



GNAM Investment Competition



Company: CCR
Ticker: CCRO3

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1. Company Description

CCR is a Brazilian company infrastructure concession, transport and services, one of the leaders in the administration of highways in Brazil, with a total of 3265 kilometers run. The company is part of the most important index (IBrX-50) of the Brazilian Stock Market which is formed by the 50 most liquid stocks of the market.

CCR was created on January 23, 1999, from the unification of shares held by large national groups as Andrade Gutierrez, Camargo Corrêa and Soares Penido (each one holds 17.22% of the shares), with the remainder (48.78% of the shares) traded at BM&F Bovespa. CCR is one of the largest infrastructure concession companies in the world. The market value of the entity is approximately BRL 30 billion.

The entity holds 11 roads, totaling 3,284 km, equivalent to 21% of total private roads in Brazil. The company is present in the states of São Paulo, Paraná, Rio de Janeiro and Mato Grosso. CCR also administrates 4 concessions at urban mobility, like subway in São Paulo “linha 4” and Salvador, two important cities in Brazil, 4 airports concessions (of which 3 overseas) and 2 subsidiaries related to engineering and construction services.

2. Company history – the trajectory of success

CCR was created in 1999 with the main goal of managing concessions of national roads in Brazil which previously belong to its shareholders. The company trajectory shows its dominance over the years. The sequence of well-succeded acquisitions and deals in the secondary market as well as its financial health in entering new markets, such as the year when the company bought three international airports, gives a dimension of where CCR stands in Brazil’s economy’s ecosystem.

After its IPO, CCR stock began to be negotiated in Brazil’s stock market BM&FBovespa and also established the start point of what is called the New Market, which is the most demanding capital market of the country in terms of CG practices. In 2003, CCR purchased a 38.25% of the country’s main company in the electronic toll system’s business. Today, this system is used by 3 million clients and it is present in 94% of the tolled roads of the country. In 2005, CCR buys the one of its best competitors, Via Oeste, which enhance its presence in the country’s biggest state, Sao Paulo.

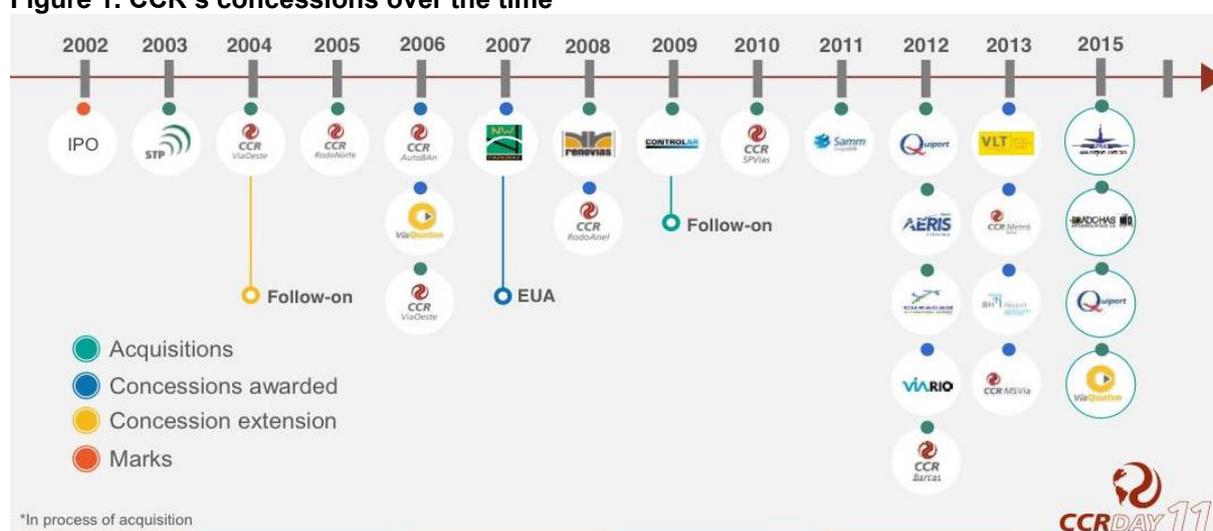
In 2006 CCR leads the winning group for the first PPP (Public-Private Partnership) of the country, to manage the most modern subway system to date in Brazil. As the company grew together with the concession business model in the country, CCR has became reference to the market and in 2007 inaugurated the CCR Infrastructure and Logistics Nucleus to contribute with studies over the concession business and the role of the private sector in Brazilian transport structure. In 2008, CCR acquired 40% of the capital of one more competitor and won public auction for the concession of part of the main interstate road of Sao Paulo.

In 2010 CCR acquired 100% of other main competitor’s capital and push more 500 kilometers of road inside to CCR already huge road network. The company also wan the IBTTA Awards that year.

In 2011 CCR entered in the premium group of open capital companies with high standards in sustainability and governance. Ten year after its IPO, CCR entered airports market by acquiring three international airports in Latin America: Curaçau, Costa Rica and Ecuador.

That same year CCR acquired 80% of the fifth biggest maritime transport company in the world. In 2013, CCR won another public auction for the concession of a modern urban train system in Rio. From its creation till today, CCR did nothing but establishing itself as a leader in the administration of highways in Brazil, with a total of 3,265 kilometers run. The company is part of the most important index (IBrX-50) of the Brazilian Stock Market which is formed by the 50 most liquidity stocks of the market.

Figure 1. CCR's concessions over the time



Source: Company IR presentation

3. Industry Overview

The lack of infrastructure is a problem as old as Brazil, and this situation makes the economic activity decreases. By investing in the solution of these problems, the country improves long-term competitiveness and moves the economy through several factors such as job creation, investment and improving country's infrastructure.

Investments in infrastructure are essential because of the positive externalities and the efficiency gains that these developments provide for economic activity. Given the fiscal budgets presented at a below level that the country's needs, it is essential to mobilize private resources to address the challenges posed by infrastructure gaps.

The Federal Government has been taken important steps to make the projects be more attractive and sustainable to investors. Barriers to the entry of international investors are being removed, IRRs of the projects are being reviewed, new instruments are being developed and the new concessions are being focused on projects with greater commercial viability.

The number of infrastructure investments in Brazil is made up of 51 projects, mainly in the sectors of highways (US 15.8 billion), airports (US 12.8 billion), telecommunications (US 12.6 billion) and energy (US 9.6 billion). The amount is higher than investments in countries such as China, India, South Africa, Russia and Indonesia combined.

One of the first acts of Michel Temer, current Brazil's president, was to create the Investment Partnership Program (PPI), aimed at strengthening interaction between the government and the private sector via agreements for infrastructure projects and other privatization measures. Following the creation of the PPI (Investment Partnership Program), the Brazilian government has already launched its new infrastructure concession program. In this initial stage, 34 projects are going to be awarded to the private sector: 4 airports, 3 railways, 2 highways, 2 port terminals, as well as assets in oil & gas, energy, and water utilities.

4. Valuation

Concession assets' revenues forecast is done individually. As a conglomerate of concession projects, we value CCR by estimating the financial performance of each of its assets, until the time of their expiration, which is agreed with the Brazilian regulators (or negotiated with them along the concession duration in the case of contract amendment). For the highway assets, we use the traffic volume (provided by the company) and the tariff average toll rate (also provided by CCR), to estimate its tolling revenues. Future traffic data is based on a Brazilian GDP multiplier (1.0 to 2.0x GDP), and future tolling rate is calculated by an inflation adjustment methodology. In terms of balance accounts, the concession asset must be completely depreciated at the time of the expiration according to the Brazilian regulation authority. In here, we are able to benefit from **one positive aspect from CCR: the inflation rate automatic adjustment**, while in other business, price adjustments are done through negotiation and not always guaranteed. Urban mobility projects, such as ViaQuatro (São Paulo city subway system) and Metro Salvador, are evaluated in the same way. Airport business revenues are estimated using independent appraisal reports, also provided by the company.

Figure 2. Example of a highway asset revenue forecast (ViaOeste – Sistema Castelo-Raposo)

	1Q16	2Q16	3Q16	4Q16	2017	2018	2019	2020	2021	2022	2023
ViaOeste (Castelo)	235.1	242.1	266.6	266.9	1,063.1	1,144.0	1,242.5	1,357.5	1,461.7	1,573.8	1,694.5
	1.8%	3.0%	10.1%	0.1%	5.2%	7.6%	8.6%	9.3%	7.7%	7.7%	7.7%
Traffic	30,117	31,014	31,450	31,479	124,956	128,664	133,731	139,817	144,059	148,430	152,933
Growth	-2.1%	-2.7%	-2.5%	-1.9%	0.7%	3.0%	3.9%	4.6%	3.0%	3.0%	3.0%
xGDP	0.4x	0.5x	0.5x	0.5x	1.5x	1.5x	1.5x	1.5x	1.0x	1.0x	1.0x
Toll Rate	R\$ 7.81	R\$ 7.81	R\$ 8.48	R\$ 8.48	R\$ 8.51	R\$ 8.89	R\$ 9.29	R\$ 9.71	R\$ 10.15	R\$ 10.60	R\$ 11.08
* Adjustment: at July 1st, by IPCA			year growth	-2.3%							
Original Term: Dec-2018, End: Dec-2023											
Source: Group estimates											

Furthermore, costs & expenses and the balance accounts are forecasted in a consolidated base, and assuming company management's speech regarding the evolution of the operational performance to reach the operational performance. **We highlight that highway business in Brazilian presents elevated EBITDA margins**

(60-70%), reflecting the strong cash generation. In the case of CCR, new businesses and other segments have a dilutive effect on margins. Regarding cash balance and funding, company shows positive ratings recommendations from the most important risk agencies, which allows CCR to have a cheaper capital access than peers. In the infrastructure segment, cheap funding access is highly important as usually 70-90% of the projects are financed with third-parties, and only a small portion of 30-10% of equity.

After a cycle of investments held from 2013 to 2015, when company gathered five new projects (namely, MSVia, Metro Bahia, ViaRio, VLT and Confins Airport), we see company entering a phase of new projects ramp-up. **The start of the revenues in the next three years should support the revenues CAGR growth of 7% from 2016 to 2021.** We highlight that all the five assets are operational; therefore, market should expect a revenue pick up already from this year onwards. Also, as the new business matures, CCR should be able to deal more efficiently in terms of costs and expenses, allowing a significant operational margin evolution and consequent better cash generation. Lastly, as the new project matures and company is able to gather more competitive (and less risky) funding conditions, it should gradually soften its financial expenditure, which is also helped by the better cash position, **leading to a net profit CAGR of 25% from 2016 to 2021.**

Figure 3. CCR summary of financials (Net Revenues, EBITDA and Net Profit)

CCR	2016E	2017E	2018E	2019E	2020E	2021E	CAGR
Net Operating Revenues	8,922	9,218	9,968	10,780	11,590	12,558	7.1%
YoY growth	25.5%	3.3%	8.1%	8.1%	7.5%	8.4%	
EBITDA	5,362	5,774	6,403	7,340	8,074	8,937	10.8%
EBITDA Margin	60.1%	62.6%	64.2%	68.1%	69.7%	71.2%	
Net Income	1,280	1,331	1,895	2,594	3,091	3,850	24.6%
Net Margin	14.3%	14.4%	19.0%	24.1%	26.7%	30.7%	

Source: Group estimates

This P&L improvement coming from the ramp-up from the new business should be highly supportive for CCR's balance sheet improvement as well, as company should enter into a deleveraging phase. **Such deleveraging comes into a moment when company should be prepared to enter and dispute new concession assets.** As the Concession Program from Brazilian government develops, we should expect new assets to join CCR's portfolio, especially in highway and airports. Company's management has already confirmed company's interest in dispute many of the projects presented by the new government.

Figure 4. CCR's evolution of leverage ratios

CCR	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net debt	11,876.7	13,820.8	13,853.4	12,259.4	9,724.9	6,765.8	3,632.4
net debt/EBITDA LTM	2.2	2.4	2.2	1.7	1.2	0.8	0.5
Invested Capital	16,439.2	18,630.5	19,425.9	19,242.6	18,562.1	18,160.6	17,546.4
NOPAT	4,710.3	5,096.0	5,437.2	6,017.8	6,499.6	6,975.7	5,876.8
ROIC	29%	27%	28%	31%	35%	38%	33%

Source: Group estimates

Regarding the DCF approach, we estimate a YE17 price target of R\$18.6/share, implying a 7% upside potential, which is added to a 4% dividend yield until the end of 2017, therefore, leading to a total return of 11%. We discounted a Free Cash Flow to Firm model, with estimates until 2050 and a minimal residual value after that (calculated through Gordon methodology). Our WACC discount rate is 8.1%, composed by a cost of equity of 12.2% and a cost of debt after-tax of 5.9%. Perpetual growth rate stands at 5.5%. Furthermore, we use a Free Cash Flow to Equity analysis to estimate an internal return rate for CCR's cash flows, giving us a nominal rate of 11.3% and a real IRR of 6.8% (assuming a long-term inflation rate in Brazil of 4.5% - as used by the Central Bank). **The 6.8% IRR rate for a bond-proxy stock (inflation pass-through and long-term cash flow outlook) is highly attractive when compared to government's long term bonds interest rates of ~5%.**

Figure 5. CCR's cost of capital, target price and return rates calculation

Valuation		Cost of Equity Assumptions		LT Capital Structure	
PV of FCFF (2018-2050)	46,484.3	(a) 10y US Bond - US\$	2.5%	Equity	35%
PV of Perpetuity	207.7	(b) Brazil risk	2.5%	Debt	65%
Firm Value	46,692.1	(c) = (a+b) Brazil Country Risk - 10y	5.0%	WACC	8.1%
Net Debt (YE17)	13,820.8	(d) Forex (R\$/US\$)	3.0%	Perpetual Growth (g)	5.5%
Equity Value	32,871.2	(e) = (c+d) 10y Brazil risk - R\$	8.0%	CCR's Key Infos	
#shares (millions)	1,765.6	Equity Risk Premium	6.0%	IRR (at fixed WACC) - Nominal	11.3%
Dec. 2017 TP - R\$/share	18.60	Beta	0.70	Market Cap	30,721.2
Last share price- R\$/share	17.4	Cost of Equity (Ke)	12.2%	Enterprise Value	44,542.1
Upside	6.9%	Cost of Debt Assumptions		Long-term Inflation	4.5%
Dividend Yield until YE15	0.3%	Cost of Debt (R\$)	9.0%	Real IRR Rate	6.8%
Dividend Yield FY16	3.7%	Effective Tax Rate	34.0%		
Total Return	10.9%	Cost of Debt After Tax (Kd)	5.9%		

Source: Group estimates

Figure 6. CCR Analysis and Valuation Scorecard

P&L	2015A	2016E	2017E	2018E	2019E	2020E	2021E	2022E	YoY Growth Rates	2015A	2016E	2017E	2018E
Net Revenues	7,112	8,922	9,218	9,968	10,780	11,590	12,558	10,495	Net Revenues	10.1%	25.5%	3.3%	8.1%
COGS	(6,072)	(7,619)	(6,315)	(5,638)	(4,467)	(4,548)	(4,530)	(3,409)	Gross Profit	3.0%	22.4%	6.8%	10.8%
Gross Profit	3,974	4,865	5,197	5,758	6,738	7,466	8,452	7,325	SG&A Expenses	23.7%	10.4%	10.0%	-3.8%
Gross Margin	55.9%	54.5%	56.4%	57.8%	62.5%	64.4%	67.3%	69.8%	EBITDA	2.4%	24.1%	7.7%	10.9%
SG&A Expenses	(917)	(1,012)	(1,114)	(1,072)	(1,053)	(1,065)	(1,079)	(995)	EBIT	-1.9%	26.1%	6.0%	14.8%
SG&A Expenses/Net Revenues	12.9%	11.3%	12.1%	10.8%	9.8%	9.2%	8.6%	9.5%	NOPAT	9.4%	22.2%	8.2%	6.7%
EBITDA	4,321	5,362	5,774	6,403	7,340	8,074	8,937	7,849	Normalized Net Profit	-30.5%	29.0%	4.0%	42.4%
EBITDA margin	60.8%	60.1%	62.6%	64.2%	68.1%	69.7%	71.2%	74.8%	Dividends	2.2%	-27.5%	4.5%	4.5%
EBIT	3,057	3,853	4,083	4,686	5,685	6,401	7,374	6,330	FCFF	-114.8%	-1364.9%	-67.0%	217.6%
EBIT Margin	43.0%	43.2%	44.3%	47.0%	52.7%	55.2%	58.7%	60.3%					
NOPAT	3,855	4,710	5,096	5,437	6,018	6,500	6,976	5,877					
NOPAT Margin	54.2%	52.8%	55.3%	54.5%	55.8%	56.1%	55.5%	56.0%	Return and Others				
Pre Tax Profit	1,371	1,892	1,994	2,840	3,888	4,632	5,770	5,799	ROIC	23%	29%	27%	28%
Taxes	(467)	(652)	(678)	(966)	(1,322)	(1,575)	(1,962)	(1,972)	ROE	25%	28%	28%	34%
Minorities and Others	87	40	14	21	28	34	42	42	Asset Turnover	0.29	0.30	0.30	0.31
Reported Net Profit	992	1,280	1,331	1,895	2,594	3,091	3,850	3,870	WACC	8.1%	8.1%	8.1%	8.1%
Normalized Net Profit	992	1,280	1,331	1,895	2,594	3,091	3,850	3,870	Cost of Equity	12.2%	12.2%	12.2%	12.2%
Normalized Net Margin	14.0%	14.3%	14.4%	19.0%	24.1%	26.7%	30.7%	36.9%	Dividend Yield	5.0%	3.7%	3.5%	3.7%
Dividends	1,431	1,037	1,084	1,132	1,183	1,237	1,292	1,350	FCFF Yield	-1%	8%	3%	8%
Balance Sheet (BS)									Leverage and BS Metrics				
Cash and Equivalents	2,724	5,640	4,786	5,586	5,847	8,299							
Accounts Receivables	1,490	710	653	706	764	821			Accounts Receivable Days	75	29	26	26
Inventories	-	-	-	-	-	-			Accounts Payable Days	32	54	40	40
Other Current Assets	157	490	512	535	559	584			Current Liquidity	0.5	0.6	0.6	0.7
Total Current Assets	4,595	7,094	6,192	7,136	7,561	10,156			Net Debt	12,893	11,877	13,821	13,853
Long-Term Assets	4,626	6,065	6,102	6,556	7,097	7,521			Invested Capital	16,798	16,439	18,631	19,426
Permanent Assets	15,221	16,995	18,145	18,244	17,246	16,240			Net Debt/Equity	3.3	2.6	2.9	2.49
Total Assets	24,441	30,154	30,440	31,936	31,905	33,916			Net Debt/EBITDA	3.0	2.2	2.4	2.16
									Net Debt/Total Capital	1.5	1.2	1.3	1.15
Accounts Payables	540	1,147	709	633	502	511			Net Debt/Total Assets	0.5	0.4	0.5	0.43
Short-Term Debt	1,339	1,536	1,809	2,017	1,684	1,663							
Other Current Liabilities	3	503	503	503	503	503							
Total Current Liabilities	8,364	10,957	10,543	10,945	10,178	10,290							
Long-Term Debt	3,589	3,952	4,224	4,432	4,099	4,078							
Other Long-Term Liabilities	2,230	3,570	3,434	3,304	3,248	3,284							
Total Long-Term Liabilities	12,172	14,634	15,087	15,419	14,744	14,789							
Minorities	-	-	-	-	-	-							
Shareholders Equity	3,904	4,562	4,810	5,572	6,983	8,837	11,395	13,914					
Total Liabilities	24,441	30,154	30,440	31,936	31,905	33,916							
Free Cash Flow Statement									Valuation				
EBITDA	4,321	5,362	5,774	6,403	7,340	8,074			EV/EBITDA	10.3	8.3	7.7	7.0
Tax on EBIT	(1,039)	(1,310)	(1,388)	(1,593)	(1,933)	(2,176)			EV/IC	2.7	2.7	2.4	2.3
Working Capital Variation	(730)	2,133	(1,041)	(697)	(814)	(326)			EV/FCFF	-233.6	18.5	56.0	17.6
Capex	2,743	3,773	2,549	1,586	500	500			P/E	31.0	24.0	23.1	16.2
Free Cash Flow to Firm	(191)	2,412	796	2,527	4,093	5,072			Equity Value Spread	13%	16%	15%	22%
									Total Value Spread	15%	21%	19%	20%

Source: Group estimates

5. Competitors

Figure 7. Highway concessionaries in Brazil

Concessionaire	Company	Total duration	maining durat	Expiration	Extension	States covered	
	AB CONCESSÕES	AB Colinas	28 years	12 years	2028	307 km	SP
		AB Nascentes das Gerais	25 years	16 years	2032	371 km	MG
		Rodovias do Tietê	30 years	23 years	2039	409 km	SP
		AB Triângulo do Sol	23 years	5 years	2021	442 km	SP
	ARTERIS	Autopista Fernão Dias	25 years	17 years	2033	570 km	MG/SP
		Autopista Fluminense	25 years	17 years	2033	320 km	RJ
		Autopista Litoral Sul	25 years	17 years	2033	382 km	PR/SC
		Autopista Planalto Sul	25 years	17 years	2033	413 km	PR/SC
		Autopista Régis Bittenc	25 years	16 years	2032	402 km	SP/PR
		Autovias	20 years	2 years	2018	317 km	SP
		Centrovias	21 years	3 years	2019	218 km	SP
		Intervias	27 years	11 years	2027	376 km	SP
Vianorte	20 years	2 years	2018	237 km	SP		
	CCR	CCR NovaDutra	25 years	5 years	2021	402 km	RJ/SP
		CCR AutoBan	28 years	10 years	2026	320 km	SP
		CCR SPVias	27 years	11 years	2027	506 km	SP
		CCR ViaOeste	24 years	6 years	2022	169 km	SP
		CCR ViaLagos	40 years	21 years	2037	57 km	RJ
		CCR MSVia	30 years	28 years	2044	845 km	MS
		CCR RodoNorte	24 years	5 years	2021	568 km	PR
		CCR Rodoanel Oeste	30 years	22 years	2038	30 km	SP
	ECORODOVIAS	Ecosul	28 years	10 years	2026	457 km	RS
		Ecovias	27 years	9 years	2025	177 km	SP
		Ecopistas	30 years	23 years	2039	135 km	SP
		Ecovia	24 years	5 years	2021	175 km	PR
		Ecocataratas	24 years	5 years	2021	459 km	PR
		Eco 101	25 years	22 years	2038	476 km	ES
		Ecoponte	30 years	29 years	2045	23 km	RJ
	INVEPAR	Cart	30 years	23 years	2039	444 km	SP
		LAMSA	40 years	21 years	2037	17 km	RJ
		CLN	50 years	34 years	2050	217 km	BA
		CRT	25 years	5 years	2021	143 km	RJ
		Via 040	30 years	28 years	2044	937 km	GO/MG
	TRIUNFO	Triunfo Concepa	20 years	1 years	2017	121 km	RS
		Triunfo Econorte	24 years	5 years	2021	341 km	PR
		Triunfo Transbrasiliana	25 years	17 years	2033	322 km	SP
		Concer	25 years	4 years	2020	180 km	RJ/MG
		Triunfo Concebra	30 years	28 years	2044	1,177 km	GO/MG
	ODEBRECHT	Rota das Bandeiras	30 years	23 years	2039	297 km	SP
		Rota dos Coqueiros	33 years	23 years	2039	7 km	PE
		Rota do Oeste	30 years	28 years	2044	851 km	MT
		Rota das Fronteiras	30 years	28 years	2044	220 km	PR
	CONSORTIA	ViaRio	35 years	31 years	2047	13 km	RJ
		Renovias	24 years	6 years	2022	346 km	SP
		Bahia Norte	25 years	19 years	2035	121 km	BA
		Rota do Atlântico	35 years	30 years	2046	44 km	PE
	AUTONOMOUS	ViaRondon	30 years	23 years	2039	413 km	SP
		Caminhos do Paraná	24 years	5 years	2021	406 km	PR
		Rodosol	25 years	7 years	2023	68 km	ES
		Rodovia do Aço	25 years	17 years	2033	200 km	RJ
		Rota 116	25 years	10 years	2026	140 km	RJ
		Tebe	27 years	9 years	2025	156 km	SP
		ViaBahia	25 years	18 years	2034	681 km	BA
		BR-153	30 years	28 years	2044	625 km	GO/TO
		Viapar	24 years	5 years	2021	551 km	PR
		MGO Rodovias	30 years	27 years	2043	437 km	MG/GO
		Morro da Mesa	35 years	30 years	2046	112 km	MT
		Nova Via	n/a	n/a	n/a	229 km	MT
		SPMar	35 years	30 years	2046	142 km	SP
Tamoios	30 years	29 years	2045	119 km	SP		

Source: Data from Credit Suisse research, group analysis and elaboration

Above we list the current highway concessionaries present in Brazil. It is worth to bear in mind that due to the recent economic and political turmoil in the country, many of those players may not be eligible to dispute new assets. Many of them faces severe financial constraints, which should reduce competition and, therefore, open an opportunity for higher return rates. Among the major concerns regarding the players, we may quote:

(i) **AB Concessões:** Controlling company faces judicial issues with the Brazilian law, which may turn unfeasible the entrance in new projects.

(ii) **Arteris:** Has a foreign controller that recently ran a tender offer for its Brazilian subsidiary. Company should focus on its current portfolio, in which some concessions are expiring in the ST (2018).

(iii) **EcoRodovias:** After a recent controllership change, company decided to divest from logistic assets. Focus should rely only in highways (depending on the success of divestment plan).

(iv) **Invepar:** After the chapter 11 from its controlling company (OAS), Invepar was reportedly being negotiated with other investors. Highly unlikely to dispute new assets.

(v) **Triunfo:** Financial leverage is a concern. Recent judicial issues with Brazilian regulators may also restrain company to dispute new concessions

(vi) **Odebrecht:** Controlling company faces a relevant judicial investigation under the Car Wash operation in Brazil. Highly unlikely to dispute new assets.

Besides the names aforementioned, we believe many construction companies that used to be relevant in the infrastructure will no longer be part of the next bidding round by the major reasons: (i) lack of financial conditions, and (ii) an intention from the government to stimulate player with operator profile, instead of constructor. We do believe some competition could come from foreign investors, though, such as Chinese players or European names. However, we see that those external competitors should run along with local player to dispute new assets (in a consortium association), as Brazilian regulation demands strong know-how.

6. Risk Factors

Brazilian government is focused on resuming investment levels through the development of a new concession program in the infrastructure segment. The market is expecting several highways, airport and railway assets to be auctioned to the private sector in the upcoming months. CCR is poised to benefit from such opportunities and add new assets to its portfolio. Company's track record show much rationality and financial conservativeness for CCR in terms of leverage levels (when assuming new projects). Nevertheless, in the case company acquires a larger-than-expected amount of investments due to the short term, company could run into an equity offering, which may represent a concern/risk for the shares performance.

Last year, São Paulo state government entered into a judicial dispute regarding the contract amendments signed in 2006 with several state highway concessionaries, including CCR. The dispute is related to the investment amount to be rebalanced by the state government and the relative period extension for such rebalancing. Autoban, which is controlled by CCR, is the most relevant contract under discussion and its termination (which is currently set to 2026) could be anticipated to 2018 or 2024, implying a relevant cash flow decrease to CCR. The dispute is now at the state level, and CCR believes in a favorable decision based on the appraisal report done by an

independent firm. Also, the federal law has a positive jurisprudential record in favoring the concessionaries regarding disputes against state governments.

The recent political changes in the country gives investors an uncertainty regarding the visibility of the investment programs held by the government. The new (and recently established) federal government is doing a robust effort to improve the confidence levels in the country, which is key to attract new investors. However, the development of the concession program, as well as the funding capability is still a risk for the segment.

7. Conclusion

Summarizing what have discussed so far, if we have to point out just four main reasons to buy CCR we would strongly say that investor should focus on: Macroeconomics improvement in Brazil; The potential of infrastructure in the country; The attractive company valuation; and Solid financials and relatively lower competition.

Improving macro in Brazil: After a cycle of economic downturn and political instability, Brazil is now undergoing through a stabilization period. Several market participants, including BZ's central bank, are now expecting GDP growth, inflation rate controlling and interest rate decrease.

Huge infrastructure potential in the country: A naturally large country like Brazil shows several opportunities for logistic and infrastructure improvements. The recently established government has made clear its intention on boosting segment investments through a concession program, expected to start in late 2016.

Attractive valuation at a 6.8% IRR: Due to its automatic inflation pass-through nature and long-term cash flow outlook, CCR is usually compared to Brazilian government long-term bonds (NTN-Bs). Nowadays, the real interest rates for such bonds stands at ~5%, which gives CCR stock a relative investment appeal.

Solid financials and relatively lower competition: After a period of strong investment in 2013-15, company should run into a deleveraging phase, boosting its cash flow and earnings. Such deleveraging will be key for company successful participation in the next round of the concession program in Brazil.



GNAM Investment Competition

Additional Investment Ideas

rumo


IOCHPE-MAXION



Bloomberg

RUMO3 BS Equity

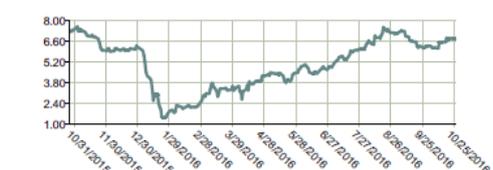
RUMO LOGISTICA OPERADORA MUL (Logistics Services)

Rumo Logística Operadora Multimodal S.A. provides storage and warehousing services. The Company offers transportation and dry storage services for sugar and other bulk products by rail and ship. The Company also engages in the storage and general cargo of fertilizers. Rumo operates transshipment terminals in Brazil. [FIGI BBG008DWG9T9]

Earnings & Estimates

Next Announcement Date	11/09/16
P/E BRL	N.A.
Est P/E 12/16	N.A.
T12M EPS	-1.20
Est EPS	-0.25

Market Data

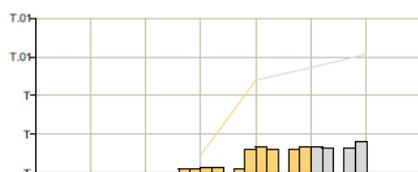


Corporate Info

Avenida Candido Gaffree, S-N, Armazem	www.rumologistica.com.br
Santos 11013-240	T: 55-19-3403-2000
Brazil	Employees 9,096 (12/31/15)
Chief Executive Officer	Julio Fontana Neto
CFO/Investor Relations Officer	Jose Cezario Sobrinho
Chief Legal Officer	Jose Alberto Monteiro Martins

Px/Chg 1D (BRL)	8.73/-1.46%
52 Wk H (11/03/15)	8.04
52 Wk L (01/26/16)	1.33
YTD Change/%	0.49/7.85%
Mkt Cap BRL	8,011.8M
Shrs Out/Float	1,339.0M/790.0M
Lending Interest	22.9M

Revenue



	2012	2013	2014	2015	2016	2017
FY	--	--	915.44M	4.80B	5.45B	6.15B
Q1	--	--	207.93M	205.61M	1.19B	1.27B
Q2	--	--	190.48M	1.22B	1.38B	1.63B
Q3	--	--	261.30M	1.38B	1.38B	--
Q4	--	--	255.73M	1.25B	1.27B	--

Earnings Per Share



	2012	2013	2014	2015	2016	2017
FY	--	--	1.11	-1.83	-0.25	0.22
Q1	--	--	0.49	0.08	-0.62	-0.06
Q2	--	--	0.05	0.10	-0.03	0.11
Q3	--	--	0.37	-0.16	0.01	--
Q4	--	--	0.22	-0.54	-0.02	--

Source: Bloomberg

RUMO Logística Operadora Multimodal S.A. - RUMO3

RUMO Logística Operadora Multimodal S.A. (RUMO3) is the result of the merger between RUMO and ALL (América Latina Logística), which occurred in 2015. The company is the largest independent rail-based logistic operator and is headquartered in Curitiba. RUMO was founded in 1997 during the privatization process occurred in Brazil. Company recently went through an equity offering process, in order to adjust its balance sheet for its strong capex plan. In this sense, Rumo is now undergoing through a fierce deleveraging phase, which should lead to a more intense earnings ramp-up. The cost-cutting efforts are expected to be seen already in the 3Q16 results, set to be released in November 9th.

The group has a strong possibility to grow through new concessions, so the new PPI Program (Investment Partnerships Program) will be one of the key development factors. The PPI is one of the strongest government platform that President Temer and his party (PMDB) is putting some efforts on. President Temer already announced three potential new concessions, namely North-South railway, which will pass through São Paulo, Minas Gerais, Goiás and Tocantis states; the "Ferrogrão" connecting the states of Mato Grosso and Pará; and the East-West Integration Railroad in Bahia state. We believe Rumo is one of the few infrastructure plays in Brazil with still attractive valuation levels.

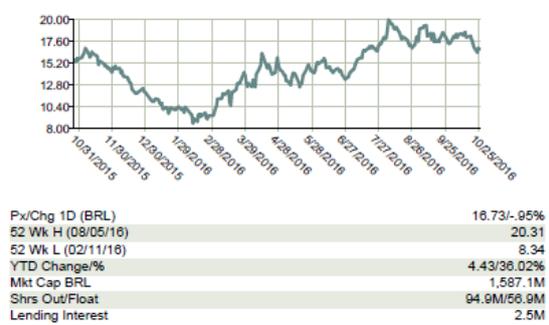
IOCHPE-MAXION S.A. (Auto Parts)

Ioche-Maxion S.A. manufactures vehicle parts. The Company produces chassis and wheels for trucks and buses, door components, lock cylinders, pedals, hand brake levers, jacks, water and oil pumps, and railroad freight cars and wheels. [FIGI BBG000BZPMJ3]

Earnings & Estimates

Next Announcement Date	11/07/16
P/E BRL	N.A.
Est P/E 12/16	150.72
T12M EPS	-0.15
Est EPS	0.11

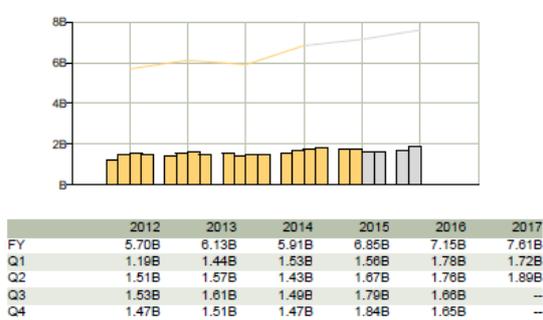
Market Data



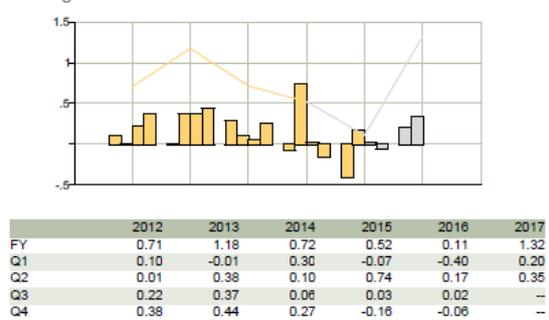
Corporate Info

Rua Luigi Galvani 146-13 andar	www.iochpe.com.br
Sao Paulo, SP 04575-020	T: 55-11-5508-3900
Brazil	Employees 3,798 (03/31/16)
President/CEO	Marcos S De Oliveira
Chief Financial Officer	Augusto Ribeiro Jr
Investor Relations Officer	Luis Fernando C De Abreu

Revenue



Earnings Per Share



Source: Bloomberg

Ioche-Maxion S.A. - MYPK3

Ioche-Maxion S.A. (MYPK3) is the leading global company in the segments in which operates, particularly in the production of wheels and structural components for light and commercial vehicles. They are also leaders in the segment of railway equipment in Brazil. It was founded in 1918, in the State of Rio Grande do Sul. For Brazilian Capital Goods companies, we expect that the main trigger will be the rebound in Brazilian economy, which should lead to an improvement in the highly-depreciated automotive market. Therefore, we see the autopart industry as one of the best ways to benefit from the economic recovery. Furthermore, Ioche went through a strong period of capacity adjustments, which should enable company to recover operational margins faster than peers.

Although operating figures will likely be unexciting, we project better quarterly margins, reflecting the company's adjustments in cost structure, now more adapted to the new demand scenario in Brazil. The interest rate decrease in Brazil is also another strong driver for MYPK3's shares, as company presents an elevated financial leverage, and the interest rate decline should translate into faster earnings growth. In a nutshell, we see Ioche as the best play to benefit from Brazilian automotive market recovery and country's decreasing interest rates.

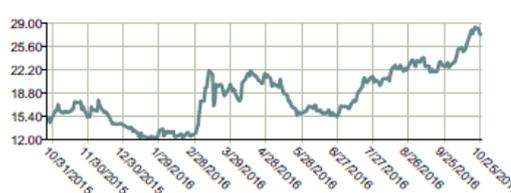
BANCO DO BRASIL S.A. (Banks)

Banco do Brasil S.A. attracts deposits and offers retail and commercial banking services. The Bank offers consumer, commercial, and agribusiness loans, asset management, foreign exchange, private pension, insurance, lease financing, credit cards, and Internet banking services. [FIGI BBG000BG5VC4]

Earnings & Estimates

Next Announcement Date	11/10/16
P/E BRL	7.37
Est P/E 12/16	10.13
T12M EPS	3.71
Est EPS	2.70

Market Data

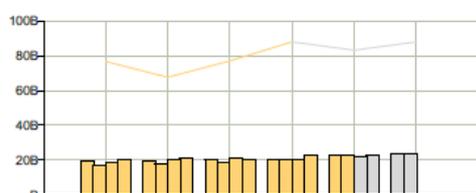


Corporate Info

SBS Q-4 Bloco 3 Lote 32, Plano Piloto	www.bancobrasil.com.br
Brasilia, DF 70089-900	T: 55-61-3310-3400
Brazil	Employees 109,615 (06/30/16)
President/CEO	Paulo Rogerio Caffarelli
VP:Financial Mgmt	Jose Mauricio Pereira Coelho
VP:Retail Business	Raul Francisco Moreira

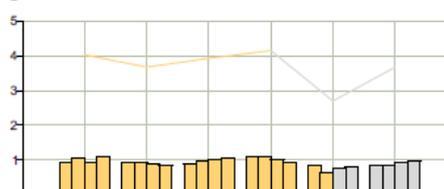
Px/Chg 1D (BRL)	27.34/-,78%
52 Wk H (10/24/16)	29.24
52 Wk L (01/20/16)	12.52
YTD Change/%	12.60/85.48%
Mkt Cap BRL	78,340.5M
Shrs Out/Float	2,865.4M/1,045.6M
Lending Interest	28.9M

Revenue



	2012	2013	2014	2015	2016	2017
FY	76.73B	67.64B	77.05B	87.99B	83.20B	87.98B
Q1	19.14B	19.78B	19.95B	20.29B	23.11B	23.70B
Q2	16.80B	17.61B	18.52B	20.18B	22.62B	23.66B
Q3	18.86B	19.99B	21.28B	20.15B	22.29B	-
Q4	20.86B	21.18B	20.18B	22.74B	22.97B	-

Earnings Per Share



	2012	2013	2014	2015	2016	2017
FY	4.03	3.67	3.93	4.15	2.70	3.67
Q1	0.94	0.84	0.87	1.08	0.84	0.84
Q2	1.04	0.92	0.99	1.08	0.85	0.83
Q3	0.93	0.91	1.01	1.03	0.74	0.84
Q4	1.12	0.86	1.05	0.94	0.81	0.97

Source: Bloomberg

Banco do Brasil S.A. - BBAS3.

Banco do Brasil S.A. (BBAS3) was the first Brazilian financial Institution, founded in 1808 by the prince regent John VI. It is the largest Brazilian and Latin American bank by assets (BRL 1.4 trillion) and third by market value. Controlled by the Brazilian government, but is traded at IBOVESPA (São Paulo Stock Exchange). Since the beginning of the century (year 2001) maintains itself as one of the four most-profitable Brazilian banks. It has a strong position in retail banking industry.

After a detailed analysis of the main drivers of BBAS3's ROAE evolution, we concluded that the reduction in the bank's margins was the main driver of its lower ROAE in the last few years (and, consequently, that a recovery in margins is the main opportunity for profitability growth). According to this perspective we can state three main points that guided us choosing BBAS3: (i) A potential recovery in Banco do Brasil's margins is the main source of upside for Banco do Brasil's ROAE in the medium term; (ii) A reduction in the bank's leverage and the increase in its effective tax rate will likely have a slightly negative impact on Banco do Brasil's profitability; (iii) We estimate that Banco do Brasil's theoretical medium-term ROAE is slightly above 16%.

CVC BRASIL OPERADORA E AGENC (Leisure & Travel Services)

CVC Brasil Operadora e Agencia de Viagens S.A. provides travel services. The Company offers services including ship cruises, airline travel, resort, and hotel stays planning, booking, and organizing. CVC Brasil Operadora e Agencia de Viagens serves clients in Brazil. [FIGI BBG000Q51034]

Earnings & Estimates

Next Announcement Date	11/09/16
P/E BRL	18.37
Est P/E 12/16	15.31
T12M EPS	1.29
Est EPS	1.55

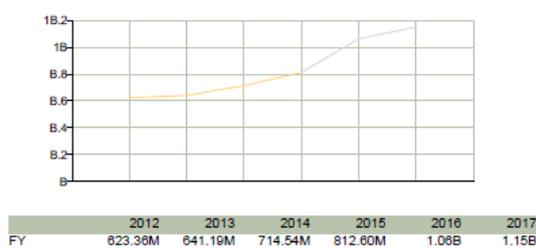
Market Data



Corporate Info

Rua das Figueiras, 501 - Jardim Santo Andre, SP 09080-370	www.cvc.com.br
Brazil	T: 55-11-3003-9282
Chairman/Founder	Guilherme De Jesus Paulus
Pres/CEO/Managing Director	Luiz Eduardo Falco
Exec VP/ICFO/Investor Relations	Luiz Fernando Fogaca

Revenue



Earnings Per Share



Source: Bloomberg

CVC Brasil Operadora e Agência de Viagens S.A. – CVCB3

CVC Brasil Operadora e Agência de Viagens S.A. (CVCB3) is a Brazilian company engaged in tourism sector, offering domestic and international tourism packages, cruises, hotels and resort stays, airline tickets and tours. As of Dec 2015, it operated 967 exclusive travel agencies. It was founded in 1972 by Guilherme Paulus (actual Chairman) and Carlos Vicente Cerchiari.

Besides the expectations of a more challenging 3Q16 earnings season for Brazilian Consumer Goods than the previous quarter, CVC continued to deliver strong results. According to its financials, CVC’s numbers were free of any kind of surprises, reassuring the strong and healthy operational process. The company disclosed its booking figures for 3Q16, with sequentially strong organic growth. We expect CVC’s net sales to grow by ~22% due to an increase in sales of international packages as well as a better performance by the RexturAdvance and Submarino businesses. Market expects EBITDA of BRL 130.5 million and net income of 51.6%, which implies respective growth of 8.1% and 18.0%.

It is clear that the rate of sales growth is still weak, on the other hand CVC is presenting a strong and solid strategy to diversify its outcome through new business models reassuring positive results even in a tough macroeconomic scenario.