

## First Read

### Cetip

## Meeting highlights: low-beta play with resilient earnings growth; Maintain Sell on Valuation

#### Meeting highlights resilience of Cetip's revenues

While markets are focused on the [pending merger approval with BM&F Bovespa](#), we also focused on operating trends during our meeting with Cetip. Securities continue to be resilient, and ancillary revenues (registration, custody) support revenues at Cetip, making it a low-beta play. On the flip side, the auto unit (27% of revenues) has stabilized, although it is too early to talk of an inflection (ratio of auto financing-to-sales close to all-time low at 27%). While we like Cetip's steady cash flow streams and low leverage, we believe the stock price will fluctuate depending on the pending merger approval in the coming months. We have a Sell rating, on valuation grounds.

#### Resilient volumes but no signs of recovery yet

Securities business is growing in the low teens, and could recover as credit and capital markets recover. In a scenario of falling interest rates, fixed income products (e.g. debentures) are a driver of profitability and would more than offset lower demand for derivatives (hedge). Auto financing is impacted by the cyclical macro, with volumes down to 2004 levels (18k units per month). With unemployment still on the rise, weak auto sales and scarce credit, we do not expect a recovery in the short term in the auto unit. Finally, we note that the regulatory requirement to report real estate financing operations with the Central Bank (Resolution 4088) was postponed to March 2017. While we think the real estate potential is meaningful in the long term, especially if and when CEF adopts Cetip's product, the short term potential will track regulation.

#### Merger with BVMF would bring a consolidation in market structure

The merger is subject to approval by three regulators: Central Bank, CVM and Cade. Based on the regulatory allowed timeframe, we believe Cade could reach a decision by 1Q-2Q17. To respond to market concerns around a dominant position, we believe the combined entity could enhance price governance. Cetip, for example, maintains an open dialog with its key clients before changes in its pricing table. We expect limited cost synergies from a potential merger, as margins of both BVMF and Cetip are already high at ~70%, and systems and products are distinct. Some corporate functions or contracts with suppliers could be streamlined. BVMF has indicated a potential synergy of R\$100mn by year 3. The tax benefit (fiscal amortization of goodwill) would be more meaningful, we estimate a tax benefit of R\$2.1bn. Our *pro forma* calculations indicate EPS dilution of 11% on year 1 and breakeven on year 2.

#### Valuation: Sell, PT R\$40.0 (DCF-based)

Cetip trades on 17x 2017e earnings.

#### Equities

Americas  
Diversified Financial

12-month rating **Sell**

12m price target **R\$40.00**

Price **R\$43.55**

RIC: CTIP3.SA BBG: CTIP3 BZ

#### Trading data and key metrics

|                            |                      |
|----------------------------|----------------------|
| 52-wk range                | R\$44.35-31.63       |
| Market cap.                | R\$11.2bn/US\$2.63bn |
| Shares o/s                 | 257m (ORD)           |
| Free float                 | 88%                  |
| Avg. daily volume ('000)   | 1,419                |
| Avg. daily value (m)       | R\$61.5              |
| Common s/h equity (12/16E) | R\$1.86bn            |
| P/BV (12/16E)              | 6.1x                 |
| Net debt / EBITDA (12/16E) | 0.1x                 |

#### EPS (UBS, diluted) (R\$)

|        | UBS  | Cons. |
|--------|------|-------|
| 12/16E | 2.39 | 2.23  |
| 12/17E | 2.54 | 2.54  |
| 12/18E | 2.91 | 2.91  |

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| Highlights (R\$m)        | 12/13 | 12/14 | 12/15 | 12/16E | 12/17E | 12/18E | 12/19E | 12/20E |
|--------------------------|-------|-------|-------|--------|--------|--------|--------|--------|
| Revenues                 | 908   | 1,013 | 1,139 | 1,287  | 1,450  | 1,620  | 1,795  | 1,991  |
| EBIT (UBS)               | 553   | 614   | 679   | 802    | 943    | 1,072  | 1,205  | 1,354  |
| Net earnings (UBS)       | 483   | 544   | 605   | 624    | 663    | 761    | 850    | 950    |
| EPS (UBS, diluted) (R\$) | 1.86  | 2.08  | 2.32  | 2.39   | 2.54   | 2.91   | 3.19   | 3.57   |
| DPS (R\$)                | 0.47  | 1.15  | 1.52  | 1.59   | 1.52   | 2.17   | 2.44   | 2.75   |
| Net (debt) / cash        | (105) | (198) | (498) | (51)   | 164    | 294    | 445    | 627    |
| Profitability/valuation  | 12/13 | 12/14 | 12/15 | 12/16E | 12/17E | 12/18E | 12/19E | 12/20E |
| EBIT margin %            | 60.9  | 60.6  | 59.6  | 62.3   | 65.0   | 66.2   | 67.1   | 68.0   |
| ROIC (EBIT) %            | 29.2  | 32.9  | 32.9  | 39.2   | 48.8   | 53.9   | 58.8   | 64.3   |
| EV/EBITDA (core) x       | 9.9   | 11.3  | 12.1  | 12.5   | 10.8   | 9.6    | 8.4    | 7.4    |
| P/E (UBS, diluted) x     | 12.9  | 14.0  | 14.8  | 18.2   | 17.2   | 15.0   | 13.6   | 12.2   |
| Equity FCF (UBS) yield % | 8.3   | 4.7   | 6.4   | 5.3    | 5.5    | 6.3    | 7.1    | 8.0    |
| Net dividend yield %     | 2.0   | 3.9   | 4.4   | 3.7    | 3.5    | 5.0    | 5.6    | 6.3    |

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of R\$43.55 on 19 Sep 2016 19:41 EDT

### Forecast returns

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|                             |        |
|-----------------------------|--------|
| Forecast price appreciation | -8.2%  |
| Forecast dividend yield     | 3.7%   |
| Forecast stock return       | -4.5%  |
| Market return assumption    | 15.6%  |
| Forecast excess return      | -20.1% |

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### Valuation Method and Risk Statement

Our Cetip PT is DCF model derived, with CoE of 14.5%, WACC of 11.0% and long term growth of 6.5%.

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|-------------------|---|-----------------------|--------------------------|
| <b>Buy</b>        | FSR is > 6% above the MRA.  | 47%                   | 32%                      |
| <b>Neutral</b>    | FSR is between -6% and 6% of the MRA.   | 38%                   | 25%                      |
| <b>Sell</b>       | FSR is > 6% below the MRA.  | 15%                   | 21%                      |
| Short-Term Rating | Definition  | Coverage <sup>3</sup> | IB Services <sup>4</sup> |
| <b>Buy</b>        | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |
| <b>Sell</b>       | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | <1%                   | <1%                      |

Source: UBS. Rating allocations are as of 30 June 2016.

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

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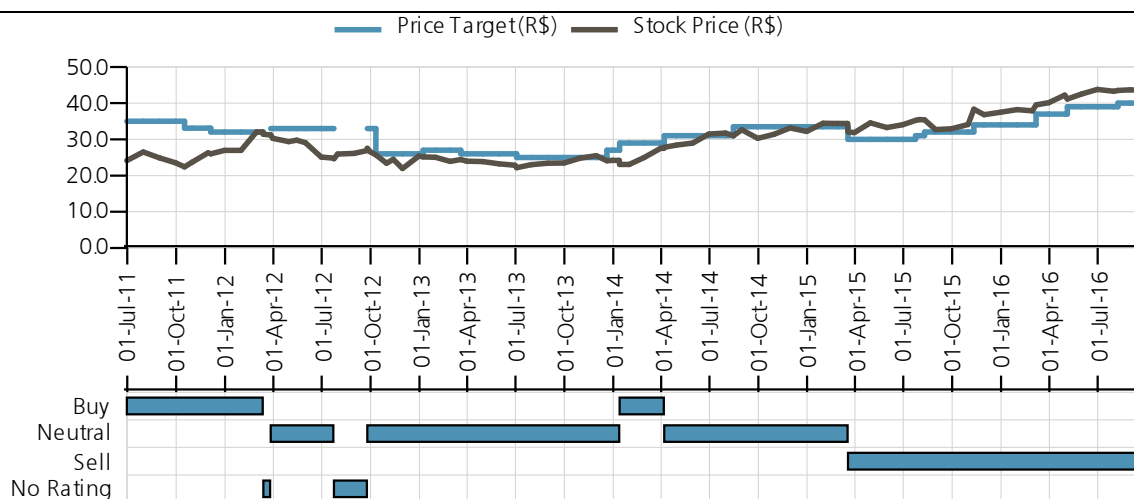
| Company Name | Reuters  | 12-month rating | Short-term rating | Price    | Price date  |
|--------------|----------|-----------------|-------------------|----------|-------------|
| <b>Cetip</b> | CTIP3.SA | Sell            | N/A               | R\$43.55 | 19 Sep 2016 |

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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#### Cetip (R\$)



Source: UBS; as of 19 Sep 2016

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