process based on three pillars: (i) cash returns; (ii) a sharp rebound in volumes and declining costs ahead; and (iii) a marginally improving ESG perception (longer-term). We see the stock trading at 2.7x EV/EBITDA 21 (relevant gap to peers), and keep it in our portfolio as we still see upside, even punishing the stock from several angles.

Suzano: Suzano has been struggling with a “low cycle” since the acquisition of Fibria some two years ago, which has led the equity to underperform. Now that the pulp cycle has turned, deleveraging (4.3x Net debt / EBITDA YE20) should accelerate ahead, which is a potent catalyst for further equity performance – we forecast leverage approaching 1.5x by year-end. Pulp prices have already climbed US\$300-350/t from lows in China, now touching US\$760-780/t, which we see as a peak level. We would expect prices to be sustained at such elevated levels in the ST, as demand should continue to cyclically improve (resilient tissue + P&W rebound?), coupled with acute disruptions on the supply-side + no relevant capacity additions until year-end. We believe the market is discounting a hard-landing of pulp prices on equities at the moment, which we don’t see as likely. We see Suzano trading at inexpensive multiples of 5x EV/EBITDA 21, and generating FCFE yield of 17%. We are also now advocating for a re-rating of the name to the 8-8.5x EBITDA range (mid-cycle), which we see as appropriate considering the current investment case (deleveraging potential, ESG, growth optionality, cost-cutting, synergies, leadership position...).

Oi: After a promising start of the year, Oi stocks (OIBR3) collapsed and are now at R\$1.91. In our view, the stock sell-off may have been caused by investors disappointed with the fact that not many vehicles apparently shown interest in InfraCo and bids may not have exceeded the minimum price by much. In our view even if the initial bids presented by the different investors may not have come much above the minimum price, it is premature to conclude that they will remain where they are. What matters at the end of the day is how much the bidders want the asset and if they are prepared and capitalized to make winning bids. Our sum-of-the-parts target price for Oi of R\$3.10 (upside of 62%) assumes the InfraCo would be sold for R\$24bn. Even if we consider the minimum price of R\$20bn, we reach to a TP of R\$2.40 (upside of 26%).

Totvs: Totvs' core business remains resilient, with interesting cross-selling opportunities and optionality on the Techfin front. Totvs proven execution track record bodes well as it looks to leverage its client base. Totvs' sales are directly related to the performance of the overall economy (it sells its services across different sectors and regions), thus, the recovery of the economy should positively affect the company's recurring revenues. Besides that, for those seeking more active protection against rising inflation, Totvs could be an excellent pick (inflation-adjusted revenues in an essential, hard-to-replace service).

Locaweb: We are increasingly confident that Locaweb has a bright outlook. After doubling its client base in the Commerce segment in 2020, the number of new stores using its ecommerce platform grew 30% in January and February over 4Q20. Even more impressive, the average daily addition of new stores is breaking the historical record in March! This positions the company in a very positive growth cycle, since clients tend to increase their spending with Locaweb by 7x in 3 years. The company is also poised to join the Ibovespa in May, is set to continue growing at a fast pace, and should continue to deliver powerful M&As with the cash recently raised at the follow-on offer.

Table 4: Brazil 10SIM portfolio for April 2021

Company	Ticker	Weight	Rating	Mkt Cap (R\$ mn)	ADTV (R\$ mn)	EV/EBITDA		P/E		P/BV	
						2021E	2022E	2021E	2022E	2021E	2022E
Vale	VALE3	15%	Buy	502,577	2,930.4	2.7x	2.7x	3.5x	4.5x	1.8x	1.6x
Rede D'Or	RDOR3	10%	Buy	126,089	120.7	25.0x	21.2x	47.6x	43.4x	8.2x	7.6x
B3	B3SA3	10%	Buy	111,107	1,046.2	13.9x	13.6x	20.1x	19.4x	4.4x	4.3x
Suzano	SUZB3	10%	Buy	92,489	706.7	4.8x	4.9x	5.9x	6.2x	4.0x	2.4x
PagSeguro	PAGS34	10%	Buy	84,703	640.0	25.6x	15.1x	38.1x	22.5x	6.5x	5.0x
Gerdau	GGBR4	10%	Buy	47,989	484.8	4.2x	4.7x	7.4x	9.9x	1.4x	1.3x
Cosan	CSAN3	10%	Buy	42,672	365.1	6.9x	6.3x	11.3x	11.3x	1.5x	1.4x
Totvs	TOTS3	10%	Buy	16,425	171.2	22.5x	18.4x	33.7x	27.5x	5.9x	5.6x
Locaweb	LWSA3	5%	Buy	13,377	283.2	57.3x	40.1x	n.a.	61.8x	n.a.	n.a.
Oi	OIBR3	10%	Buy	11,489	254.3	5.4x	4.8x	na.	na.	0.9x	1.1x

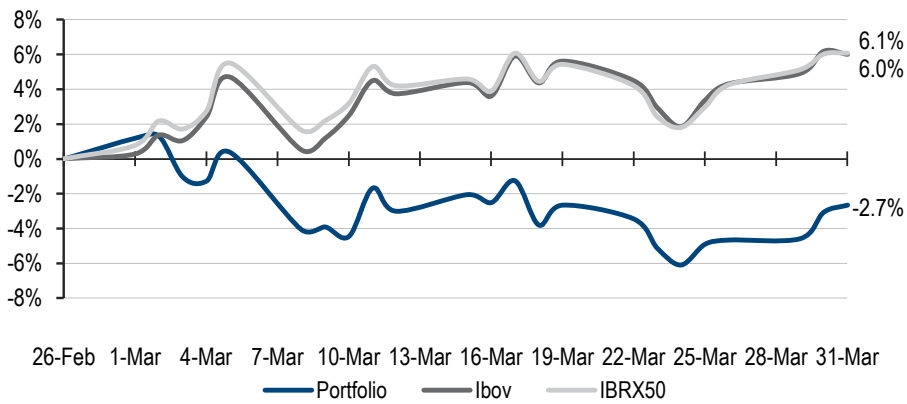
Source: BTG Pactual

March 10SIM™ performance

Monthly performance

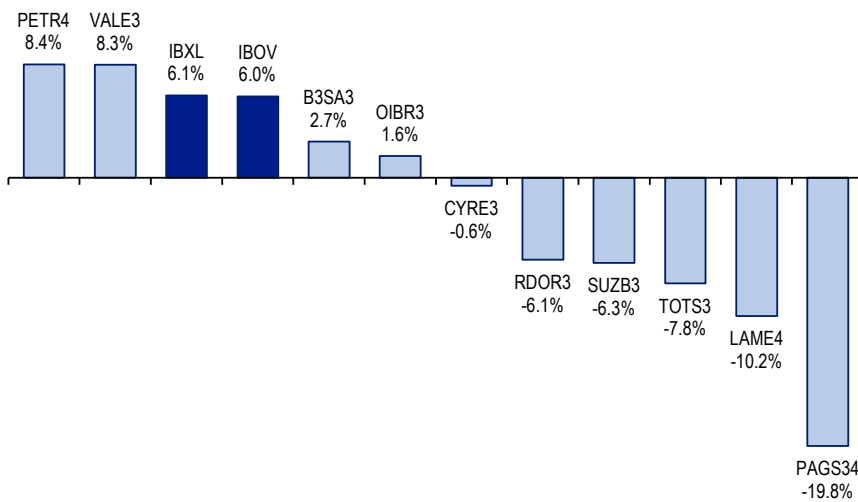
In March, our 10SIM™ portfolio was down 2.7%, outperforming the Ibovespa (+6.0%) and the IBrX-50 (+6.1%), as shown in the chart below.

Chart 20: March 2021 relative performance



Source: BTG Pactual and Economática

Chart 21: March 2020 stock performance

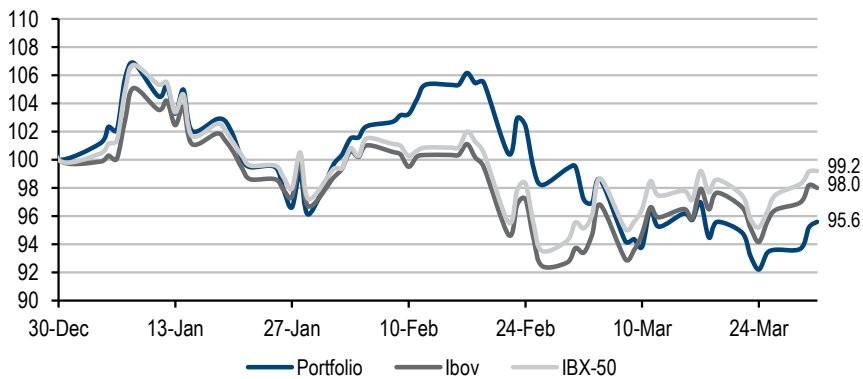


Source: BTG Pactual and Economática

Performance YTD

Since 31 December 2020, our 10SIM portfolio is down 4.4%, versus -2.0% for the Ibovespa and -0.8% for the IBX-50. The CDI interbank lending rate is up +0.5% in the period.

Chart 22: Performance YTD

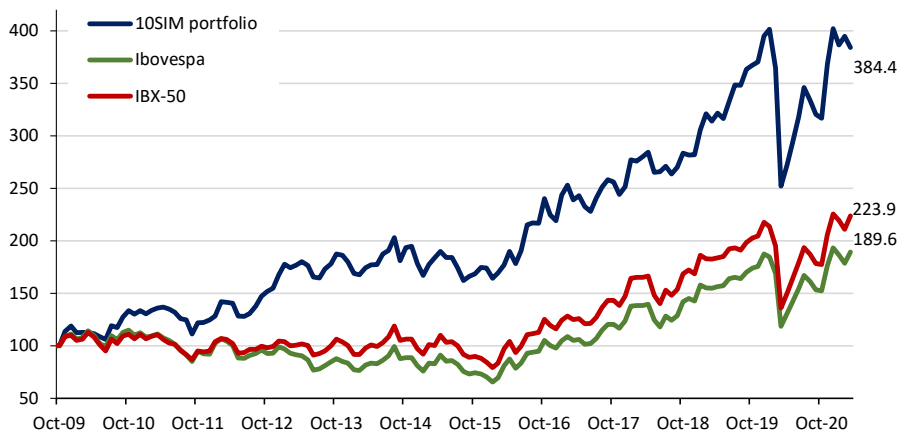


Source: BTG Pactual and Economática

Historical performance

Since October 2009, when Carlos E. Sequeira took over managing the 10SIM portfolio, the 10SIM is up 284.4%, versus 89.6% for the Ibovespa and 123.9% for the IBX-50.

Chart 23: Performance since Oct/2009



Source: BTG Pactual and Economática

Table 5: Historical monthly performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Ibov.	Accum.	Ibov Accum.
2009										0.2%	13.3%	4.8%	19.1%	11.5%	19.1%	11.5%
2010	-5.5%	0.3%	0.1%	-1.1%	-2.8%	-2.4%	12.3%	-1.4%	8.6%	4.8%	-2.4%	2.3%	12.0%	1.0%	33.4%	12.7%
2011	-2.2%	2.7%	1.6%	0.6%	-1.4%	-2.2%	-4.6%	-1.0%	-10.8%	9.5%	0.2%	2.1%	-6.5%	-18.1%	24.7%	-7.7%
2012	3.2%	10.3%	-0.2%	-0.8%	-8.7%	-0.1%	2.3%	5.1%	6.9%	3.0%	2.1%	8.1%	34.4%	7.4%	67.6%	-0.9%
2013	6.1%	-1.9%	1.4%	1.9%	-2.1%	-6.1%	-0.5%	5.1%	2.8%	5.3%	-0.6%	-3.5%	7.3%	-15.5%	79.9%	-16.3%
2014	-6.1%	-0.7%	4.0%	1.5%	0.2%	5.6%	1.9%	6.4%	-10.8%	6.8%	0.8%	-8.6%	-0.9%	-2.9%	78.3%	-18.7%
2015	-6.3%	6.2%	3.6%	3.5%	-3.1%	-0.1%	-5.5%	-6.8%	2.4%	1.5%	3.6%	-0.4%	-2.4%	-13.3%	73.9%	-29.5%
2016	-5.5%	3.2%	4.4%	7.2%	-6.0%	6.8%	12.9%	0.9%	-0.2%	10.9%	-6.5%	-2.5%	26.0%	38.9%	119.1%	-2.1%
2017	11.2%	3.9%	-5.6%	1.7%	-4.2%	-2.1%	5.7%	4.3%	2.9%	-0.9%	-4.6%	2.9%	14.7%	26.9%	151.4%	24.2%
2018	10.2%	-0.4%	1.6%	1.5%	-6.7%	0.1%	1.9%	-2.7%	2.5%	5.0%	-0.7%	0.2%	12.3%	15.0%	182.3%	42.9%
2019	8.3%	5.0%	-2.1%	2.3%	-1.6%	5.2%	4.8%	-0.1%	4.3%	1.2%	0.8%	6.7%	39.9%	31.6%	294.9%	88.0%
2020	1.7%	-9.2%	-30.8%	8.0%	7.7%	8.3%	9.0%	-3.6%	-4.1%	-1.1%	16.2%	9.2%	1.8%	2.9%	302.1%	93.5%
2021	-3.9%	2.2%	-2.7%										-4.4%	-2.0%	284.4%	89.6%

Source: BTG Pactual and Economática

The indicated performance returns are based on capital appreciation, including dividends and excluding transaction costs such as commissions, fees, margin interest and interest charges. Actual transactions adjusted for such transaction costs will result in reduced total returns. Prices of stocks in this performance reflect closing prices. Past performance is not an indication of future results.

10SIM™ Objectives

The objective of the 10SIM™ is to offer a monthly product aiming to capitalize on opportunities in the Brazilian equity markets. The portfolio contains 10 stocks that we believe should post a superior performance in the month. We do not take into consideration any indexes or stock liquidity in our stock-picking process. The selection of the 10SIM™ is made by the Brazil strategy team based on top-down views on the Brazilian market and in consultation with stock analysts

Required Disclosures

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The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results.

BTG Pactual Rating	Definition	Coverage *1	IB Services *2
Buy	Expected total return 10% above the company's sector average.	63%	51%
Neutral	Expected total return between +10% and -10% the company's sector average.	36%	33%
Sell	Expected total return 10% below the company's sector average.	1%	0%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Absolute return requirements

Besides the abovementioned relative return requirements, the listed absolute return requirements must be followed:

- a Buy rated stock must have an expected total return above 15%
- a Neutral rated stock can not have an expected total return below -5%
- a stock with expected total return above 50% must be rated Buy

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Where applicable, the analyst responsible for this report and certified pursuant to Brazilian regulations will be identified in bold on the first page of this report and will be the first name on the signature list.

Statement of Risk

Vale SA [BRVALEON] - Please note that any investment in Latin American equities, such as mining shares, are subject to exchange rate risk, as well as to unexpected fluctuations of the local economy. Investment mining stocks is also subject to price fluctuations of its main products. Investors should be aware that mining stocks are inherently highly volatile and extremely dependent both on global underlying demand and supplier behaviour. A weakening in global production could place our pricing forecast, earnings and valuations under pressure. Please note that any investment in Latin American equities is subject to exchange rate risk, as well as to unexpected fluctuations of the local economy. Investment in Vale is subject to China risk, given that the majority of iron ore growth forecasted is coming from that country. Consequently, the key risks are weak demand, as evidenced by general economic conditions, or increases in supply, in the form of capacity additions.

Oi S.A. [BRTNLP] - Our target prices for Latin American telco and tech companies are DCF-derived, based on long-term enterprise free cash flow. Besides volatile equity markets and notable macroeconomic risks in LatAm (affecting currencies, cost inflation, market potential, and ability to borrow), these companies in general face risks from regulation, competition, and technology change.

Suzano Papel e Celulose S.A. [BRSUZ] - Please note that any investment in Latin American equities, such as pulp & paper shares, is subject to exchange rate risk, as well as to unexpected fluctuations of the local economies. Investment in pulp & paper stocks is also subject to price fluctuations of their main products. Suzano is highly sensitive to shifts in supply and demand of its main products, namely pulp and paper products. Consequently, the key risks are weak demand, as evidenced by general economic conditions, or increases in supply, in the form of capacity additions. These could cause market imbalances and lead to price declines. As the majority of these companies' operations are based in Latin America, they are subject to exchange rate risk, as well as to unexpected fluctuations of the local economies.

Totvs SA [BRTOTS] - Our target prices for Latin American telco and tech companies are DCF-derived, based on long-term enterprise free cash flow. Besides volatile equity markets and notable macroeconomic risks in LatAm (affecting currencies, cost inflation, market potential, and ability to borrow), these companies in general face risks from regulation, competition, and technology change.

PagSeguro Digital [BRPAGS] - The payment industry has been going through important regulatory and technology changes. Changes in parcelado sem juros credit card transactions, 30-day payment cycle and a potential cap on debit card interchange could mean a hit on the industry's results.

B3 [BRBVMF] - Brazilian Exchanges operate in a very regulated market and also compete with global exchanges. Their revenues are dependent on the volume and prices of securities and derivatives traded and are therefore subject to markets volatility. Trading volumes in the stock exchange (Bovespa) are fairly concentrated in a limited number of issuers and the derivatives exchange (BM&F) derives nearly 80% of its revenues from the trading of two futures contracts.

Rede D'Or [BRRDOR] - We believe the key risks are: (i) Revenue concentration amongst largest clients; (ii) More limited TAM vs. HMOs focused on lower ticket plans; (iii) Execution risks - maturation of greenfields and brownfields; (iv) Competition for M&A assets; (v) Additional taxation from tax reform.

Locaweb Serviços de Internet S/A [BRLWSA] - Our target prices for Latin American telco and tech companies are DCF-derived, based on long-term enterprise free cash flow. Besides volatile equity markets and notable macroeconomic risks in LatAm (affecting currencies, cost inflation, market potential, and ability to borrow), these companies in general face risks from regulation, competition, and technology change.

Cosan S.A. Industrial e Comercio [BRCSAN] - In general, the company faces typical commodity industry risks related to price volatilities, particularly in sugar, oil, gasoline, and ethanol prices. The industry is also subject to changes in supply and demand, and FX rate variations. International trading of commodities is subject to regulations, protectionism, and trading barriers that can affect the company's ability to sell its products in global markets. Cosan is also exposed to droughts and other adverse weather conditions that could result in a production decline. In addition, the ethanol industry in Brazil faces government-related risks that could affect the company's competitiveness. Cosan's growth strategy could face increased acquisition prices and execution risks, as the company has a consolidation strategy in Brazil.

Gerdau S.A. [BRGGBN] - Note that any investment in Latin American equities, such as steel shares, is subject to exchange rate risk, as well as to unexpected fluctuations of the local economy. Investment in steel stocks is also subject to price fluctuations of its main products. Given the cyclical nature of commodities prices, investors should be aware that the steel and mining stocks are inherently highly volatile and extremely dependent both on global underlying demand and supplier behavior. A weakening in global production could place our pricing forecast, earnings and valuations under pressure. Investment in Gerdau is subject to risks related to its exposure in North America, where competition is fierce, and margins are much narrower. The financial conditions and results of operations in such industries are generally affected by economic conditions and other factors that are difficult to foresee. Consequently, the key risks are weak demand, as evidenced by general economic conditions, or increases in supply, in the form of capacity additions.

Valuation Methodology

Vale SA [BRVALEON] - We employ a mid-cycle discounted cash flow to firm valuation model (DCFF) based on nominal US\$ cash flows. Our nominal (US\$ based) weighted average cost of capital (WACC) assumption is based on: (1) cost of equity of 12.2%; (2) target capital structure (D/(D+E)) of 30%; (3) effective tax rate of 25%; and (4) cost of debt of 8.0%.

Oi S.A. [BRTNLP] - Our target price is based on a fair EV/EBITDA multiple of 5.5x and a recurring annual EBITDA of R\$6.5bn for Oi.

Suzano Papel e Celulose S.A. [BRSUZ] - We employ a mid-cycle discounted cash flow to firm valuation model (DCFF) based on nominal US\$ cash flows. Our nominal (US\$ based) weighted average cost of capital (WACC) assumption is based on: (1) cost of equity of 11.5%; (2) target capital structure (D/(D+E)) of 35%; (3) effective tax rate of 25%; and (4) cost of debt of 5.5%.

Totvs SA [BRTOTS] - Our target price is DCF-derived with future cash flows being discounted at a WACC rate of 10% in US dollar terms.

PagSeguro Digital [BRPAGS] - Our 2021YE TP of US\$72 is based on a DDM model, using a cost of equity of 11.75% and growth in perpetuity of 8% (both in Nominal BRL) as our main assumptions to value the company.

B3 [BRBVMF] - Our target price of R\$76 for 2021YE is based on a discounted cash flow model, with a cost of equity of 11.50% and growth in perpetuity of 8%.

Rede D'Or [BRRDOR] - Our 12-month forward target price is based on a 10-year DCF model with a weighted average cost of capital (WACC) of 10.3% and perpetuity growth (g) of 5%, both in R\$ and nominal terms.

Locaweb Serviços de Internet S/A [BRLWSA] - Our target price for TMT coverage is DCF-derived based in long-term enterprise cash flow.

Cosan S.A. Industrial e Comercio [BRCSAN] - Our target price is based on a SOTP approach, where we value each business separately via DCF methodology.

Gerdau S.A. [BRGGBN] - We employ a mid-cycle discounted cash flow to firm valuation model (DCFF) based on nominal US\$ cash flows. Our nominal (US\$ based) weighted average cost of capital (WACC) assumption is based on: (1) cost of equity of 12.2%; (2) target capital structure (D/(D+E)) of 20%; (3) effective tax rate of 25%; and (4) cost of debt of 8%.

Company Disclosures

Company Name	Reuters	12-mo rating	Price	Price date
B3 ^{1, 2, 4, 6, 9, 12, 18, 20}	N.A.	Buy	R\$54.62	31-3-2021
Cosan ^{1, 2, 4, 6, 9, 18, 20}	CSAN3.SA	Buy	R\$91.42	31-3-2021
Gerdau ^{1, 2, 4, 6, 18, 19, 20}	GGBR4.SA	Buy	R\$30.22	31-3-2021
Locaweb ^{1, 9, 18, 20, 22}	LWSA3.SA	Buy	R\$22.85	31-3-2021
Oi S.A. ^{1, 2, 4, 6, 18, 19, 20}	OIBR3.SA	Buy	R\$1.91	31-3-2021
PagSeguro ^{1, 2, 4, 6, 18, 19, 20}	PAGS.SA	Buy	US\$46.30	31-3-2021
Rede D'Or ^{18, 19, 20, 21, 22}	N.A.	Buy	R\$64.91	31-3-2021
Suzano Papel e Celulose ^{1, 2, 4, 6, 9, 10, 18, 22}	SUZB3.SA	Buy	R\$68.55	31-3-2021
Totvs ^{1, 2, 4, 6, 10, 18, 19}	TOTS3.SA	Buy	R\$28.93	31-3-2021
Vale ^{1, 2, 4, 6, 18, 19, 20}	VALE.N	Buy	US\$17.38	31-3-2021

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