

# Allocation Brazil

## US economy still in the spotlight

### Little hope for a short-term change in the economy

For September, we foresee that attention will continue focused on the US economy, which has been showing signs of weakness since the beginning of 2H10. This expectation is the same we had for August, which proved to be correct. The main event we highlight for September is the FOMC meeting on the 21st, which might raise market expectations of new measures to improve economic growth. The latest statement on the economy from the President of the Central Bank mentioned that the Bank is ready, if necessary, to intervene to adjust the economic trend. However, its portfolio of potential measures is, in our view, limited due to the current low level of interest rates. Meanwhile, data released on housing, payroll and investment are likely to drive the market in the ST.

Concerning the rest of the world, we believe that Europe will continue out of the spotlight, with Germany leading the local economy well. We believe that the only negative in the month could come from China, which has been releasing some mixed and inconclusive data lately.

In September, with little change in the scenario and no major event in sight, we expect the market to move sideways and with less volatility. Therefore, we decided to maintain our defensive view and keep the core of our previous portfolio. We have added Tietê, MRV and EZ Tec, increased the weight of Petrobras (from 15 to 20%) and reduced the weight of Eletropaulo (from 10 to 5%). We have withdrawn B2W (weak 2Q results without good ST expectations), CSN (due to its deteriorated ST outlook) and Tegma (stellar performance in the month).

### Petrobras is the month's highlight

Last month, we predicted that the start of the political TV campaign in August, at presidential level, would be exciting and move the markets. The reality proved to be very dull, with the Labor Party's candidate having the unquestionable advantage and no response at all from any of the main financial markets: equity, interest rate and FX. In September, we believe that Petrobras' capital increase operation will be the highlight. The weak performance of the company's shares in the past 1.5 years contributed to holding down the Ibovespa. We believe that, after the capital increase, they can have the opposite effect.

When it comes to economic data, we believe the two most important events of the month will take place in the first week. These are the Copom meeting on the 1st and the 2Q GDP report on the 3<sup>rd</sup>. We expect an unchanged Selic rate of 10.75% for the former and a 1% change for the later (QoQ seasonally adjusted, or around 8% YoY).

### Suggested Portfolio – September/10

#### LONG/OVERWEIGHT

| Stock        | Ticker | Traded Vol.* | Weight %    |
|--------------|--------|--------------|-------------|
| Bradesco     | BBDC4  | 120.0        | 5           |
| Eletropaulo  | ELPL6  | 21.8         | 5           |
| EZ Tec       | EZTC3  | 1.6          | 5           |
| Guararapes   | GUAR3  | 1.4          | 10          |
| Hering       | HGTX3  | 10.5         | 5           |
| MRV          | MRVE3  | 36.7         | 5           |
| Petrobras    | PETR4  | 428.6        | 20          |
| Telesp       | TLPP4  | 4.9          | 5           |
| Tiete        | GETI4  | 8.2          | 10          |
| Tractebel    | TBLE3  | 9.8          | 10          |
| Vale         | VALE5  | 683.4        | 15          |
| Vivo         | VIVO4  | 33.6         | 5           |
| <b>Total</b> | -      | -            | <b>100%</b> |

#### SHORT/UNDERWEIGHT

| Stock    | Ticker | Δ previous month |
|----------|--------|------------------|
| BR Malls | BRML3  | 5.0%             |

Source: Banif - Ixe Securities Research

\*Average trading volume (R\$ mn) in the past 90 days

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## “LONG”/Overweight – Suggested Portfolio

| Company  | Ticker | Current Price | 52 - week |      | Performance |       |
|----------|--------|---------------|-----------|------|-------------|-------|
|          |        |               | High      | Low  | YTD         | 12M   |
| Bradesco | BBDC4  | 30.46         | 32.7      | 24.1 | 2.3%        | 23.1% |

**Catalyst:** We expect a continuation of the positive trend in results reported in 1H10. We forecast a high return on equity (22.5% in 2Q) and a continued high spread between the basic interest rate and that passed through to clients. We believe this stock is a core holding of our portfolio.

| Company     | Ticker | Current Price | 52 - week |      | Performance |       |
|-------------|--------|---------------|-----------|------|-------------|-------|
|             |        |               | High      | Low  | YTD         | 12M   |
| Eletropaulo | ELPL6  | 33.00         | 35.0      | 25.9 | 20.2%       | 20.1% |

**Catalyst:** Eletropaulo announced dividends of R\$625mn for 1H10, with a 10% yield at the time. We expect the company to be the biggest dividend payer in 2010, as it has been in previous years. Risk: the third periodic tariff revision in July 2011 could reduce the company's tariffs.

| Company | Ticker | Current Price | 52 - week |     | Performance |       |
|---------|--------|---------------|-----------|-----|-------------|-------|
|         |        |               | High      | Low | YTD         | 12M   |
| EZ Tec  | EZTC3  | 10.71         | 11.5      | 6.0 | 30.2%       | 56.5% |

**Catalyst:** The company reported strong results in 2Q, with a 47% YoY growth in Net Profit. A high number of projects were launched in the period and, if this pace is maintained, the company should reach the midpoint of its guidance for the year (R\$800mn) by 3Q. The main concern for the market was the maintenance of margins and it therefore welcomed the reported increase of 3 percentage points in Gross Margin, which reached 42.6%. Moreover, despite the recent rise in the price of the shares, multiples remain discounted in comparison to the industry's average, suggesting that there is space for new highs. Risk: a lower volume of launches.

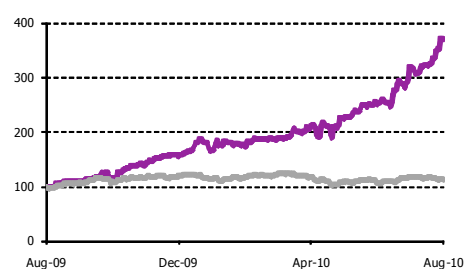
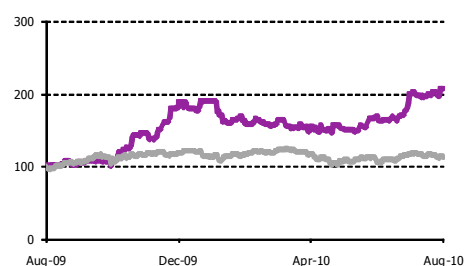
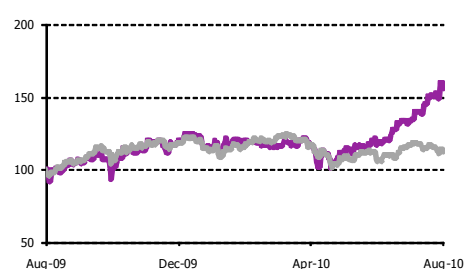
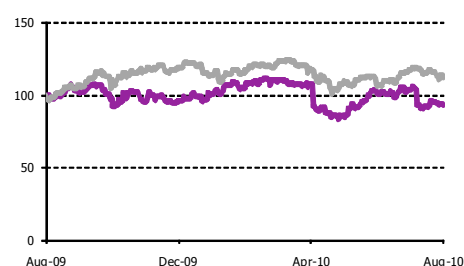
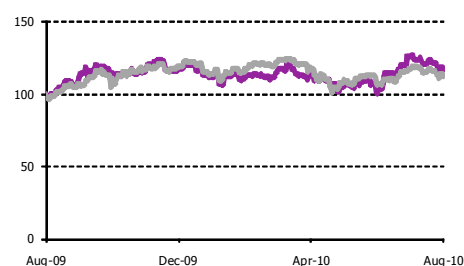
| Company    | Ticker | Current Price | 52 - week |      | Performance |        |
|------------|--------|---------------|-----------|------|-------------|--------|
|            |        |               | High      | Low  | YTD         | 12M    |
| Guararapes | GUAR3  | 80.40         | 83.5      | 37.2 | 10.1%       | 109.5% |

**Catalyst:** The company reported strong results in 2Q09, confirming the continuation of the strong recovery movement witnessed since 3Q09. The company also continues to grow steadily, although at a slower SSS rate of 7%, after recording 10% and 12% growth in the previous two quarters. The company maintains its plan to open 15 new stores in 2010 and another 15 in 2011, giving YoY growths of 14 and 12%, respectively. Moreover, its current P/E, at 19x using L12M profit, is the lowest among retailers. Risks: little Management transparency and low liquidity.

| Company | Ticker | Current Price | 52 - week |      | Performance |        |
|---------|--------|---------------|-----------|------|-------------|--------|
|         |        |               | High      | Low  | YTD         | 12M    |
| Hering  | HGTX3  | 67.40         | 69.8      | 17.5 | 134.0%      | 276.9% |

**Catalyst** The company reported very good 2Q results, with a high 22% SSS growth and YoY growths of 113% and 290% in EBITDA and Net Earnings. This result confirmed the continuation of its impressive growth performance since 2008. Risk: The continued and high appreciation of the share over the last year poses a ST market risk.

## Stock x IBOV



## “LONG”/Overweight – Suggested Portfolio

| Company | Ticker | Current | 52 - week |     | Performance |       |
|---------|--------|---------|-----------|-----|-------------|-------|
|         |        | Price   | High      | Low | YTD         | 12M   |
| MRV     | MRVE3  | 14.65   | 16.4      | 9.7 | 5.7%        | 30.9% |

**Catalyst:** In 2Q, the company reported the best quarterly results ever, with high and growing margins. Launches reached R\$1.11bn, up 81% YoY, while Net Profit was up 103%. The company remains the largest operator of the "Minha Casa Minha Vida" program in Brazil. We expect even better results in 2H10, with 15,000 units delivered vs. 5,000 in 1H10. Furthermore, we believe that the market will revise its forecasts on these improved deliveries, which would help the share's performance. Risk: rise in the price of raw materials.

| Company   | Ticker | Current | 52 - week |      | Performance |        |
|-----------|--------|---------|-----------|------|-------------|--------|
|           |        | Price   | High      | Low  | YTD         | 12M    |
| Petrobras | PETR4  | 26.06   | 39.0      | 25.5 | -27.4%      | -14.1% |

**Catalyst:** After 1.5 years of expectation, Petrobras' capital increase has reached its final stage and now depends only on a political decision on pre salt reserves price, with an announcement expected at the beginning of September. Petrobras has underperformed the Ibovespa by 40% since its last peak in March 2009. We expect a rebound on the conclusion of the capital increase. Risk: Delay in the decision of the pre salt reserves price can jeopardize the operation's deadline, originally set for September.

| Company | Ticker | Current | 52 - week |      | Performance |      |
|---------|--------|---------|-----------|------|-------------|------|
|         |        | Price   | High      | Low  | YTD         | 12M  |
| Telesp  | TLPP4  | 40.31   | 42.5      | 32.7 | -           | 2.0% |

**Catalyst:** After the acquisition of PT's stake in VIVO, Telefonica should merge VIVO and Telesp with a very attractive potential synergy gain of around €4bn. In our view, this gain is not priced in, as VIVO and Telesp's shares continue to trade at attractive multiples and high upside potential. Risk: The merger conditions could hurt minorities, but we believe that an allocation in both shares (VIVO4/VIV and TLPP4/TSP) could reduce this risk.

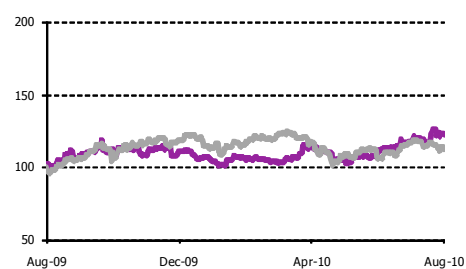
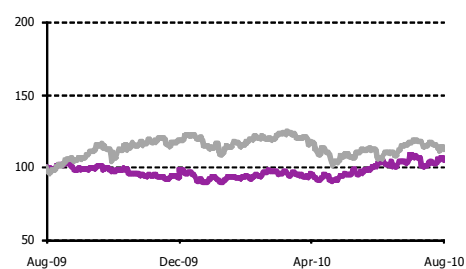
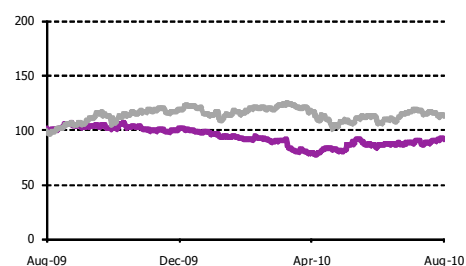
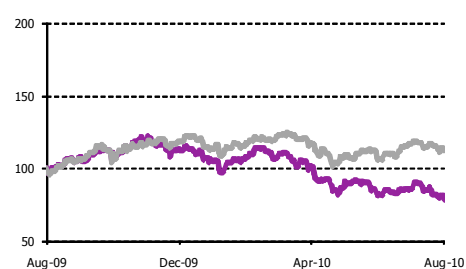
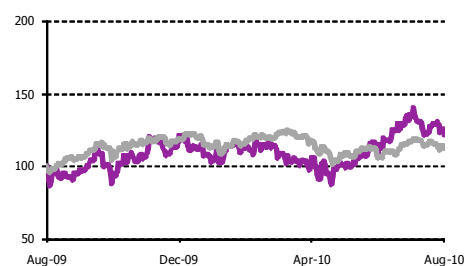
| Company | Ticker | Current | 52 - week |      | Performance |       |
|---------|--------|---------|-----------|------|-------------|-------|
|         |        | Price   | High      | Low  | YTD         | 12M   |
| Tiete   | GETI4  | 21.32   | 21.9      | 16.7 | 14.7%       | 17.3% |

**Catalyst:** Expectations are that the company will announce good results and dividends for 2H10. Risk: the company will have to sell energy through auctions, which could mean lower prices than that in its current contract with Eletropaulo, valid until 2015. In addition, Tiete is obliged to increase its generation capacity by 400MW (mandatory term dating back to the company's privatization). However, new projects could prove to be less profitable than its current assets.

| Company   | Ticker | Current | 52 - week |      | Performance |       |
|-----------|--------|---------|-----------|------|-------------|-------|
|           |        | Price   | High      | Low  | YTD         | 12M   |
| Tractebel | TBLE3  | 23.23   | 24.7      | 18.9 | 8.5%        | 18.7% |

**Catalyst:** The share presents a good upside potential in relation to our YE10 target price of R\$29.00. The existing hydroelectric power plants, as well as those under construction, should offer higher profitability than the new projects recently auctioned by the Federal Government. Therefore, they could contribute to a better pricing of Tractebel's shares. Risk: The company could acquire a stake in the Jirau power plant, paying Suez (which is its controller) a price higher than estimated by the market.

## Stock x IBOV

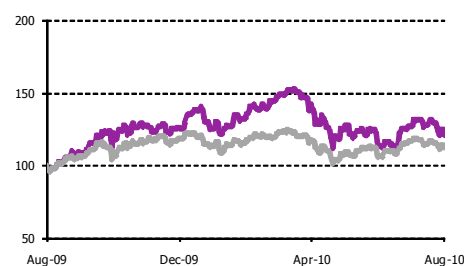


## Stock x IBOV

## "LONG"/Overweight – Suggested Portfolio

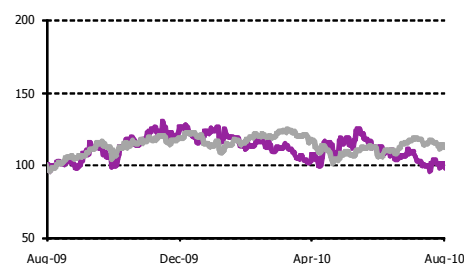
| Company | Ticker | Current | 52 - week |      | Performance |       |
|---------|--------|---------|-----------|------|-------------|-------|
|         |        | Price   | High      | Low  | YTD         | 12M   |
| Vale    | VALE5  | 41.43   | 51.5      | 31.6 | -1.0%       | 28.5% |

**Catalyst:** We continue to have a bullish view over the iron ore market for the medium and long-terms and Vale is the best option to gain exposure. Expectations are for 2H10 volumes to increase as the company solves the operational problems at ports, which negatively affected volumes during 1H10. Although prices are set to fall during 4Q10 by between 8 and 12% over the 3Q benchmark, we do not expect this to become a trend. In fact, during its 2Q10 conference call, Vale's executives highlighted that they do not expect prices to fall below US\$90-100/t, given that China's production is close to capacity and the country is the highest cost producer (average cost of US\$90/ton), which places a floor to iron ore prices. In addition, Vale has come to an agreement with Sudbury union workers and expects to resume nickel operations. This would have a positive impact in coming quarters. Risk: 1) Global economic slowdown, especially a slowdown in China's spending on infrastructure, 2) increase in freight rates and 3) Appreciation of the Real.



| Company | Ticker | Current | 52 - week |      | Performance |      |
|---------|--------|---------|-----------|------|-------------|------|
|         |        | Price   | High      | Low  | YTD         | 12M  |
| Vivo    | VIVO4  | 42.20   | 54.7      | 39.6 | -19.2%      | 1.8% |

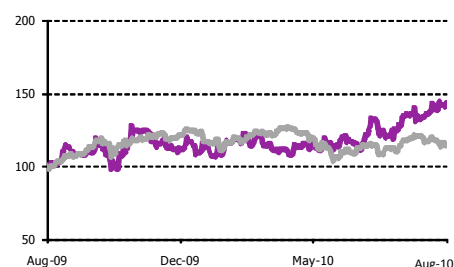
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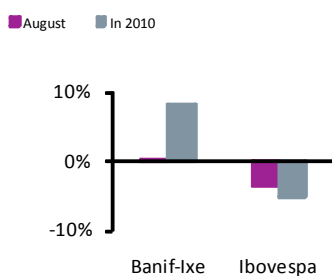
## "Short"/Overweight – Suggested Portfolio

| Company  | Ticker | Current | 52 - week |      | Performance |       |
|----------|--------|---------|-----------|------|-------------|-------|
|          |        | Price   | High      | Low  | YTD         | 12M   |
| BR Malls | BRML3  | 27.50   | 28.0      | 17.9 | 29.3%       | 44.8% |

**Catalyst:** We have a positive view on the company's growth strategy (through acquisitions as well as Greenfield projects) and on 2H10 results, which should be strong mainly due to Christmas. However, shares may have risen too much this year, 27% against -5.3% for the Ibovespa, and over the L30D 3.4% against -3.8% for the Ibovespa. As a consequence, the company now trades at high multiples (20% above the industry's average Price/Sales). For this reason, we recommend a short position on BRML3.

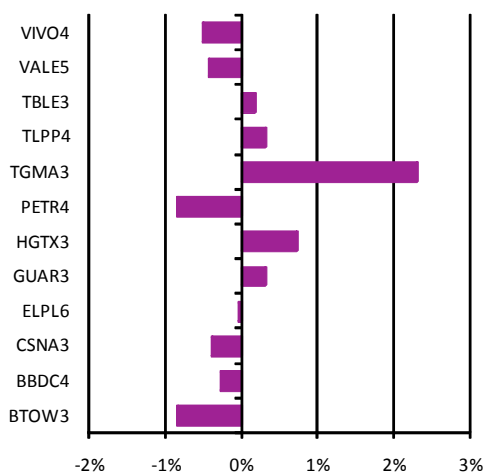


### Banif - Ixe (LONG) x Ibovespa



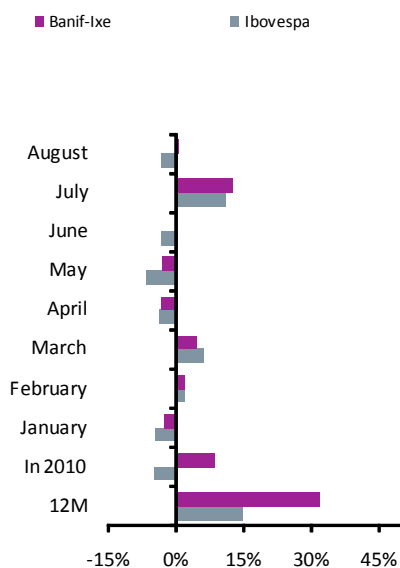
Source: Economática

### Weighted performance in August/10



Source: Economática. Weighted performance of the stocks from the recommended portfolio

### Banif-Ixe x Ibovespa Evolution



| 2009           | Banif-Ixe     | IBOV          |
|----------------|---------------|---------------|
| Jan-09         | 5.68%         | 4.66%         |
| Feb-09         | -1.62%        | -2.84%        |
| Mar-09         | 8.34%         | 7.18%         |
| Apr-09         | 16.17%        | 15.55%        |
| May-09         | 9.64%         | 12.49%        |
| Jun-09         | -5.95%        | -3.26%        |
| Jul-09         | 8.03%         | 6.41%         |
| aug-09         | 5.72%         | 3.15%         |
| Sept-09        | 9.75%         | 8.90%         |
| Oct-09         | 0.57%         | 0.05%         |
| Nov-09         | 8.83%         | 8.93%         |
| Dec-09         | 1.05%         | 1.87%         |
| 2010           | Banif-Ixe     | IBOV          |
| Jan-10         | -2.57%        | -4.65%        |
| Feb-10         | 1.53%         | 1.68%         |
| Mar-10         | 4.30%         | 5.82%         |
| Apr-10         | -3.37%        | -4.04%        |
| May-10         | -3.18%        | -6.64%        |
| Jun-10         | -0.25%        | -3.35%        |
| Jul-10         | 12.13%        | 10.80%        |
| Ago-10         | 0.42%         | -3.51%        |
| <b>In 2010</b> | <b>8.42%</b>  | <b>-5.03%</b> |
| <b>12M</b>     | <b>31.61%</b> | <b>14.83%</b> |
| <b>18M</b>     | <b>95.05%</b> | <b>69.88%</b> |

Source: Economática and Banif - Ixe Securities Research

### Short Ideas Performance

| 2010   | Banif-Ixe |
|--------|-----------|
| Jan-10 | -0.28%    |
| Feb-10 | 1.04%     |
| Mar-10 | 4.98%     |
| Apr-10 | -6.25%    |
| May-10 | -7.78%    |
| Jun-10 | -6.55%    |
| Jul-10 | 7.95%     |
| Ago-10 | -4.25%    |

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| Rating  | Coverage | Banking Relationship Last 12 Months |
|---------|----------|-------------------------------------|
| BUY     | 51.0%    | 2.0%                                |
| NEUTRAL | 21.0%    | 0%                                  |
| SELL    | 28.0%    | 0%                                  |

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