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LATIN AMERICA INSIGHT

October 5, 2022 12:02 AM GMT

Latin America Consumer | Fundamental Analysis, Economics & Equity Strategy

Betting on the Brazil Consumer

Our AlphaWise survey illuminates a positive inflection in Brazil consumer sentiment and financial conditions — despite inflation headwinds. We upgrade AMER3 to OW, and Retail becomes our Brazil Equity Strategy team's largest sector overweight; other favorite stocks include CYRE3 and IGTI11.

alphawise α

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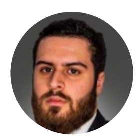
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Betting on the Brazil Consumer

Our 11th AlphaWise Brazil and Mexico Survey supports our increasingly optimistic stance on consumer trends in the region — particularly in Brazil. Against a backdrop of rising interest rates and persistently high inflation, Brazilian consumers' outlook was a positive surprise versus our expectations. In our latest AlphaWise survey, conducted in August 2022, 47% expect the economy to get better over the next six months — the highest positive response since our first survey wave in March 2020. Inflation remains a top concern, cited by 59% of Brazil consumers, but AlphaWise data shows there is more to the picture, with key areas of positive sentiment: Compared to our prior survey, in November 2021, consumers are now citing lower rates of concern around job loss, the ability to pay debts, and Covid-19 spread. Notably, our LatAm Economics team (led by Andre Loes) sees areas of hard data (such as employment rates) that align with the evidence from our survey. Looking to Mexico, trends showed resilience, as more consumers expect the economy to improve than worsen, though with less of a step-change versus our prior survey waves.

With Consumer Discretionary as the worst-performing GICS sector year-to-date in Brazil, we believe an improved backdrop is not priced in. The MSCI Brazil Consumer Discretionary benchmark is down -12% this year in US dollar terms, materially below the +12% return posted by the overall country benchmark; this continues a trend of underperformance dating back to September 2020. Moreover, our Morgan Stanley Brazil coverage universe of consumer discretionary stocks currently trades at a low 6.7x forward MS EV/EBITDA, near -1.0 standard deviations below the 14-year historical average of 11.5x. For its Brazil Model Portfolio, our LatAm Equity Strategy team (led by Gui Paiva) sees progressing into retailers and homebuilders, from the team's previous position in high quality domestic-oriented interest rate sensitive stocks, as a natural path. For Mexico, our strategy team (led by Nikolaj Lippmann) continues to be defensively positioned, consistent with greater rates of concern regarding debt repayment and inflation when compared to Brazil.

How to play it? We upgrade AMER3 to Overweight, our strategy team adds Retail exposure to its Brazil portfolio (largest sector OW), and we highlight 13 additional cross-sector stock call-outs. As a Brazil omni-channel retailer with a broad category mix, we see Americanas (AMER3.SA) as directly exposed to the constructive online and offline trends illuminated in our survey. Two additional factors drive our upgrade, namely a potential inflection point in the strategic transformation (supported by a new incoming CEO) and a setup for improving margins and net income flow-through (with app platform Ame among the drivers); for details, see our companion note Americanas: In Front of an Inflection. Further, our Equity Strategy team is adding Americanas to its Brazil Model Portfolio, with Retail now as the largest sector Overweight. Reflecting the wide-ranging impact of LatAm consumer conditions across sectors, our analyst teams highlight 13 additional stock call-outs with incremental support from survey data: 11 positive (PETZ3.SA, ITUB3.SA, IGTI11.SA, MULT3.SA, CYRE3.SA, ARCO.N, HYPE3.SA, ARCE.O, RENT3.SA, AMX.N, ENGI11.SA), and 2 cautious (ABEV3.SA, BRFS3.SA). For where we could be wrong, we acknowledge Brazil election-related volatility as a potential swing factor (see Into Elections, Mind the Macro), and any further leg up in inflation or interest rates could delay the timing of a consumer rebound.

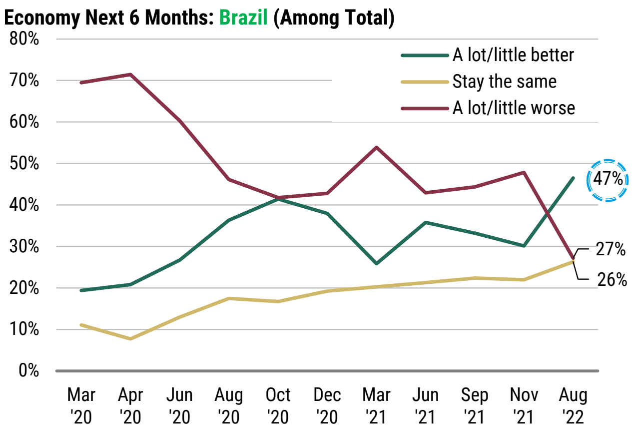
Our survey provides additional insights spanning reopening activity, category trade-down risk, big-ticket purchase plans, remittance flows, pet ownership, and telco/utility choices, among others. *Read on for detailed survey trends, Brazil & Mexico consumer macro outlooks, Equity Strategy views, and 9 sets of sector take-aways + stock calls.*

Executive Summary

AlphaWise Survey Key Findings

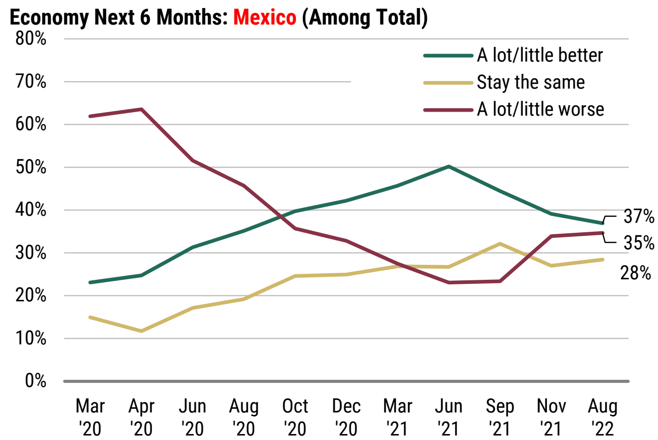
Our AlphaWise Consumer Survey illuminates a positive outlook, particularly in Brazil, which we find notable when considering head-winds from inflation. Our 11th AlphaWise Brazil and Mexico Consumer Survey follows our Consumer Pulse series throughout 2020 and 2021 (most recent here), now with a focus more on forward-looking trends. Brazil consumers' positive outlook was among the top surprises in our latest survey, conducted in August 2022; as shown in Exhibit 1, 47% of Brazil consumers expect the economy to improve over the next 6 months, inflecting +16pp upwards versus our prior wave, and marking the highest point in our data set. The outlook in Mexico skewed net positive, as shown in Exhibit 2, but the +2pp improvement vs. worsening spread was well below Brazil at +19pp. The constructive net sentiment is a positive surprise, in our view, when considering that inflation remains consumers' top concern in Brazil (Exhibit 3) and Mexico. However, we also see consumers having become less worried about job loss, debt repayment, and Covid spread — each of which support optimism in the consumption outlook.

Exhibit 1: While 47% of Brazil consumers expect the economy to improve over the next 6 months, inflecting +16pp upwards versus our prior wave...



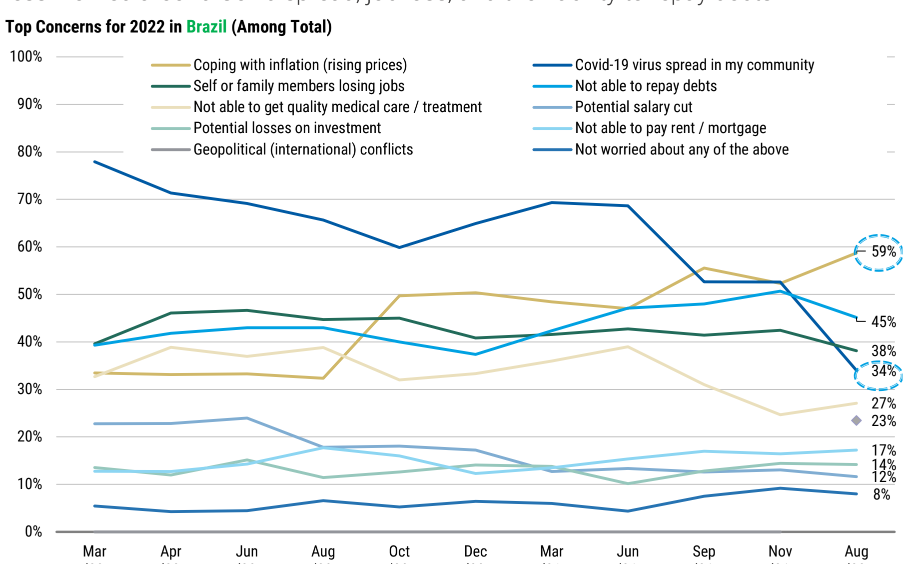
Source: AlphaWise, Morgan Stanley Research

Exhibit 2: ... a more modest 37% of Mexico consumers expect the economy to improve, -2pp versus our prior survey wave



Source: AlphaWise, Morgan Stanley Research

Exhibit 3: While inflation concerns continue to rise in Brazil, consumers notably are less-worried around Covid spread, job loss, and their ability to repay debts

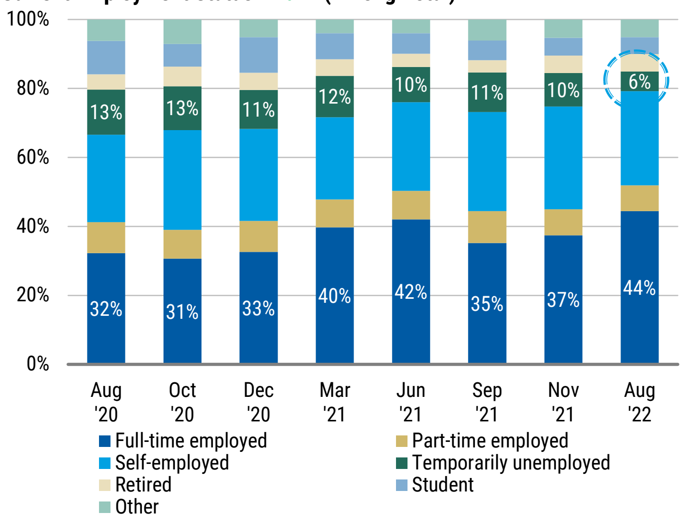


Source: AlphaWise, Morgan Stanley Research

Behind the positive outlook, our survey shows Brazil consumers with constructive household financial expectations, improving employment trends, and confidence around their ability to pay bills. Looking to their own household financial situations, 53% of Brazil consumers expect an improvement over the next six months, and only 14% expect a worsening. We see employment trends as an area that could be supporting the optimism. Forty-four percent of respondents reported being employed full-time in August 2022, up from 37% in our November 2021 survey (Exhibit 4); even more notably, only 6% reported being unemployed or furloughed, down from 10% in November 2021. Data on bill repayment further corroborates the positive momentum around household financial situations; for both Brazil and Mexico, reported inability to pay reached lows within our data set (Exhibit 5).

Exhibit 4: Our survey showed the lowest unemployment and highest full employment rates for Brazil since the data set began

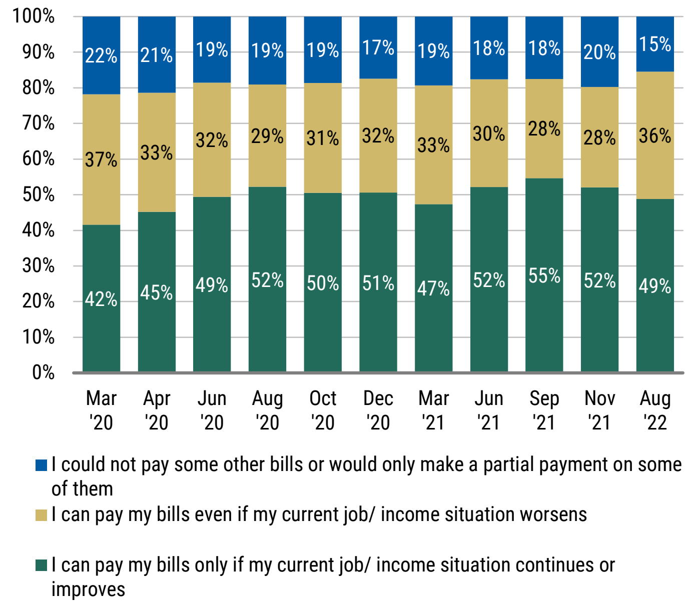
Current Employment Status: Brazil (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 5: Only 15% of consumers in Brazil cited an inability to pay bills in full, improving 4pp from the last survey wave and also marking a low in our data set

Ability to Pay Bills in Full this Month: Brazil

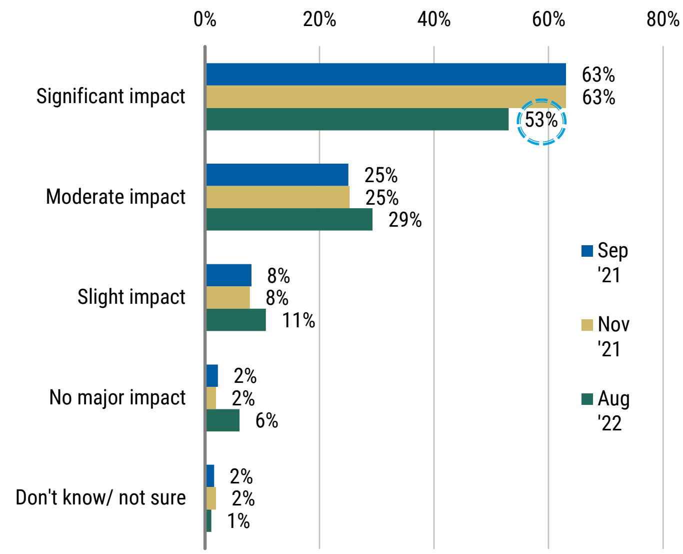


Source: AlphaWise, Morgan Stanley Research

Further as an area of inflection in Brazil, consumers cited less "significant impact" from inflation versus prior waves; category spend intent remains positive on balance. As shown in Exhibit 6 , 53% of Brazil consumers cited a significant impact from inflation on spending over the past 3 months, a positive inflection versus 63% in our November 2021 and September 2021 waves. This diverged from Mexico, where the proportion of consumers citing a significant or moderate impact continues to increase. Looking at a category level, consumers' more-versus-less net spend intent skews positive as well (Exhibit 7). While staples categories such as groceries and personal care lead for net intent, we note positive net intent for discretionary categories such as apparel (+27%) and consumer electronics (+7%). In both countries, cigarettes/ alcohol were at the bottom, along with mobile and console gaming.

Exhibit 6: The proportion of consumers in Brazil citing a "significant impact" from inflation decreased -10pp from our November 2021 survey

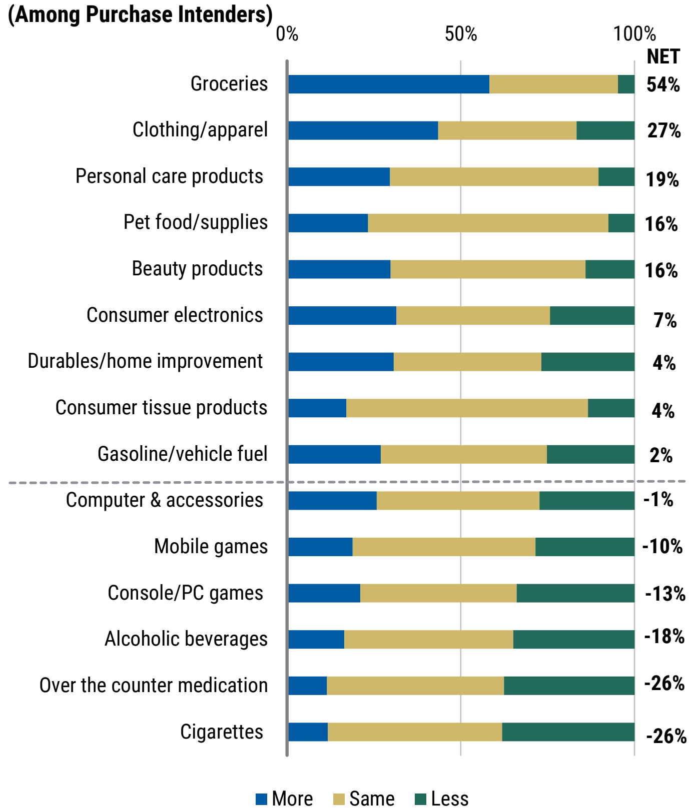
Impact of Inflation on Level of Spending / Consumption over the Last Few Months: Brazil



Source: AlphaWise, Morgan Stanley Research

Exhibit 7: In Brazil, average net (more versus less) spend intent across 15 surveyed categories was in positive territory, at +4%

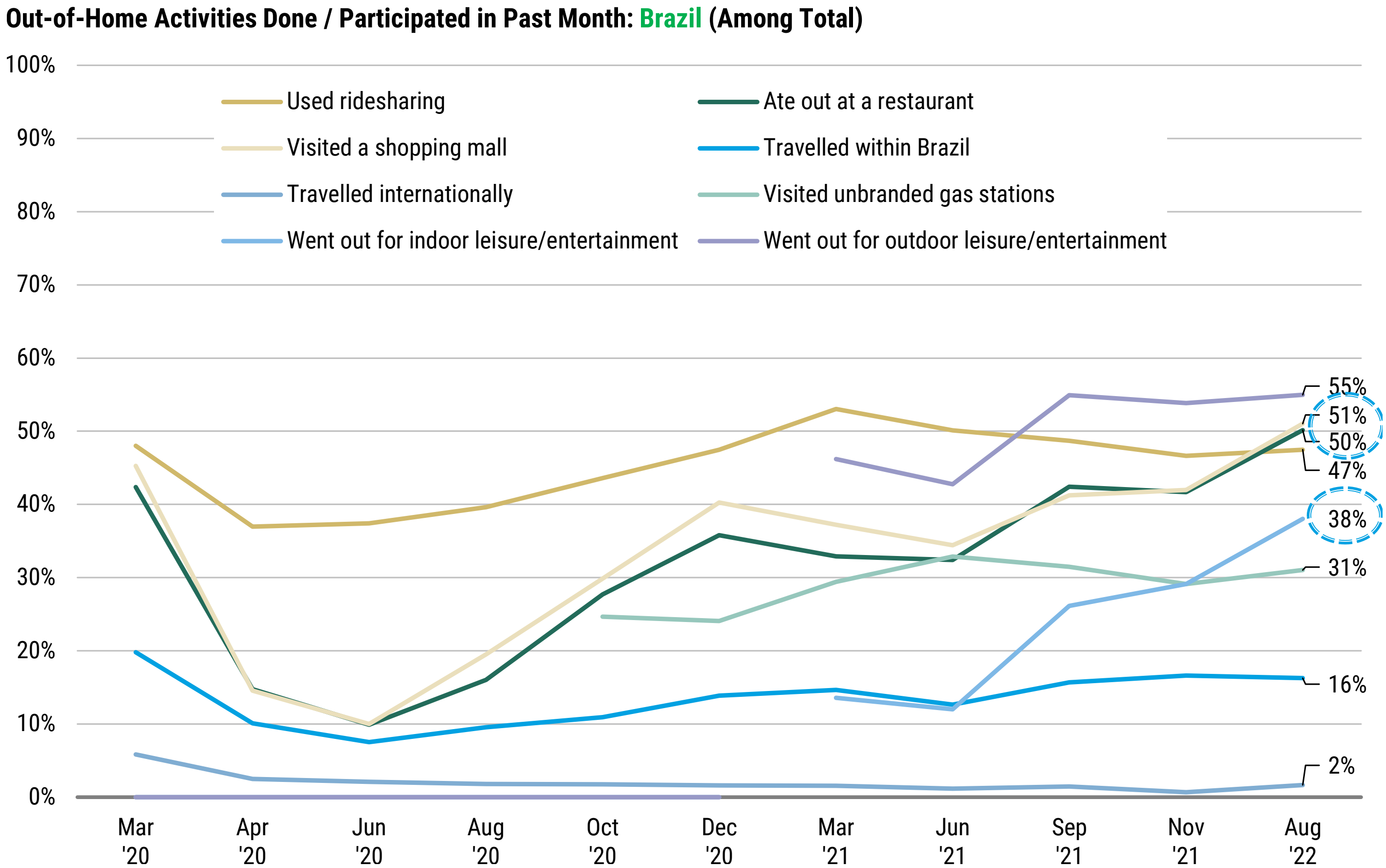
Expected Change in Spending on Goods: Wave 11 Brazil (Among Purchase Intenders)



Source: AlphaWise, Morgan Stanley Research

For services, we see consumers largely settling into a "new normal" following peak periods of Covid-related disruption, while select categories continue to benefit from reopening momentum. Our survey data contains significant detail around consumer behaviors and expectations. For most at-home/online activities, we see Brazil and Mexico consumers having settled into a normalized behavior rate post the peak pandemic periods; net engagement intent remains positive for most at-home/online activities as well, pointing against the risk of reversion. While online behaviors show stability, in-person activities continue to show an upward trajectory in Brazil, led by mall visits, restaurant eating, and indoor entertainment. As shown in Exhibit 8 , 51% of consumers in Brazil reported visiting a mall in the past month, and 50% have eaten at a restaurant, each up from our November 2021 and June 2021 survey waves.

Exhibit 8: Consumers in Brazil continue to show increases in mall, restaurant, and indoor entertainment activities, largely approaching or modestly surpassing pre-pandemic levels



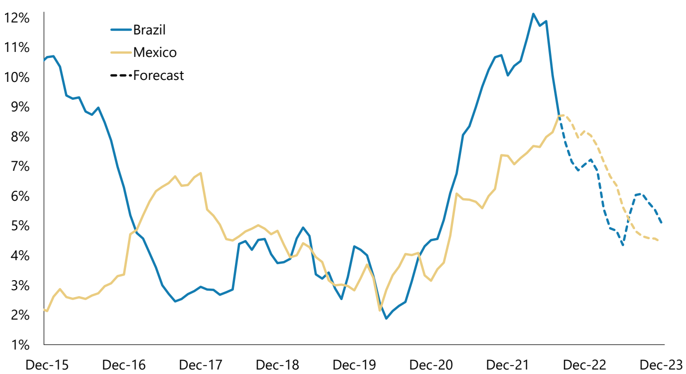
Source: AlphaWise, Morgan Stanley Research

Economics Outlook

by André Loes & Fernando Sedano

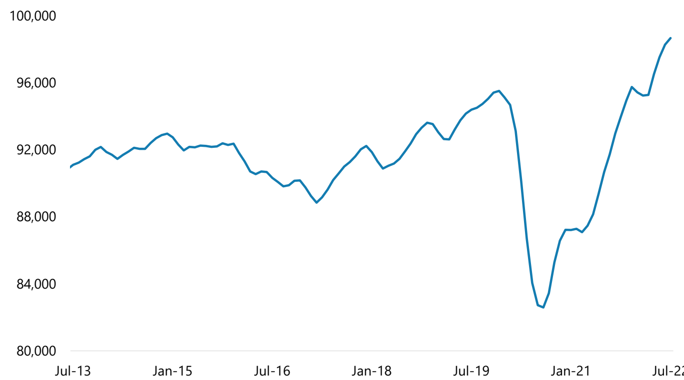
Our LatAm Economics team sees survey improvements being supported by hard data, including inflation and employment; we remain confident in our +0.8% Brazil consumption growth forecast for 2023 (in-line with GDP), and even see slight upside risk for it. While inflation remains high and our forecasts suggest disinflation may prove quite gradual, inflation is past the peak in Brazil and very close to it in Mexico (Exhibit 9). Despite negative impacts for real wages and for households coping with rising prices, the labor market is acting well employment-wise (Exhibit 10). In Brazil, the unemployment rate reached its lowest since 2015, and our forecasts show an additional small reduction in 2023. Further, consumption gets a helping hand from exogenous aspects — an increase of government cash transfers to households in Brazil, and the persistence of remittances from workers abroad in Mexico. While we look for private consumption to decelerate in 2023 as the lagged effects of monetary tightening reach their maximum, we remain confident with our +0.8% forecast for the growth of consumption in 2023, and even see a small upside risk for it. For Mexico, in line with some cautiousness seen in the survey, we expect consumption to decelerate in 2H22; improvements in labor markets will become harder and a potential US downturn will remain a dark cloud on the horizon. For 2023, our +0.5% private consumption growth forecast is below our +1.4% GDP growth forecast (Exhibit 11).

Exhibit 9: We believe inflation is past the peak in Brazil and very close to it in Mexico...



Source: IBGE, INEGI, Morgan Stanley Latam Economics

Exhibit 10: ... and the labor market is acting well employment-wise



Source: IBGE, Morgan Stanley Latam Economics

Exhibit 11: GDP and Consumption Growth (% change y-o-y)

	Brazil		Mexico	
	GDP	Private Consumption	GDP	Private Consumption
2019	1.2%	2.6%	-0.2%	0.4%
2020	-3.9%	-5.5%	-8.1%	-10.3%
2021	4.8%	3.8%	4.8%	7.7%
2022E	2.5%	3.1%	2.1%	6.2%
2023E	0.8%	0.8%	1.4%	0.5%

Source: IBGE, INEGI, Morgan Stanley Latam Economics

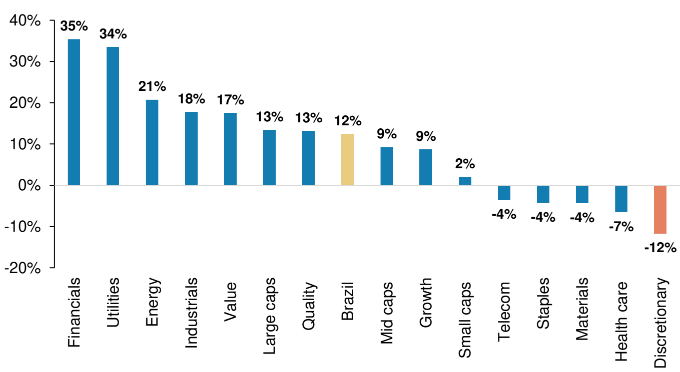
Equity Strategy Views

by Guilherme Paiva & Nikolaj Lippmann

Consumer Discretionary is the worst-performing GICS sector year-to-date in Brazil, but we now see three elements that make us more constructive on the outlook for consumer-oriented names. First, inflation break-evens appear to have peaked in Q2, which should be a positive tailwind for household consumption. For instance, our Misery index, which is the combination of local inflation plus the unemployment rate, has declined 570bp from its high in 4Q21, and is now just 370bp above pre-pandemic levels. Survey takeaways show positive views around job loss, debt repayment, and household financial outlooks. Second, the Brazilian Central Bank kept rates unchanged at 13.75% in its latest meeting, and we expect of a new monetary easing cycle to start in 2023 if the country's fiscal anchor remains in place after the election, which should serve as a positive catalyst for the group. Third, consumer-oriented stocks, especially retailers but also real estate companies, could do well under a potential new government. The MSCI Brazil Consumer Discretionary benchmark is down -12% in US dollar terms, materially below the +12% return posted by the overall country benchmark during 2022 (Exhibit 12). Moreover, our Morgan Stanley Brazil coverage universe of consumer discretionary names currently trade at a low 6.7x forward MS EV/EBITDA, or close to -1.0 standard deviations below its 14-year historical average of 11.5x (Exhibit 13).

Exhibit 12: Year-to-date, Brazilian consumer discretionary stocks have underperformed the country benchmark...

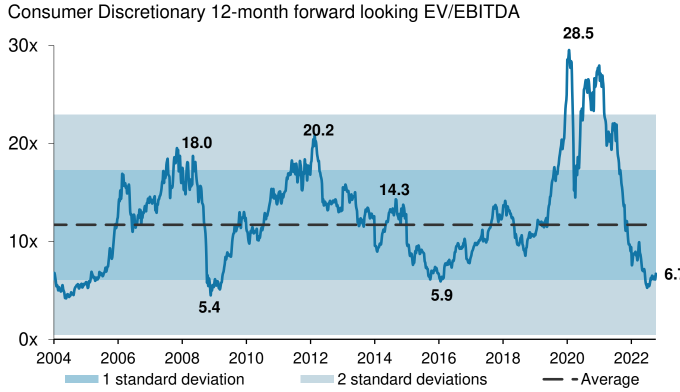
MSCI Brazil sectors, style and size: Year-to-date USD performance



Source: Bloomberg and Morgan Stanley Research

Exhibit 13: ... and they currently trade at a low 6.7x forward EV/EBITDA, close to -1.0 standard deviations below their 14-year historical average...

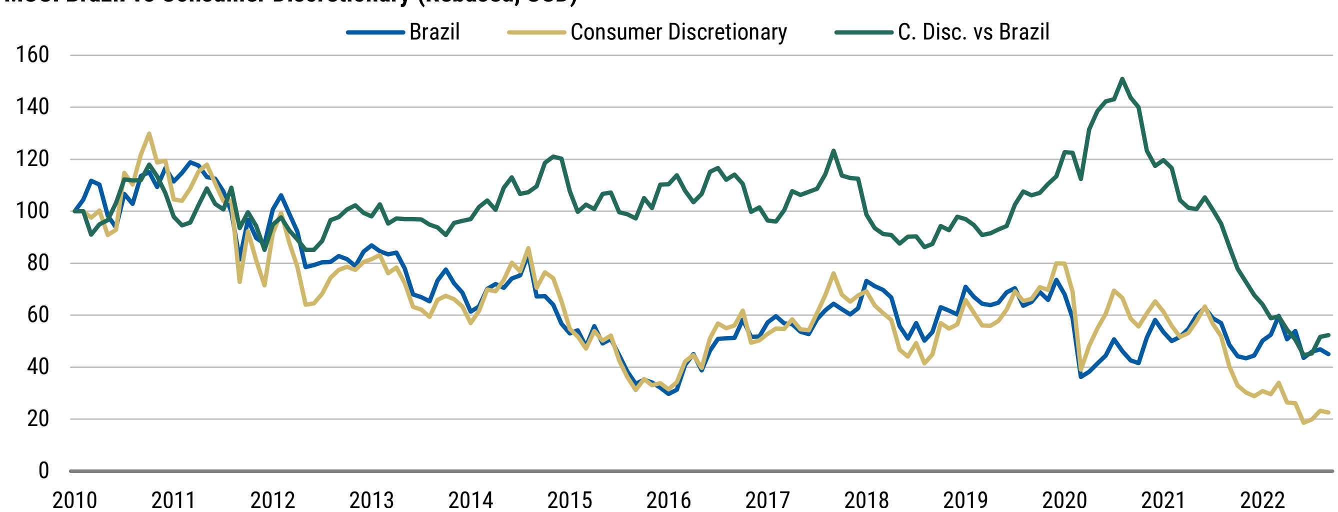
Consumer Discretionary 12-month forward looking EV/EBITDA



Source: Bloomberg and Morgan Stanley Research

Exhibit 14: ...having underperformed the MSCI Brazil since September 2020

MSCI Brazil vs Consumer Discretionary (Rebased, USD)



Source: Bloomberg and Morgan Stanley Research

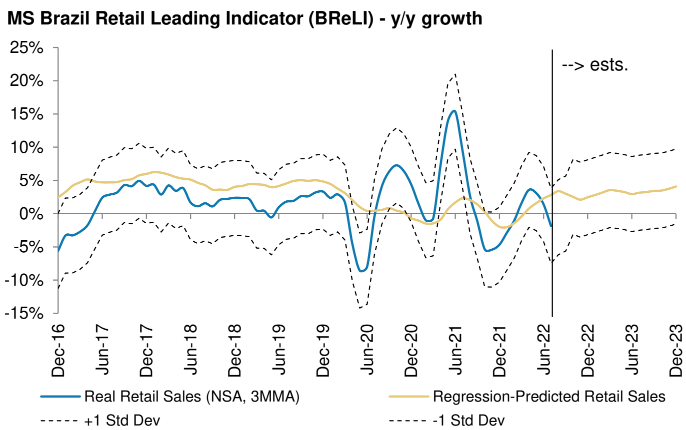
Altogether, progressing into retailers and homebuilders is the natural path in our Brazil Model Portfolio — particularly as the post election Brazilian Congress composition seems to be tilted towards center/right parties, which should lead towards a moderate legislative agenda.

Meanwhile in Mexico, we continue to be defensively positioned, and our Model Portfolio for the country remains centered around 3 key themes: 1) the US link, 2) structural growth drivers such as near-shoring trends and the transition toward online (including eCommerce), and 3) self-help stories. Our AlphaWise survey provides additional support to our relatively more cautious stance toward the Mexican consumer, as inflation and debt repayment concerns increased by a greater degree than in Brazil.

Equity Analysis

We see Retail & eCommerce companies in Brazil directly exposed to the positive AlphaWise Consumer Survey takeaways. Our Brazil Retail Leading Indicator shows improving trends, and survey data points to eCommerce resilience. As additional top-down evidence, our Brazil Retail Leading Indicator (BReLI) points to improving retail sales trends in 2023 — driven by momentum in employment growth, wage growth, and consumer confidence, and despite a continued drag from high benchmark interest rates (Exhibit 15). For eCommerce, AlphaWise survey data points to online spend remaining resilient, even in a more normalized backdrop where consumers are returning to in-store shopping. Fifty-nine percent of consumers in Brazil reported buying non-grocery items online over the past month, in-line with 60% in our November 2021 survey; this is despite mall visits reported by 51% of consumers in August 2022, up from 42% in November 2021. With Class A consumers (an important eCommerce cohort) leading for online shopping intent in both Brazil and Mexico, we see further support for industry growth (Exhibit 16).

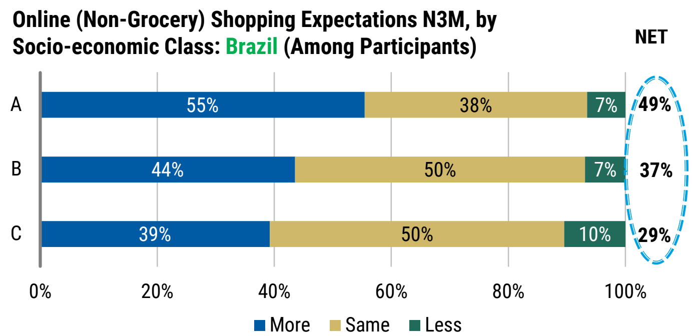
Exhibit 15: BReLI points to improving retail sales trends into 2023; employment growth, wage growth, and consumer confidence are supporting factors



Note: *The Brazil Retail Leading Indicator (BReLI) is a proprietary model developed by the LatAm Retail & eCommerce team and should not be deemed to represent the LatAm Macroeconomics team's views.*

Source: IBGE, Brazilian Central Bank, Fecomercio-SP, Morgan Stanley Research

Exhibit 16: Consumers in socio-economic Class A lead for online purchase intent of non-grocery categories in Brazil



Source: AlphaWise, Morgan Stanley Research

At the stock level, we highlight AMER3 (upgrading to Overweight) and PETZ3 (Equal-weight) as top incremental call-outs. We see Americanas — a Brazil omni-channel retailer with a broad category mix — as directly exposed to the constructive online and offline trends illuminated in our survey. This is most notable for its stores business, where we look for tailwinds from (1) a continued post-Covid traffic recovery and (2) positive category-level net spend intentions. As detailed in our companion note, Americanas: In Front of an Inflection, two additional factors drive our upgrade, namely a potential inflection point in the strategic transformation (supported by a new incoming CEO), and a setup for improving margins and net income flow-through (with app platform Ame as a contributing factor). We also highlight Petz (PETZ3.SA) as a positive survey call-out, when considering our new survey data shows high (81%) pet ownership in Brazil, with 75% of owners citing strong attachment to their pets; valuation considerations keep us Equal-weight on PETZ3.SA.

Notably, LatAm consumer conditions have wide-ranging implications, spanning multiple additional sectors. We highlight below the key cross-sector read-throughs and stock takeaways with incremental support from survey data:

- ***Real Estate:*** **Iguatemi (IGTI11.SA, OW), Multiplan (MULT3.SA, OW), Cyrela (CYRE3.SA, OW).** On the mall side, we prefer Brazilian malls (including Iguatemi and Multiplan) over Mexican malls; our AlphaWise survey points to a constructive outlook for visitor flow and continued spending resiliency despite acute inflation. For homebuilders in Brazil, results from our AlphaWise survey highlight a sluggish sentiment toward purchasing of big ticket assets today, but with more constructive future views; with mid-high income exposure, we prefer Cyrela.
- ***Restaurants, Healthcare, Education*****: Arcos Dorados (ARCO.N, OW), Hypera (HYPE3.SA, OW), Arco (ARCE.O, OW).** The focus has changed from Covid to inflation, creating a complex affordability scenario that is impacting demand for all: restaurants, universities, and pharmacies. In the case of restaurants, demand may have peaked, above pre-Covid levels. We would expect some top-line slowdown, but stable margins, as the inflation peak is behind us and so far the sector has been able to pass through costs to clients. We like all listed players, while at current prices our restaurants Top Pick is ARCO. For healthcare, the survey also shows slowing demand for over-the-counter drug purchases, along with risk of postponed treatments if inflation persists; HYPE3 is our Healthcare Top Pick. For education, 2H22 intake seems weaker than expected, impacted by affordability, as we have recently debated here; ARCE is our education Top Pick, being isolated from those dynamics.
- ***Brazil Financial Institutions:*** **Itau (ITUB3.SA, OW).** We see no hard landing for asset quality, and the latest survey supports the counter-consensus view on delinquency that we've held throughout this year. Expectations of economic growth are supportive of credit demand, and survey data on bill repayment further corroborates the positive momentum around household financial situations in Brazil. We expect banks to deliver attractive EPS growth and multi-year high ROE over the next 12 months, and we think Itau's strategic foresight and operational capabilities represent a meaningful competitive advantage in the marketplace.
- ***Transportation:*** **Localiza (RENT3.SA, OW).** We see the survey results as having broadly positive implications for car rental and would identify Localiza as our preferred way to play potential demand upside suggested by the data (including constructive household financial outlooks). Further, we see support for the growth outlook of the new segment of long-term rentals to individuals (as well as SMEs) in the coming quarters.
- ***Food & Beverages:*** **Ambev (ABEV3.SA, UW) and BRF (BRFS3.SA, UW).** Survey results give additional evidence to our *Price/Volume Conundrum* call for 2023, as we believe that having both price pass through and volume gains may become more challenging for both Ambev and BRF. Our latest AlphaWise Consumer survey points to a still challenging environment for these stocks, with consumers potentially trading down within categories (groceries) or reducing their overall product consumption (alcohol).
- ***TMT:*** **America Movil (AMX.N, OW).** Our latest AlphaWise consumer survey for Brazil and Mexico brought three key positive messages for LatAm Telcos: 1) Strong engagement with on-line activities, 2) Ample consumer traction with 5G rollout, and 3) Stable churn trends. Our favorite LatAm telco idea remains America Movil.
- ***Metals, Mining, Paper, & Pulp:*** For Steel, we see a cautious read-through as our latest AlphaWise consumer survey points to less than 10% of the respondents in Brazil and Mexico intending to buy a new car / new home / new apartment if inflation persists at current levels. For tissue and personal care exposed names, the survey points to potential trade-down risks (i.e., consumers opting to switch to lower priced products) if inflation persists.
- ***Utilities*****: Energisa (ENGI11.SA, OW).** We asked consumers around distributed generation (DG), or self-produced, small scale power solutions. AlphaWise survey results indicated that DG is under-penetrated among Brazil and Mexico consumers, while intention to use DG was high. We believe OW-rated Energisa is the best positioned company in our LatAm Utilities coverage universe to play DG growth.

Exhibit 17: Key Consumer-Exposed Stock Call-Outs: Comparable Company Analysis

Company	Country	MS Rating	Last Price	Price Target	Upside/ Downs.	Market Cap ($mn)	EV ($mn)	EV/Revenue		CAGR 21-24e	EV/EBITDA		CAGR 21-24e	P/E		CAGR 21-24e
								2022	2023		2022	2023		2022	2023	
Consumer-Exposed Key Positive Call-Outs																
Americanas	Brazil	OW	18.2	24.0	32%	3,027	4,026	0.7x	0.7x	9%	7.8x	6.1x	28%	NM	37.2x	-2%
PETZ	Brazil	EW	10.8	14.0	30%	921	839	1.5x	1.2x	33%	10.3x	6.9x	36%	57.5x	32.1x	48%
Itau Unibanco Holding	Brazil	OW	5.7	7.2	26%	56,159	NA	NA	NA	9%	NA	NA	13%	9.5x	8.5x	13%
Iguatemi	Brazil	OW	21.7	31.0	43%	4,506	4,776	27.7x	24.6x	19%	35.3x	33.2x	26%	107.7x	88.5x	-1%
Multiplan	Brazil	OW	25.8	31.0	20%	2,862	3,285	10.5x	9.2x	20%	13.1x	11.5x	23%	23.5x	18.0x	27%
Cyrela	Brazil	OW	20.0	28.0	40%	1,479	1,539	1.6x	1.4x	8%	12.1x	9.0x	7%	10.3x	8.1x	6%
Arcos Dorados	Brazil	OW	7.7	10.0	31%	1,601	2,090	0.6x	0.6x	13%	6.1x	5.6x	15%	14.9x	12.0x	45%
Hypera	Brazil	OW	45.7	47.2	3%	5,340	6,285	4.7x	4.0x	17%	13.2x	11.1x	19%	17.9x	13.1x	27%
Arco	Brazil	OW	11.5	23.5	104%	650	1,077	3.6x	2.8x	26%	11.3x	8.7x	37%	31.8x	13.5x	30%
Localiza	Brazil	OW	64.6	77.0	19%	2,653	4,170	1.2x	0.6x	67%	3.3x	2.0x	53%	6.1x	4.3x	25%
America Movil	Mexico	OW	16.9	25.0	48%	54,853	79,511	1.9x	1.9x	-4%	5.0x	4.9x	-1%	14.3x	14.7x	-21%
Energisa	Brazil	OW	44.1	58.0	32%	2,955	6,426	1.3x	1.3x	3%	5.9x	5.7x	0%	8.9x	8.1x	-10%
Median								**1.6x**	**1.4x**	**15%**	**10.3x**	**6.9x**	**21%**	**14.9x**	**13.3x**	**19%**
Consumer-Exposed Cautious Call-Outs																
Ambev	Brazil	UW	16	13	-23%	47,390	44,544	3.0x	2.7x	15%	10.2x	9.7x	6%	20.7x	19.8x	5%
BRF	Brazil	UW	14	14	-1%	2,053	5,337	0.5x	0.5x	13%	5.9x	4.7x	7%	NM	8.2x	86%

Source: Refinitiv Eikon, Company data, Morgan Stanley estimates

Survey Methodology

Online survey among ~2,000 consumers aged 16–75 years old in Brazil and Mexico (~1,000 per country).

Total sample is representative of the countries' general population in terms of age, gender and socioeconomic class.

- **Wave 1 survey was conducted March 27–31, 2020.**
- **Wave 2 survey was conducted April 24–28, 2020.**
- **Wave 3 survey was conducted June 15–18, 2020.**
- **Wave 4 survey was conducted August 3–6, 2020.**
- **Wave 5 survey was conducted September 28–October 1, 2020.**
- **Wave 6 survey was conducted December 1–8, 2020.**
- **Wave 7 survey was conducted March 2–5, 2021.**
- **Wave 8 survey was conducted May 28–June 2, 2021.**
- **Wave 9 survey was conducted September 09–16, 2021.**
- **Wave 10 survey was conducted November 26–30, 2021.**
- **Wave 11 survey was conducted August 10–18, 2022.**
- **The margin of error on the total sample is ±1.8% at 90% confidence level; higher for subgroups.**

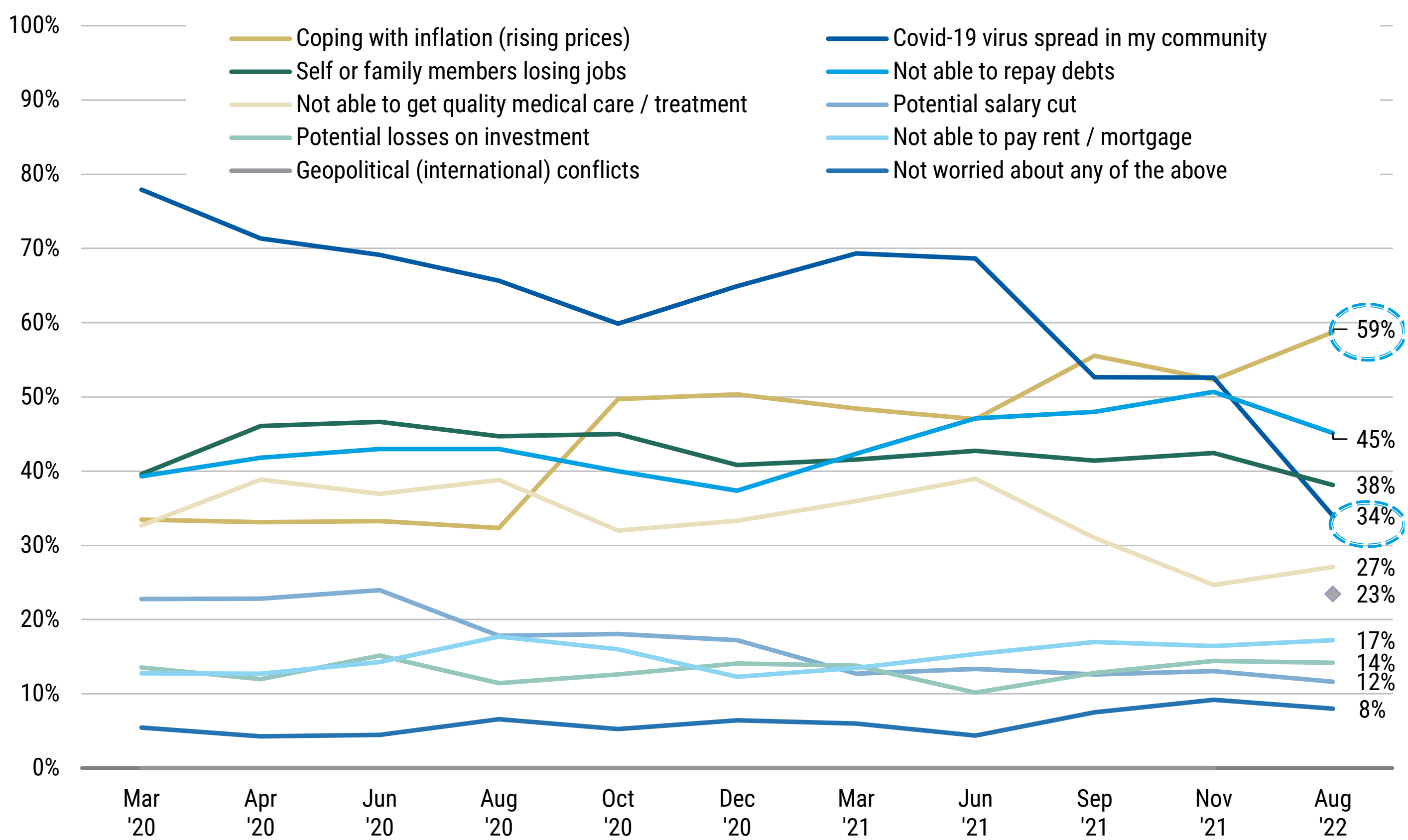
AlphaWise Brazil & Mexico Survey Takeaways

Key Theme #1: Consumers' Concerns and Outlook

Inflation concerns remain on the rise in Brazil, though views around job loss and debt repayment had a favorable trajectory; Covid-related concerns continue to decrease as well. In Exhibit 18 , we show the proportion of Brazil consumers citing a given area as a top-3 concern for the current year. Since our survey time series began in March 2020 through our Wave 10 iteration in November 2021, Covid-19 virus spread was consistently ranked among top areas. Notably, in our current survey (August 2022), Covid concerns dropped to fourth place, cited by 34% of consumers, down from 53% in the prior iteration. On the other hand, the proportion of consumers citing inflation/rising prices continued to increase, reaching a high of 59% within our time series, up from 52% in the prior wave. Despite this increase, there were areas where the Brazil consumer showed signs of resilience: concerns about job loss notably decreased to 38% of respondents — down from 42% in November 2021 and marking the lowest level of concern since our survey began. Further, concerns around an inability to pay debts decreased to 45%, from 51% last wave.

Exhibit 18: While inflation concerns continue to rise in Brazil, consumers notably are less-worried around Covid spread, job loss, and the ability to repay debts

Top Concerns for 2022 in Brazil (Among Total)

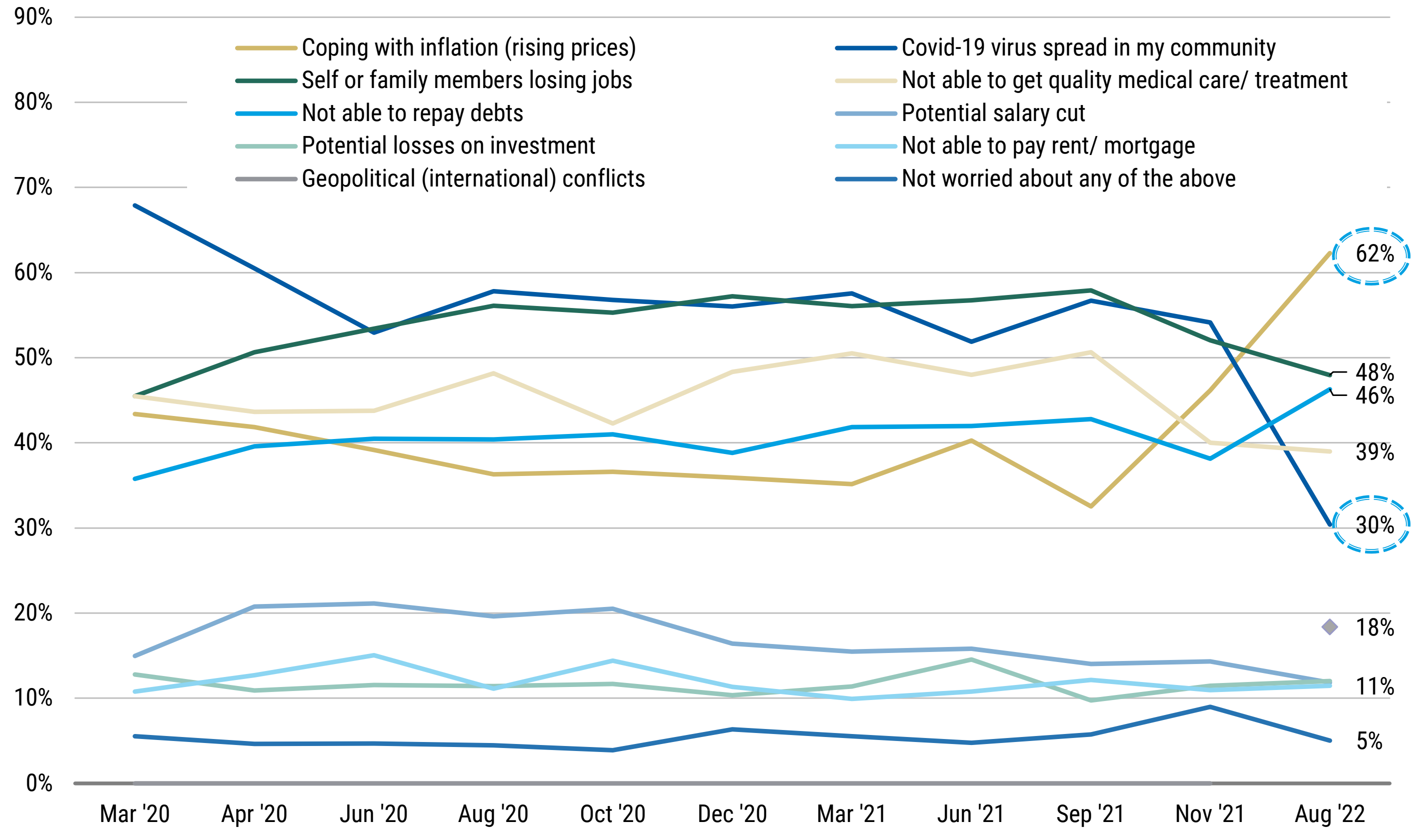


Source: AlphaWise, Morgan Stanley Research

In Mexico, inflation concerns stepped up to a greater degree than in Brazil; concerns around debt repayment increased as well, for a diverging trend versus Brazil. Looking to Exhibit 19 , we show consumers' top areas of concern within Mexico. While inflation concerns have been on the rise in the country since our November 2021 survey, we highlight a sharp upward inflection continuing in our August 2022 wave. Sixty-two percent of consumers cited inflation as a top-three concern in Mexico, up from 46% in November 2021 and just 33% in September 2021. Similar to Brazil, Covid was only cited by 30% of consumers, down from 54% in November. However for other macro data points, we see diverging trends; whereas debt repayment concerns decreased -6pp from the last wave in Brazil, these concerns increased by +8pp in Mexico, with 46% citing an inability to pay debts among their top three concerns. Concern about job loss decreased -4pp to 48%, while remaining above 38% of consumers in Brazil citing a similar concern.

Exhibit 19: In Mexico, inflation concerns have shown a step-up, concurrent with greater concerns around debt repayment

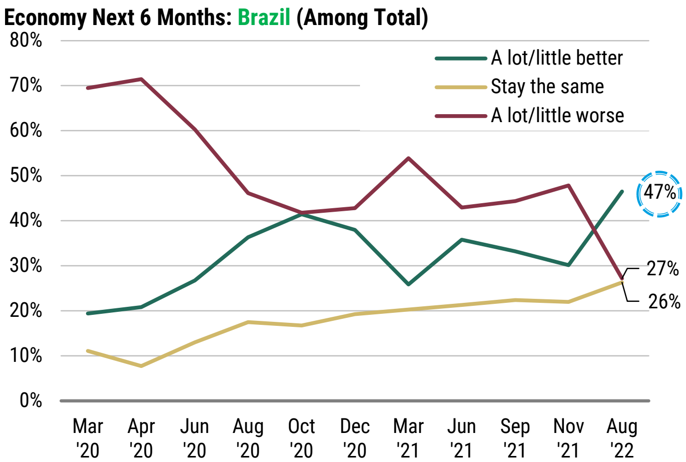
Top Concerns for 2022 in Mexico (Among Total)



Source: AlphaWise, Morgan Stanley Research

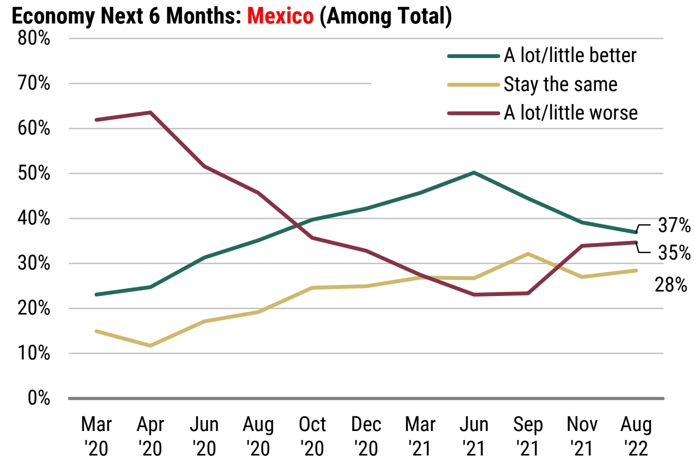
A Brazil vs Mexico divergence further shows through in the economy outlook, with a +19pp better-vs.-worse spread in Brazil versus just +2pp in Mexico. In Brazil, 47% of consumers expect the economy to get either a little or a lot better over the next 6 months (Exhibit 20). This represents a notable +16pp improvement versus our November 2021 survey, and marks a high since our survey began. The spread of consumers expecting improvement versus worsening in Brazil was +19%, a meaningful +37pp improvement from the -18% spread in November 2021. Looking to Mexico, consumers throughout our survey waves have generally had more favorable economic expectations when compared to Brazil, as measured by the improvement versus worsening spread (Exhibit 21). However, in our August 2022 survey, only 37% of consumers in Mexico cited expectations for an improving economy over the next 6 months. This marked a -2pp deterioration versus our prior wave, and the improvement versus worsening spread stood at just +2%.

Exhibit 20: While 47% of Brazil consumers expect the economy to improve over the next 6 months, inflecting +16pp upwards versus our prior wave...



Source: AlphaWise, Morgan Stanley Research

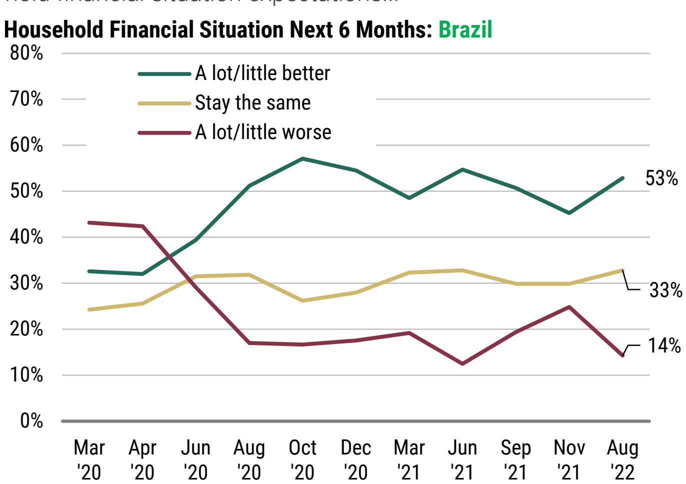
Exhibit 21: ... only 37% of Mexico consumers expect the economy to improve, -2pp versus our prior survey wave



Source: AlphaWise, Morgan Stanley Research

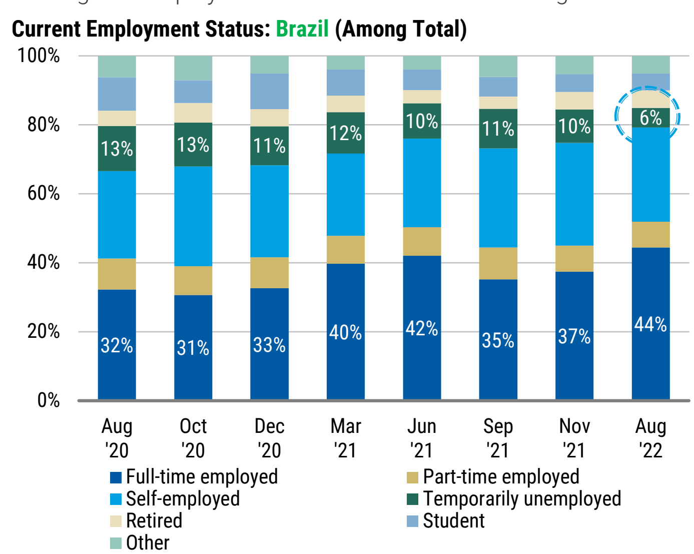
Consumers' household financial outlooks remain constructive in Brazil, and the result corresponds with positive momentum around employment trends. Compared to the 47% of consumers in Brazil who expect the economy to improve over the next six months, a higher proportion (53%) expect their own household financial situation to improve (Exhibit 22). Only 14% expect their household financial situation to worsen, versus 27% who expect deteriorating trends for the economy. The improve versus worsen spread of +39% marked a +18pp improvement from our last survey wave. Altogether, the household outlook is a key area where results point to consumer optimism in Brazil, despite pressures from inflation. We see employment trends as an area that could be supporting the optimism. Forty-four percent of respondents reported being employed full-time in August 2022, up from 37% in our November 2021 survey (Exhibit 23); even more notably, only 6% reported being unemployed or furloughed, down from 10% in November 2021. The employment rate marks a high since we began asking this question in August 2020, and the surveyed unemployment rate marked a low.

Exhibit 22: Consumers in Brazil skew positive around their household financial situation expectations...



Source: AlphaWise, Morgan Stanley Research

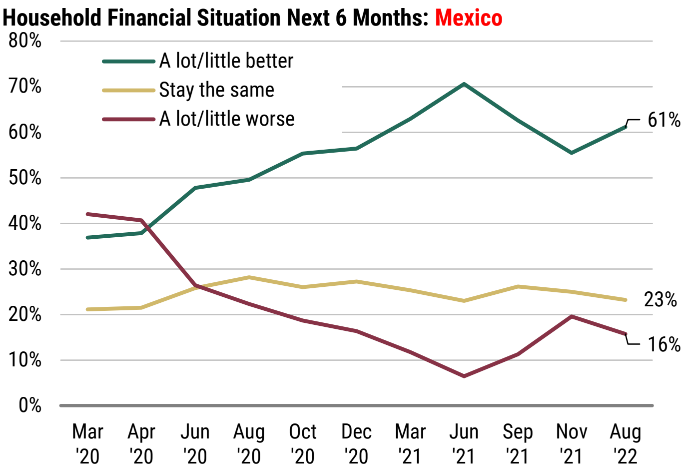
Exhibit 23: ... with our survey showing the lowest unemployment and highest employment rates since the data set began



Source: AlphaWise, Morgan Stanley Research

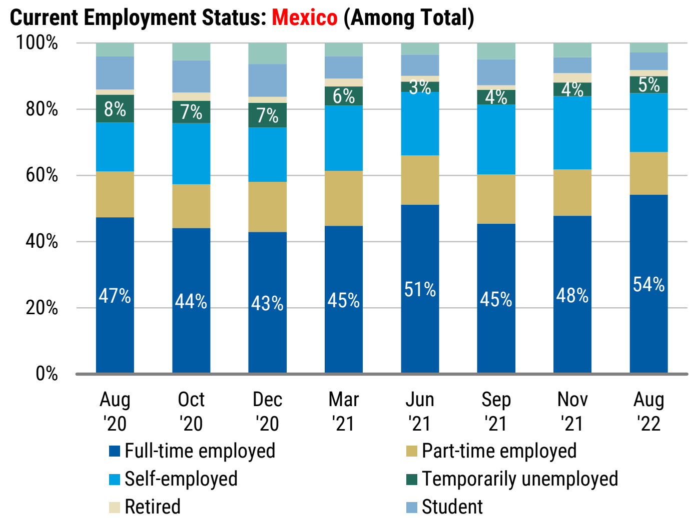
In Mexico, consumers were more optimistic about their own financial situation than they were for the economy as a whole; unemployment trends remain favorable, though with less of a step-change than Brazil. For their own household financial situation outlooks, 61% of Mexico consumers expect improvement over the next six months. This notably diverged from only 37% who expect the economy to improve. From a household perspective, the improve versus worsen spread of +45% was moderately favorable to the +39% spread in Brazil. We see employment factors potentially playing a role in Mexico; fifty-four percent of respondents reported full-time employment, up from 48% in November 2021 and 45% in September 2021. Reported unemployment remains low in Mexico as well, at 5%; this figure is slightly below the 6% from Brazil survey respondents, but did not mark a step-change in trends from prior survey waves.

Exhibit 24: In Mexico, consumers' household outlooks are more favorable than their outlook on the economy on average...



Source: AlphaWise, Morgan Stanley Research

Exhibit 25: ... and we see improving trends in full-time employment, while reported unemployment remains largely steady at low levels

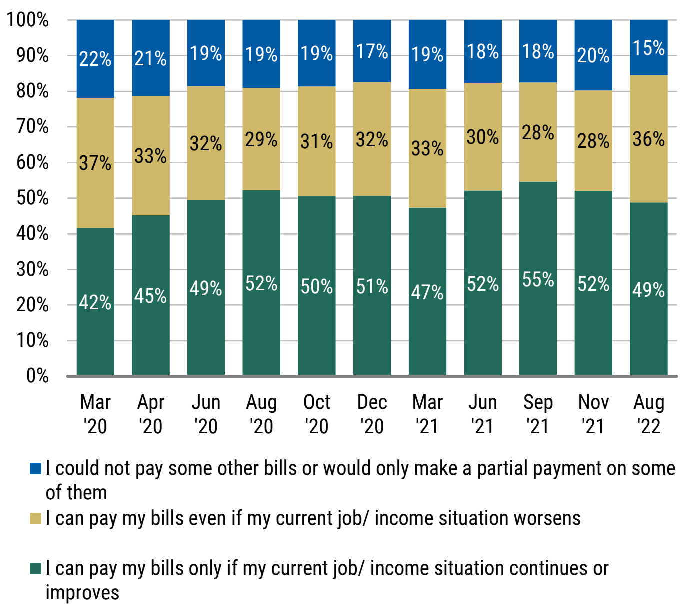


Source: AlphaWise, Morgan Stanley Research

Data on bill repayment further corroborates the positive momentum around household financial situations; for both Brazil and Mexico, reported inability to pay reached lows within our data set. Looking to Brazil (Exhibit 26), only 15% of consumers cited an inability to pay their bills in full for the current month. This marked a 4pp improvement from our last survey, and the most favorable response on the topic since our survey began in March 2022. Further, 36% cited the ability to pay bills in full even if their job/income situation worsens, up from 28% in our November 2021 survey wave; we see this further pointing to consumers' comfort in their household financial situation outlooks. Looking to Mexico (Exhibit 27), survey data skewed favorable albeit relatively steady versus prior waves. The 12% of consumers citing an inability to pay was modestly below Brazil's 15%, while more similar to the 13% reported in the November 2021 survey wave. Altogether, we see bill pay data as another constructive read on Brazil/Mexico consumer conditions, in spite of high inflation.

Exhibit 26: Only 15% of consumers in Brazil cited an inability to pay bills in full, improving 4pp from the last survey wave and marking a low in our data set

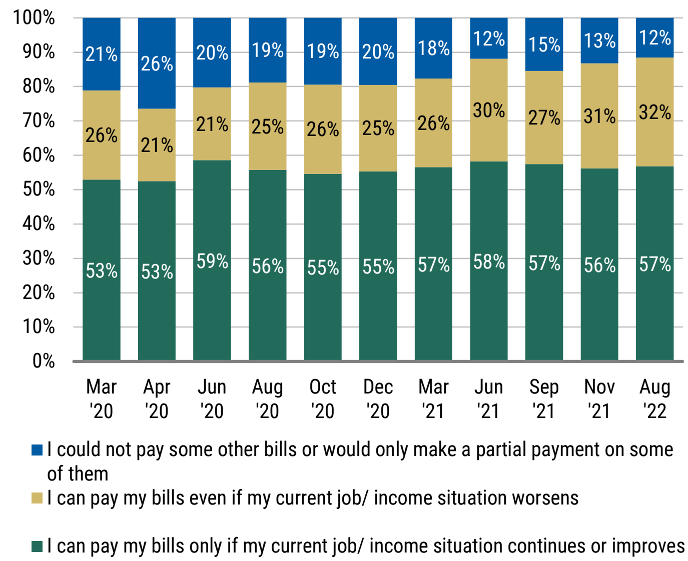
Ability to Pay Bills in Full this Month: Brazil



Source: AlphaWise, Morgan Stanley Research

Exhibit 27: Trends in Mexico were favorable as well; while improving a more modest 2pp from the last survey wave, the 12% inability to pay rate marked the lowest in our Mexico data set

Ability to Pay Bills in Full this Month: Mexico

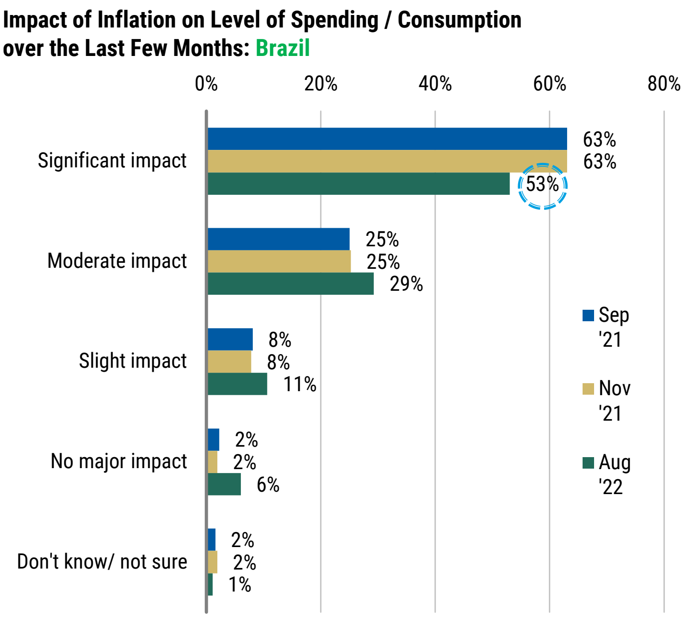


Source: AlphaWise, Morgan Stanley Research

Key Theme #2: Coping With Inflation

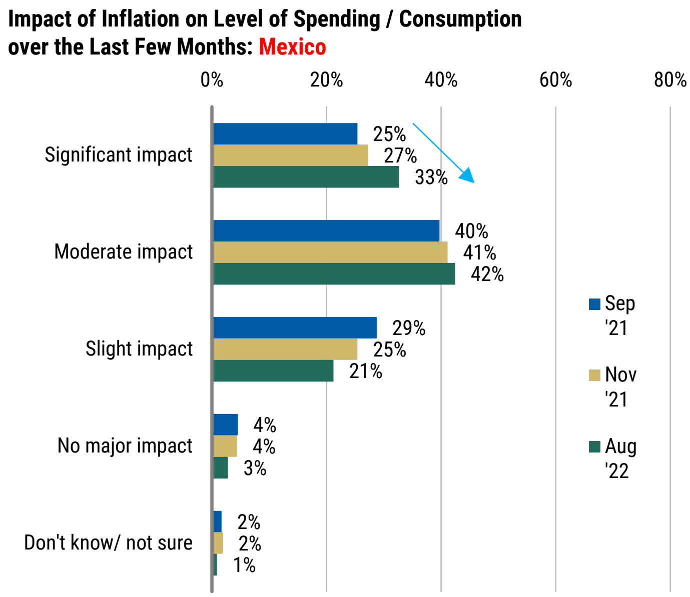
While consumers in Brazil continue to report high rates of "significant impact" from inflation, the trend is improving; conversely, inflation concerns in Mexico remain on the rise. We asked consumers how inflation has impacted their level of spending/consumption over the past few months. As shown in Exhibit 28 , 53% of consumers in Brazil noted a significant impact from inflation; while this remains well above the 33% of consumers in Mexico citing a significant impact (Exhibit 29), the momentum in the survey has diverged. In Brazil, concern rates were down -10pp in our August 2022 survey when compared to the November 2021 wave. In Mexico, concern rates were up +5pp versus November 2021, and up +7pp versus September 2021. When considering a moderate-to-significant impact, the 82% of Brazil consumers citing this range was down from 88% in November 2021. For Mexico, 75% of consumers cited a moderate-to-severe impact, up from 68% in November 2021.

Exhibit 28: The proportion of consumers in Brazil citing a "significant impact" from inflation decreased -10pp from our November 2021 survey...



Source: AlphaWise, Morgan Stanley Research

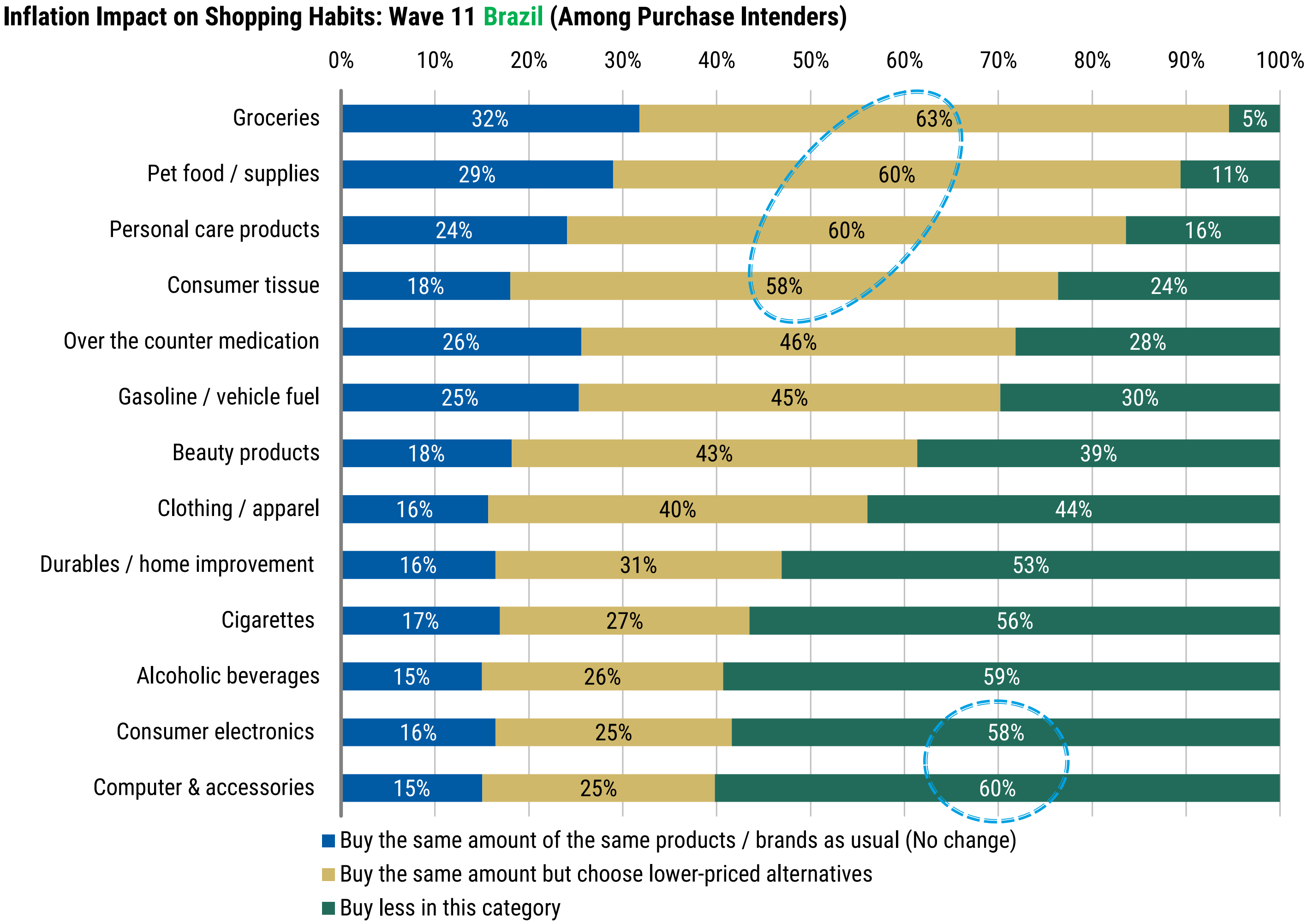
Exhibit 29: ... while in Mexico, inflation concerns continue to rise, with a +5pp increase in consumers citing "significant impact"



Source: AlphaWise, Morgan Stanley Research

To cope with inflation, consumers in Brazil show a willingness to trade down to lower-priced alternatives within staples categories, while higher ticket/electronics purchases are more at risk. In Exhibit 30 , we show how consumers in Brazil would reportedly change their shopping behavior by category, in a scenario where inflation persists at current levels over the next three months. For staples categories, consumers showed a willingness to trade down to lower-priced alternatives as a way to cope with rising prices. Versus 32% who will buy the same products/brands within grocery, 63% expect to trade down; similarly for personal care products, 24% plan to buy the same products, and 60% plan to trade down. Categories including pet, consumer tissue, and over the counter mediation showed resilience as well, each with <30% of consumers who would buy less in the category if inflation persists. For categories such as beauty and apparel, there was a relatively balanced proportion of consumers who would trade down versus buy less. The electronics and computer categories could face the most pressure in a continued inflationary scenario, with ~60% of consumers willing to buy less. Among high ticket categories, the outlook for durables/home improvement was moderately more resilient than that of electronics/computers. Lastly, we note that consumers reported a willingness to buy less of vice categories cigarettes and alcoholic beverages if inflation persists.

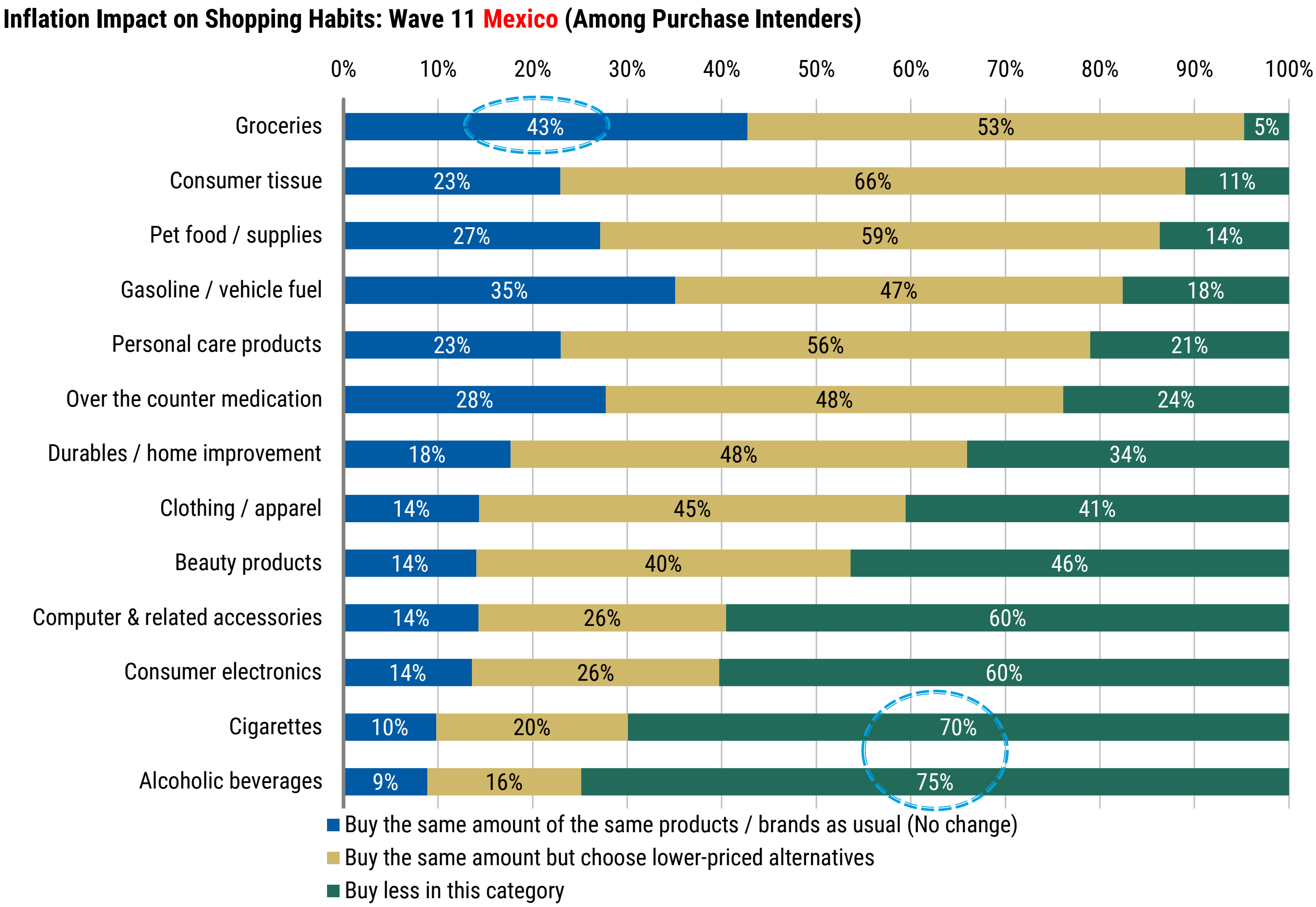
Exhibit 30: Brazil consumers showed a willingness to trade down to lower-priced alternatives within staples categories, while higher-ticket electronics purchases could be at risk if inflation persists



Source: AlphaWise, Morgan Stanley Research

Compared to Brazil, consumers in Mexico showed a greater willingness to maintain purchases within grocery and to reduce purchases within vice categories (cigarettes, alcohol). As shown in Exhibit 31 , consumers in Mexico showed directional category spending trends similar to Brazil, in the case that inflation persists. Particularly, consumers showed a willingness to trade down to lower-priced alternatives within staples categories, while categories such as computers and electronics could see spend reductions. For areas of difference, we note that 43% of consumers in Mexico reported that they would buy the same products/brands within grocery, with 53% trading down; in Brazil, only 32% would buy the same products, with 63% intending to trade down. Among categories likely to get cut, cigarettes and alcoholic beverage ranked at the bottom in Mexico, versus computers and electronics showing the greatest "buy less" intent in Brazil. Among high-ticket categories, we also note that durables/home improvement was more resilient in Mexico than Brazil, with only 34% who would reduce spend on the category in Mexico, versus 53% in Brazil.

Exhibit 31: Versus Brazil, consumers in Mexico show a greater willingness to maintain grocery purchases (vs. trade-down); alcohol and cigarettes lead for "buy less" intent

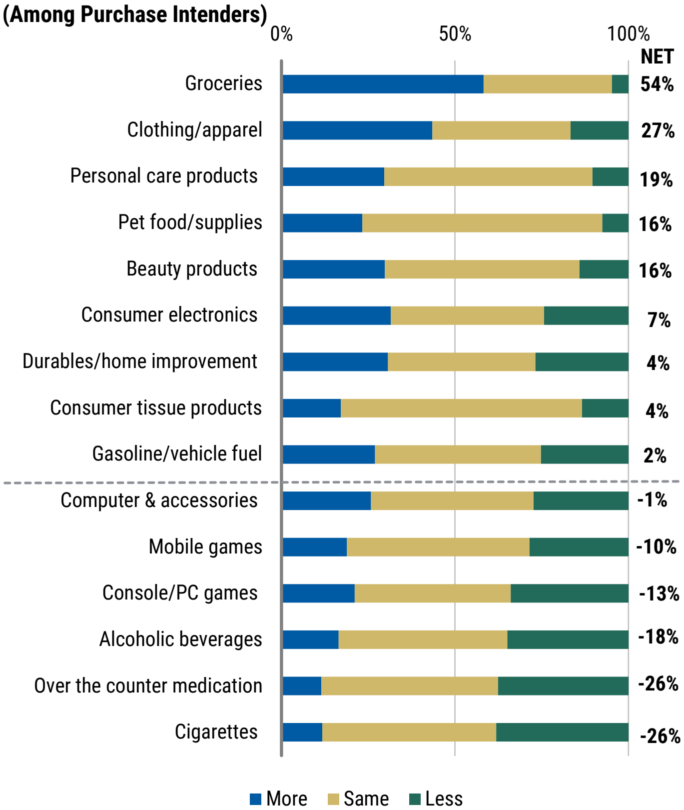


Source: AlphaWise, Morgan Stanley Research

Across goods categories broadly, consumers in Brazil show higher net (more versus less) purchase intent than consumers in Mexico. As another view on purchase trends, we asked consumers which merchandise categories they expect to purchase either more, less, or the same of over the next 3 months. We summarize the trends for Brazil in Exhibit 32 and Mexico in Exhibit 33 , ranked in descending order for net (more minus less) purchase intent. For a broad read on spending trends, the net purchase intent was +4% on average across the 15 categories in Brazil, while in Mexico the average net intent across categories was -15%. In both countries, groceries had a wide lead for net spending intent, at +54% in Brazil and +45% in Mexico; in our view, this is likely due to both the staples nature of the category along with consumers' continued expectations for food inflation. For positive standouts among more discretionary categories, we highlight the high net purchase intent for apparel in Brazil (+27%), and for durables/home improvement in Mexico (+18%). In both countries, cigarettes/alcohol were at the bottom, while gaming categories (console/PC and mobile) also ranked with negative net spend intent.

Exhibit 32: In Brazil, average net (more versus less) spend intent across 15 surveyed categories was +4%...

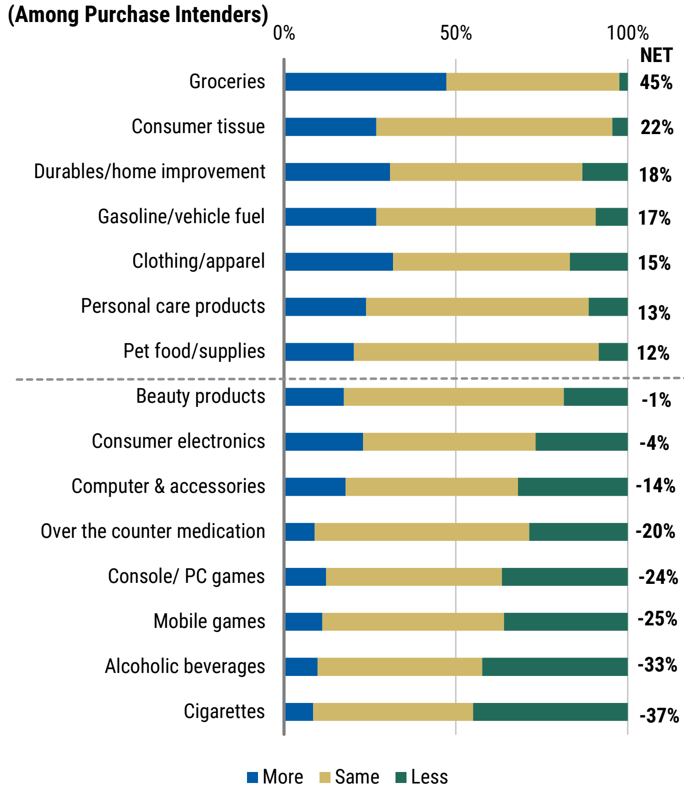
Expected Change in Spending on Goods: Wave 11 Brazil (Among Purchase Intenders)



Source: AlphaWise, Morgan Stanley Research

Exhibit 33: ... which was above Mexico, where the average category-level net purchase intent was -15%

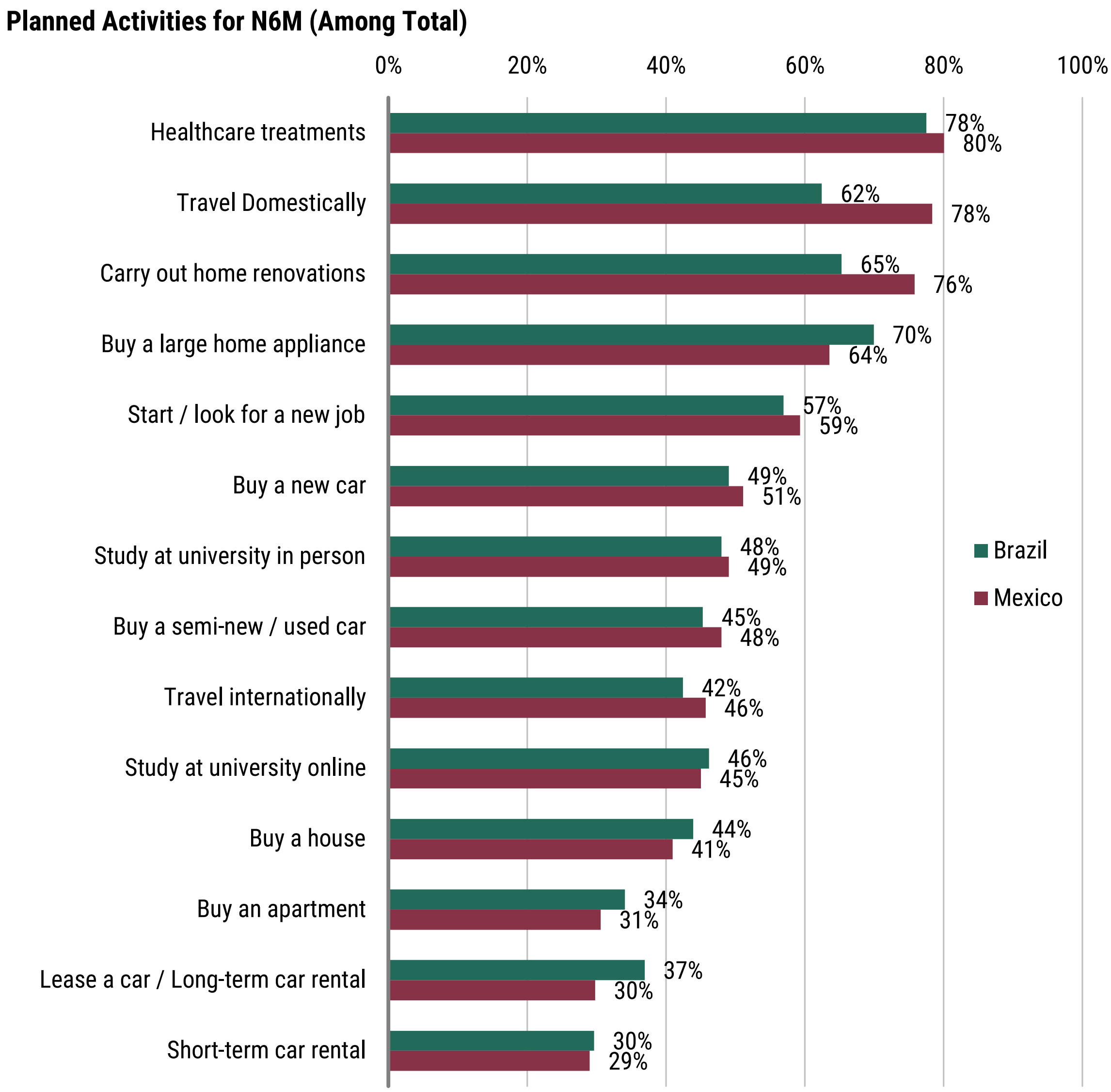
Expected Change in Spending on Goods: Wave 11 Mexico (Among Purchase Intenders)



Source: AlphaWise, Morgan Stanley Research

Pivoting to activities, survey data shows higher intent for areas such as domestic travel and home renovations, and lower intent for international travel and house/apartment purchases. Data summarizing planned activities over the next 6 months for both Brazil and Mexico is included as Exhibit 34 . For both Brazil and Mexico, consumers expressed the highest likelihood to pursue healthcare treatments. Domestic travel, home renovations, and buying home appliances ranked highly as well. Conversely, areas such as international travel, and home/apartment buying ranked lower — which we see as reasonable, given the larger associated commitment with these ares. We additionally note the low intent levels around car leasing and short-term rental; see the Transportation section for implications here. For areas where the countries diverged, we note higher intent for domestic travel in Mexico (78%) than Brazil (62%); consumers in Mexico also expressed higher intent to pursue home renovations (76%) than consumers in Brazil (65%).

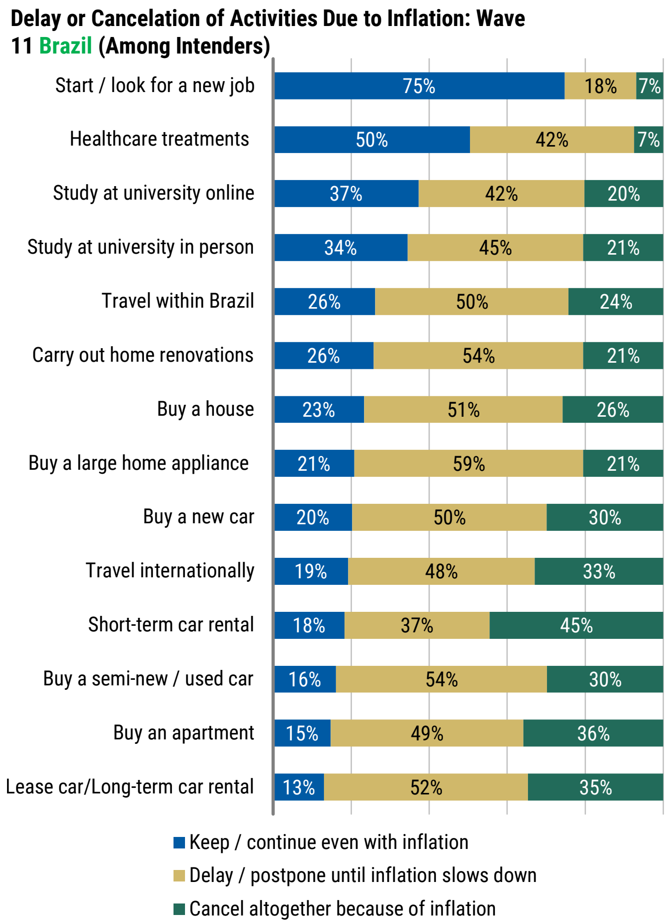
Exhibit 34: Healthcare, domestic travel, and home renovations were among the top planned activities – with consumers in Mexico more likely to pursue these areas than consumers in Brazil



Source: AlphaWise, Morgan Stanley Research

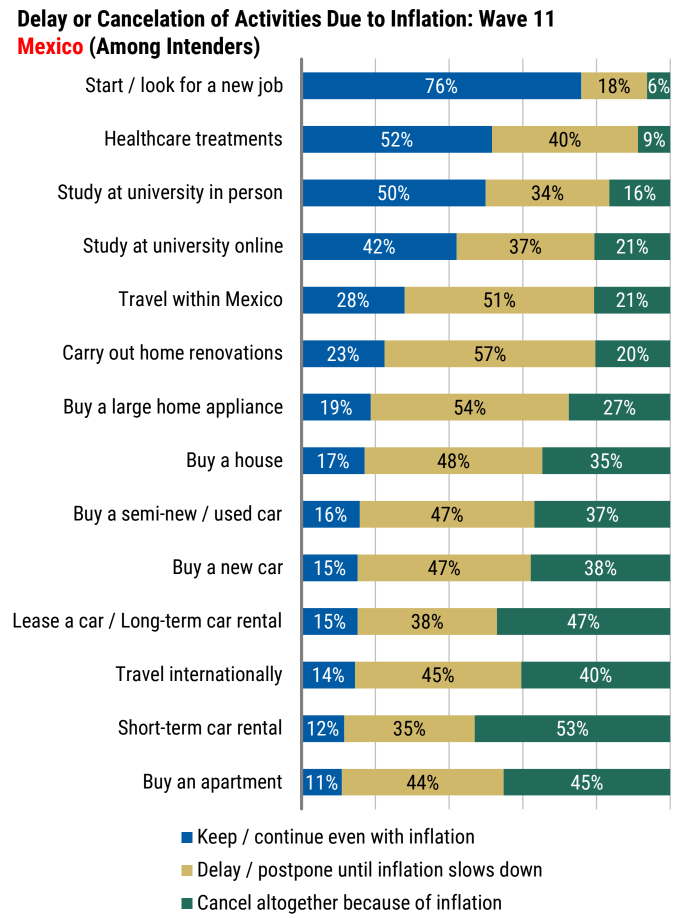
Consumers skewed likely to continue job search, healthcare, and study-related activities even if inflation persists; domestic travel and home improvement may get delayed, while international travel and car-related items had a higher likelihood of cancellation. In Exhibit 35 (Brazil) and Exhibit 36 (Mexico), we show how consumers who intended to pursue activities may change their behavior in the event that inflation persists at current levels. Across both countries, responses were generally similar. Job search (~75%) and healthcare treatments (~50%) had the highest intent to continue, followed by university study (moderately moreso in Mexico). For domestic travel and home-related items (renovations, appliances, homebuying), responses skewed to consumers delay/postponing the activities until inflation slows down — pointing in our view to risk of a near-term spending slowdown, but with pent-up demand longer term. Intent to cancel skewed the highest for car-related items, including buying/leasing/renting, and for international travel; cancellation intent for apartment buying skewed highly as well.

Exhibit 35: Consumers in both Brazil and Mexico expect to continue job, healthcare, and study-related activities even if inflation persists...



Source: AlphaWise, Morgan Stanley Research

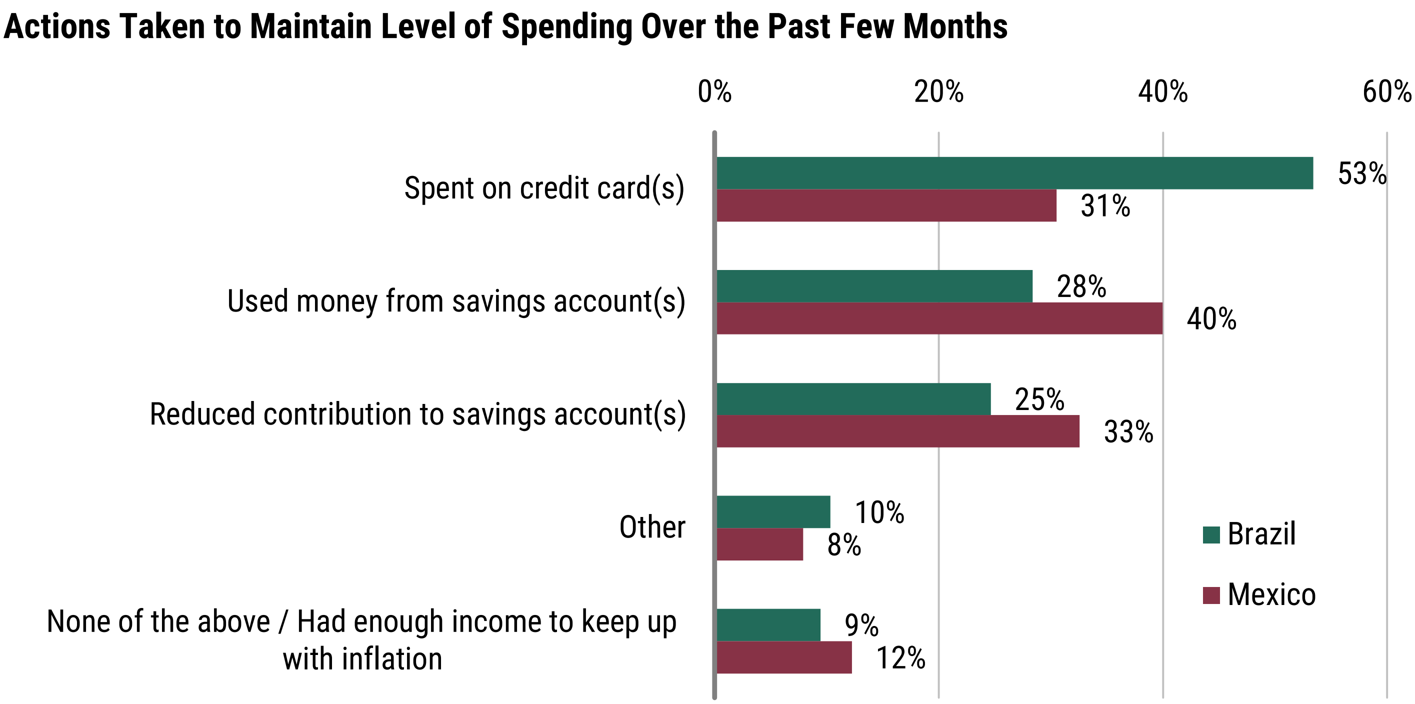
Exhibit 36: ... while international travel and car-related items had a higher likelihood of cancellation



Source: AlphaWise, Morgan Stanley Research

For financial actions to maintain spending in light of inflation, consumers in Brazil were more likely to use credit cards, while consumers in Mexico drew from savings accounts. In this survey wave, for the first time, we asked consumers which actions they took to maintain levels of spending over the past few months; in Exhibit 37 , we show the comparative results for Brazil and Mexico. For Brazil, 53% of respondents cited spending on credit cards, well above the next-highest result (using money from savings accounts) at 28%. Mexico was the reverse, with 40% using money from savings accounts and 33% reducing savings contributions, while 31% reported spending on credit cards. Only 9% of consumers in Brazil and 12% in Mexico cited taking no actions/having enough income to keep up with inflation.

Exhibit 37: To maintain spending in light of inflation, consumers in Brazil skewed more to credit card usage, while consumers in Mexico drew from savings accounts



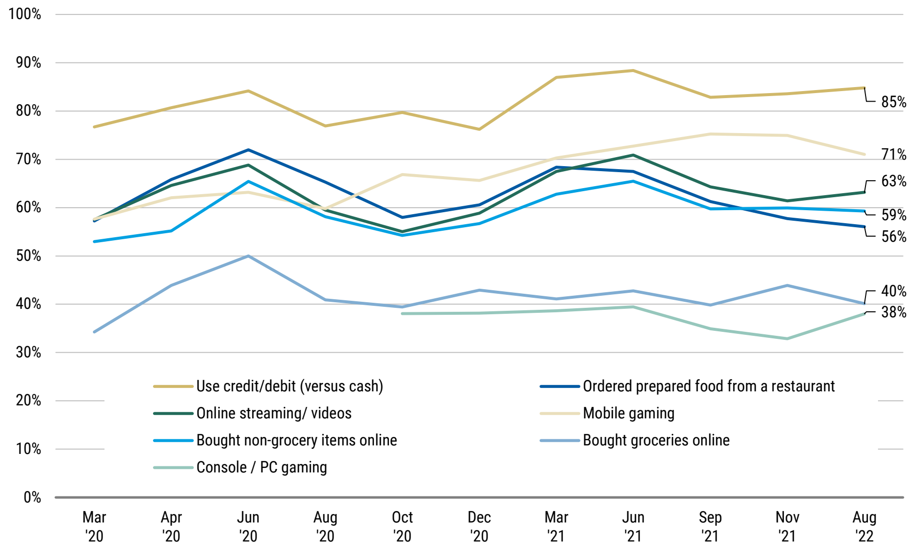
Source: AlphaWise, Morgan Stanley Research

Key Theme #3: The Post-Covid "New Normal"

We see Brazil consumers having settled into a "New Normal" for online behaviors post the peak pandemic period; activity is largely stable versus our last wave, and future engagement intent remains positive. In Exhibit 38 , we show which at-home/online activities consumers in Brazil have participated in over the past month. Our key finding is that across online shopping, mobile gaming, and video streaming, participation remains stable versus our last wave; as such, we see consumers having settled in to these behaviors, with limited sign of reversion as we move past peak pandemic periods. Further, as shown in Exhibit 39 , there are areas of digital behavior where consumers show a positive inflection in next-3-month intent. The net (more vs. less) intent spread for online streaming was 45%, up from 36% in our November 2021 survey, while online grocery net intent increased +5pp (to 38%) and prepared food ordering net intent increased +6pp (to 29%). No category surveyed showed a meaningful sequential decline in net intent.

Exhibit 38: We see Brazil consumers having settled into a normalized behavior rate for online activities post the peak pandemic periods...

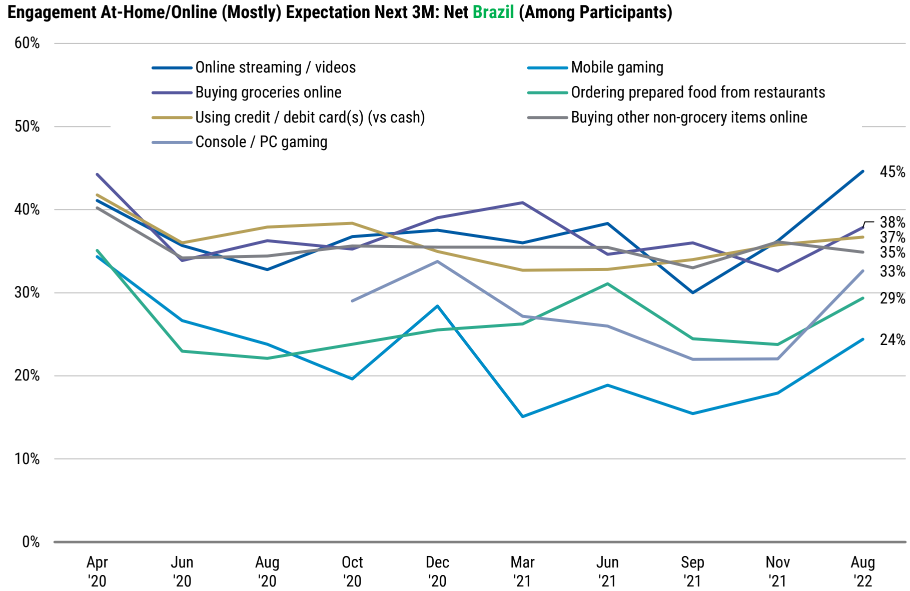
At-Home/Online (Mostly) Activities Done / Participated in Past Month: Brazil (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 39: ... with net engagement expectations broadly continuing to increase, pointing against the risk of reversion for online activities

Engagement At-Home/Online (Mostly) Expectation Next 3M: Net Brazil (Among Participants)

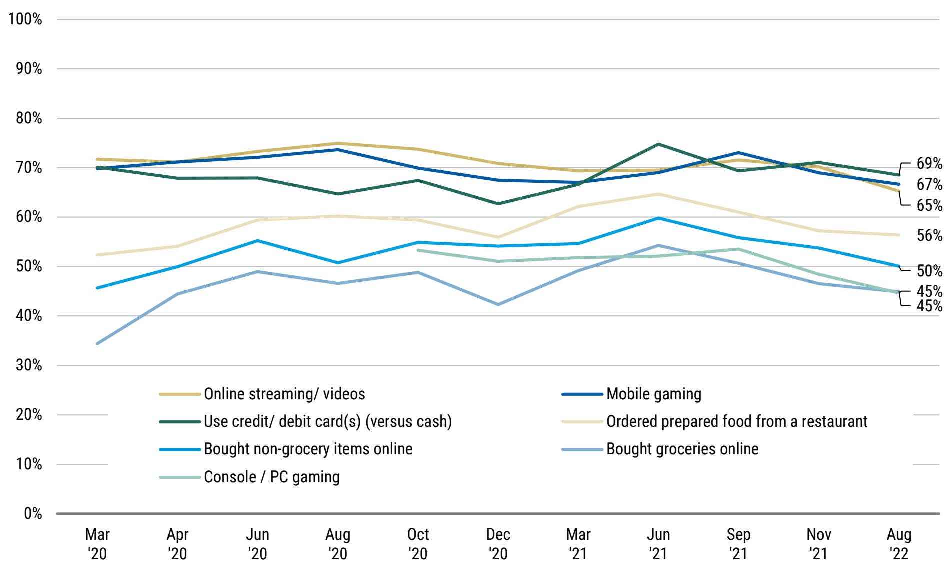


Source: AlphaWise, Morgan Stanley Research

For Mexico, participation in at-home/online activities has largely stabilized as well, but net intent trends are less favorable than in Brazil. As shown in Exhibit 40 , consumers in Mexico reported last-month participation in online activities at largely similar levels to our November 2021 survey. Compared to Brazil, the use of credit/debit cards was lower (69% in Mexico, vs. 85% in Brazil), as was participation in non-grocery online buying (50% in Mexico, vs. 59% in Brazil). However, the sharper difference was around future engagement intent. While more versus less (net) engagement spreads remained positive across activities surveyed, there were sequential decreases in intent for prepared food ordering (12%, vs. 19% in November), mobile gaming (15%, vs. 20% in November), and non-grocery online buying (17%, vs. 23% in November). The still-positive net spreads help to mitigate risk, but we believe the survey data shows a greater potential for a reversion away from online behaviors in Mexico than in Brazil.

Exhibit 40: In Mexico, participation in at-home/online activities remains at similar levels to prior survey waves...

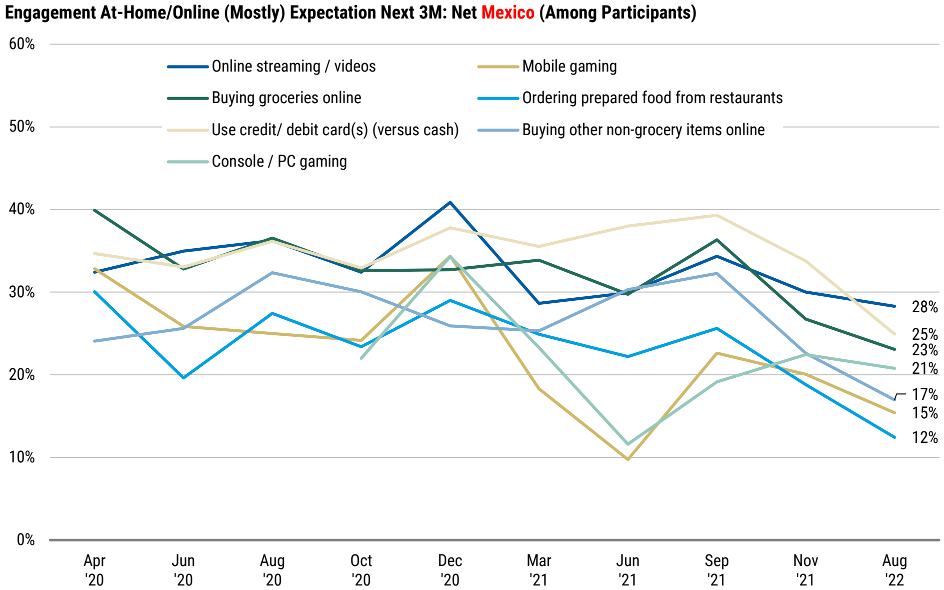
At-Home/Online (Mostly) Activities Done / Participated in Past Month: Mexico (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 41: ... and while net (more vs. less) engagement intent remains positive across activities, the sequential deceleration points to greater risk of reversion from online activities when compared to Brazil

Engagement At-Home/Online (Mostly) Expectation Next 3M: Net Mexico (Among Participants)

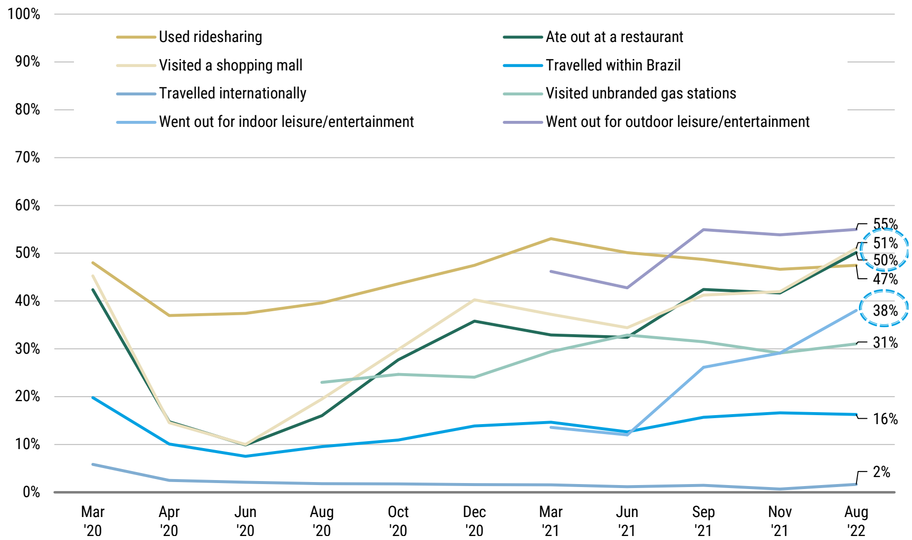


Source: AlphaWise, Morgan Stanley Research

While online behaviors show stability, in-person activities continue to show an upward trajectory in Brazil, led by mall visits, restaurant eating, and indoor entertainment; net intent is largely stable. As shown in Exhibit 42 , 51% of consumers in Brazil reported visiting a mall in the past month, up from 42% in November 2021 and 34% in June 2021. Fifty percent of consumers had eaten at a restaurant in the previous month, similarly up from 42% last November and 32% last June; indoor leisure/entertainment showed an increase as well. Looking to net engagement intent for these activities (Exhibit 43), the more vs. less spreads remain in positive territory, albeit at generally stable levels versus our November 2021 survey. In our view, this points to the reopening effect for indoor activities largely being in the later sages. Looking to travel-related activities, past-month engagement was largely steady (versus the November survey) for both domestic and international travel; however, next three-month intent for international travel led among categories showing a sequential increase.

Exhibit 42: Consumers in Brazil continued to show increases in mall, restaurant, and indoor entertainment activities, largely approaching pre-pandemic levels...

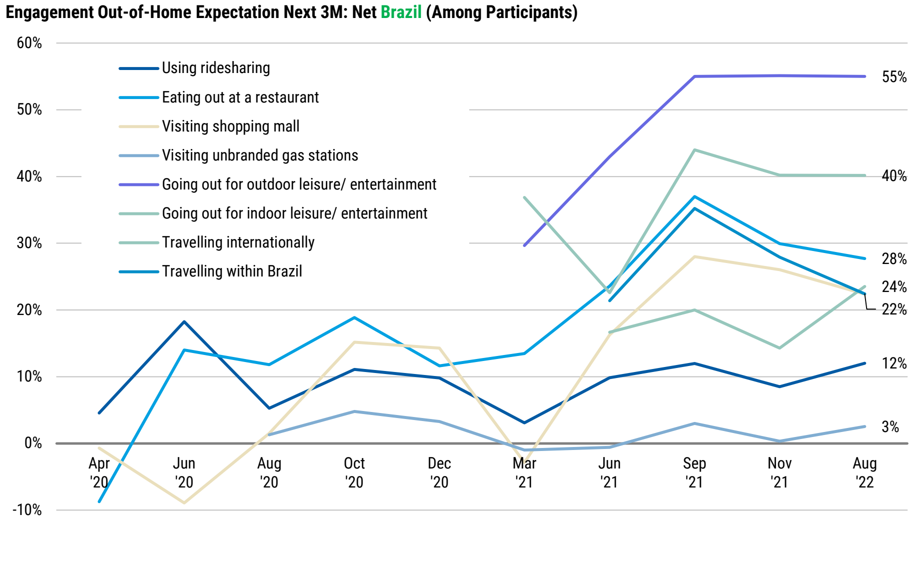
Out-of-Home Activities Done / Participated in Past Month: Brazil (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 43: ... while future net intent trends were more steady versus our November 2021 survey, pointing to the reopening effect for many indoor activities being in the later-stages

Engagement Out-of-Home Expectation Next 3M: Net Brazil (Among Participants)

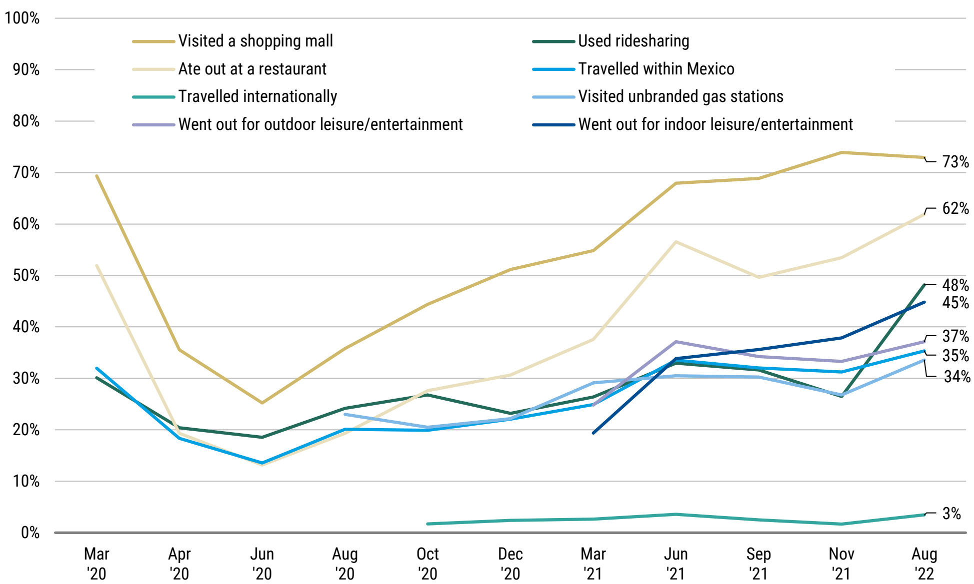


Source: AlphaWise, Morgan Stanley Research

In Mexico, past-month behavior around restaurant visits and indoor entertainment continued to increase, while the mall traffic recovery appears to be in later-stages. For out-of-home activities in Mexico (Exhibit 44), behavior continued to increase for eating out at restaurants (62%, vs 53% in November 2021) and indoor leisure/ entertainment (45%, vs 38% in November 2021). For mall visits, incidence remains higher in Mexico (73%) than Brazil (51%), though with largely stable trends since our June 2021 survey. We also highlight a notable +22pp increase (to 48%) for the proportion of consumers using ride-share over the past month, although this is the only surveyed activity where net (more vs. less) engagement trends (Exhibit 45) were in negative territory. For all other categories, net engagement trends remained in positive territory; we highlight outdoor leisure where engagement intent increased versus our prior survey wave, and international travel where engagement intent sequentially decreased.

Exhibit 44: Consumers in Mexico continue to return to eating out in restaurants and participating in indoor leisure, while the recovery in mall visits appears later-stage

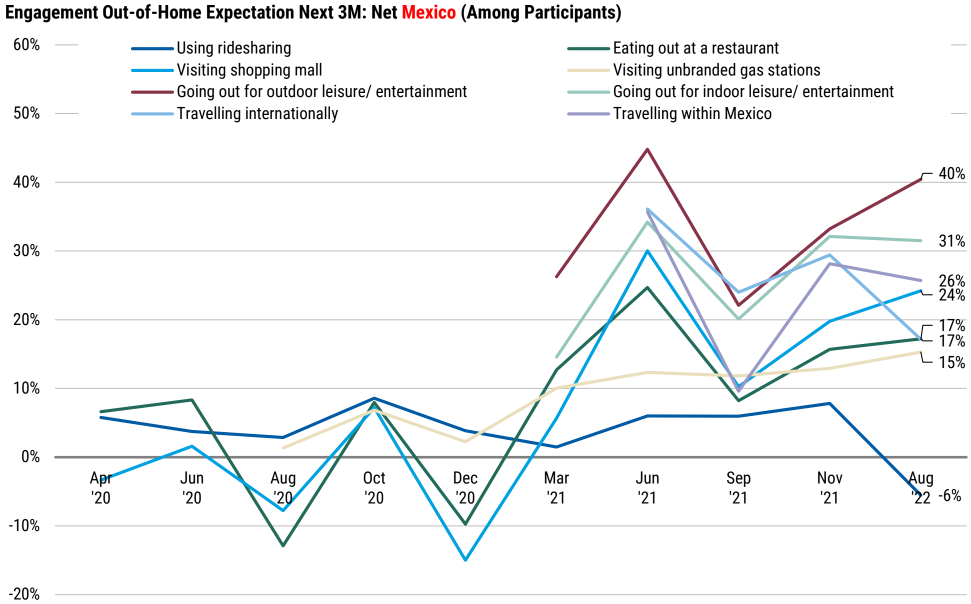
Out-of-Home Activities Done / Participated in Past Month: Mexico (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 45: Net engagement intent remains in positive territory for all categories except rideshare; outdoor leisure leads for future engagement expectations

Engagement Out-of-Home Expectation Next 3M: Net Mexico (Among Participants)



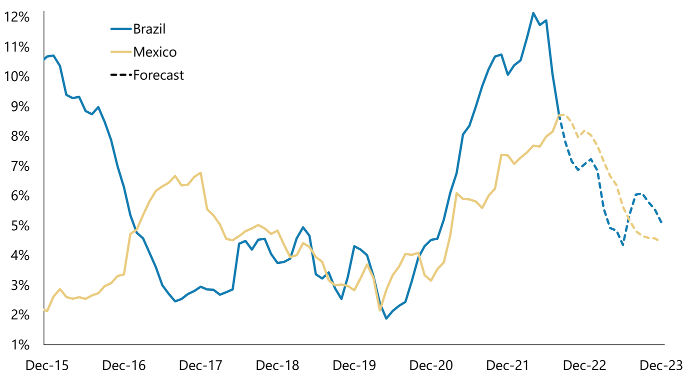
Source: AlphaWise, Morgan Stanley Research

Economics

by André Loes & Fernando Sedano

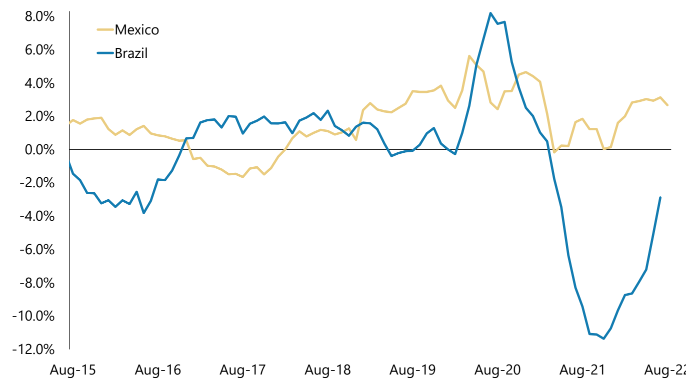
Soft data improvements on consumer sentiment get supported by hard data evidence. The results captured by Wave 11 of our survey were supported by the recent trends observed on hard macroeconomic data. Although inflation is past the peak in Brazil and very close to it in Mexico, its levels remain high and our forecasts suggest disinflation may prove quite gradual (Exhibit 46), with negative impact for real wages (Exhibit 47) and households struggling to cope with rising prices. However, the labor market reacts well employment-wise, and consumption gets a helping hand from exogenous aspects — an increase of government cash transfers to households in Brazil, and the persistence of remittances from workers abroad at quite elevated levels in Mexico. As a result, both countries show solid growth of private consumption in 2022, which will eventually decelerate in 2023 as the lagged effects of monetary tightening reach their maximum (Exhibit 48) and the effects of a global soft patch translate into some additional domestic demand weakness as well.

Exhibit 46: Inflation Data and Forecasts (% y-o-y)



Source: IBGE, INEGI, Morgan Stanley Latam Economics

Exhibit 47: Real Wages (% y-o-y)



Source: IBGE, INEGI, Morgan Stanley Latam Economics

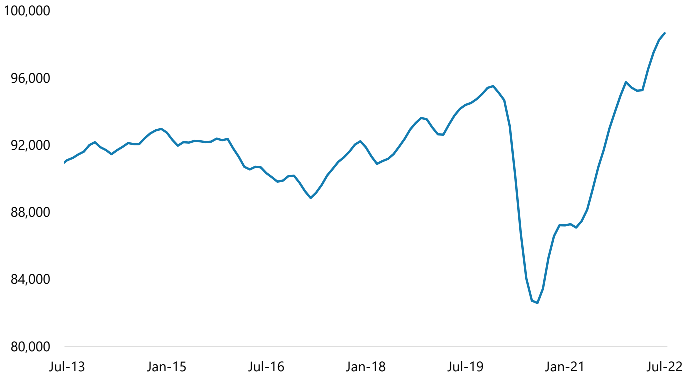
Exhibit 48: GDP and Consumption Growth (% change y-o-y)

	Brazil		Mexico	
	GDP	Private Consumption	GDP	Private Consumption
2019	1.2%	2.6%	-0.2%	0.4%
2020	-3.9%	-5.5%	-8.1%	-10.3%
2021	4.8%	3.8%	4.8%	7.7%
2022E	2.5%	3.1%	2.1%	6.2%
2023E	0.8%	0.8%	1.4%	0.5%

Source: IBGE, INEGI, Morgan Stanley Latam Economics

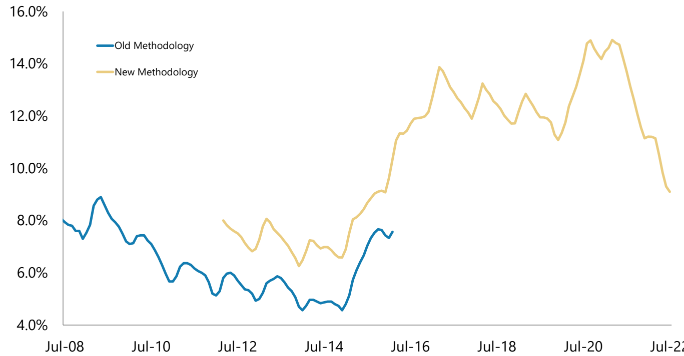
The positive change in consumer prospects since our previous survey proved very strong in Brazil. We believe the main reason for such a positive change is the outstanding performance of employment since the 2H21 (Exhibit 49). While government support during the pandemic period avoided what could have proven an even more dramatic jobs situation, the current recovery of the labor market clearly outpaces what would be an improvement explained by reopening and lower real wages alone. In fact, we suspect the current strength of the labor market may be partially reflecting the early effects of the 2017 labor reform, which introduced more flexible temporary employment regimes and also led to a material reduction of litigation costs for Brazilian companies. The unemployment rate in Brazil reached its lowest since 2015, and our forecasts show an additional small reduction in 2023, bringing it to 9.1%, closer to what seems to be the level compatible with inflation around the BCB's target (Exhibit 50).

Exhibit 49: Brazil: Employed Population (thousands of workers)



Source: IBGE, Morgan Stanley Latam Economics

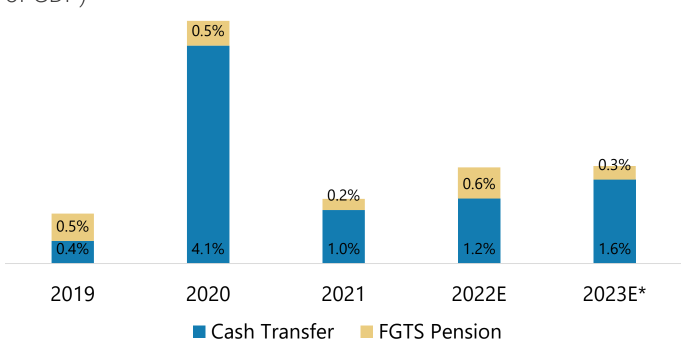
Exhibit 50: Brazil: Unemployment Rate Data (% of Labor Force)



Source: IBGE, INEGI, Morgan Stanley Latam Economics

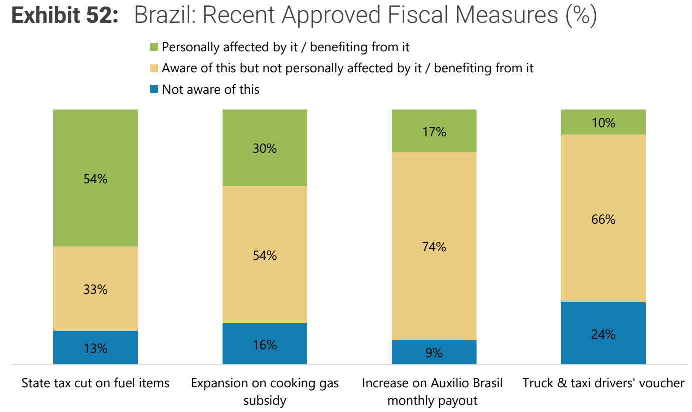
Cash transfers and relief on higher fuel prices to the rescue of labor income. The phasing out of Covid-related cash transfers could have led the Brazilian consumer to fall of a cliff. Yet, the transition from the large stipends during the worst moments of the pandemic's economic shock has been smooth — with the reduction of Covid's emergency income morphing into an enlarged permanent cash transfer program, approved at the end of last year and which had its average stipend temporarily increased during 2H22 (Exhibit 51). The enlarged cash transfer program, together with withdrawals from FGTS pension funds and reduction in taxes and temporary granting of vouchers for cooking gas/gasoline/diesel, all of them recently approved in Congress, represent an important support for household purchasing power. Our survey shows a relevant number of people benefiting from these initiatives (Exhibit 52), even if, for the purposes of the survey, our sample is biased toward higher income consumers (class A-C) when compared to the average of population. Importantly, both leading candidates for the Brazilian presidential elections have affirmed during their respective electoral campaigns that they intend to turn into permanent the recently approved 50% increase in the average stipend of the *Auxílio Brasil* program (see *Brazil Economics, Equity & Fixed Income Strategy: Into the Elections, Mind the Micro (28 Sep 2022)*), sustaining a slight additional increase in the level of cash transfers plus FGTS pension directed to households, vis-à-vis the 2022 amount, as displayed on Exhibit 51 .

Exhibit 51: Brazil: Programs of Cash Transfers to Households (% of GDP)



Source: FGTS, Ministry of Citizenship, Morgan Stanley Latam Economics

Exhibit 52: Brazil: Recent Approved Fiscal Measures (%)

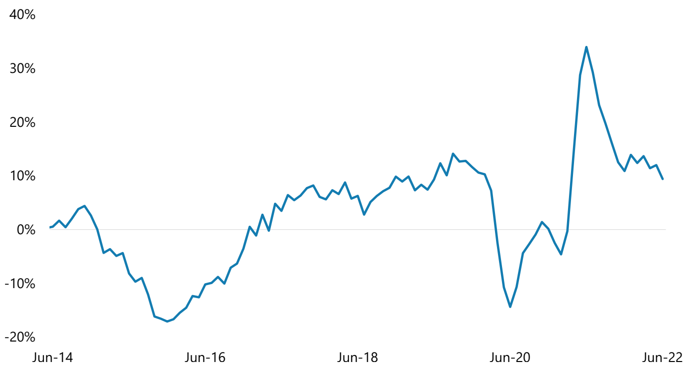


Source: AlphaWise, Morgan Stanley Research

Credit expansion has been more supportive of the consumer than we had expected. With the policy rate up by 1,175 bps in 18 months, we have expected a sharper deceleration of credit origination than what we are seeing (Exhibit 53). Delinquency has shown a more pronounced increase of late (Exhibit 54), and this should be an aspect contributing for further deceleration of credit origination going forward, especially as leverage of households remain at historically high levels.

All in all, Brazil consumption is set to decelerate from the strong growth of the current year, but the combination of gradual disinflation, strength of the labor market and the maintenance of the *Auxílio Brasil* cash transfer program at a higher ticket — which we are assuming here as a probable outcome post-elections — may mitigate a little the lagged impact of higher policy rate. **We remain confident with our 0.8%-forecast for the growth of consumption in 2023, and even see a small upside risk for it.**

Exhibit 53: Brazil: Household Credit Originations (% change YoY)



Source: BCB, Morgan Stanley Latam Economics

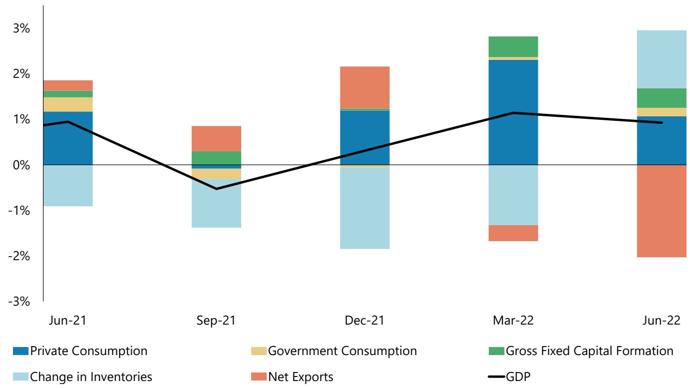
Exhibit 54: Brazil: Household Delinquency Rate (%)

Source: BCB, Morgan Stanley Latam Economics

Consumption in Mexico has been the main growth driver in 1H22. Since late 2021, and after a long downturn, we have spotted green shoots among leading indicators that led us to suggest that investors should not "underestimate consumption". We thought a combination of improved labor markets — due to a lagged reopening — and strong remittances were going to make consumption the largest contributor to growth dynamics.

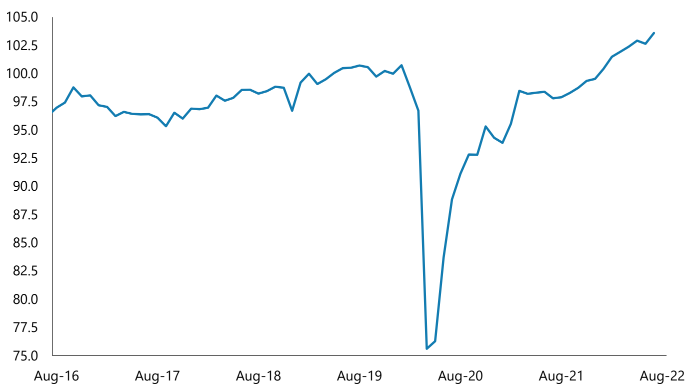
And consumption rebounded swiftly so far this year, partially due to improved labor markets. In 1H22, growth was driven by domestic demand, with consumption, and more recently investment, lifting GDP growth metrics (see Exhibit 55). Other high frequency indicators, including retail sales and the monthly consumption proxy have exceeded pre-Covid levels (see Exhibit 56 and Exhibit 57). The wage mass continued rising as labor markets improved and exceeded pre-Covid levels (see Exhibit 58 and Exhibit 59).

Exhibit 55: Mexico: Contribution Real GDP (% change q-o-q)



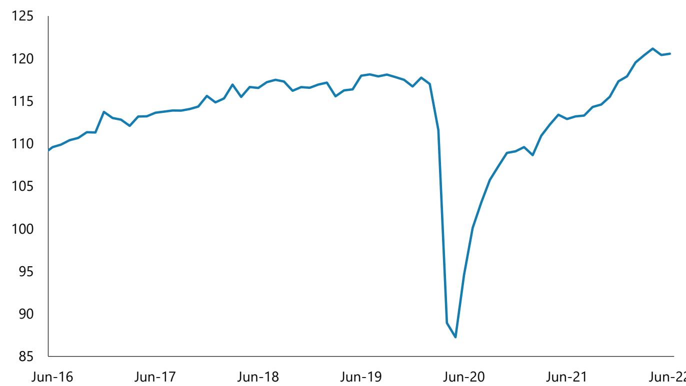
Source: INEGI, Morgan Stanley Latam Economics

Exhibit 56: Mexico: Retail Sales (2013 = 100, seasonally adjusted)



Source: INEGI, Morgan Stanley Latam Economics

Exhibit 57: Mexico: Private Consumption (2013 = 100, seasonally adjusted)

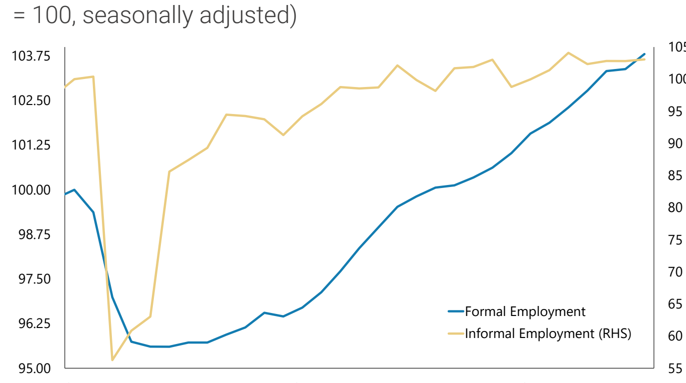


Source: INEGI, Morgan Stanley Latam Economics

Exhibit 58: Mexico: Wage Mass (seasonally adjusted, 3mma)

Source: Morgan Stanley Latam Economics

Exhibit 59: Mexico: Formal & Informal Employment (March 2020 = 100, seasonally adjusted)

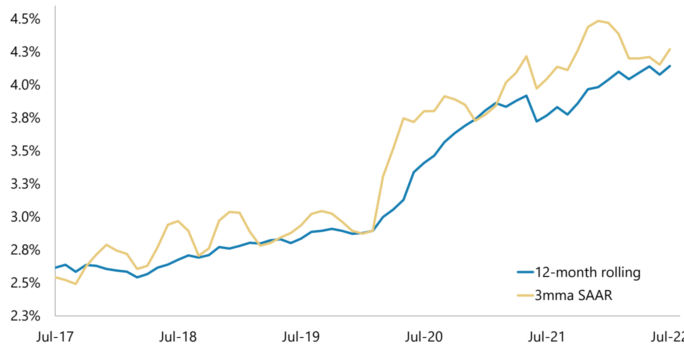


Source: INEGI, Morgan Stanley Latam Economics

Remittances remained strong and will likely reach a new record-high this year, also lifting consumption (see Exhibit 60). At roughly 4% of GDP, remittances have far exceeded pre-Covid levels, in what seems to be an structural change, in our view. A recent IMF publication suggests that some 10% of Mexico's population live in the US. The link between remittances and consumption is portrayed in our survey, with roughly half of respondents saying they use remittances for everyday expenses. Also worth highlighting that although 66% of respondents receiving remittances say that those represent up to a quarter of the household income, a solid 23% suggests remittances are the equivalent of 25-50% of their household income.

In line with some cautiousness seen in the survey, we expect consumption in Mexico to decelerate in 2H22. Marginal improvements in labor markets will become harder and a US downturn will remain a dark cloud hanging in the horizon, keeping consumers cautious. If our US economics team is right and the chances of a soft landing in the US are diminishing amid tighter monetary policy, then Mexican exports — and to a lesser extent remittances — might also suffer (see US Economics: "Running in Place," September 23, 2022). Based on the survey, it seems like most of the weakness in consumption will be seen in durables like computers and electronic equipment. Sort of a double whammy for employment in the sector as US consumers are also expected to cut back on durable goods, according to our US colleagues.

Exhibit 60: Mexico: Remittances (as % of GDP)



Source: Banxico, Morgan Stanley Latam Economics

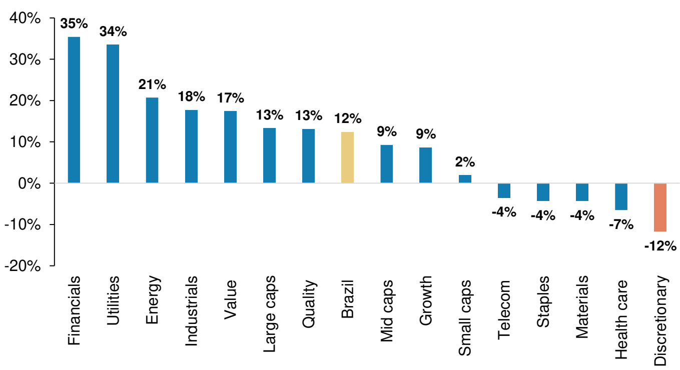
Equity Strategy

by Guilherme Paiva, Nikolaj Lippmann, Juan Ayala & Julia Leão

Year-to-date, Brazilian consumer discretionary stocks have underperformed the country benchmark as a high Misery index (inflation plus unemployment rate) has squeezed the purchasing power of low and mid-income households. For instance, the MSCI Brazil Consumer Discretionary benchmark is down -12% in US dollar terms, materially below the +12% return posted by the overall country benchmark during 2022.

Exhibit 61: Year-to-date, Brazilian consumer discretionary stocks have underperformed the country benchmark...

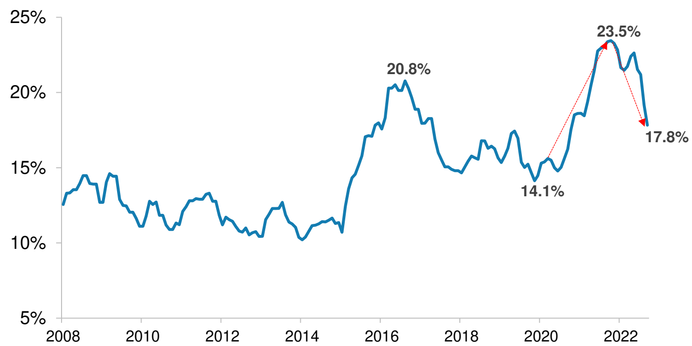
MSCI Brazil sectors, style and size: Year-to-date USD performance



Source: Bloomberg and Morgan Stanley Research

Exhibit 62: ... as high inflation and unemployment rates have squeezed the purchasing power of low and mid-income households

Brazil Misery Index (CPI + Unemployment)



Source: Bloomberg and Morgan Stanley Research

In our recently published Brazil Model Portfolio, and in-line with our Marketing Feedback and Pre-election notes, we increased our exposure to consumer-oriented stocks, especially retailers (i.e., 350bp overweight vs IBX-50 benchmark), and real estate companies (+250bp), as they should benefit from stronger economic growth underpinned by: a) lower inflation (1- & 2-year break-evens -200/-300bp from Q2 peak), b) solid job creation (+265k monthly average over past 4 months), c) lower rates (yield curve inverted from February 2023) and d) incremental cash transfers to middle- and low- income households by the soon-to-be elected government. *We play the domestic growth and lower interest rates theme through: 1) Itau, 2) Iguatemi, 3) Cyrela, 4) Americanas, 5) Magazine Luiza, 6) BTG Pactual, 7) Localiza, 8) Assai and 9) B3.*

Going forward, we see three elements that make us more constructive on the outlook for consumer oriented names:

1. *Inflation break-evens appear to have peaked in Q2, which should be a positive tailwind for household consumption*. For instance, our Misery index, which is the combination of local inflation plus the unemployment rate, has declined 570bp from its high in 4Q21, and is now just 370bp above pre-pandemic levels. Moreover, as evidence in our AlphaWise Brazil & Mexico Survey Takeaways, while inflation concerns remain on the rise in Brazil, views around job loss and debt repayment had a favorable trajectory. In addition, financial outlook for households remains constructive in the country supported by positive momentum around employment trends;
2. *The Brazilian Central Bank decision to keep rates unchanged at 13.75% in its last meeting*, and our expectation of a new monetary easing cycle to start in 2023 if the country's fiscal anchor remains in place after the election should serve as a positive catalyst for the group;
3. *Consumer oriented stocks, especially retailers but also real estate companies, could do well under a newly elected government*, as these companies should benefit from incremental cash transfers to middle and low income households.

In addition, we should note the consumer discretionary group has started to perform better post the Brazil Central Bank meeting in August, when policy makers signalled the tightening cycle could be close to an end. For instance, a group of consumer discretionary stocks from the local Bovespa index is up 33% in US dollars (market cap weighted) since August. **Moreover, our MS Brazilian universe of consumer discretionary names currently trade at a low 6.7x forward MS EV/EBITDA or close to -1.0 standard deviation below its 14-year historical average of 11.5x.**

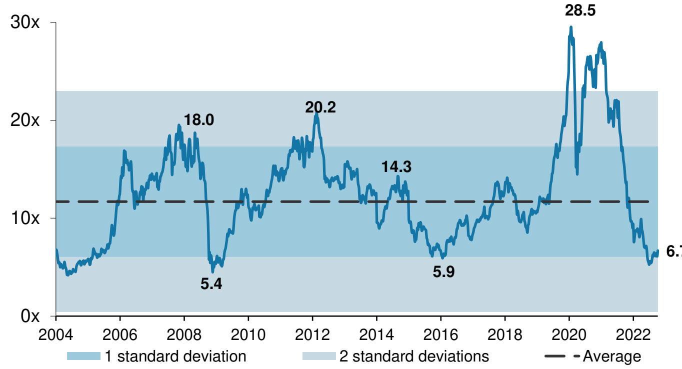
Exhibit 63: The consumer discretionary group has started to perform better post BCB meeting in August (+33% in USD)

Ibovespa consumer discretionary group (ytd perf, USD)

Source: Bloomberg and Morgan Stanley Research

Exhibit 64: MS Brazil consumer discretionary names currently trade at a low 6.7x fwd EV/EBITDA (-1.0 S.D.)

Consumer Discretionary 12-month forward looking EV/EBITDA



Source: Bloomberg and Morgan Stanley Research

Altogether, progressing into retailers and homebuilders, is the natural path in our portfolio – particularly as the post election Brazilian Congress composition seems to be tilted towards center/right parties, which should lead towards a moderate legislative agenda. In the table below we provide a valuation snapshot to the consumer discretionary set of stocks in Brazil.

Exhibit 65: Brazil consumer discretionary valuation table

Ticker	Company	Sub-sector	Rating	Price	Mkt Cap (USDm)	P/E 2022e	P/E 2023e	P/BV 2022e
AFYA.O	Afya	Education	EW	14.24	1,371	13.9	11.9	2.2
AMER3.SA	Americanas	Retail	OW	18.23	3,170	nm	37.7	1.1
ANIM3.SA	Anima	Education	EW	6.02	470	nm	nm	1.0
ARCE.O	Arco	Education	OW	11.50	654	30.8	13.1	1.8
ARCO.N	Arcos Dorados	Bev. & Food	OW	7.66	1,614	15.0	12.1	5.3
BRML3.SA	BRMalls	Real estate	EW	9.89	1,727	28.4	17.7	0.8
CEAB3.SA	C&A Modas	Retail	EW	3.47	206	nm	nm	0.4
COGN3.SA	Cogna	Education	UW	2.93	1,067	nm	41.8	0.4
CSED3.SA	Cruzeiro do Sul	Education	OW	4.85	358	29.8	12.5	1.3
CYRE3.SA	Cyrela	Real estate	OW	20.03	1,549	10.4	8.2	1.2
HAPV3.SA	Hapvida	Health care	OW	8.04	11,110	45.8	35.4	5.0
IGTI11.SA	Iguatemi	Real estate	OW	21.67	1,260	29.0	23.9	1.9
LAUR.O	Laureate	Education	OW	10.55	1,706	11.9	9.6	1.7
LREN3.SA	L. Renner	Retail	UW	30.12	5,711	22.6	19.6	3.0
MGLU3.SA	Magazine Luiza	Retail	EW	4.91	6,396	nm	nm	3.1
CASH3.SA	Meliuz	Retail	EW	1.22	204	nm	nm	1.4
MBLY3.SA	Mobly	Retail	EW	2.75	57	nm	nm	0.5
MRVE3.SA	MRV	Real estate	EW	12.70	1,248	29.4	17.6	1.1
MULT3.SA	Multiplan	Real estate	OW	25.80	2,999	23.6	18.2	2.4
PETZ3.SA	Petz	Retail	EW	10.81	965	58.0	32.5	2.8
PLPL3.SA	Plano & Plano	Real estate	EW	4.34	172	9.2	8.5	2.3
SEER3.SA	Ser Educacional	Education	UW	7.45	185	nm	6.6	0.7
SMFT3.SA	SmartFit	Retail	OW	16.12	1,905	nm	25.8	1.9
SYNE3.SA	SYN	Real estate	EW	4.89	158	18.0	19.4	0.5
VSTA.O	Vasta	Education	OW	5.47	470	52.6	15.1	0.5
VIIA3.SA	Via	Retail	UW	3.54	1,082	nm	nm	1.1
VTRU.O	Vitru	Education	OW	20.80	635	31.8	11.3	2.0
YDUQ3.SA	Yduqs	Education	OW	14.22	850	nm	23.6	1.5
C. Discretionary					**49,299**	**47.0**	**23.9**	**1.8**

Source: Bloomberg and Morgan Stanley Research

Meanwhile, in Mexico, we continue to be defensively positioned and our Model Portfolio for the country remains centered around 3 key themes: 1) the US link, 2) structural growth drivers such as near-shoring trends and the transition toward online (including eCommerce), and 3) self-help stories. Our AlphaWise survey provides additional support to our more cautious stance toward the Mexican consumer, as inflation and debt repayment concerns increased by a greater degree than in Brazil.

Retail & eCommerce

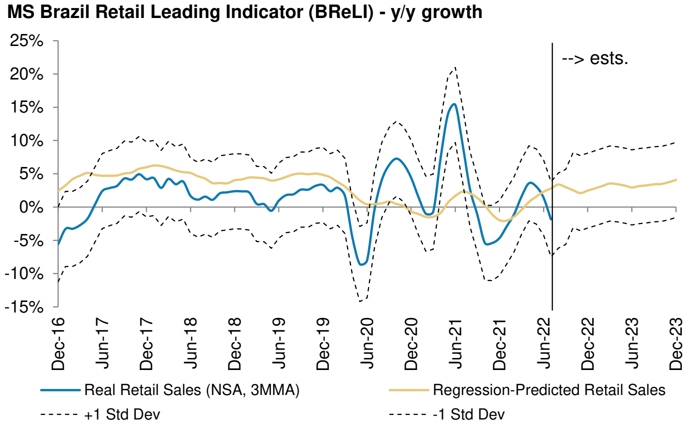
by Andrew Ruben & Alexandre Namioka

BReLI Points to Further Retail Improvement

We see the Brazil Retail backdrop normalizing following a volatile retail sales environment particularly in 2020/2021; with this setup, we re-visit our Brazil Retail Leading Indicator (BReLI). As another tool to gauge the outlook for the Brazil consumer, we update BReLI — a linear regression with five variables that show high correlation to the IBGE official Retail Sales index. As detailed in our 2020 BReLI note, factors in our model include employment growth, real wage growth, interest rate (SELIC), foreign exchange rate (BRL/USD) variation, and consumer confidence growth. For 2020-22, the performance of our model has been negatively impacted by Covid-related disruption (including store closures and government aid), followed by the impact of lapping these items. For instance, retail sales underperformed BReLI's regression by ~8pp in 2Q20 due store closures, before reverting to ~5pp outperformance in 2H20 due to consumer stimulus; lapping these periods, retail sales outperformed BReLI in 1H21 but underperformed in 2H21 (Exhibit 66). Year-to-date in 2022, as the retail operating backdrop further normalized, the actual-vs-model gap further narrowed; 1Q22 retail sales outperformed BReLI by ~2pp and 2Q22 underperformed our model by ~1pp. When looking to trends in 4-year growth, normalizing for pandemic-related disruption, we note a higher adherence between our model and retail sales trends (Exhibit 67).

Exhibit 66: BReLI points to improving retail sales trends into 2023; while pandemic-related impacts weighed on model performance in '20/'21, we have now moved past the peak periods of retail industry disruption...

MS Brazil Retail Leading Indicator (BReLI) - y/y growth

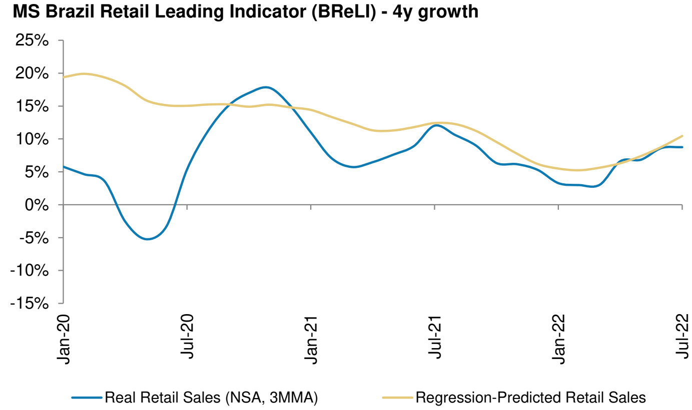


Note: *The Brazil Retail Leading Indicator (BReLI) is a proprietary model developed by the LatAm Retail & eCommerce team and should not be deemed to represent the LatAm Macroeconomics team's views.*

Source: IBGE, Brazilian Central Bank, Fecomercio-SP, Morgan Stanley Research

Exhibit 67: ... and we note that despite the y/y impact of pandemic factors and associated comparisons, on a more normalized four-year growth basis we see retail sales trends closer to our BReLI regression

MS Brazil Retail Leading Indicator (BReLI) - 4y growth



Note: *The Brazil Retail Leading Indicator (BReLI) is a proprietary model developed by the LatAm Retail & eCommerce team and should not be deemed to represent the LatAm Macroeconomics team's views.*

Source: IBGE, Brazilian Central Bank, Fecomercio-SP, Morgan Stanley Research

Looking forward, BReLI points to an improving backdrop, with real retail sales growth forecast to accelerate to +3.5% for 2023E, above the +1.8% tracking for 2022E and the ~2% realized level in 2017-21. Our model points to a slightly upward sales growth trajectory for retail sales, driven by our economists' forecasts for employment growth remaining in positive territory, for wage growth reversing from negative in 2022 to slightly positive in 2023, and for an improvement in consumer confidence. Conversely, a relatively high Selic rate in 2023 will continue to serve as a downward weight for model-predicted retail sales. The resulting output is a blended 2023E real retail sales growth rate of +3.5%, vs. +1.8% in 2022E; notably, the +3.5% level would mark the highest real retail sales growth level since 2013. A summary of model input factors and retail sales growth trends is included as Exhibit 68 .

Exhibit 68: IBGE Retail Sales Growth vs. Macro Drivers

	SELIC Rate (Avg.)	FX Rate Y/Y Change (Avg.)	Emp. Popul. Growth (Avg.)	Real Wage Growth (Avg.)	Cons. Conf. Y/Y (Avg.)	Real Retail Growth (NSA)	Regression-Pred. Growth
2004	16.4%	-4.9%	2.9%	-1.2%	15.9%	9.2%	2.9%
2005	19.1%	-16.8%	2.7%	1.6%	5.5%	4.8%	5.5%
2006	15.1%	-10.6%	2.0%	4.0%	3.1%	6.2%	7.5%
2007	12.0%	-10.5%	2.7%	3.2%	-1.1%	9.7%	7.7%
2008	12.5%	-5.8%	3.5%	3.4%	6.9%	9.4%	7.9%
2009	9.9%	8.9%	0.9%	3.2%	0.9%	5.7%	5.0%
2010	10.0%	-11.9%	3.6%	3.7%	13.8%	11.0%	9.6%
2011	11.8%	-4.8%	2.1%	2.7%	-2.1%	6.7%	6.3%
2012	8.5%	16.7%	2.2%	4.1%	3.5%	8.6%	6.4%
2013	8.4%	10.4%	1.6%	3.0%	-9.7%	4.2%	5.2%
2014	11.0%	9.1%	1.4%	2.0%	-19.2%	2.4%	3.4%
2015	13.6%	41.6%	0.1%	-0.8%	-20.1%	-4.2%	-3.6%
2016	14.2%	4.8%	-1.9%	-2.2%	6.2%	-6.2%	-1.8%
2017	9.9%	-8.5%	-0.1%	1.6%	7.4%	2.0%	5.1%
2018	6.6%	14.5%	1.8%	1.6%	6.8%	2.3%	4.7%
2019	6.0%	8.0%	2.1%	0.6%	6.3%	1.8%	4.6%
2020	2.8%	30.7%	-6.8%	4.2%	-6.9%	1.1%	0.9%
2021	4.8%	4.6%	3.7%	-5.8%	0.6%	2.2%	-0.1%
2022E	12.7%	-3.6%	7.8%	-5.2%	-3.8%	1.4%	1.8%
2023E	13.1%	2.8%	2.0%	0.3%	10.1%	3.5%	3.5%

Note: *The Brazil Retail Leading Indicator (BReLI) is a proprietary model developed by the LatAm Retail & eCommerce team and should not be deemed to represent the LatAm Macroeconomics team's views.*

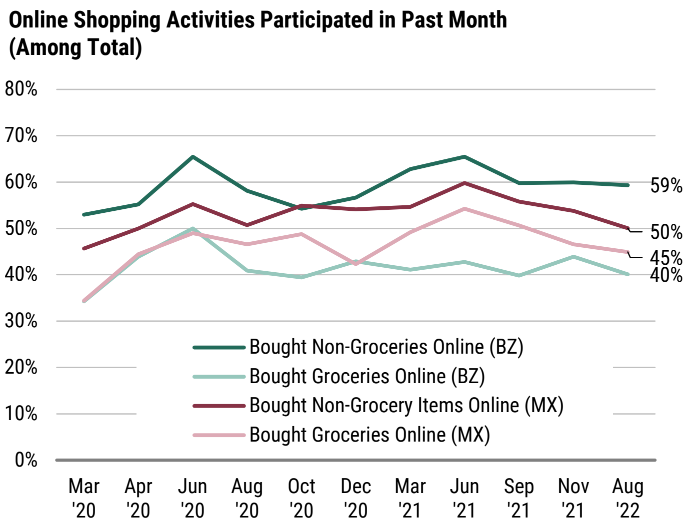
Source: IBGE, Brazilian Central Bank, Fecomercio-SP, Morgan Stanley Research

Survey Takeaways for Brazil/Mexico Retail & eCommerce

Online vs. In-Store Behavior

AlphaWise survey data points to online spend remaining resilient, even in a normalized backdrop where consumers are returning to in-store shopping. Looking to the proportion of Brazil & Mexico consumers who have shopped online over the past month (Exhibit 69), participation for both grocery and non-grocery buying has been largely stable through our survey time series. We view this resilience as notable amid a backdrop where visits to the mall continue to normalize. As shown in Exhibit 70 , 51% of consumers in Brazil reported visiting a shopping mall over the past month, up from our November 2021 survey and marking a new high in our time series. In Mexico, participation was higher (at 73%), with past-month visit rates having largely normalized as of mid-2021.

Exhibit 69: We see Brazil and Mexico consumers largely continuing their online purchase behaviors...



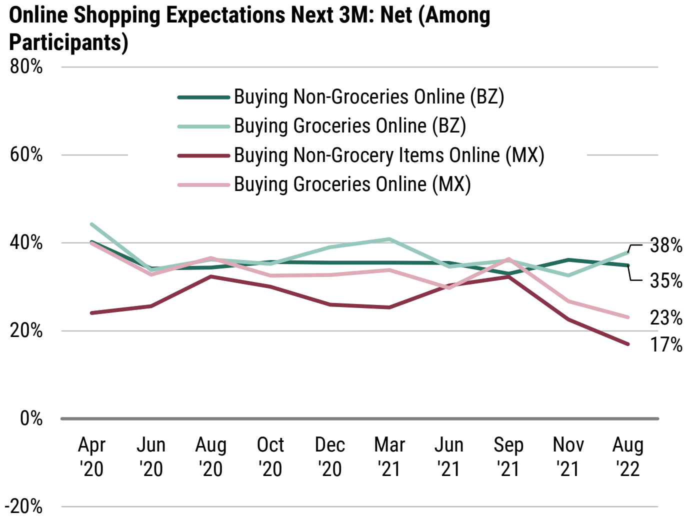
Source: AlphaWise, Morgan Stanley Research

Exhibit 70: ... despite a retail backdrop where consumers are back to shopping in malls

Source: AlphaWise, Morgan Stanley Research

Looking out the next 3 months, consumers expect to increase their shopping activities both online and in-store; Brazil leads Mexico for online intent. We track the net spreads between consumers who expect to perform more versus less of an activity over the next 3 months, with online shopping in Exhibit 71 and mall visits in Exhibit 72 . The positive net spreads of more vs less for both sets of activities aligns with our view that consumers remain optimistic despite inflation. For online shopping behavior in particular, we note more positive trends in Brazil than Mexico. In Brazil, a net 38% of consumers expect to buy more grocery items online, with 35% for non-grocery; both of these figures were largely in-line with prior waves. In Mexico, the net intent is lower, at 17% for non-grocery and 23% for grocery, both marking lower net intent versus our November 2021 survey. However, unlike in-store shopping which faced meaningful disruption during peak Covid periods, the online shopping intent comes following an already positive period for eCommerce demand.

Exhibit 71: Net intent for online shopping remains positive in both Brazil and Mexico, while Brazil intent was stable versus our last survey and Mexico decelerated



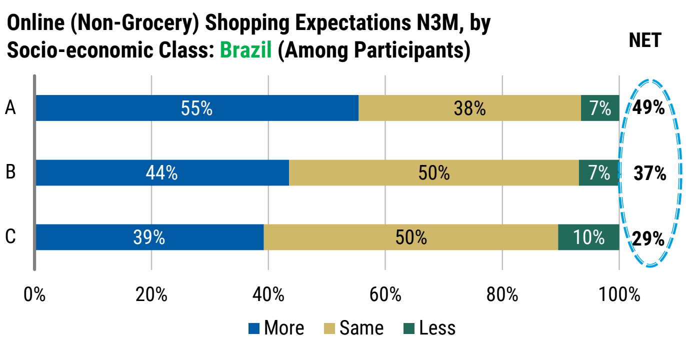
Source: AlphaWise, Morgan Stanley Research

Exhibit 72: Mall visit intent remained in positive territory as well, supporting a setup for resilient consumption both in-store and online

Source: AlphaWise, Morgan Stanley Research

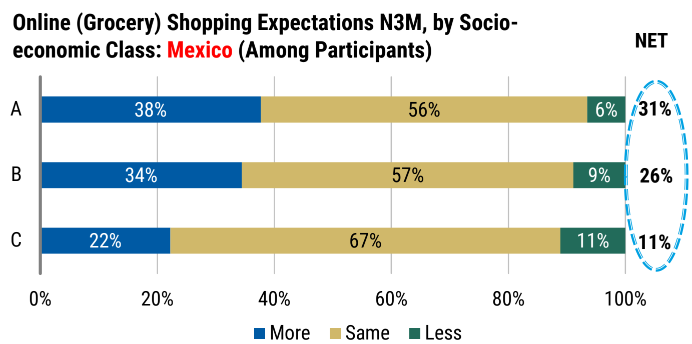
With Class A consumers (an important eCommerce cohort) leading for online shopping intent, we see further support for industry growth. In Exhibit 73 and Exhibit 74 we break down online shopping intent by socioeconomic class, showing non-grocery trends for Brazil and grocery for Mexico. In both cases, we see the highest more versus less net shopping expectations for consumers in socioeconomic class A. For Brazil, 55% of Class A consumers expect to shop more for non-grocery items online over the next three months, versus only 7% expecting to shop less; this +49% net spread is above Class B at 37% and Class C at 29%. While the consumer base is broadening, we see Class A consumers as an important cohort for the eCommerce market; as such, we see survey results further supporting our constructive online growth outlook.

Exhibit 73: Consumers in socio-economic Class A lead for net purchase intent of non-groceries online in Brazil...



Source: AlphaWise, Morgan Stanley Research

Exhibit 74: ... with similar trends for online grocery shopping in Mexico



Source: AlphaWise, Morgan Stanley Research

Retail Category Trends

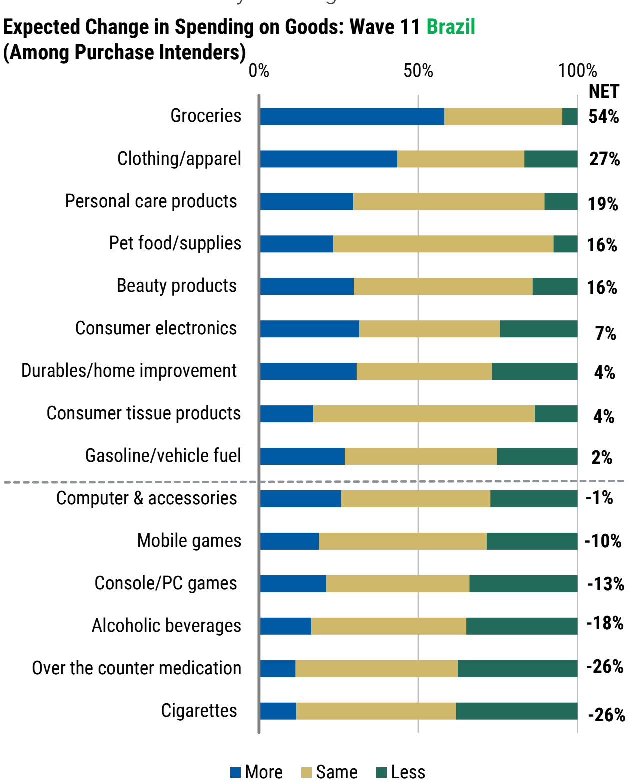
Across goods categories broadly, consumers in Brazil show higher net (more versus less) purchase intent than consumers in Mexico. These results are detailed in the section AlphaWise Brazil & Mexico Survey Takeaways, with summary charts copied as Exhibit 75 for Brazil and Exhibit 76 for Mexico. **We provide stock implications based on category spending trends:**

- ***Brazil Broadlines:* Pockets of top-down and category-level optimism.** *Americanas (AMER3.SA), Magazine Luiza (MGLU3.SA), and Via (VIIA3.SA)* — For Brazil Broadline retailers, selling electronics, furniture, and assorted hard goods, we see survey results as constructive for the direction of overall consumer health in Brazil. While consumers still showed a negative net (more vs less) purchase intent for console/PC games (-13%) and computers/accessories (-1%), intent for consumer electronics was notably positive, at +7%.

With a physical store model that further reaches into staples categories which screen well for net purchase intent, Americanas becomes our preferred play for exposure in the sector.

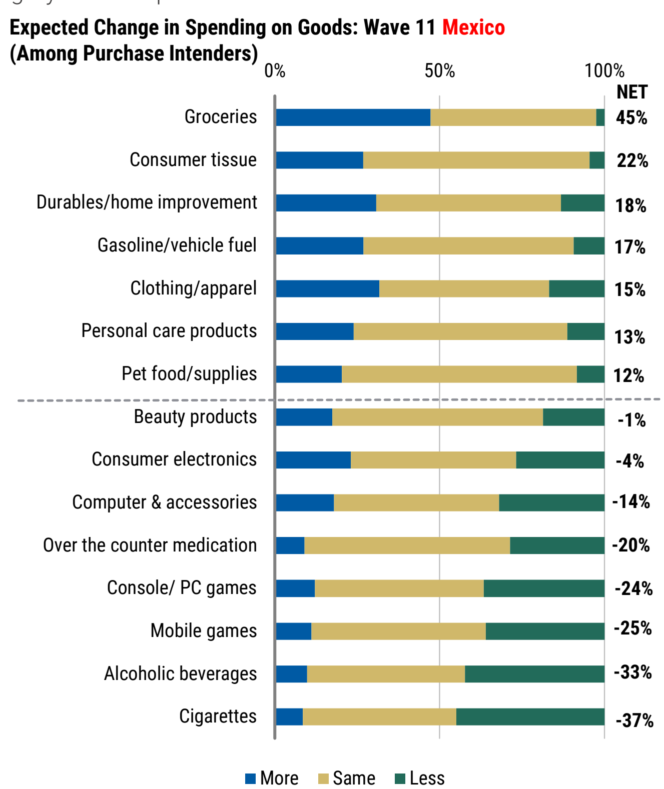
- ***Brazil Apparel:* Constructive net intent suggests reopening momentum could continue.** *Lojas Renner (LREN3.SA) and C&A (CEAB3.SA)* — Forty-four percent of consumers in Brazil expect to spend more on apparel over the next three months, versus only 17% expecting to spend less, for a net +27pp spread coming in only behind grocery. This marks a positive surprise, versus our expectation and recent management commentary suggesting apparel sales could revert following a 2Q22 peak. While margin concerns on digital transformation costs keep us from having any OW-rated calls within Brazil apparel, continued sales momentum reflects an upside risk to our forecasts.
- ***Brazil Grocery:* Leading for net spending change, likely tied to consumers' views on inflation.** *Assai (ASAI3.SA), Carrefour Brasil (CRFB3.SA), and CBD (PCAR3.SA)* — Over the next 3 months, 58% of Brazil consumers expect to spend more on groceries, versus only 5% expecting to spend less. In our view, this likely reflects consumers' views that food inflation will continue. We see food retailers, led by Cash & Carry operators Assai and Carrefour Brazil, as well-positioned regardless of the pricing backdrop — due to an inflation pass-through model and a low-price focus (supporting trade down to the channel).
- ***Mexico Grocery:* Continued resilience, similar to Brazil.** *Walmex (WALMEX.MX)* — Similar to the trends in Brazil, groceries led for net purchase intent in Mexico, while with a +45% net spread modestly smaller than Brazil's +54%. We continue to see Walmex as a defensive operator with a highly consistent earnings growth algorithm.
- ***Mexico Department Stores:* Apparel intent lower in Mexico than in Brazil.** *Liverpool (LIVEPOLC1.MX)* — While apparel in Brazil had a +27% more vs less net intent spread, the figure in Mexico was lower at +15%. Coupled with more muted top-down survey results for discretionary spending within the Mexico consumer, we continue to remain cautious on the outlook for Liverpool.
- **LatAm Beauty & Personal Care: Positive net intent in Brazil, but an even more-vs.-less spread in Mexico.** *Natura (NTCO3.SA)* — Beauty products in Brazil had a +16% more vs less net spread for purchase intent. However in Mexico, only 17% of consumers expect to spend more on the category over the next 3 months, versus 19% expecting to spend less. We see this as a mixed read for Natura, with beauty showing some resilience but less-so than pure staples categories.

Exhibit 75: In Brazil, average net (more versus less) spend intent across 15 surveyed categories was +4%...



Source: AlphaWise, Morgan Stanley Research

Exhibit 76: ... which was above Mexico, where the average category-level net purchase intent was -1%



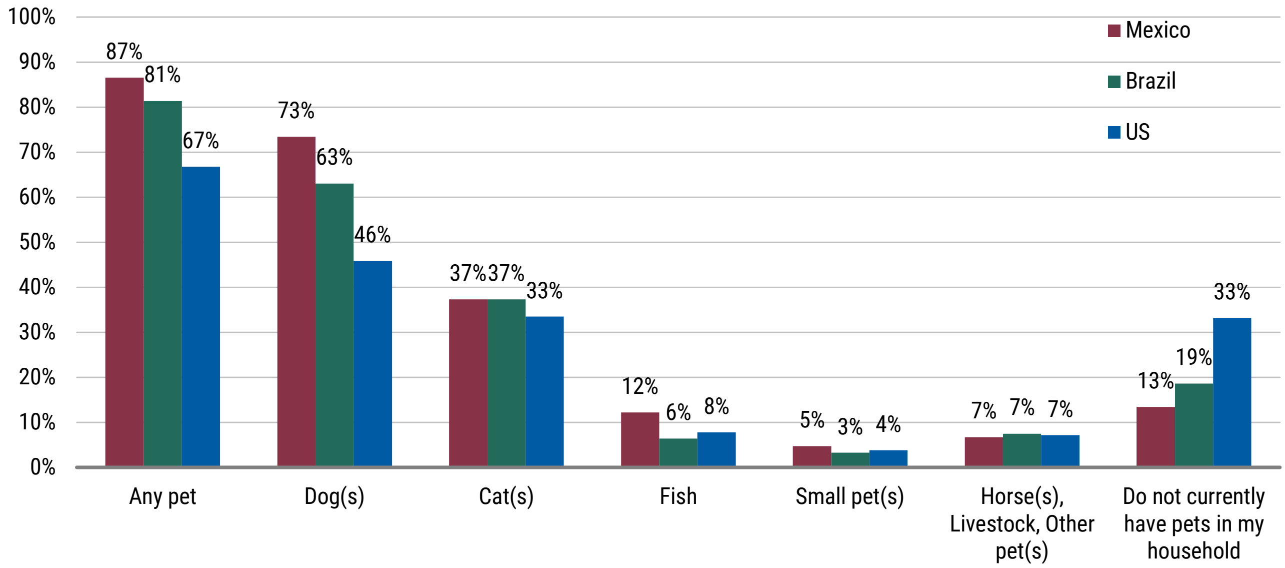
Source: AlphaWise, Morgan Stanley Research

Pet Segment In-Focus

Following the US report Petriarchy Part 2: Long Wagging Tailed Growth, our survey shows pet ownership skews even higher in Brazil and Mexico than in the US; Class A over-indexes. We introduced questions around pet ownership into our survey, following up on a pet deep dive conducted by our US counterparts. Results shined favorably on the backdrop in the region: versus 67% of households in the US reporting to own a pet, ownership rates were even higher in Mexico (87%) and Brazil (81%); see Exhibit 77 . In all countries, dogs were the most commonly cited pets, while higher ownership of fish and small pets also positively impacted the results in Mexico. Looking to Brazil, pet ownership rates further increase within higher socioeconomic classes, as shown in Exhibit 78 . Among Class A households, 95% reported pet ownership in our survey, above the 77% ownership rate in socioeconomic Class C. We view this as a positive read for the Brazil pet retail market, as per capita pet spending will likely be higher for Class A households.

Exhibit 77: Pet ownership rates skew higher in Mexico and Brazil than in the US...

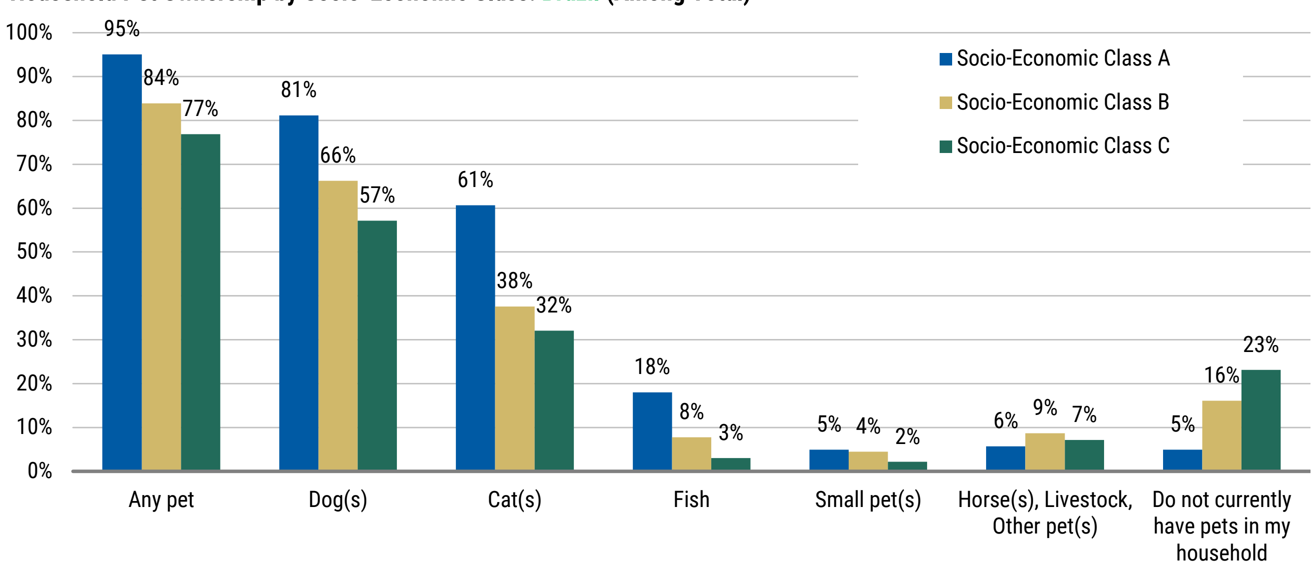
Household Pet Ownership (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 78: ... with consumers in higher socioeconomic classes further over-indexing for pet ownership in Brazil

Household Pet Ownership by Socio-Economic Class: Brazil (Among Total)

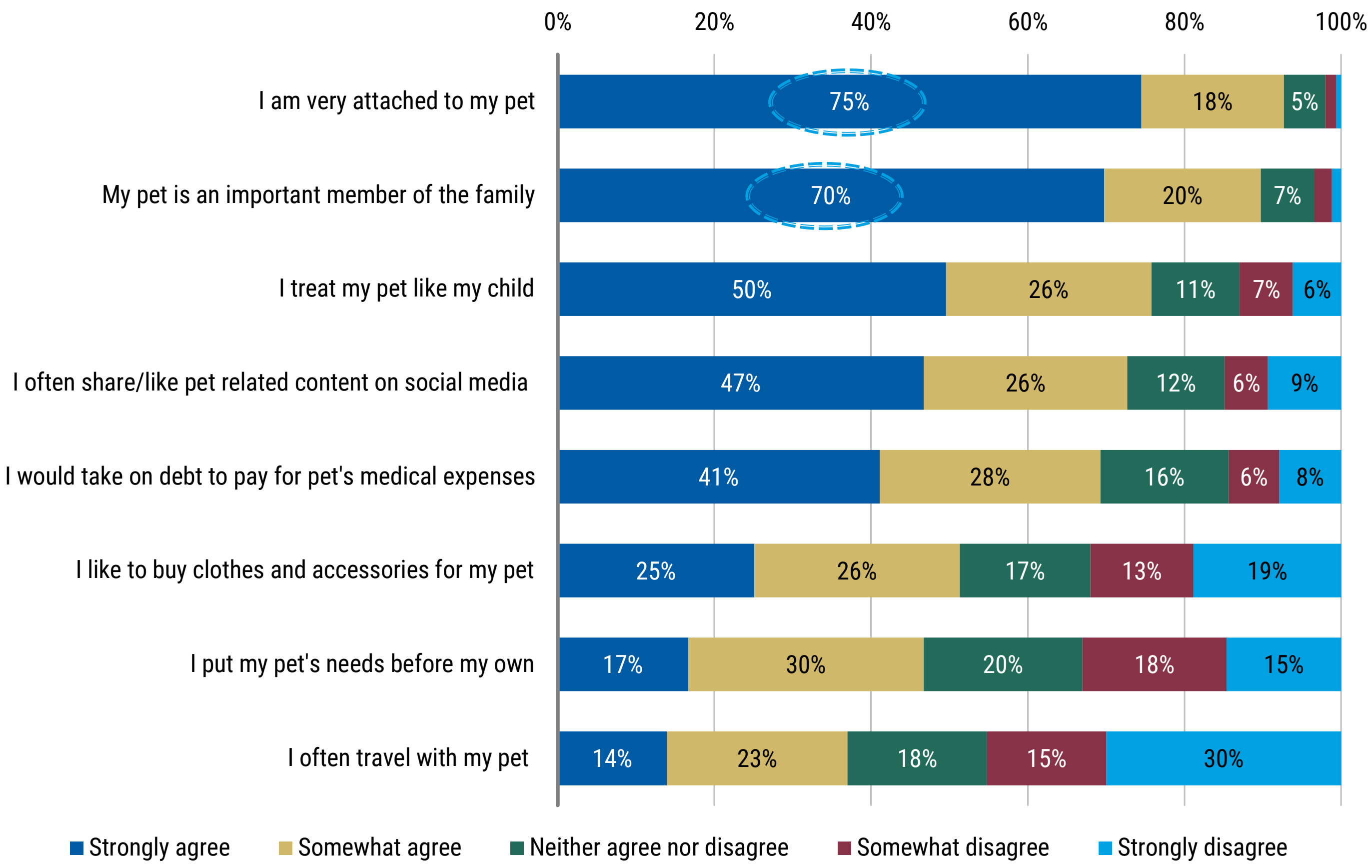


Source: AlphaWise, Morgan Stanley Research

Further supporting the outlook for the pet segment, surveyed consumers cited high levels of attachment to their pets. In Brazil (Exhibit 79), 75% of consumers strongly agreed that they were very attached to their pets, and 70% strongly agreed that their pets are important members of their families. While strong pet attachment was lower in Mexico (at 52%), a similar 67% viewed pets as important family members. While consumers were more mixed around statements such as putting pets' needs before their own, the agree-to-disagree skew was similar to results in our US survey. For clothes and accessories purchases, 51% either strongly or somewhat agreed with liking to buy clothes and accessories for their pets, above the 32% that either strongly or somewhat disagreed.

Exhibit 79: Pet owners in Brazil show high degrees of attachment with their pets

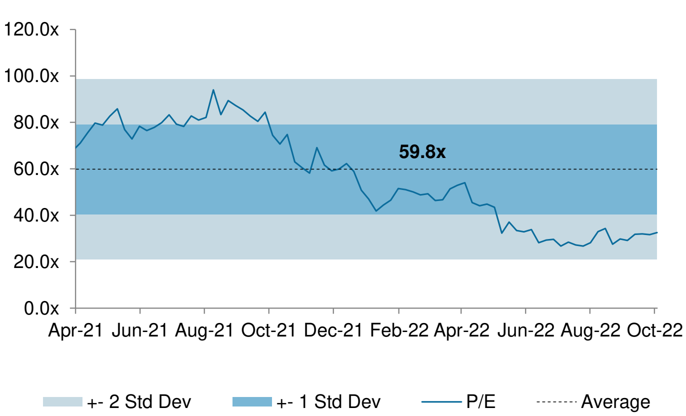
Attitudes about Pets: Wave 11 Brazil (Among Dog/Cat Owners)



Source: AlphaWise, Morgan Stanley Research

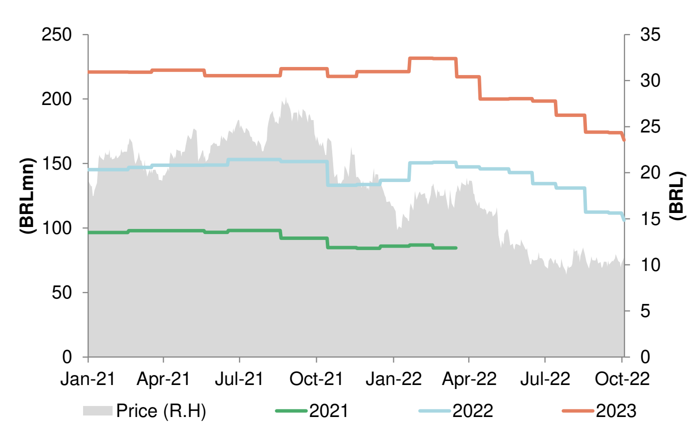
We view results as incrementally supporting the near and long-term growth outlook for Petz (PETZ3.SA). As highlighted in our initiation report Pet Leadership, Priced In; Initiate PETZ3 Equal-weight (17 Feb 2022), we see a long growth runway for the pet superstore segment in Brazil. Survey results further support the near-term consumption outlook (with a +16% more vs less net intent spread) and the long-term spend opportunity associated with high pet ownership among Class A consumers. From a stock perspective, while shares have de-rated (Exhibit 80), PETZ '23E P/E multiple of ~32x remains at a premium to our coverage average, and we believe Street earnings estimates already price in the growth opportunity (30% consensus revenue CAGR in 2021-24E); more recently, the earnings estimate revisions trend has been to the downside (Exhibit 81). We look for a more favorable valuation entry point and/or greater visibility around upside to Street estimates in order to revisit our Equal-weight rating.

Exhibit 80: PETZ has de-rated from the post-IPO highs, but remains with a premium P/E multiple versus our coverage...



Source: Bloomberg, Morgan Stanley Research

Exhibit 81: ... and consensus estimates largely capture our constructive growth view; more recently, revisions have skewed to the downside



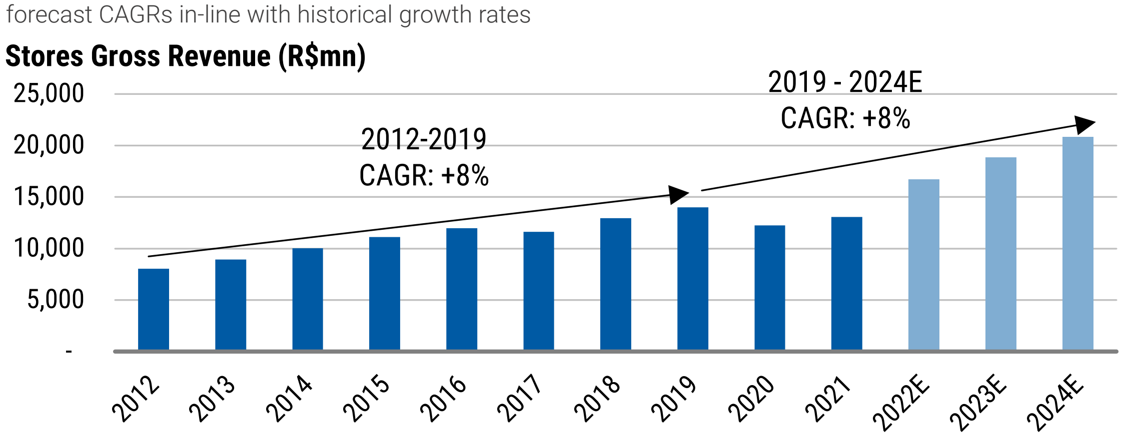
Source: Refinitiv Eikon Datastream, Morgan Stanley Research

Americanas (AMER3.SA) – In Front of an Inflection: Upgrade to Overweight

We see 3 areas of positive inflection ahead for Americanas: (1) our AlphaWise Survey illuminates improving Brazil consumer sentiment, (2) an incoming CEO can further AMER's strategic transformation, and (3) net margin flow-through is poised to improve in '23. **For full detail, see our companion note Americanas: In Front of an Inflection: Upgrade to Overweight.**

We see Americanas — a Brazil omni-channel retailer with a broad category mix — as directly exposed to the constructive online and offline trends illuminated in our survey. This is most notable for its stores business, where we look for tailwinds from (1) a continued post-Covid traffic recovery and (2) positive net spend intentions across a broad set of categories where Americanas has exposure. As highlighted in Two Views of Brazil eCommerce Market Share, we estimate that for its online business, Americanas has approximately 50% exposure to consumer electronics categories. However, for physical stores, the category mix is more broad-based, with exposure to discretionary goods in addition to the food/beauty/personal care categories, which were among leaders in our survey for net intent. As shown in Exhibit 82 , Americanas stores' gross revenue grew at an +8% CAGR from 2012 to 2019. As of 2021, sales were still below 2019 levels, but we have seen a rebound YTD in 2022. While our 2019-24E CAGR of +8% is in-line with historical levels, this implies room for above-trend growth in 2023E and 2024E on the back of recovering traffic and improving consumer spending conditions.

Exhibit 82: We see room for outsized store growth continuing through 2024E, while keeping our longer-term forecast CAGRs in-line with historical growth rates

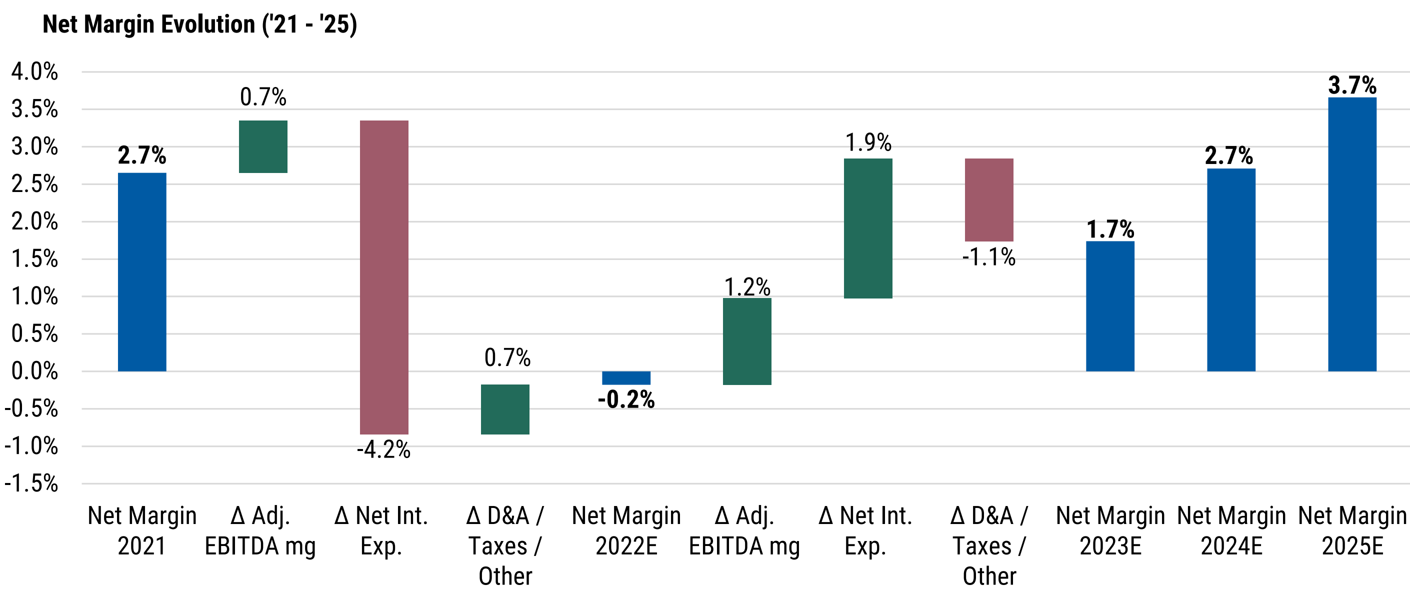


Source: Company data, Morgan Stanley Research estimates

We further see a potential inflection point in Americanas' strategic transformation (spanning omni-channel and fintech initiatives), with integration work progressing and a new CEO announced. For Americanas, store and eCommerce assets are now integrated under the single Americanas (AMER3) operating and shareholder base. While 2021 faced disruption as this combination was implemented, we see the company now with early integration work complete and a favorable resulting structure. Further increasing our conviction around the pace of strategic change, we note the hiring of former Santander Brazil CEO Sergio Rial, effective January 1, 2023. While no specific plans have been presented, we see fintech app platform Ame as a potential area of increased focus.

Coupling recent EBITDA margin improvements with a setup for less financial expense pressure in 2023, we look for Americanas to return to a cycle of net margin improvement. With investments including an expansion of free shipping, Americanas' adjusted EBITDA margins contracted from 17.7% in 2019 to 12.0% in 2021. For 2022E, we forecast 12.7% margins; however, year-to-date EBITDA expansion trends have been overpowered by a meaningful -420bps of y/y deterioration in net financial expenses, reflecting rising Brazil interest rates. We look for AMER to deliver a loss in 2022E, at -0.2% net margins, while for 2023E we see a pathway for improvement. Reflecting our constructive view on consumption, we now look for 2023E store comps of 9.7%, in-line with our 9.8% 2022E forecast, and above our prior estimate of a ~280bps deceleration. While our 2023E total financial expenses are near flat y/y in R$ terms, when considering our forecast for 10% revenue growth, net financial expense turns to a point of margin leverage. For 2023E, we forecast +120bps of EBITDA margin expansion (to 13.8%), with +190bps of net margin expansion (to 1.7%, +30bps above consensus); our estimates imply a further +100bps of net margin expansion in each of '24E and '25E (Exhibit 83).

Exhibit 83: We look for a positive inflection in net margins beginning in 2023E, with interest rates stabilizing and EBITDA improvement reaching the bottom line



Source: Company data, Morgan Stanley Research estimates

Our price target increases to R$24 (from R$20); we see 32% upside and a 2.2:1.0 bull-bear skew. Our AMER3 price target increases to R$24, and with our improving net income forecasts we see P/E multiples coming back into focus: Our target implies 36.4x 2023E EPS and 21.3x 2024E, versus the stock's current multiple of just 16.2x our 2024E EPS. While historical data is not entirely comparable (considering the incorporation of LAME4 assets), we see that AMER3 is trading nearly 1 standard deviation below the historical average on an EV/revenue basis. This represent a nearly 90% reversion from the all-time highs of mid-2020, despite consensus revenue revisions continuing in a largely positive trajectory, and EBITDA margins improving YTD. We see a 2.2:1.0 positive skew between our R$32 bull case and our R$12 bear case. Further macro deterioration, store + online traffic pressure, and greater reinvestment needs are risks — while price target upside, a positive risk-reward skew, and constructive strategic developments drive our upgrade to Overweight.

Real Estate

by Nikolaj Lippmann & Alejandra Obregon

On the mall side, we prefer Brazilian malls over Mexican malls due to stronger momentum and a faster pace of recovery. We remain OW both Iguatemi (IGTI11.SA, PT R$31/sh) and Multiplan (MULT3.SA, PT R$31/sh) on the back of solid underlying trends driving above-inflation rent growth, coupled with attractive valuations and exposure to quality portfolios via the outperforming top-tier malls. We argue that top-tier assets are more prone to deliver higher rent/sqm growth and beat inflation, drive more value generation, and to trade at narrow real cap rate spreads.

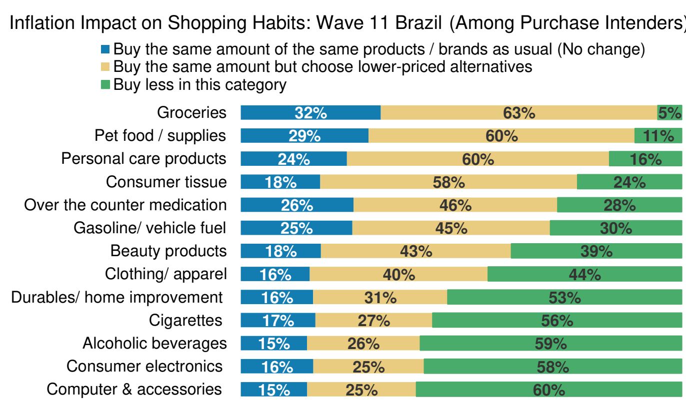
For Homebuilders in Brazil, we prefer CYRE (CYRE3.SA, OW, PT R$28/sh) over MRV (MRVE3.SA, EW, PT R$16/sh) & PLPL (PLPL3.SA, EW, PT R$6/sh), due to its high correlation to rate moves, liquidity profile, fundamental potential amid a better affordability outlook in the mid-high income segment (~80%) & the low income segment (~20%), easing construction cost pressures, and a lower dependence on speed of sales of the business model.

Mall Takeaways

Our AlphaWise survey points to a constructive outlook for visitor flow and continued spending resiliency despite acute inflation. Overall, consumers expect to visit shopping malls equally or more frequently in the near term — a factor we find encouraging and indicative of traffic stabilization. After all, visitor flow remains the next leg of growth for LatAm malls, in our view. YTD, the reported record tenant sales (especially in Brazil and the Andean region) have been, by and large, driven by inflation and a higher propensity to spend at the mall; yet, results have continued to lag on the traffic front in the last quarters. Traffic, for the most part, remains well below 2019 levels. In addition, spending habits (in key categories such as apparel, beauty products, personal care and even groceries) are expected to face limited deterioration due to the inflation impact. In fact, the majority of consumers expect to either buy the same amount of products (either similar brands or lower-priced alternatives) due to the inflationary environment in the near to mid-term.

Although inflation has ranked as the top concern for 2022 in both Mexico (62%) and Brazil (59%), it has not affected consumers' propensity to visit shopping malls. This comes in the midst of sequential periods of Covid-19 no longer representing a top concern versus what our AlphaWise survey showed in the first waves of study. In Brazil, 51% of consumers have visited shopping malls in the month prior to the August 2022/Wave 11 study — the highest number so far in our database; in Mexico, the result presented by AlphaWise indicates the same, as 73% of the responses showcase consumers vising malls in the same period.

Exhibit 84: Our AlphaWise survey points to both a constructive outlook for visitor flow and continued spending resiliency despite acute inflation



Source: AlphaWise, Morgan Stanley Research

Exhibit 85: In both Brazil and Mexico, shopping centers' visitor flow has not only improved vs pandemic lows ...

Outdoor Activity that Consumers Have Participated in the Last Month: Brazil

Source: AlphaWise, Morgan Stanley Research

Exhibit 86: ... but also vis-à-vis the outdoor activity registered during Wave 1 of our AlphaWise work

Outdoor Activity that Consumers Have Participated in the Last Month: Mexico

Source: AlphaWise, Morgan Stanley Research

Exhibit 87: What's more, the short term outlook remains positive for both countries as results...

Activities Consumers Expect to do in the Next 3 Months: Brazil

Source: AlphaWise, Morgan Stanley Research

Exhibit 88: ...from the survey indicate consumers will continue to visit malls in the future.

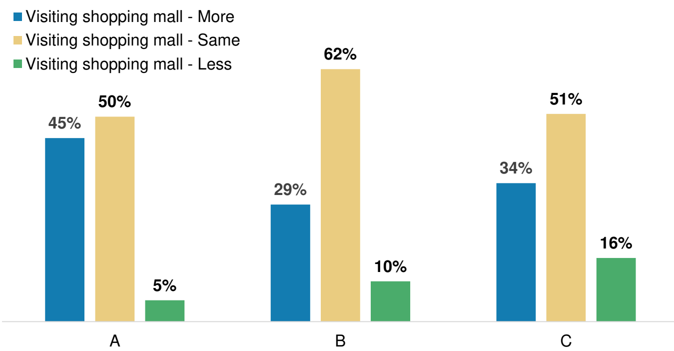
Activities Consumers Expect to do in the Next 3 Months: Mexico

Source: AlphaWise, Morgan Stanley Research

What's more, the survey highlights interesting results throughout the socioeconomic scale and across age groups. Interestingly, in Brazil and Mexico, socioeconomic segments with a higher purchasing power (A) seem to be more likely to increase their visits to shopping centers vs. consumers with a lower purchasing power (B and C), which seem less prone and willing to visit shopping malls in the near future. At the same time, we also notice that malls have been particularly popular for the individuals in the age group of 55 years or more that continue expecting to visit malls with a similar frequency. Yet, there is a greater propensity to visit the mall "more" for age groups between 45-54 years old vs. other ages in Brazil and of 25-34 years old in Mexico.

Exhibit 89: Throughout all socioeconomic classes, expected intention to visit malls at the same frequency is greater vs more/ less often.

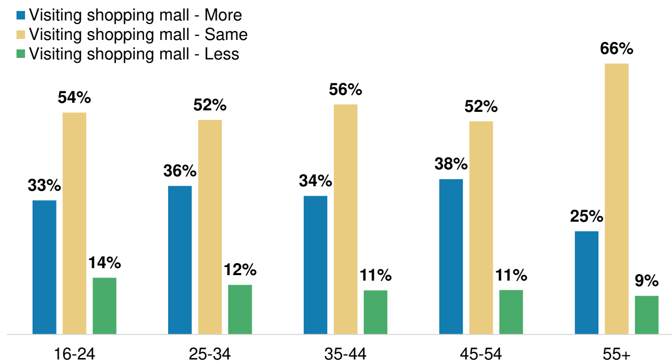
Expected Consumer Activity for the next 3 Months by Socio-Economic Class: Brazil



Source: AlphaWise, Morgan Stanley Research

Exhibit 90: This is seen also by age cohort, as in each age segment consumers expect to visit malls mainly on the same frequency as they have been visiting.

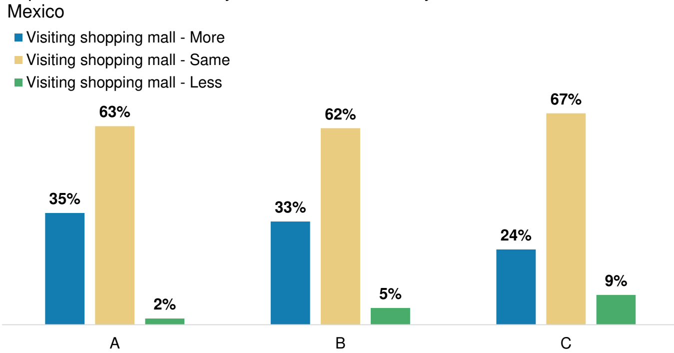
Expected Consumer Activity for the next 3 Months by Age: Brazil



Source: AlphaWise, Morgan Stanley Research

Exhibit 91: Additionally, for both Mexico and Brazil, consumers with higher purchasing power have registered a higher propensity to increase shopping center visits.

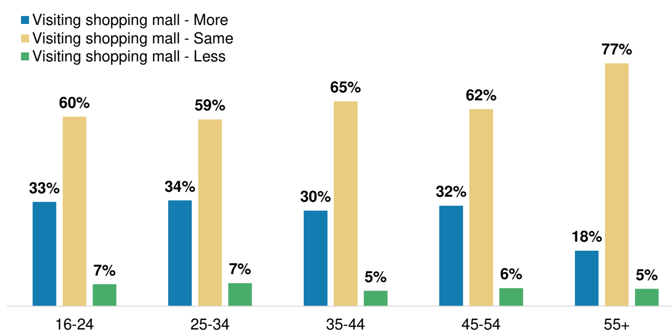
Expected Consumer Activity for the next 3 Months by Socio-Economic Class: Mexico



Source: AlphaWise, Morgan Stanley Research

Exhibit 92: Older consumers (55+ years old) are the ones which expect to continue to visit malls at the same frequency, and less willing to decrease the amount of visits.

Expected Consumer Activity for the next 3 Months by Age: Mexico



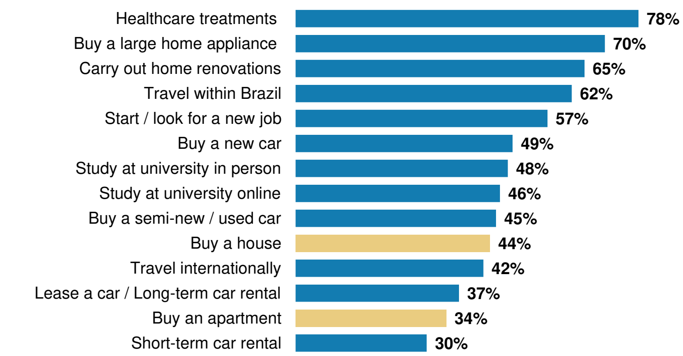
Source: AlphaWise, Morgan Stanley Research

Homebuilder Takeaways

Results from our AlphaWise survey highlight a sluggish sentiment toward purchasing of big ticket and highly credit-driven assets today. The survey suggests that consumers remain unsure about purchasing a new home in the near term. Indeed, house and apartment purchases appear at the bottom range of planned activities for the next 6 months (44% and 34%, respectively). In addition, 85% of respondents think that if the high inflation environment persists they would have to either delay (49%) or cancel (36%) the decision to buy an apartment. This comes in line with our view that fundamentals are yet to recover and that a lower rate environment, policy and inflation direction (especially for some of the construction linked commodities) as well as consumer confidence are key to drive a much better outlook ahead.

Exhibit 93: Purchasing a house/apartment appears at the bottom range of planned activities for the next 6 months

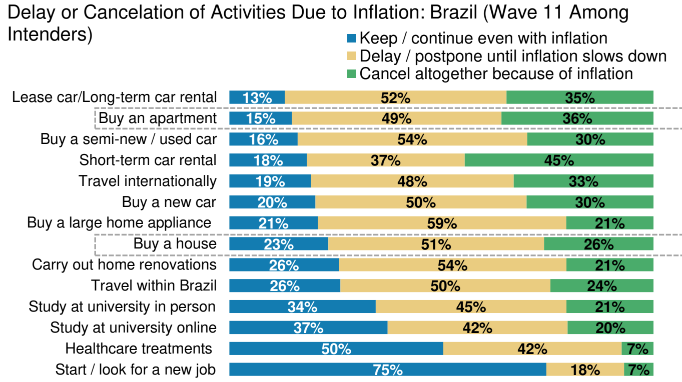
Planned Activities for N6M: Brazil (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 94: Inflation could be a hurdle for the decision of purchasing a house/apartment in the near term.

Delay or Cancelation of Activities Due to Inflation: Brazil (Wave 11 Among Intenders)

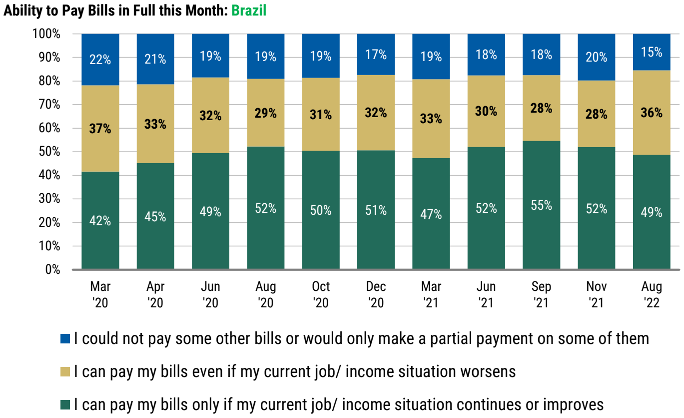


Source: AlphaWise, Morgan Stanley Research

However, it also points to a more constructive view for the future that, in line with our view, suggest that the recovery of fundamentals could be underway. According to the survey, 53% of respondents expect their household situation to screen better while only 14% think their situation will be worse. This compares to only 33% (better) and 43% (worse), respectively in Wave 1. Additionally, the approval level of the current federal government administration is higher among the A socioeconomic class. We find this to be particularly positive for homebuilders as consumer confidence correlates directly with home ownership and ultimately with top line fundamentals in the space, especially in the mid- to high income segment.

Exhibit 95: The ability to pay bills among respondents is showing resiliency and improvements vs prior waves of the survey

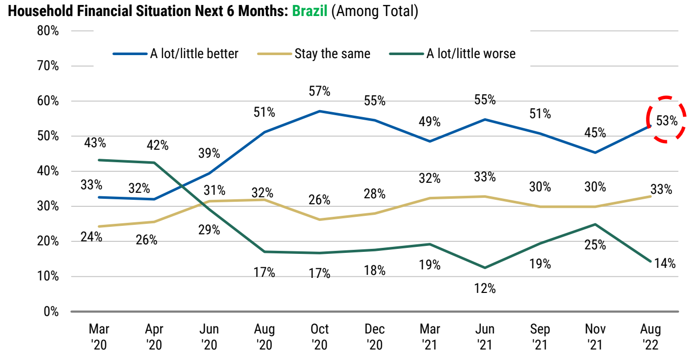
Ability to Pay Bills in Full this Month: Brazil



Source: AlphaWise, Morgan Stanley Research

Exhibit 96: In addition, the survey also points to a more constructive outlook for Brazilian households' financial situation looking ahead.

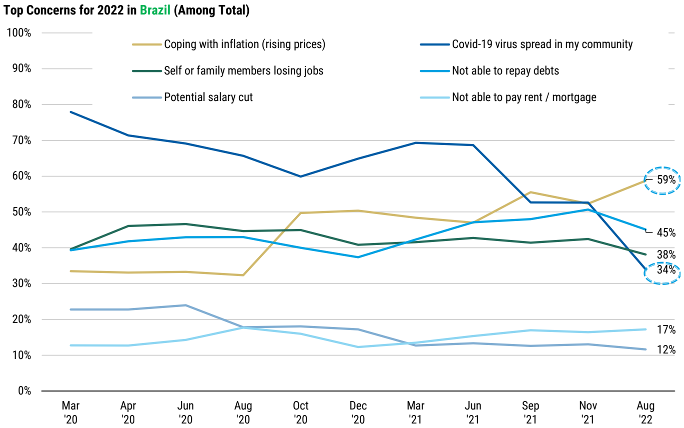
Household Financial Situation Next 6 Months: Brazil (Among Total)



Source: AlphaWise, Morgan Stanley Research

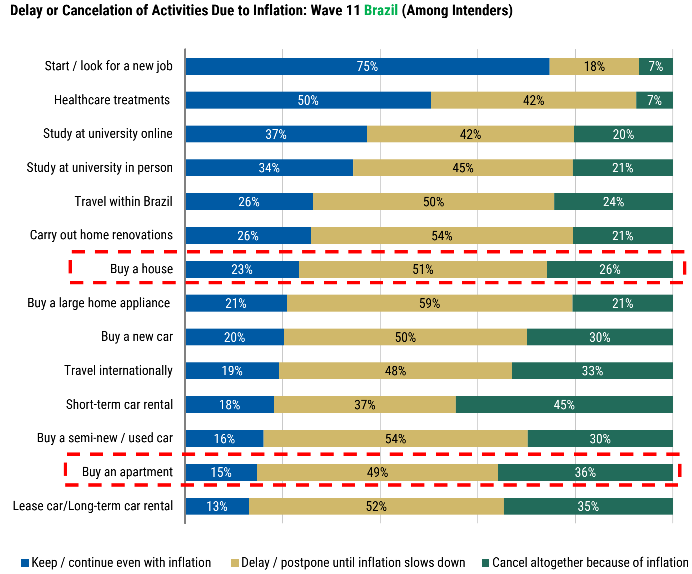
In addition, limited and controlled concerns associated to job loss/potential salary cuts and to the ability to pay rent and mortgages come in line with our view of resiliency and improving household affordability. That is, we see the stronger than expected labor markets (led by the hiring of informal workers) and additional fiscal impulse in Brazil as positive drivers of household spending in the near term. As affordability improves more meaningfully (see Building Momentum; High Income-Exposed Stocks For A Lower Rate Environment) in the next 12-18 months, we would expect consumers to trend upward in the credit spectrum — toward higher ticket and credit driven assets. This should bode well for Cyrela.

Exhibit 97: Concerns regarding rent and mortgage payment remain largely flat vs the first waves of survey ...



Source: AlphaWise, Morgan Stanley Research

Exhibit 98: ... however, inflation does present a bottleneck in the decision of purchasing a house/apartment.



Source: AlphaWise, Morgan Stanley Research

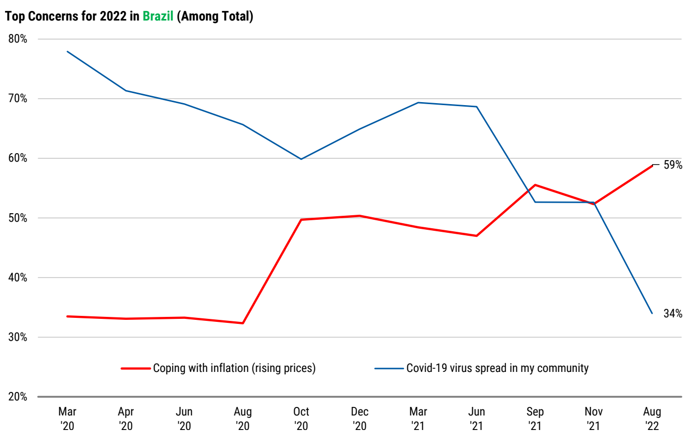
Restaurants, Healthcare, Education

by Javier Martinez de Olcoz Cerdan

Restaurants

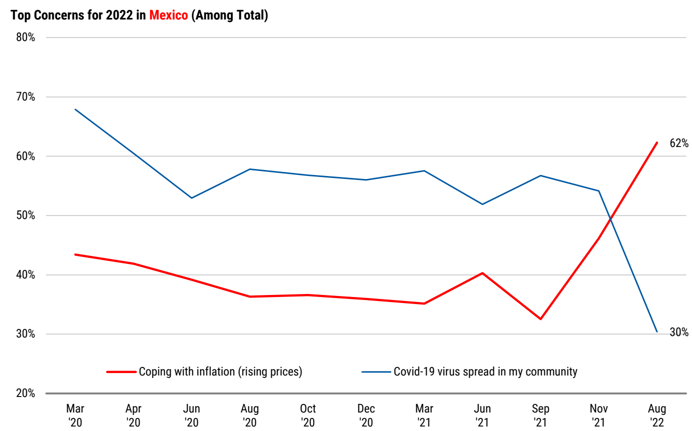
The focus has changed, and now is about inflation. Consumers in Brazil and Mexico are not worried about Covid-19 anymore as a top concern, but inflation is gradually becoming a more relevant factor — in the case of Mexico, rivaling in absolute level with Covid concerns in April 2020.

Exhibit 99: Brazil: Inflation replacing Covid concerns



Source: AlphaWise, Morgan Stanley Research

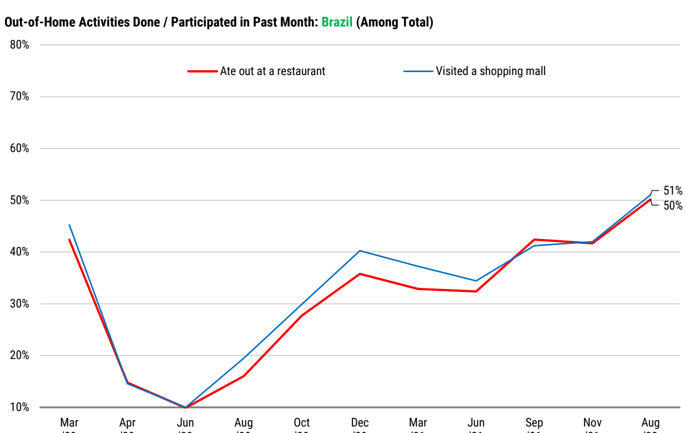
Exhibit 100: Mexico: Inflation concerns already rivaling with Covid in April 2020



Source: AlphaWise, Morgan Stanley Research

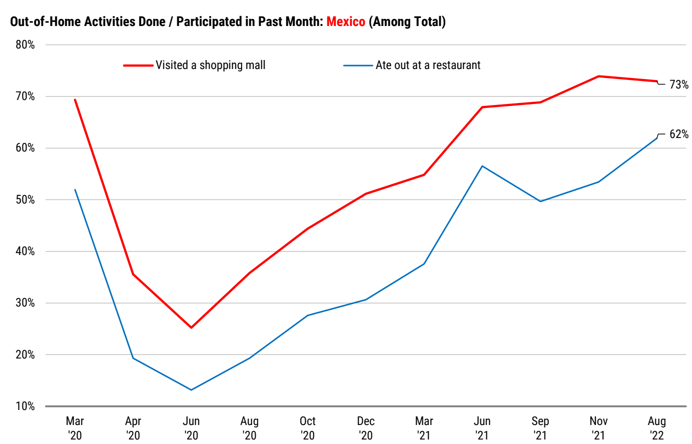
On-premise consumption above pre-Covid levels, Brazil catching up with Mexico. The survey continues to be in line with the mobility indicators we track (see our Monthly Tracker). Mexico recovered earlier and was stable over the last few months, while Brazil keeps improving sequentially, both above pre-Covid levels.

Exhibit 101: Brazil, last month out of home activity: visits to a restaurant



Source: AlphaWise, Morgan Stanley Research

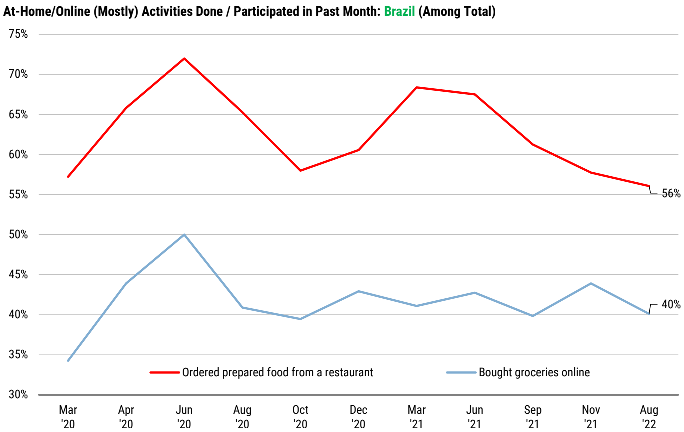
Exhibit 102: Mexico, last month out of home activity: visits to a restaurant



Source: AlphaWise, Morgan Stanley Research

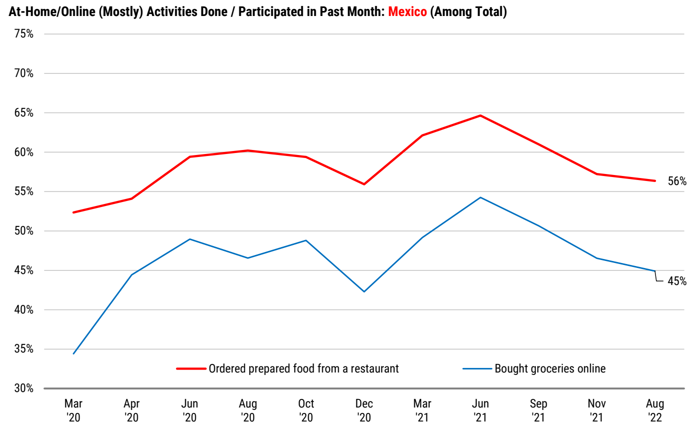
Reducing delivery sales more than expected, particularly in Brazil. Food delivery keeps showing a high level of correlation with online grocery purchases, particularly in Mexico, both driven by the return of employees to their offices. Deliveries falling more in Brazil, where delivery expanded more during the Covid period — a decline that is larger than we expected, as our thesis is that part of the delivery sales will stick.

Exhibit 103: Brazil, last month at home activity: ordered restaurant delivery



Source: AlphaWise, Morgan Stanley Research

Exhibit 104: Mexico, last month at home activity: ordered restaurant delivery

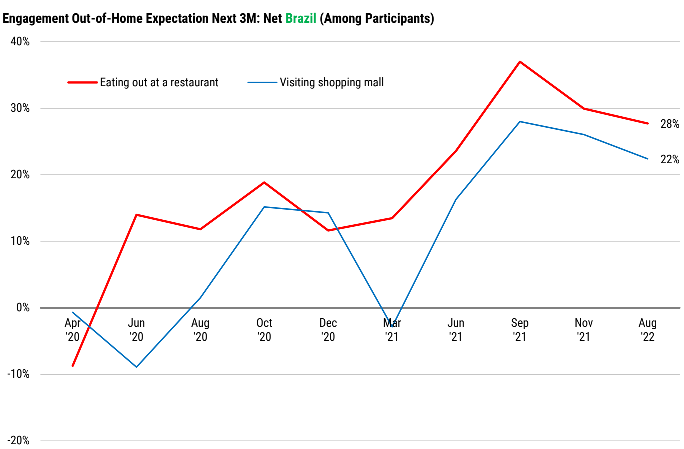


Source: AlphaWise, Morgan Stanley Research

But the peak might be behind us. Dining out expectations are still increasing in Mexico (but below 2021 peak), and sequentially reducing in Brazil, impacted by consumer sentiment and inflation. Unemployment remains low, but the context is not supportive for restaurants with still-high inflation, along with consumer leverage and debt service (also impacted by higher rates), while confidence has declined.

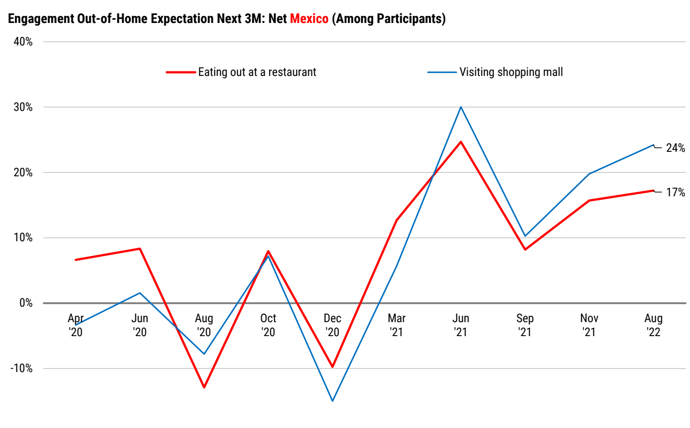
Not a big concern, in our view. Our September tracker suggested that food inflation peaked in August (see here) and should gradually ease from there. Macro is not supportive, and it may impact volume, but we think that restaurants may sustain margins this time, as they benefit from efficiency initiatives in expenses and pass through costs to consumers**.** And we expect that delivery, take-away and drive-through sales, will compensate for the weak macro and allow companies to beat consensus expectations, as we detail in Structural Opportunities to Help Face Cyclical Challenges.

Exhibit 105: Brazil, next 3 months expectations: eating out at a restaurant



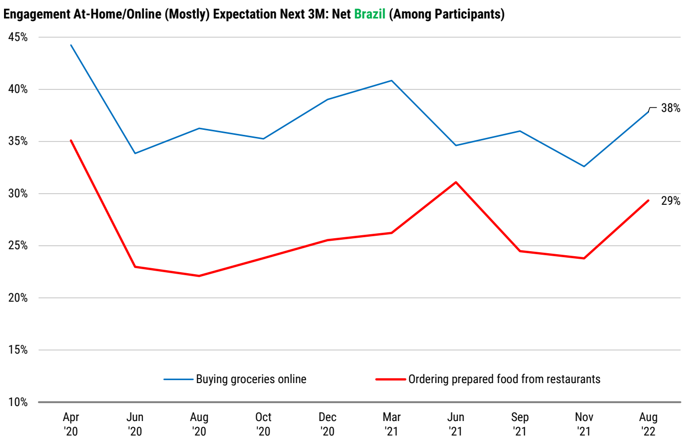
Source: AlphaWise, Morgan Stanley Research

Exhibit 106: Mexico, next 3 months expectations: eating out at a restaurant



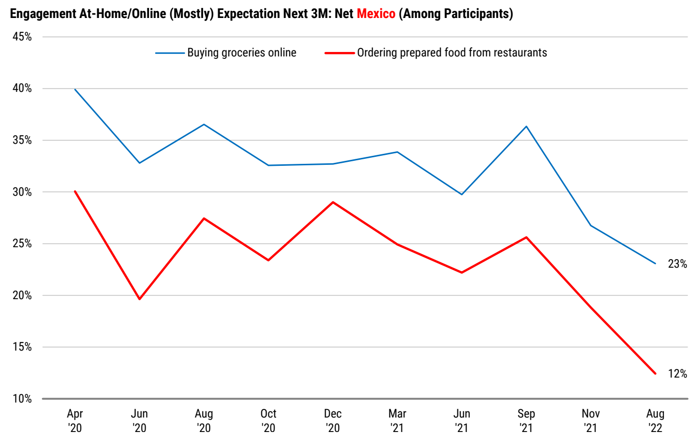
Source: AlphaWise, Morgan Stanley Research

Exhibit 107: Brazil, next 3 months expectations: order restaurant delivery



Source: AlphaWise, Morgan Stanley Research

Exhibit 108: Mexico, next 3 months expectations: order restaurant delivery



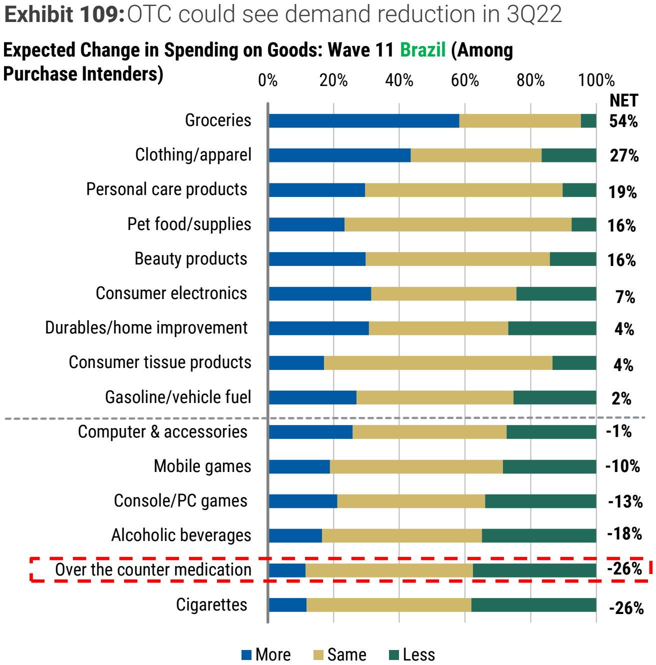
Source: AlphaWise, Morgan Stanley Research

ARCO.N is our Top Pick. All companies we cover have a strong execution track record, high-quality assets and offer compelling upside at conservative target multiples — a valuation opportunity that was evidenced by BKBR tender offer. At current prices we still see more upside in ARCO, our Leisure sector Top Pick. We continue to believe results for all companies will remain on a positive trend in 2H22, following the recovery of traffic and driving operating leverage, all key for a re-rating of the stocks.

Healthcare

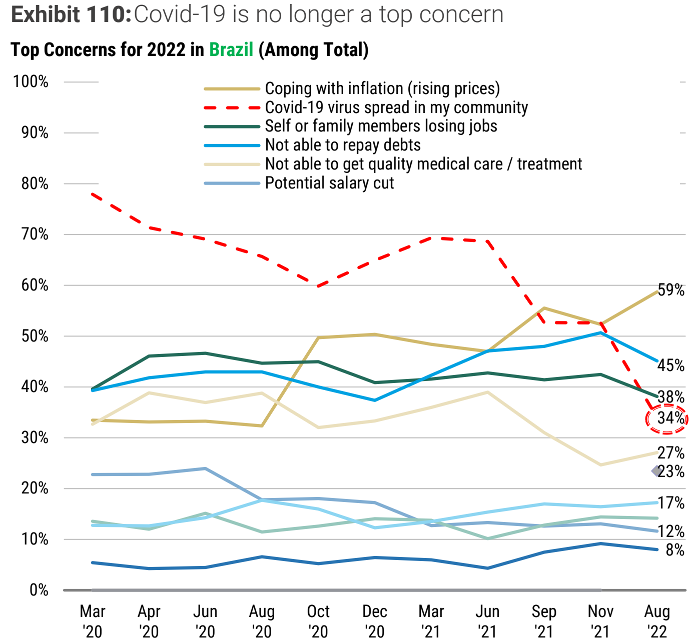
Drug demand could slow down in the next three months. The survey suggest that over-the-counter (OTC) medication demand could deteriorate in 3Q22. 38% of respondents mentioned they could spend less on OTC medication, while only 12% responded that they would consume more, thus resulting in a net negative of -26% in consumption expectations. We see two main explanations for this possible decline: (i) **Seasonality,** as winter in the southern hemisphere ends in September, consumers might expect to consume less OTC medication (e.g., antiflu), during the next three months; and (ii) **Covid-19 is no longer the main concern**, falling sharply vs last survey to the 4th place among top concerns for 2022, this move could be reflected on consumer's expectation of OTC spending going forward.

Exhibit 109: OTC could see demand reduction in 3Q22



Source: AlphaWise, Morgan Stanley Research

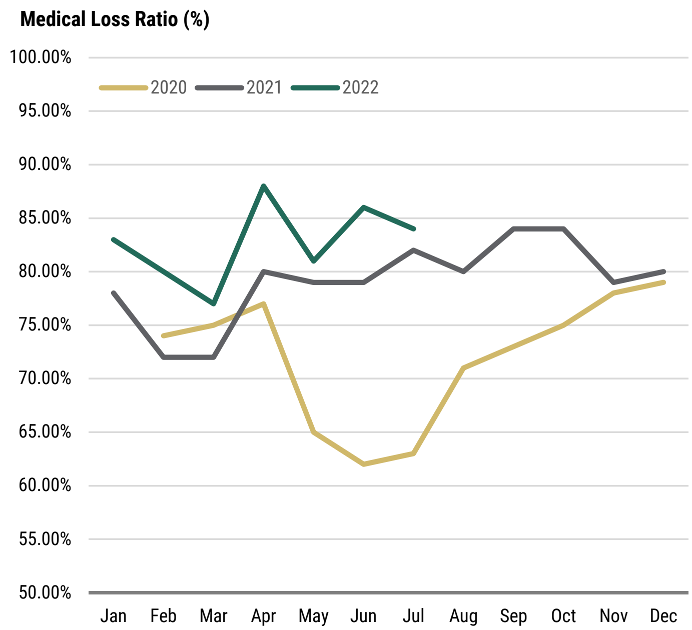
Exhibit 110: Covid-19 is no longer a top concern



Source: AlphaWise, Morgan Stanley Research

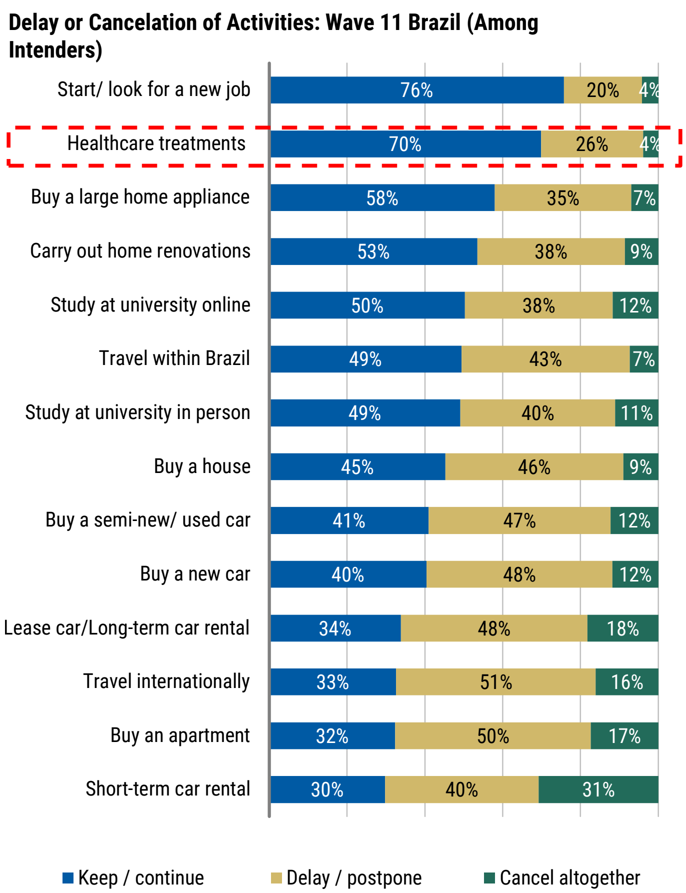
Healthcare treatments could be postponed if inflation persists. During August, our survey shows that 70% of respondents continued planned treatments, while 26% delayed healthcare treatments and 4% cancelled scheduled treatments. If inflation continues at this rate, however, only 50% of respondents answered that they would continue planned treatments over the next six months, while 42% expect to postpone and 7% to cancel them. Medical loss ratio (MLR) continues at a high rate throughout 2022; therefore, news of postponement and cancellation could relieve healthcare operators that have been pressured for months now. On the other hand, this dynamic should gradually reduce service providers' tailwind (hospitals/laboratories).

Exhibit 111: MLR continues high throughout 2022, despite fewer Covid cases



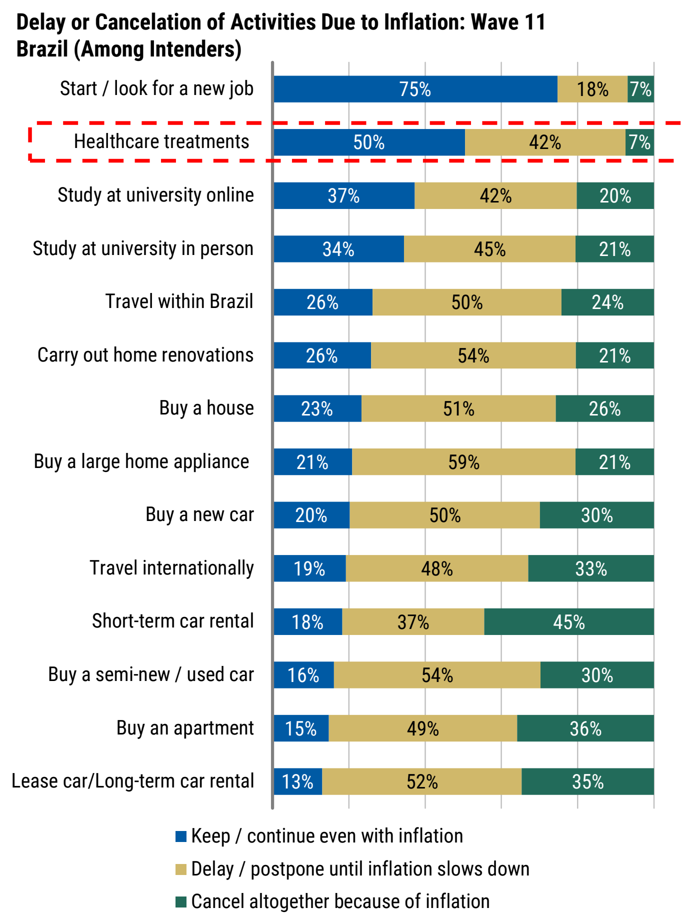
Source: ANS and Morgan Stanley Research

Exhibit 112: Healthcare treatments were largely maintained in August...



Source: AlphaWise, Morgan Stanley Research

Exhibit 113: ...But could face postponements or cancellations over the next 6 months



Source: AlphaWise, Morgan Stanley Research

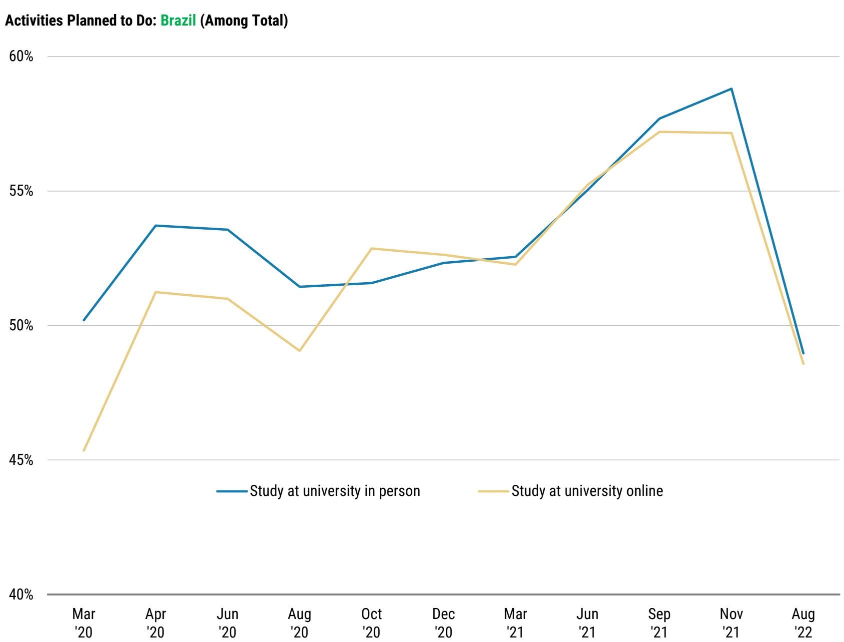
We maintain our preference for Hypera (HYPE3.SA) and Hapvida (HAPV3.SA). Hypera, our Top Pick, keeps doing its homework to gain share in all divisions, capture new opportunities, keeping high margins and generating cash. For Hapvida, underperformance has opened a buying opportunity in a company that should gradually improve results during the next couple of years, driven by post-Covid normalization and the gradual delivery of synergies.

Education

2H21 data seemed to indicate a recovery in enrollment intention. Respondents who were planning to stay or enroll into university increased +5pp both for on-campus (OC) and distance learning (DL) between May/21-Sep/21 as mobility restrictions eased. With campuses starting to open again, OC opened a gap vs. DL in Nov/21, indeed reflecting good intake cycles in 2H21 and 1H22 (OC volumes grew 13% and 22% organically). This seemed to indicate a recovery in the sector since part of the demand was shifting back to OC, which has higher tuitions and was running with idle capacity (driving low cost dilution), while DL still had a large space to grow.

But the 2H22 intake seems weaker than originally expected, impacted by affordability. The latest survey suggests respondents prefer to postpone studies on weak macro. With Covid-19 concerns behind and macro conditions deteriorating, coping with inflation and dealing with debt became the main concerns for families (59% and 45%, respectively, elected them as one of the top 3 issues), see Exhibit 110 . In our view, this should continue to impact students' disposable income, delaying the post-secondary sector recovery one more time, see more: Brazil Education: 2H22: Weaker Intake Outlook (9 Sep 2022). Indeed, intention of staying or enrolling into university fell -10pp and -8pp for OC and DL, respectively.

Exhibit 114: 2H21 surveys suggested a recovery for education, but 2H22 seems weaker than originally expected



Source: AlphaWise, Morgan Stanley Research

We favor companies with strong balance sheets and either DL or Learning Systems exposure. At current prices, Arco (ARCE.O, OW) is our Top Pick, followed by Vitru (VTRU.O, OW) and Laureate (LAUR.O, OW).

But we are keeping a potential return of FIES in mind. The sector is trading at all-time low multiples, ~5x EV/EBITDA, due to the lack of short-term catalysts. That said, we suggest to keep an eye on some possible events to keep in mind: (i) post-elections, FIES could come back particularly if Mr. Lula wins, see Brazil Education: Addressing 'New Fies' Potential Outcomes (26 Sep 2022); (ii) if macro conditions improve faster than expected, listed players might accelerate inorganic expansion again.

Brazil Financial Institutions

by Jorge Kuri

No Hard Landing for Asset Quality; Latest Survey Supports Our View

We continue to see a constructive backdrop for credit growth and asset quality in Brazil; our latest consumer survey underscores this conviction. We've had a counter-consensus view on delinquency all throughout this year, as we laid out in: Asset Quality Roundtable, Top 10 Takeaways from Brazil Fintech Trip, and No Hard Landing for Asset Quality; Our AlphaWise Consumer Survey Speaks. Some of the key supporting evidence coming from our latest consumer survey include:

- **Expectations on economic growth are supportive of credit demand.** In Brazil, 47% of consumers expect the economy to get either a little or a lot better over the next 6 months. This represents a notable +16 pp improvement versus our November 2021 survey, and marks a high since our survey began.
- **Consumer views around jobs had a favorable trajectory in our latest iteration.** Indeed, 44% of respondents reported being full-time employed in August 2022, up from 37% in our November 2021 survey; even more notably, only 6% reported being unemployed or furloughed, down from 10% in November 2021. The employment rate marks a high since we began asking this question in August 2020, and the surveyed unemployment rate marked a low.
- **And data on bill repayment further corroborates the positive momentum around household financial situations in Brazil.** Only 15% of consumers cited an inability to pay bills in full for the current month. This marked a 4 pp improvement from our last survey, and the most favorable response on the topic since our survey began.

We remain bullish on large-cap banks; Itaú Unibanco (ITUB) is our favorite name. We expect banks to deliver attractive EPS growth and multi-year high ROE over the next 12 months driven by double-digit loan growth, NIM expansion given high Selic rates and portfolio repricing, stable asset quality, and tight cost control. Valuations seem undemanding relative to history and the prospective ROE & EPS outlook. Our favorite name is Itaú. We think the bank's strategic foresight and operational capabilities represent a meaningful competitive advantage in the marketplace. We think Itaú gets digital and is working hard to become more open, flexible, agile, and client centric, allowing it to defend its leadership position across multiple businesses.

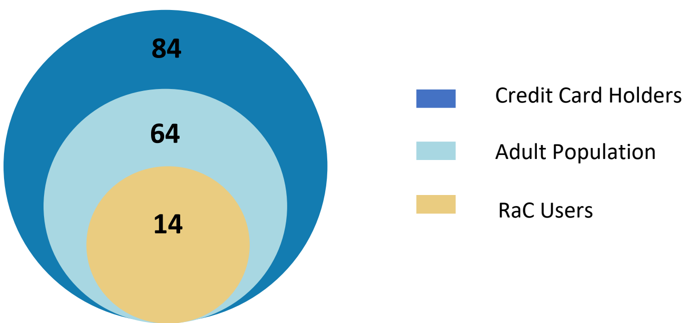
Recent meetings with the largest bank and fintech lenders also underscore our positive view on credit growth and asset quality. During our recent London conference, the large cap banks said that 2023 loan growth will decelerate from 2022 but will likely remain in the double-digits range driven by higher-income consumers, SMEs, and corporates. Plus, they agreed with us that delinquency has stabilized after the post-Covid normalization period across most credit products. For more details, please see: Feedback from 2022 Latam London Conference.

Transportation

by Josh Milberg & Pedro Fogetti

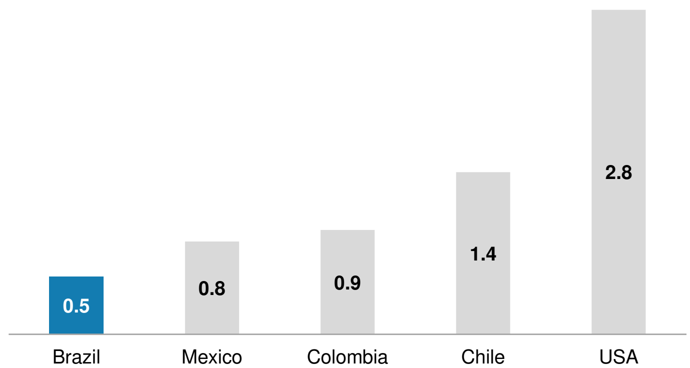
Within the larger transport universe, we believe the AlphaWise consumer survey has most pertinence for the car rental and airlines spaces, with the caveat that both sectors have been insulated to some degree from broader macro trends as a result of their dependence on demand coming from the higher-income segments of the population. This was hit home by a stat that the CFO of Azul highlighted to us recently: there are 10-15mn "CPFs" (Brazilian tax ID numbers) that fly in Brazil. Localiza in turn shows in its institutional presentation that there are 13mn short-term car rental users in the country out of an adult population of 64m if one only considers the A, B, and C income class segments of the population. So it is not all consumers we are talking about when we think about individual demand in these markets, and a big part of their revenues also correspond to corporates. That said, in no way can one affirm that air travelers or car rental users are entirely immune to economic developments, and we saw clear signs of a softening of demand on the air side earlier this year in response to a big run up in air fares (together with fuel), evident from decreasing load factors.

Exhibit 115: RAC TAM Overview (mn people)



*Note: Adults with age higher than 20 years old from classes A,B and C. Source: Company, Morgan Stanley Research

Exhibit 116: Flights per Capita (2019)



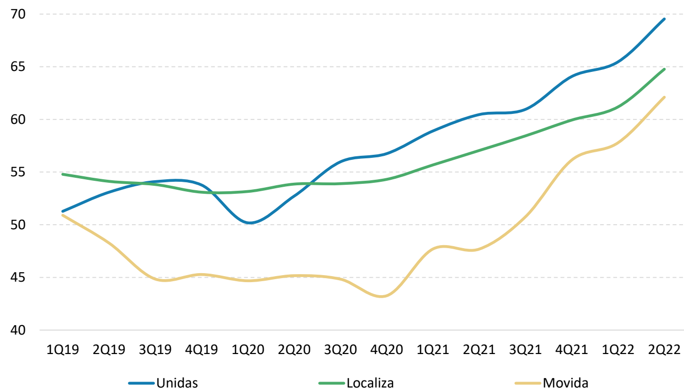
Source: Company, Morgan Stanley Research

Positive survey implications for car rental and specifically for Localiza (RENT3.SA). We see the survey results as having broadly positive implications for car rental and would identify Localiza as our preferred way to play potential demand upside suggested by the data. That "household financial outlooks remain constructive in Brazil" is supportive of our expectations that car rental demand will remain healthy in the months ahead. Looking back 6-12 months we saw much more demand risk due to the story of the dramatic shift up in rental pricing that resulted from the major increase in car prices. Now that a big part of the needed increases have been successfully absorbed both on the rent-a-car (RAC)/fleet management (GTF) sides we see a good deal less risk of substantial weakening of demand driven by higher prices. We recognize that Localiza intends to raise rental rates more in the months ahead (in order to achieve its targeted ROIC spread) but we believe it could boost them less than Movida (MOVI3.SA), and that Localiza will be able to focus its increases on segments in which demand may be more inelastic (ride hailing/monthly rentals/replacement). In any case, we are encouraged by the confidence Movida recently expressed to us on its ability to take its RAC daily rates from the R$120's level (in 2Q22) to the R$150's level by the end of the year (which is in itself is a sign of how healthy demand is today).

Exhibit 117: RAC Daily Rental (R$)

Source: Company data, Morgan Stanley Research

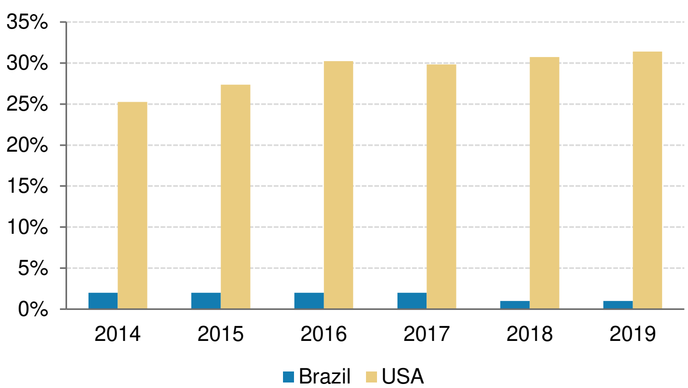
Exhibit 118: GTF Daily Rental (R$)



Source: Company data, Morgan Stanley Research

The improving household financial picture in Brazil also gives some support to the growth outlook for the new segment of long-term rentals to individuals (as well as SMEs) in the coming quarters — known as the zero kilometer or subscription market. The survey highlights that if inflation were to persist at current levels, consumers could delay or cancel significant activities like buying a car. That aligns with some softening we have seen in the new and used car markets in Brazil. However, the nascent nature of the zero kilometer market minimizes our concerns about any threat from a persistence of inflation. Moreover, with elevated car financing rates (in the high 20's) and banks offering less credit, long-term rental of cars rather than buying has become an compelling alternative for people, in our view. Localiza has lower risk than the banks from payment delinquency because its process for reclaiming the collateral is simpler/faster (it can cut the gas of the vehicle).

Exhibit 119: Leasing Share in Total Light Vehicle Sales



Source: Experian, ANEF, Morgan Stanley Research

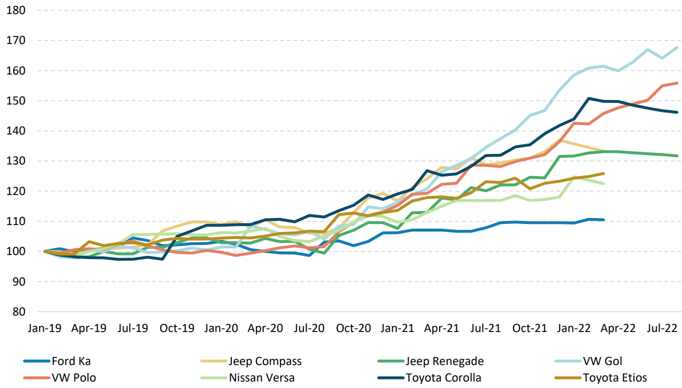
Exhibit 120: Sensitivity Analysis: Potential Longer-Term Rentals to Individuals Penetration in Brazil

	Long-term rentals to individuals penetration in Brazil						
Penetration	**1%**	**3%**	**5%**	**7%**	**9%**	**11%**	**13%**
Leasing market size in Brazil ('000 vehicles per year, assuming passenger car sales)	60	180	300	420	540	660	780
vs. Top 2 Players' year-end 2022 MSe Fleet rental fleet	*0.2x*	*0.5x*	*0.8x*	*1.2x*	*1.5x*	*1.9x*	*2.2x*

*Assumes annual light vehicle sale of 2mn cars and contract duration of 3 years. Source: ANEF, Company data, Morgan Stanley Research

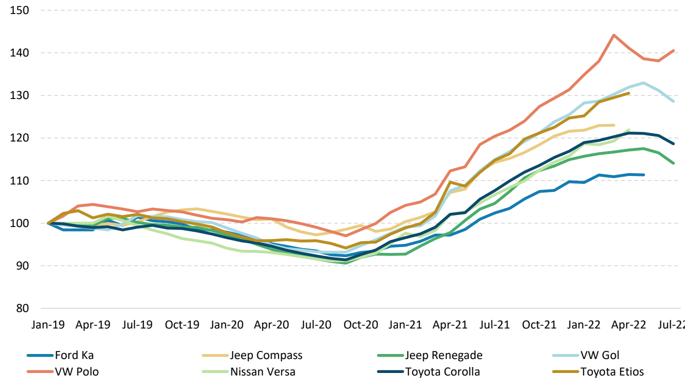
Greater risk on the Seminovos side. Where an eventual consumer retrenchment poses a greater risk for Localiza and the larger car rental space is on the Seminovos side. Already there has been some softening of used prices in Brazil, and a normalization, we understand of the new/used car spread which tightened during the pandemic. We see this as mitigated to some extent by the large store of value Localiza has in its older fleet (cars purchase before the major run-up in prices that started in 4Q20), which we discussed in detail here. Lower used car resale values in the future could also be offset by greater SG&A dilution and merger synergies with the opportunity to bring Unidas up to Localiza's level on buying/selling of vehicles.

Exhibit 121: Indexed Performance New Car prices (Jan/19 = 100)



Source: FIPE, Morgan Stanley Research

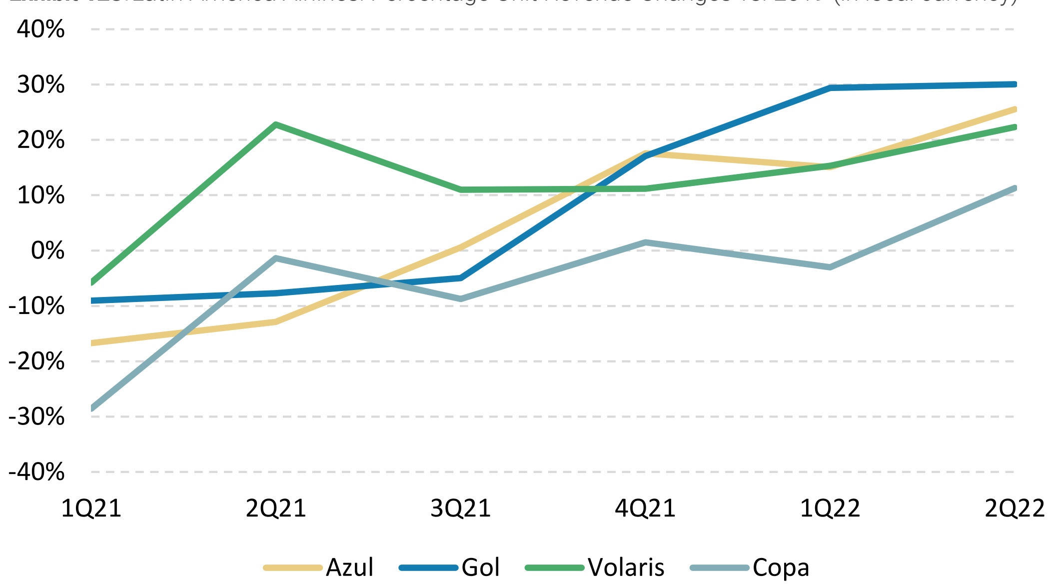
Exhibit 122: Indexed Performance Used Car Prices (Jan/19 = 100)



Source: FIPE, Morgan Stanley Research

What does the survey mean for the airlines? Survey data is in sync we believe with some of the latest developments we're seeing in Brazil and Mexico. In Brazil, Azul (AZUL.N) indicated at our London LatAm conference several weeks ago that the industry implemented an across-the-board near 10% domestic fare hike early last month. That the market can absorb this increase partially reflects the greater optimism on household finances and improved employment levels highlighted in the survey, we believe. However, even with a potentially improved pricing scenario we remain cautious on the Brazilian airlines for a number of reasons. To begin with, we don't think there has been a dramatic shift up in the operational prospects for the Brazilian airlines in the past 5-6 months (even with the recent easing of fuel prices). Indeed, Azul recently suggested at our London LatAm conference that it could deliver R$3.6 to R$3.7bn of EBITDA for the year, below the R$4bn figure it guided to when it released its 1Q22 results. Furthermore, the Brazilian airlines continue to present highly challenging cash flow scenarios given their elevated financial/aircraft liabilities and we continue to believe they will need new equity infusions at some point. On the Mexico side, we'd note that in the contrast to the Brazilian carriers, Volaris (VLRS.N) has hit a seeming ceiling several months ago on its ability to raise pricing further (without "destroying" demand). Some of this difference could be due to the worse evolution in consumers outlook on the economy in Mexico relative to Brazil discussed earlier in the report. However, it also certainty response to visiting friends and relatives traveling (Volaris's core customer base) being more sensitive to pricing increases than leisure/business travelers.

Exhibit 123: Latin America Airlines: Percentage Unit Revenue Changes vs. 2019 (in local currency)

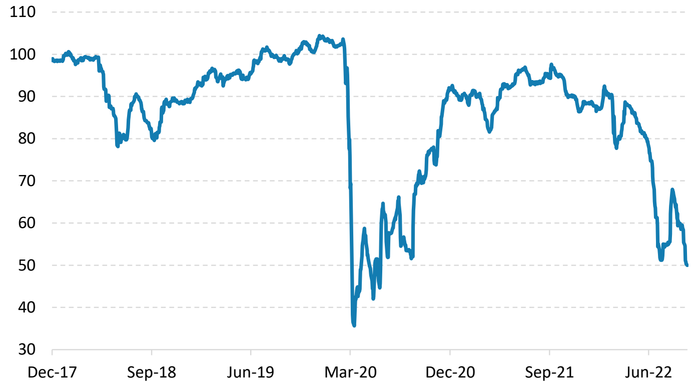


Source: Company, Morgan Stanley Research

Exhibit 124: Azul´s Bond Price Evolution

Source: Bloomberg, Company data, Morgan Stanley Research

Exhibit 125: Gol´s Bond Price Evolution



Source: Bloomberg, Company data, Morgan Stanley Research

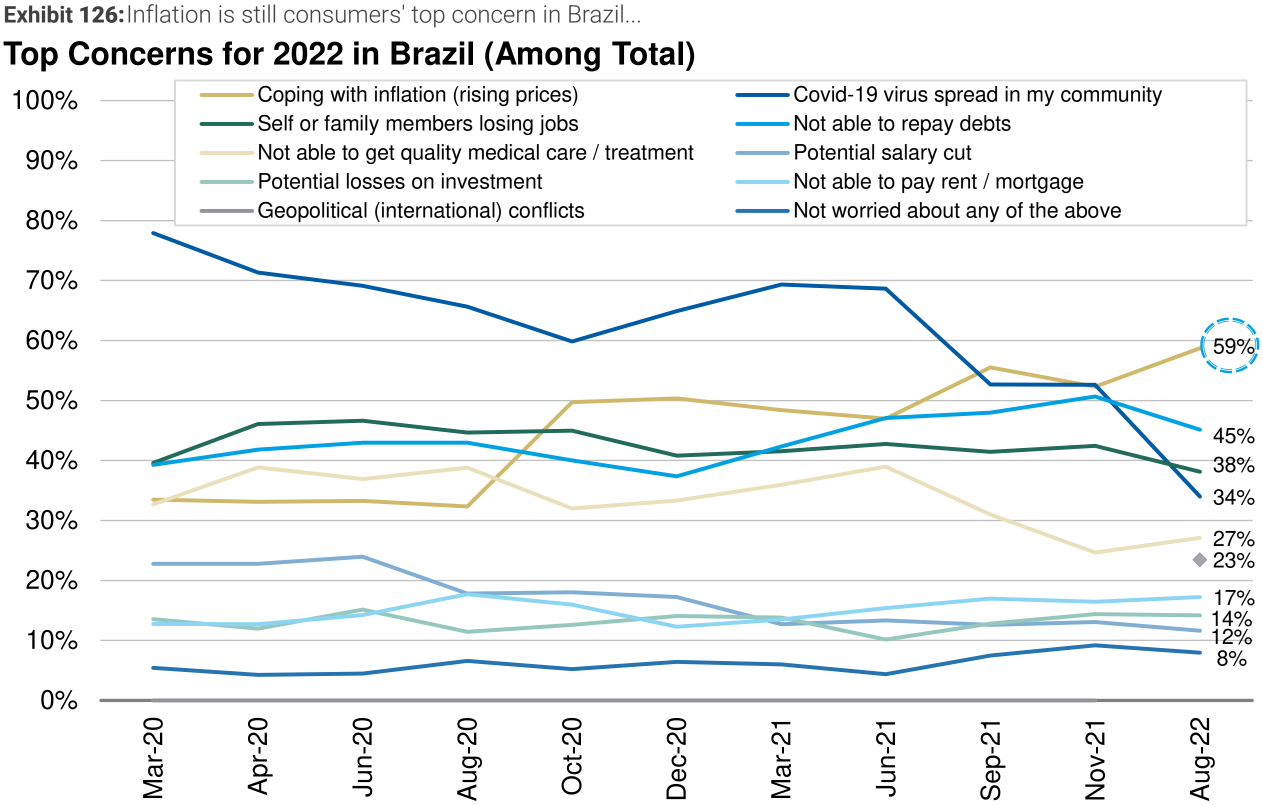
Food & Beverages

by Ricardo Alves & Lucas Mussi

Bottom line: We remain more cautious on Ambev (ABEV3.SA, UW) and BRF (BRFS3.SA, UW), as our latest AlphaWise consumer survey indicates a relatively challenging scenario for alcoholic beverages consumption going forward, as well as a willingness to trade-down in groceries (in the case of BRF, processed food operations in Brazil is our main concern). Food inflation remains a drag and above wage increases, and we have noted a pretty significant inverse historical correlation between beer demand & food inflation (we continue to assume lower volumes than the Street for ABEV into 2023e). All in all, we believe that the survey results underscores our *Price/Volume Conundrum* call for 2023, as we believe that assuming both higher prices for longer (pass through to consumers given elevated costs) *and* additional volume gains may be an overly optimistic assumption for our Brazil-based companies.

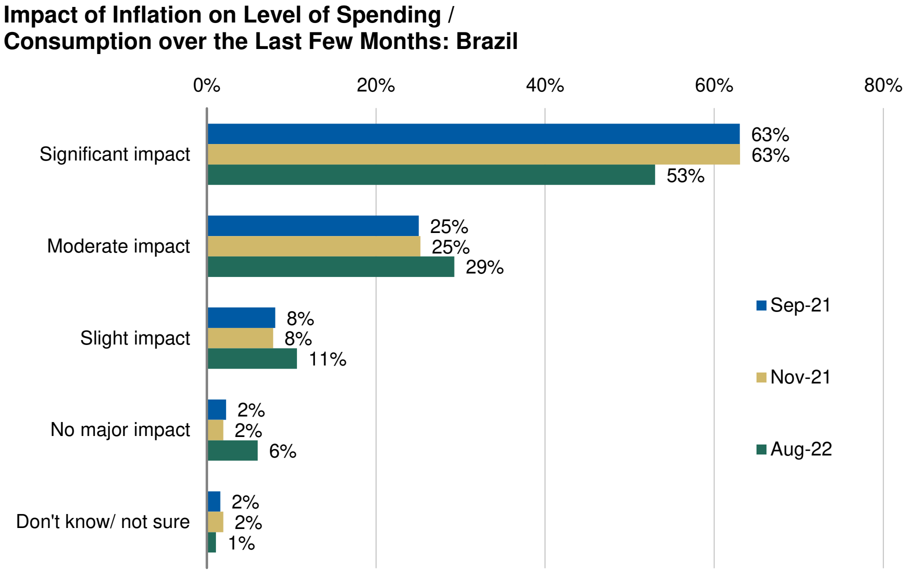
The inflationary environment remains a top concern, and it could weigh on consumption patterns for staple goods (particularly beer, in our coverage)... According to our survey, inflation remains the main source of concern among consumers (Exhibit 126), and although there seems to have been a sequential improvement in terms of inflation significantly impacting spending (Exhibit 127), we still think that some specific categories within the broader staple group that could have consumption/demand negatively affected by a higher price environment.

Exhibit 126: Inflation is still consumers' top concern in Brazil...



Source: AlphaWise, Morgan Stanley Research

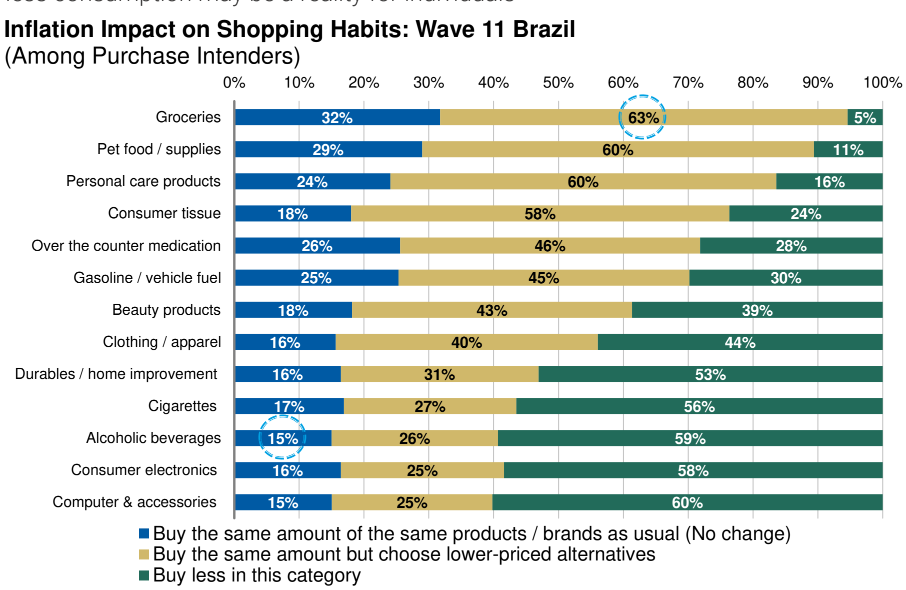
Exhibit 127:...but that has improved compared to our previous survey results (considering inflation as a potential drag for overall spending in Brazil)



Source: AlphaWise, Morgan Stanley Research

... As consumers may opt to trade-down within groceries, and spend less money on alcoholic beverages going forward. Although the groceries category showed the lowest percentage of respondents intending to buy LESS (which speaks to the category's staple nature – Exhibit 128), it was, at the same time, the category with the highest percentage (63%) of consumers willing to buy the same amount of same products but choosing lower-priced alternatives (trade-down). Naturally, eventually driving a negative price/mix for overall food & beverage items. Perhaps more important to our Brazil coverage, **related to alcoholic beverages,** the category showed one of the highest percentage of respondents willing to buy LESS in the category (59%, behind only computer & accessories, and pretty close to consumer electronics). To some extent, this underscores our more cautious view on overall beer demand in Brazil in 2023e, and potentially lower volumes than expected for Ambev then (that said, in the very short term (i.e., 2H22e) we still see solid volumes for the company).

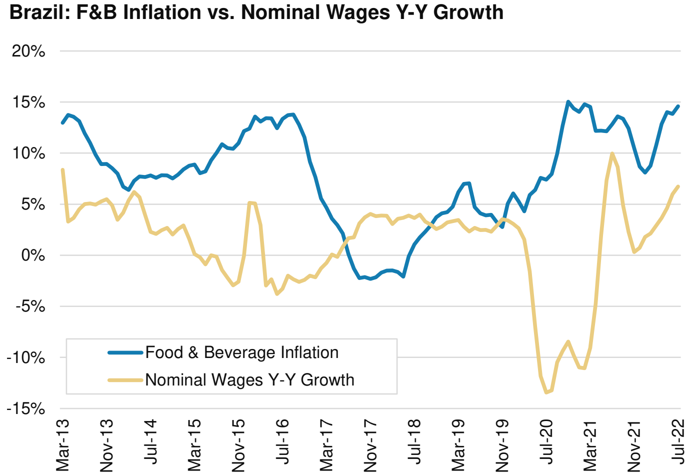
Exhibit 128: Groceries screened as the category that could potentially be most affect in terms of price trade-down, while alcohol beverages were among the categories where less consumption may be a reality for individuals



Source: AlphaWise, Morgan Stanley Research

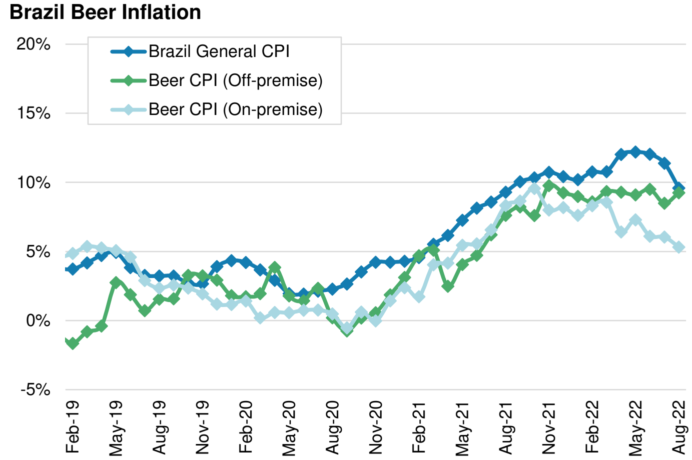
The price/volume conundrum for Ambev, part two; further evidence of the potential trade-off in our survey. As we wrote recently (see here), we believe that price increases for the local breweries going forward will most likely have to have a negative impact on volumes. After a couple of years of 1) inflated disposable income and 2) very tough comps, we don't see enough reasons to believe that beer volume will remain on the rise over the next couple of years, particularly amid today's highly inflationary environment; something's has got to give, in our opinion, and given that the local players will have to pass through inflation (partially offsetting higher costs), the negative impact should come on volumes. With that background in mind, the results of our consumer survey provide further evidence that consumers may be less inclined to accept front-line pricing hikes in beer, especially considering the current food inflation trends (Exhibit 129). Of note, on-premise beer inflation continues to lag off-premise (Exhibit 130), and we believe part of this gap may be somewhat explained by a consumer that may be already more sensitive to prices and/or more aggressive competition on-trade (namely, from Heineken with its own RTM strategy).

Exhibit 129: Although general CPI has somewhat receded recently, F&B inflation continues to significantly outpace wage growth



Source: IBGE, Morgan Stanley Research

Exhibit 130: For several consecutive months now, on-premise inflation for beer continues to lag prices in the off-trade channel in the country

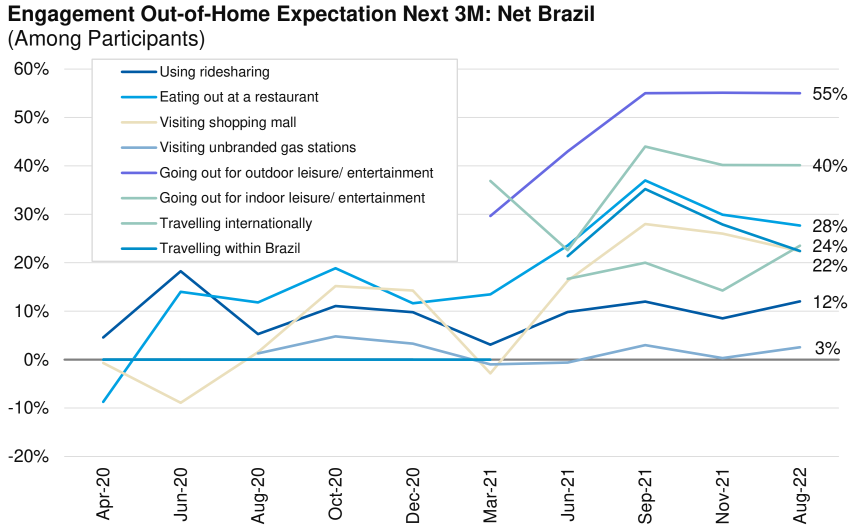


Source: IBGE, Morgan Stanley Research

With additional brewing capacity coming online from its main competitor, and with persistently high cost inflation, something has to give, in our view — We believe ABEV volume forecasts by the Street seem overly optimistic ahead, or perhaps prices/margin assumptions could be at risk. We still see cost pressure coming into 2023e (we forecast +8% y-y in cash COGS/HL for Ambev's Brazil Beer division), and while the company has been able so far to increase prices, our survey results indicate that price elasticity for alcoholic beverages in Brazil may increase ahead. That may drive the incumbents in the sector to balance more their volume share goals versus the margin protection strategy, particularly within an environment of higher capacity in the market (from HEIN mainly).

When we look at our sector, we believe that the majority of the shift back in consumption to the on-premise channel has already happened, which means less upside from the channel mix front going forward. With a more normalized mobility scenario in Brazil, and with the majority of the population already resuming pre-Covid activities (Exhibit 131), we think it is relatively stretch at this point to make the case that the return of the on-premise channel is still a significant tailwind for Ambev's top-line/margins going forward.

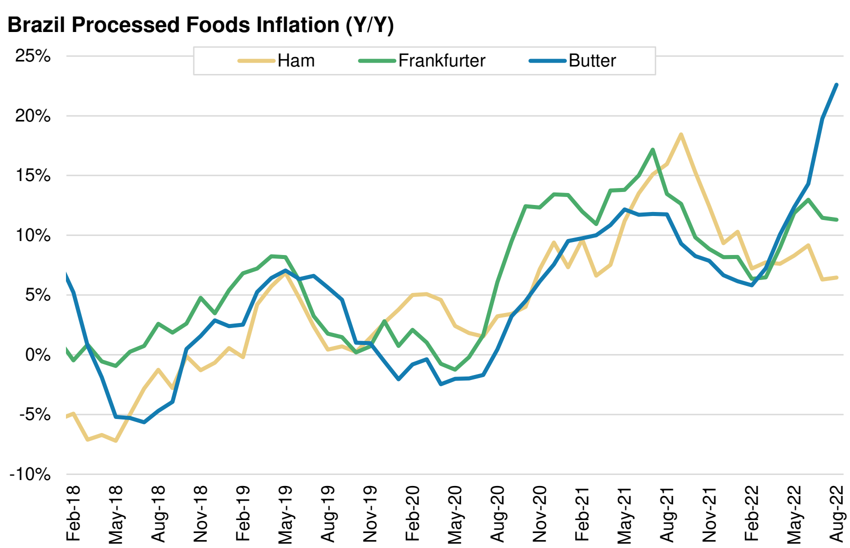
Exhibit 131: Brazil seems to be more normalized in terms of activities, as lockdown restrictions (and Covid measures) are not a reality anymore



Source: AlphaWise, Morgan Stanley Research

BRF may also face some volume/price challenges, as consumers may choose to trade down. Although we may see some benefit into chicken prices in the event of an intra-protein trade-down (e.g., demand shifting from beef into poultry; indeed, chicken prices have performed well so far in 2022 given the high beef quotes), we are more concerned about processed food performance when we look at the domestic operations of our Protein names. In the case of BRF/Seara, for example, the processed food players have been pushing for significantly higher prices (in part pushed by cost inflation) to consumers (Exhibit 132). Indeed, in the 2Q22 for BRF for instance, while prices were up 17% y-y, volumes declined -4% y-y, as not only competition (namely from Seara) has been tougher, but also as some price elasticity may already be a factor. The company is currently pushing to turnaround its domestic operations in Brazil and get back to mid-teens EBITDA margins, but under a still high cost environment that may require additional price passing through. At the same time, our consumer survey is indicating that consumers are willing to move into lower price alternatives when doing groceries. All in all, with a more intense competition backdrop in domestic Brazil, and with a trade-down risk on groceries, we remain more cautious than consensus on the domestic scenario for processed food players.

Exhibit 132: Processed food inflation in Brazil has been running high as companies see the need to pass through higher costs into consumers; we would not be surprised to see some volume impacts going forward, or at least some trade-down events



Source: IBGE, Morgan Stanley Research

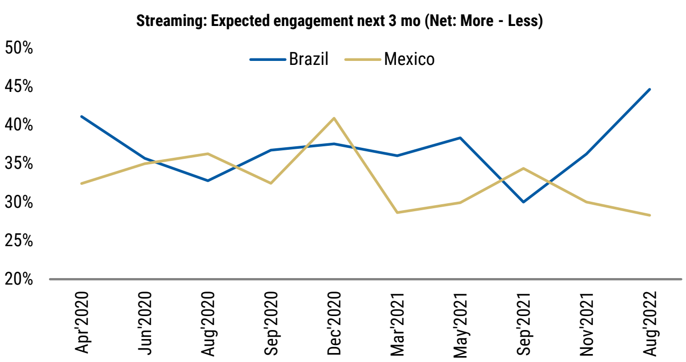
TMT

by Cesar Medina, Ernesto Gonzalez & Gabriel Vaz de Lima

Bottom line: Accelerating Cashflows To Support Re-rating. Our latest AlphaWise consumer survey for Brazil and Mexico brought three key positive messages for LatAm Telcos: 1) strong engagement with on-line activities, 2) ample consumer traction with 5G rollout, and 3) stable churn trends. Our favorite LatAm telco remains AMX.

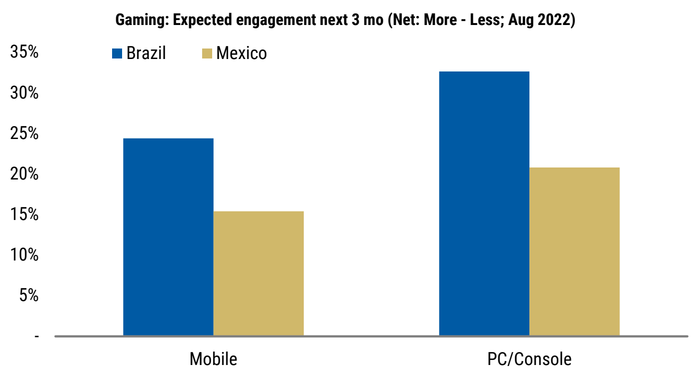
Theme 1: On-line engagement continues. Despite the reopening, our survey shows consumers continue to expect a net increase in the time spent engaging with data-intensive activities like Streaming or Gaming over the next 3 months. Nonetheless, we note higher intention in Brazil vs. Mexico, a fact that may be attributed to faster growth in fiber-to-the-home (FTTH) connections in Brazil (54% YoY in 4Q21) vs. Mexico (24%). Further, this network roll-out has been accompanied with commercial activities that position domestic carriers as entertainment hubs (e.g., bundles of broadband with streaming services included).

Exhibit 133: Despite reopening post-Covid, engagement with on-line activities...



Source: AlphaWise and Morgan Stanley Research

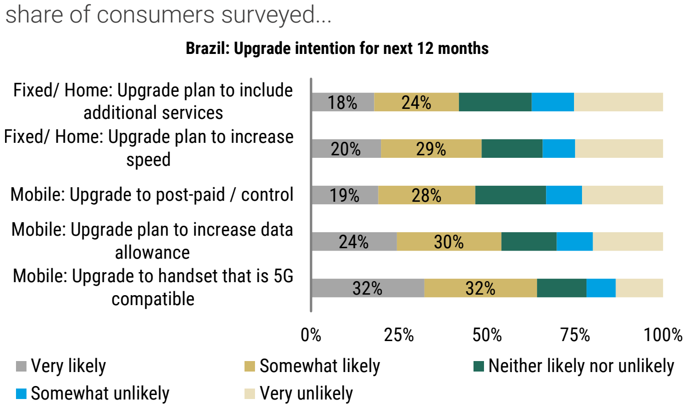
Exhibit 134: ... should remain at high levels, especially in Brazil



Source: AlphaWise and Morgan Stanley Research

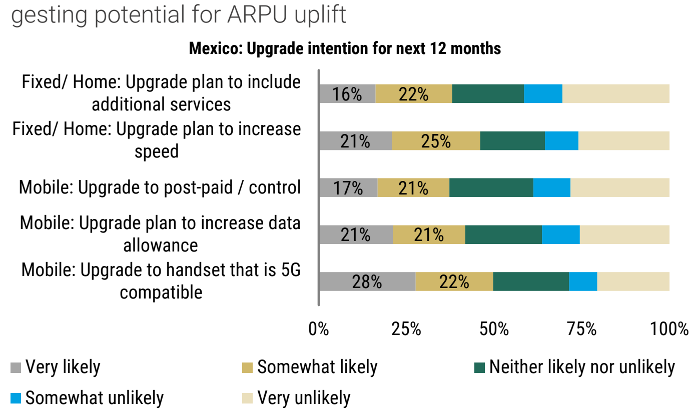
Theme 2: Early signs 5G is gaining traction among consumers. The ongoing 5G network rollout in Brazil (link) and Mexico (link) appears to be well received by end users. Indeed, the share of very/somewhat-likely consumers that plan to upgrade to a 5G-compatible phone over the next 12 months is 64% in Brazil and 50% for Mexico. In the same vein, the better experience brought by the new networks may help explain the fact that some 35-55% of consumers in both markets want to increase their data allowance or upgrade to control/post-paid, potentially suggesting 5G can also boost ARPU's in LatAm as it did in other markets (e.g., 10-15% in select Asian markets).

Exhibit 135: 5G is gaining traction in Brazil and Mexico, with a large share of consumers surveyed...



Source: AlphaWise and Morgan Stanley Research

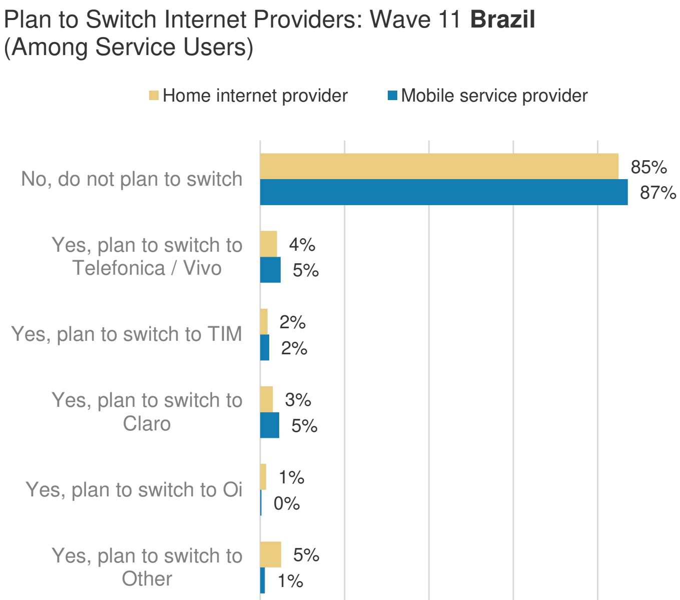
Exhibit 136: ... stating intention to upgrade handsets or plans, suggesting potential for ARPU uplift



Source: AlphaWise and Morgan Stanley Research

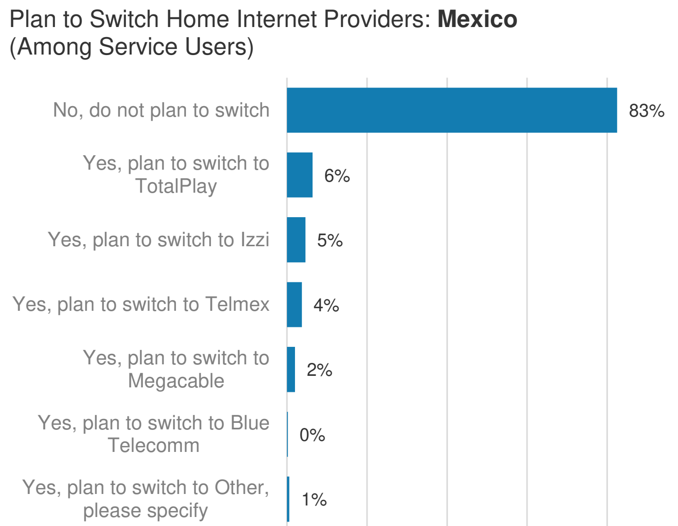
Theme 3: Stable churn trends. In Brazil, our survey shows ~85% of mobile subscribers plan to remain with their existing provider, a positive sign as acquired customers from Oi are already operating on roaming with their new carrier (thus, we now see lower risks of remaining carriers experiencing higher than expected churn). Meanwhile, in Mexico, 83% of subscribers want to remain with their existing home broadband operator, another sign that high competitive pressures are yet to materialize (link).

Exhibit 137: Our survey shows limited evidence of increased churn in either...



Source: AlphaWise and Morgan Stanley Research

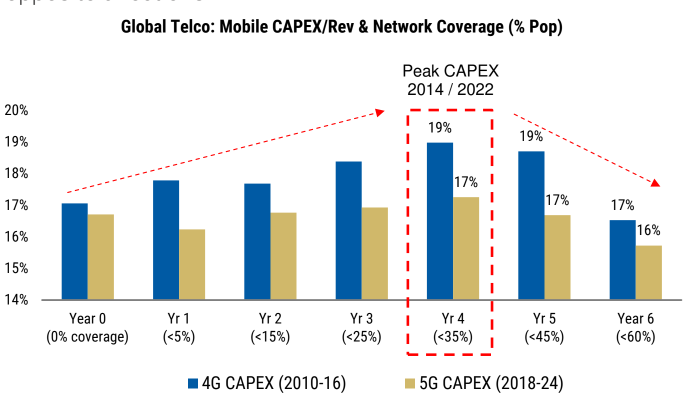
Exhibit 138: ... Brazil Mobile (post Oi) or Mexican Broadband (delayed competition)



Source: AlphaWise and Morgan Stanley Research

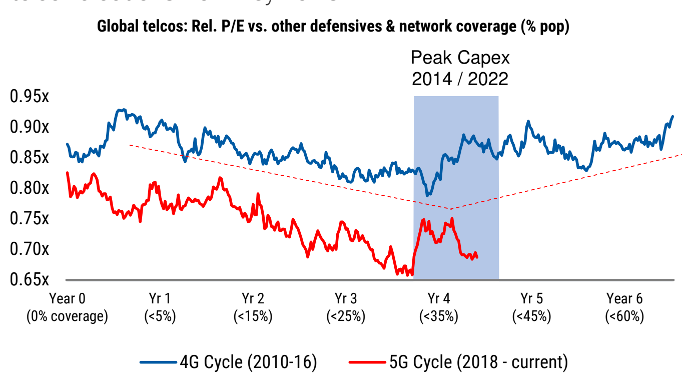
Investment recommendation... Our recent work (link) shows Brazil and Mexico are among the most attractive telco markets globally due to: 1) Stable competition, 2) Solid networks in key metropolitan areas, and 3) Positive demographic trends. Yet, LatAm telcos are trading near 10-year low multiples as the global sector is also trading near 15-year low valuations. Our infrastructure review of +50 telco markets globally points to a CAPEX peak in 2022, that could pave the way for improving FCF to support future re-rating for the sector (similar to what happened in the last decade after the peak in 4G investments).

Exhibit 139: The 4G cycle showed CAPEX and valuations move in opposite directions...



Source: OMDIA, Bloomberg and Morgan Stanley Research

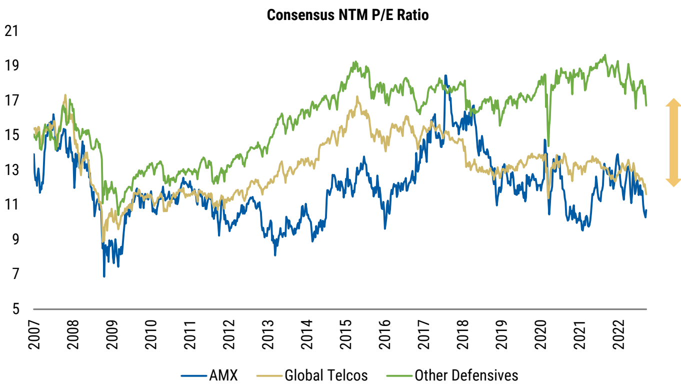
Exhibit 140: ... thus a CAPEX peak in 2022 could be a catalysts to lift telco valuations from 15yr lows



Source: OMDIA, Bloomberg and Morgan Stanley Research

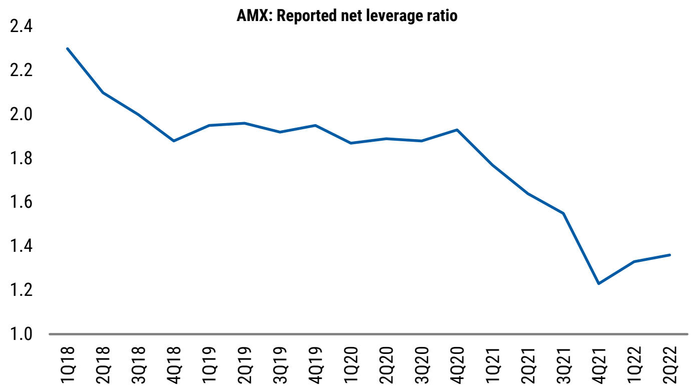
… AMX is our best telco idea in Latam. The re-rating in global telco stocks (on accelerating cash flows, cooling inflation and lower tech crowding out) could also be a positive catalyst for AMX, whose valuation closely tracks global peers and is also trading at a wide discount vs. other defensive sectors (an attractive entry point amid high macro uncertainty). Further, we see stable trends in CAPEX intensity as 5G investments are done at the expense of legacy technologies (4G or earlier). This, coupled with EBITDA growth (efficiency and better competition), should support further de-leveraging and financial strength to support shareholder remuneration (dividends and buybacks).

Exhibit 141: The re-rating of global telcos from 15-yrs lows vs. defensives would support valuation for AMX…



Source: Bloomberg and Morgan Stanley Research

Exhibit 142: … a company with accelerating FCF to sustain additional de-leveraging and shareholder remuneration



Note: Ex-IFRS 16. Source: Company data and Morgan Stanley Research

Metals, Mining, Paper, & Pulp

by Carlos de Alba, Jens Spiess & Ricardo Monegaglia

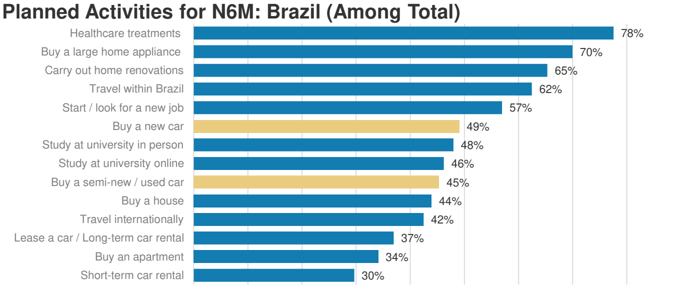
Steel

Bottom line: We remain relatively cautious on CSN (CSNA3.SA, EW), Usiminas (USIM5.SA, EW) and, to a lesser extent, Ternium (TX.N, EW) and Gerdau (GGBR4.SA, EW), as our latest AlphaWise consumer survey suggests that less than 10% of the respondents in Brazil and Mexico having the intent to buy a new car/new home/new apartments if inflation persists at current levels. Both sectors account for 22-34% of total steel shipments for companies under our coverage. Thus, if inflation doesn't decline, steel companies under our coverage could experience lower margins relative to our expectations, as they 1) direct more products to lower margin export markets or 2) reduced shipments result in less fixed cost dilution.

Persisting inflation could dent consumers' intent to buy new cars in Brazil and (even more) in Mexico. Data shows that both in Brazil and Mexico around 50% of respondents have the intent to buy a new car. However, looking at how those consumers may change their behavior in the event that inflation persists at current levels, the data shows a skew for consumer planning either to delay or cancel new car purchases. In Mexico, the share of respondents intending to cancel (38%) is higher than in Brazil (30%). In contrast, in Brazil a slightly higher share of consumers plan to delay the purchase of a new car, at 50% compared to 47% in Mexico. This leaves only 20% and 15% share of consumers that would proceed with the purchase of a new car in Brazil and Mexico, if inflation persists.

Exhibit 143: While ~50% of Brazilian respondents intend to buy a car in the next six months...

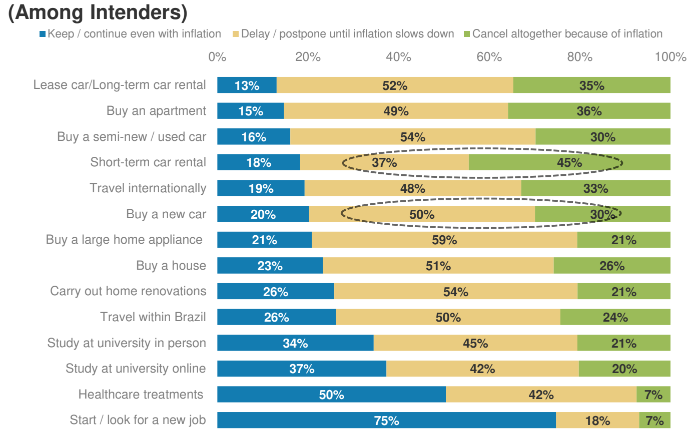
Planned Activities for N6M: Brazil (Among Total)



Source: AlphaWise, Morgan Stanley Research

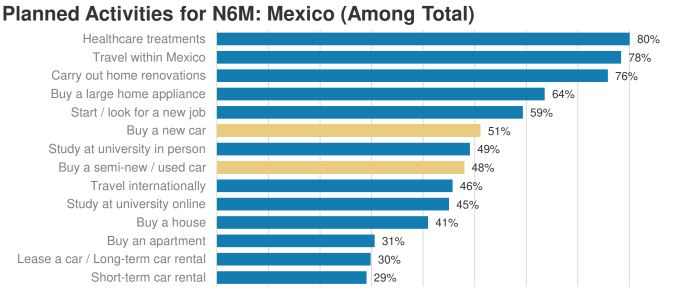
Exhibit 144: ... at least 80% would postpone/cancel their decision if inflation remains at current levels

Delay or Cancelation of Activities Due to Inflation: Brazil (Among Intenders)



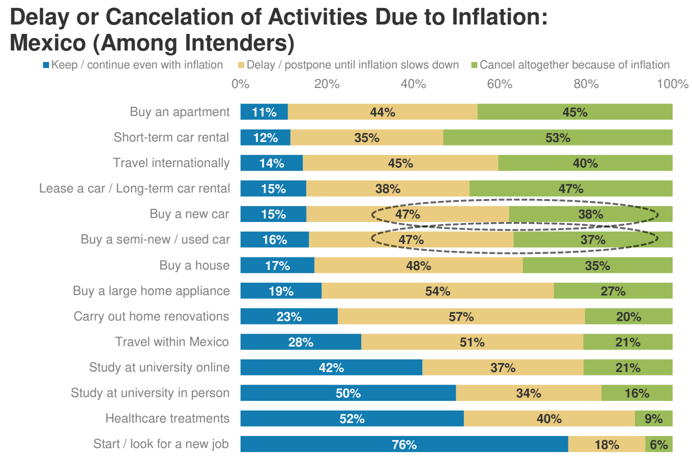
Source: AlphaWise, Morgan Stanley Research

Exhibit 145: There is a similar intend from Mexican respondents...



Source: AlphaWise, Morgan Stanley Research

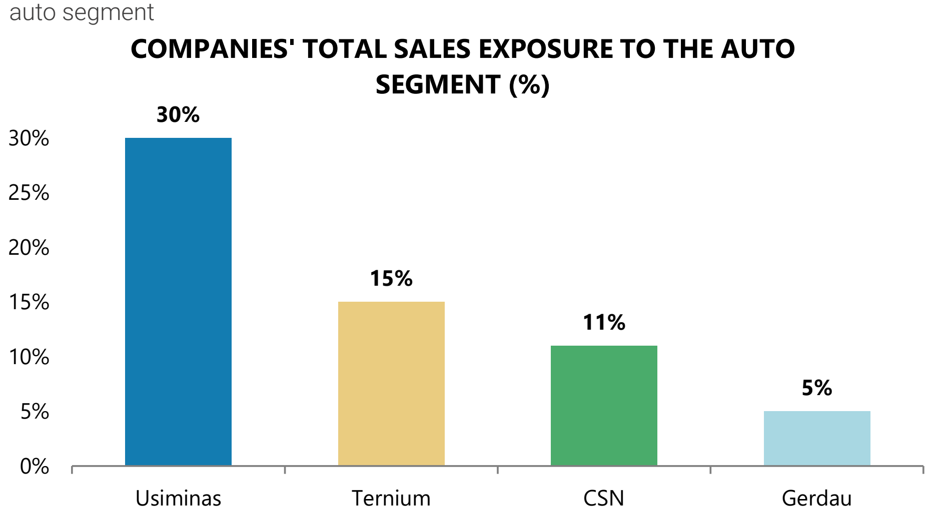
Exhibit 146: ... but with fewer consumers proceeding with the purchase if inflation remains at current levels



Source: AlphaWise, Morgan Stanley Research

Flat steel markets are more sensitive to changes in vehicle production, in comparison with long steel. In Brazil, the automotive sector represented 35% of flat steel end-use in 2008-20 ex-distribution, with a historical correlation between domestic vehicle production and flat steel demand consumption of 0.62. Usiminas is the company under our coverage with the highest exposure of overall sales to the automotive sector in Brazil (30% of total sales), followed by CSN (11%) and Gerdau (5%; light vehicles in Brazil). The automotive sector represents 27% of Ternium's end-use in Mexico and the results of our survey indicate a more negative outlook for vehicle demand relative to Brazil. Considering that Mexico represents more than half of Ternium's total shipments, we estimate that auto steel represents ~15% their shipment mix.

Exhibit 147: Usiminas overall steel sales are significantly more exposed than peers to the auto segment

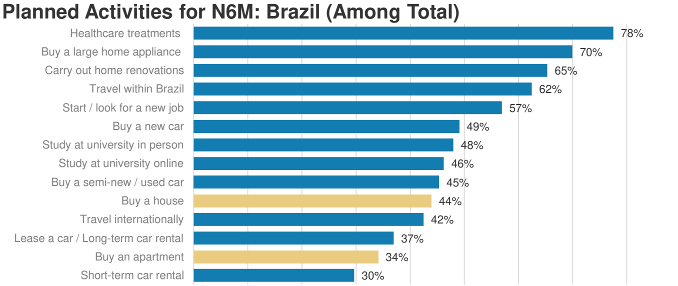


Source: Company, Morgan Stanley Research

Intention to buy a new house or apartment in Brazil and Mexico remains healthy for now. We turn to consumers intent to purchase new house and apartments to gain insight into future construction activity. The data shows that in Brazil a higher share of respondents intend to buy a new house (44%) or apartment (34%) compared to Mexico (with 41% and 31%, respectively). Looking at how those consumers might change their behavior if inflation persists, we find that consumers in Brazil are less likely to cancel house and apartment purchases compared to Mexico. In Brazil, 23% would proceed to buy a house and 15% would still plan to purchase an apartment if inflation persists; in contrast, in Mexico the equivalent number is 17% for houses and 11% for apartments.

Exhibit 148: Buying a new home is one of the less likely activities planned by Brazilian consumers...

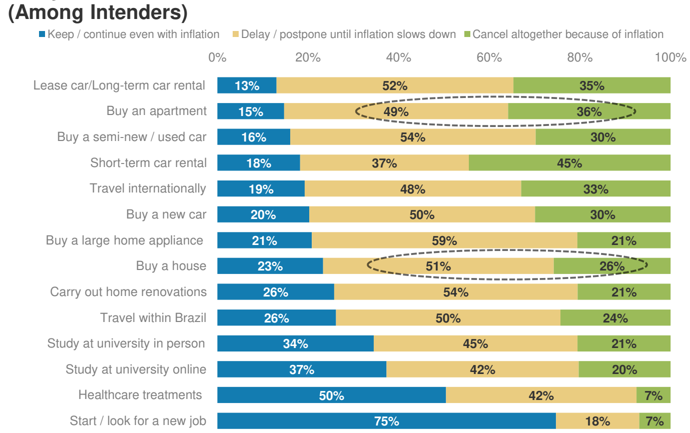
Planned Activities for N6M: Brazil (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 149: ... and few would proceed if inflation persists

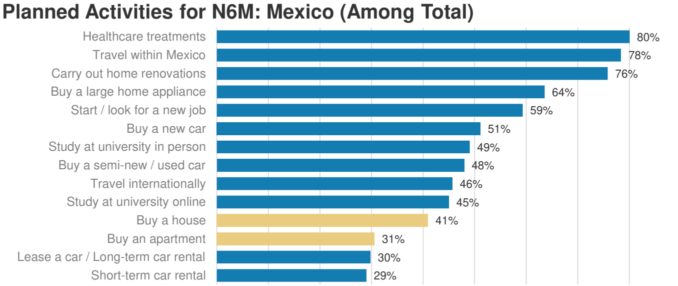
Delay or Cancelation of Activities Due to Inflation: Brazil (Among Intenders)



Source: AlphaWise, Morgan Stanley Research

Exhibit 150: There is a slightly worse intent from Mexican respondents to buy a house...

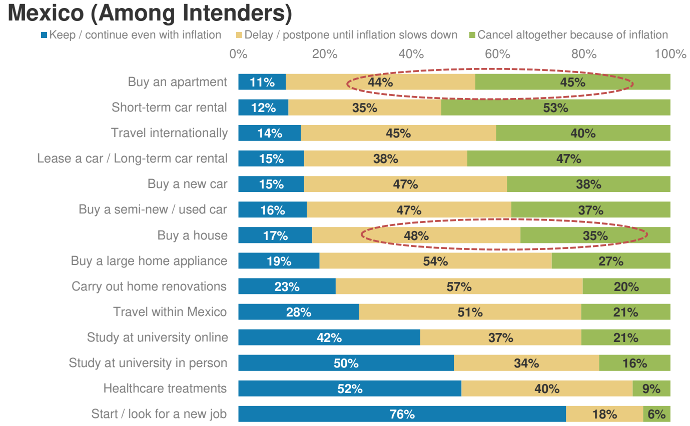
Planned Activities for N6M: Mexico (Among Total)



Source: AlphaWise, Morgan Stanley Research

Exhibit 151: ... with a higher share of respondents planning to delay/cancel if inflation remains at current levels

Delay or Cancelation of Activities Due to Inflation: Mexico (Among Intenders)

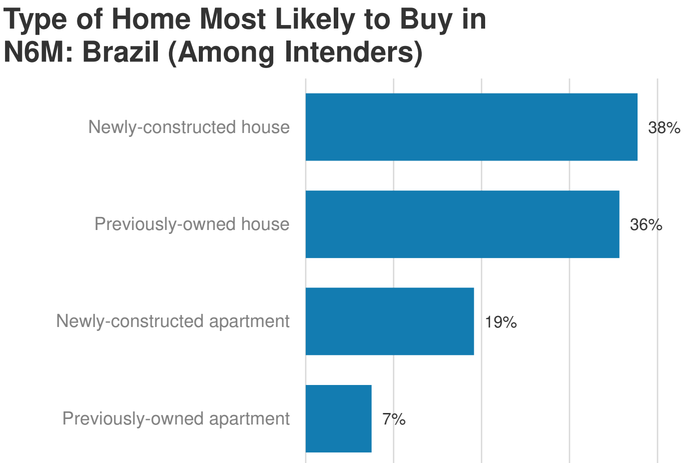


Source: AlphaWise, Morgan Stanley Research

More than half of respondents still plan to buy a new home/apartment in the next six months. Our AlphaWise survey shows that ~55% of respondents in Brazil and Mexico that plan to buy a home or apartment in the next six months, indicated that they intend to buy a new house/apartment, meaning incremental steel demand. That said, steel demand is also not favored by 38-43% of respondents planning to buy a new house instead of a new apartment (11-19%), as houses are relatively less steel intensive compared to buildings.

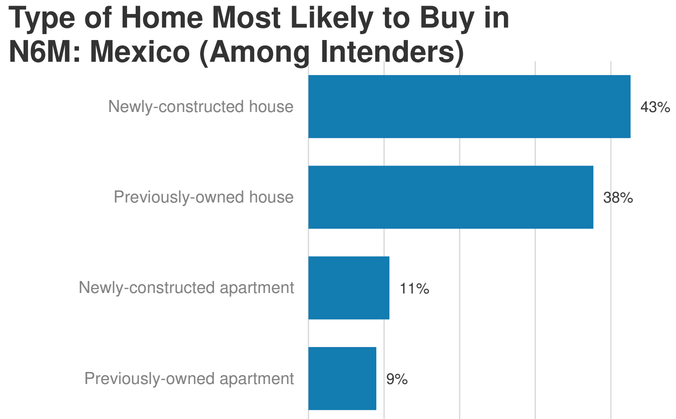
Further, steel consumption for apartment buildings generally increases with the number of stories. Survey data shows that a larger share of consumers in Brazil plan to buy apartments in higher buildings compared to Mexico. In Brazil, 24% of respondents plan to buy an apartment in a building with more than 10 stories, while in Mexico only 3% do. In contrast, roughly 80% of respondents in Mexico plan to buy an apartment in a building with 1-5 stories tall.

Exhibit 152: Less than half of respondents plan to buy a newly-constructed home...



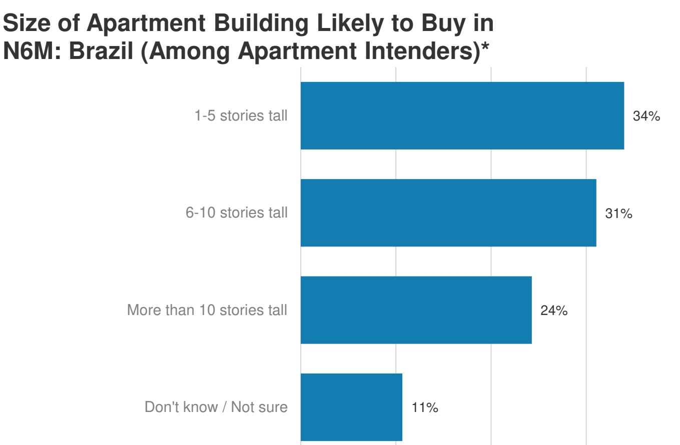
Source: AlphaWise, Morgan Stanley Research

Exhibit 153: ... and ¾ plan to buy a house instead of an apartment



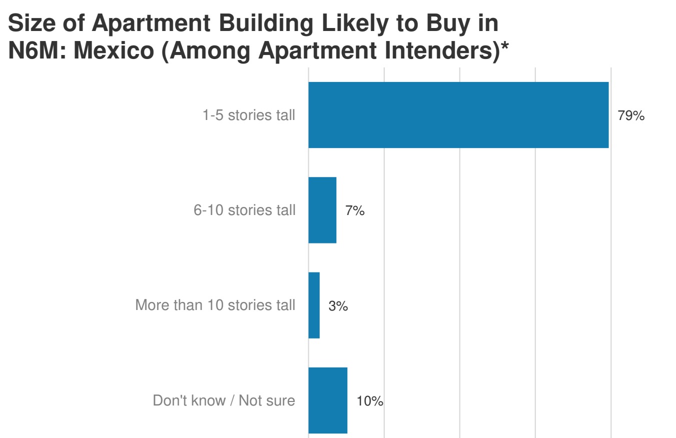
Source: AlphaWise, Morgan Stanley Research

Exhibit 154: More than half of consumers in Brazil plan to buy an apartment in taller buildings...



Source: AlphaWise, Morgan Stanley Research
* New or existing units

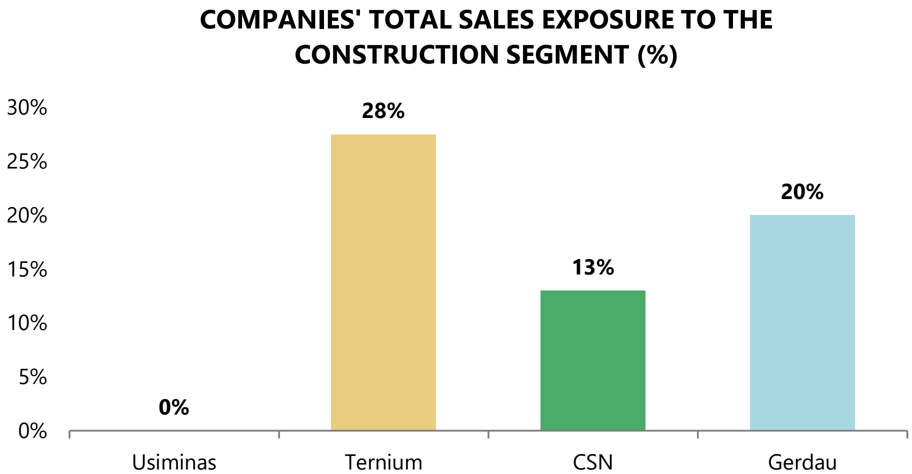
Exhibit 155: ... while that only applies to fraction of consumers in Mexico



Source: AlphaWise, Morgan Stanley Research
* New or existing units

In our steel coverage, Gerdau and Ternium have the highest exposure to the construction sector in Brazil and Mexico. Among our coverage, Gerdau has the highest exposure of its overall steel sales to Brazil's construction sector (20%), followed by CSN (~13%); while Usiminas basically has no exposure. For Ternium we estimate that 25-30% of shipments go to the construction sector in Mexico. That said, potential consumer weakness in the construction sector might take longer to impact steel demand compared to discretionary products (e.g., autos) — construction continues to be carried out during economic slowdowns (e.g., projects pre-sold, fully financed, etc.). As our analysis shows (see here), long steel demand — which has higher exposure to construction sector — peaks later compared to flat steel demand during economic downturns.

Exhibit 156: Ternium and Gerdau have relevant exposure to the construction sectors in Brazil and Mexico



Source: Company, Morgan Stanley Research

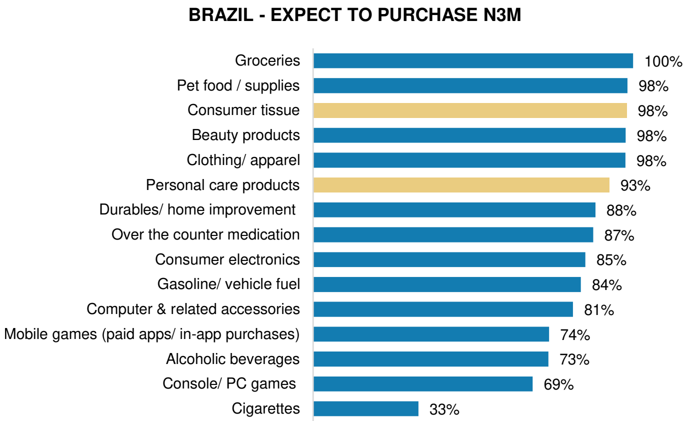
Paper, Tissue and Personal Care

Bottom line: For exposed tissue and personal care names — KIMBER (KIMBERA.MX), CMPC (CMPC.SN), Suzano (SUZB3.SA) — the survey points to potential trade-down risks (i.e., consumers opting to switch to lower priced products) if inflation persists. KIMBER is the most exposed company under our coverage to these categories. Yet while trade-down could put pressure on realized prices, we think that easing cost trends will have a larger net positive impact on the company's profitability. Among our coverage Klabin (KLBN11.SA, OW) has the highest exposure to packaging, having ~45% of its overall revenue coming from the Brazilian paper and packaging markets. We believe that demand for paper and packaging products can remain resilient even if inflation persist as survey data shows that only a small portion of consumers would expect to buy less groceries and consumer goods.

Tissue and Personal Care

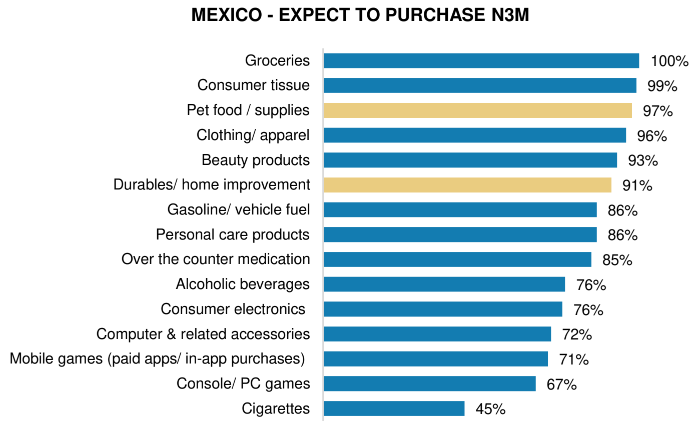
To cope with inflation, consumers in Brazil show willingness to trade down to lower-priced alternatives for personal care and consumer tissue. Our survey data shows the defensiveness of personal care and tissue products in Brazil and Mexico, with over 98% and 86% of consumers reporting that they intend to continue purchasing tissue and personal care products, respectively. That said, our survey data also reflects the willingness of consumers in Brazil and Mexico to change their shopping behavior if inflation persists at current levels over the next three months. For consumer tissue, 58% of consumers in Brazil are willing trade down and 24% are willing to buy less; in Mexico, 66% intend to trade down and 11% would buy less. For personal care products, 60% of consumers in Brazil plan trade down and 16% would by less; in Mexico, 56% would trade down and 21% would consider cutting consumption.

Exhibit 157: Tissue and personal care products rank high as categories that...



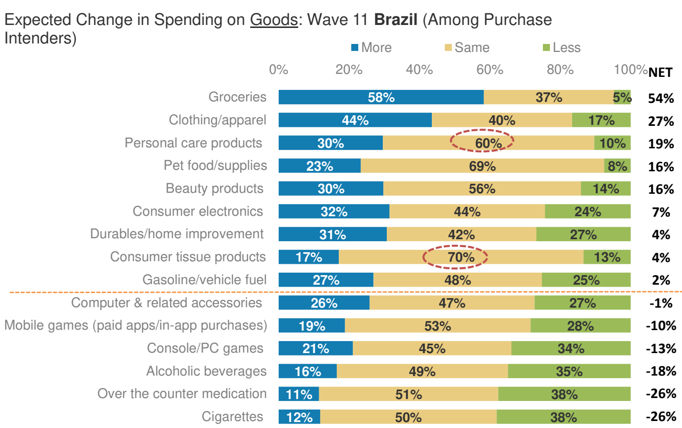
Source: AlphaWise, Morgan Stanley Research

Exhibit 158: ...consumers in Brazil and Mexico plan to purchase in the next three months



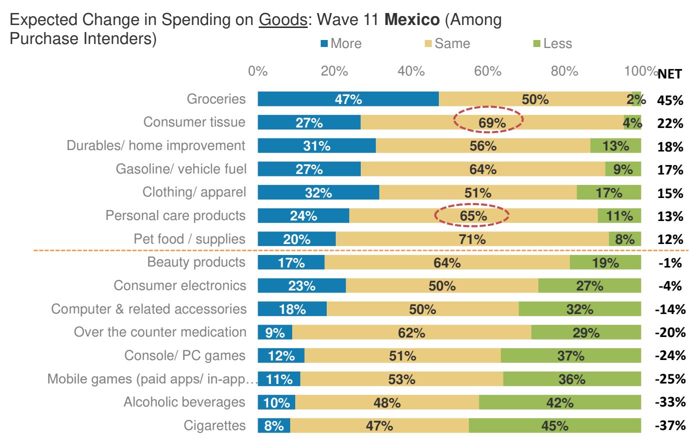
Source: AlphaWise, Morgan Stanley Research

Exhibit 159: However, if inflation persists, they also rank high ...



Source: AlphaWise, Morgan Stanley Research

Exhibit 160: ... in terms of potential trade down risk



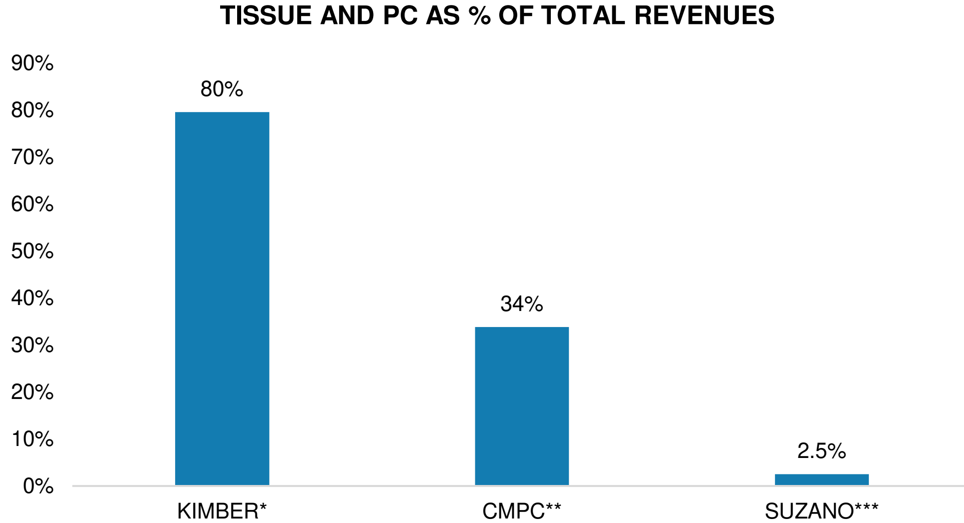
Source: AlphaWise, Morgan Stanley Research

KIMBER has the highest exposure to tissue and personal care sectors. Around 80% of KIMBER's revenues are exposed to the consumer tissue and personal care markets in Mexico. While trade-down could result in lower overall realized prices, our OW thesis for KIMBER remains intact, as we see the company's profitability improving in 2023 on the back of easing costs pressures (i.e., lower pulp and oil derivatives prices).

CMPC's tissue and personal care segment, Softy's, accounts for 34% of total revenues (LTM as of 2Q22). Brazil and Mexico account for 13% and 22% of Softy's revenues and only 5% and 7% of CMPC's total revenues. While potential trade-down represents a risk for the division's profitability, we believe that easing cost pressures will offset any potential pricing pressure. We forecast Softy's EBITDA margin expanding to 13% in 2023 from 9% in 2Q22, despite assuming 9% lower realized prices (in USD).

Suzano's tissue segment is far less relevant to overall results in comparison to Kimber and CMPC, as it accounts for only ~2.5% of total revenues (LTM as of 2Q22). Suzano is the third largest player in the Brazilian tissue market and the company is expanding and consolidating its tissue business, positioning the company to capitalize on a premiumization trend. While a trade down to lower-priced alternatives for consumer tissue does not bode well for returns in these expansion projects, we welcome that the company announced plans to fund its growth plans using its balance of ICMS tax credits (see here).

Exhibit 161: KIMBER has the highest exposure to consumer tissue and personal care segment...



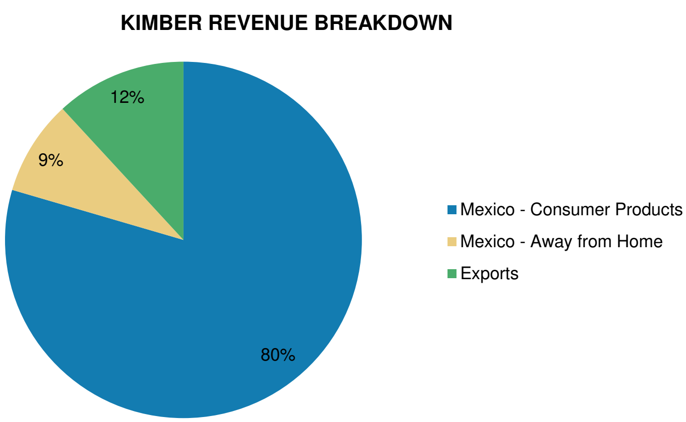
Source: Company Data, Morgan Stanley Research

* Consumer Segment 2021

** Softy's LTM Revenues as of 2Q22, incudes away from home product

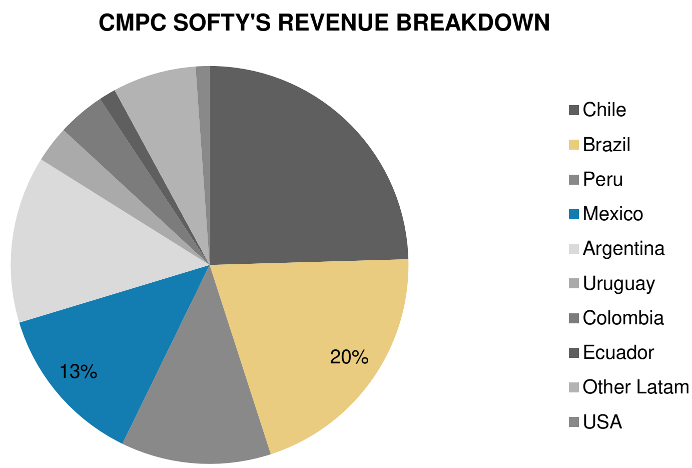
*** Tissue LTM Revenues as of 2Q22

Exhibit 162: ...with sales concentrated in Mexico...



Source: Company Data, Morgan Stanley Research

Exhibit 163: ...while CMPC tissue revenue mix is geographically more diversified



Source: Company Data, Morgan Stanley Research

Packaging

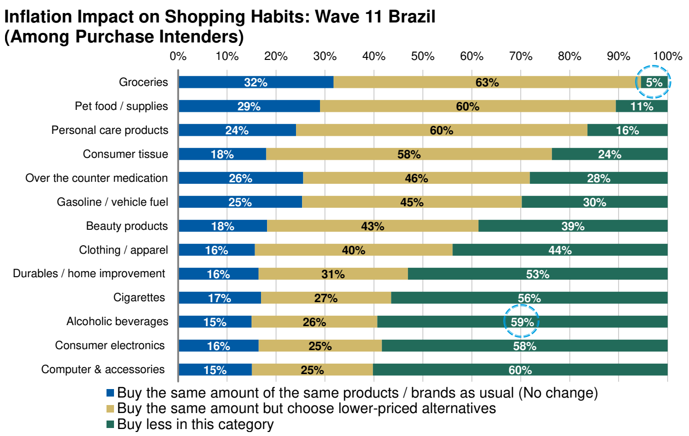
Not many consumers plan to buy fewer groceries if inflation remains at current levels... The groceries category showed the lowest proportion of individuals, among all categories, that plan to spend less if inflation remains at current levels. While 53% of consumers would plan to trade down to lower-priced alternatives, we think that this would only have a marginal, if any, impact on paper and packaging consumption. In contrast, alcohol was one of the categories that showed significant intention of less spending, which could represent a headwind for Klabin's coated board sales if inflation persists. However, we believe that Klabin's extensive product portfolio would allow the company to relocate volumes to other product categories.

... consumer goods demand could be supported by our Retail team's real retail sales growth forecast of +3.5% for 2023E. Klabin sells 13% of its paper and packaging products to consumer goods clients, thus we look to the retail sales outlook to forecast demand growth in this product category. The model of Morgan Stanley's

LatAm Retail team (led by Andrew Ruben) points to a slightly upward sales growth trajectory for retail sales in Brazil, based on its Brazil Retail Leading Indicator. The resulting output is a blended 2023E real retail sales growth rate of +3.5%, vs +1.8% in 2022E; notably, the +3.5% level would mark the highest real retail sales growth level since 2013.

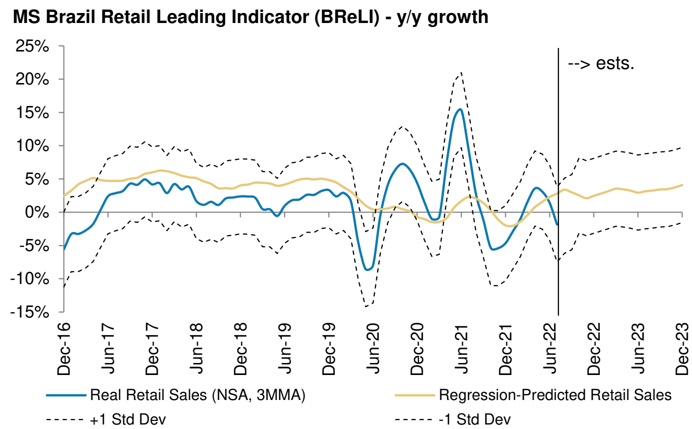
These categories represent 80% of Klabin's paper and packaging sales. For paper and packaging, to which Klabin has the highest exposure in our coverage, demand could remain resilient even if high inflation persists. Survey data shows that only a small portion of consumers expect to buy less groceries and consumer goods.

Exhibit 164: Only 5% of grocery buyers plan to buy less if inflation remains at current levels...



Source: AlphaWise, Morgan Stanley Research

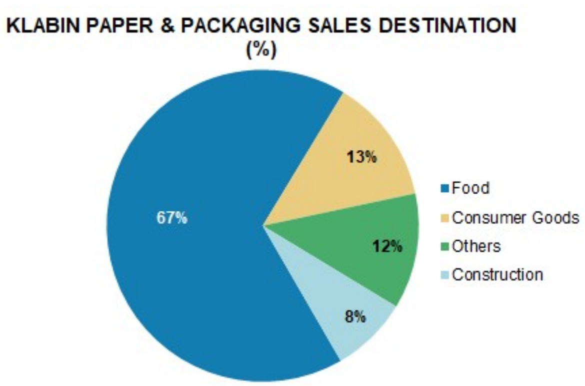
Exhibit 165: ... and BReLI points to improving retail sales trends into 2023



Note: *The Brazil Retail Leading Indicator (BReLI) is a proprietary model developed by the LatAm Retail & eCommerce team and should not be deemed to represent the LatAm Macroeconomics team's views.*

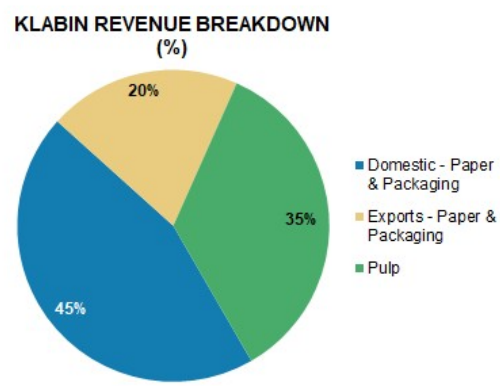
Source: IBGE, Brazilian Central Bank, Fecomercio-SP, Morgan Stanley Research

Exhibit 166: Groceries and consumer goods represent the bulk of Klabin's paper and packaging sales...



Source: Company, Morgan Stanley Research

Exhibit 167: ... and roughly half of its revenue is exposed to Brazil



Source: Company, Morgan Stanley Research

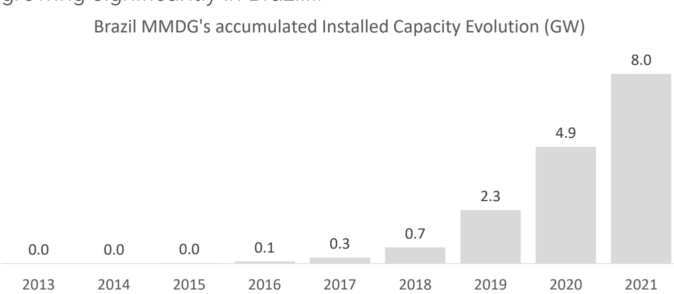
Utilities

by Miguel F Rodrigues, Fernando P Amaral & Alexandre Zimmermann

Underpenetrated DG opens room for attractive growth opportunities in the demand and supply sides. Energisa (ENGI11.SA) is the best positioned among LatAm Utilities. Unsurprisingly, our AlphaWise consumer survey results indicated that distributed generation (DG) is still underpenetrated among Brazil and Mexico consumers, despite a significant increase in capacity over the last couple of years. For those consumers that are aware of DG, high installation prices are the top reason preventing them to use it. We believe the following factors will likely enable an increase in consumers' penetration: i) consumers' high intention of using DG; ii) the equipment supply growth; and iii) development of more tailored products by DG developers, likely making it more affordable and increasing consumers' awareness.

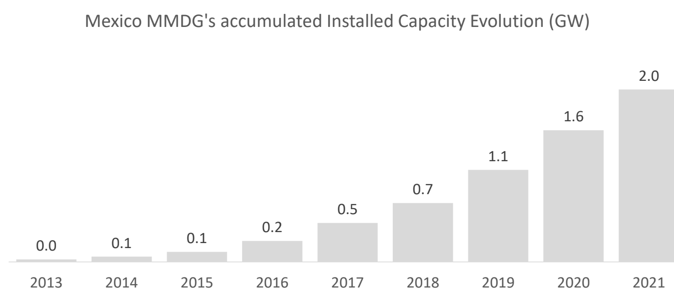
Distributed generation (DG) has been growing significantly in Brazil and Mexico... For instance, Brazil's DG's installed capacity increased from ~90MW in 2016 to more than ~8GW in 2021 (representing ~2% of Brazil's electricity demand), according to the Brazilian Solar Photovoltaic Energy Association (Absolar) and the Energy Planning Entity (EPE). In Mexico, DG has also been growing exponentially, with installed capacity up from 62MW in 2014 to ~2GW in 2021, according to US Department of Energy's National Renewable Energy Laboratory (NREL).

Exhibit 168: Distributed Generation (DG) capacity has been growing significantly in Brazil...



Source: EPE, ANEEL, Morgan Stanley Research.

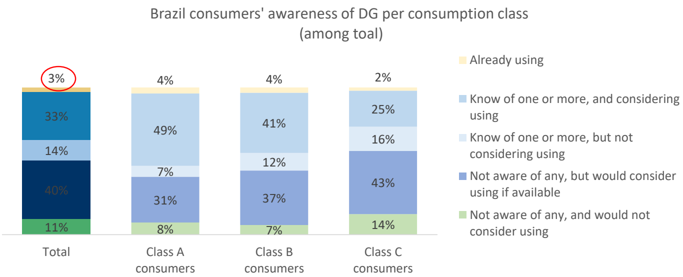
Exhibit 169: ... and Mexico.



Source: Comisión Reguladora de Energia, Morgan Stanley Research.

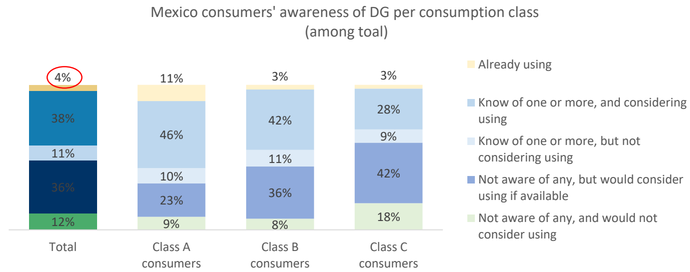
...But it is still underpenetrated among consumers, who allege high installation prices are the top reason, preventing its usage. Unsurprisingly, survey results indicate that current adoption of DG systems is still low in Brazil and Mexico, as only 3% and 4% of interviewed consumers are already using a renewable source of generation to partially offset final cost of their electricity bills, respectively. Among current users, high-income consumers (i.e., classes A and B) are the majority, according to the survey, especially in Mexico. The survey results also indicate that high installation prices are the top reason preventing consumers that are aware of DG systems but are currently not using one; this was the case for 75% of surveyed Brazilian consumers and 66% of Mexicans (as shown on Exhibit 172 and Exhibit 173).

Exhibit 170: But current adoption of DG systems is still low, representing ~3% of total consumers in Brazil...



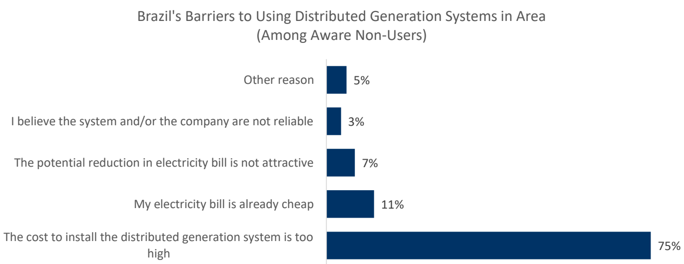
Source: AlphaWise, Morgan Stanley research.

Exhibit 171: ...and ~4% of Mexican consumers.



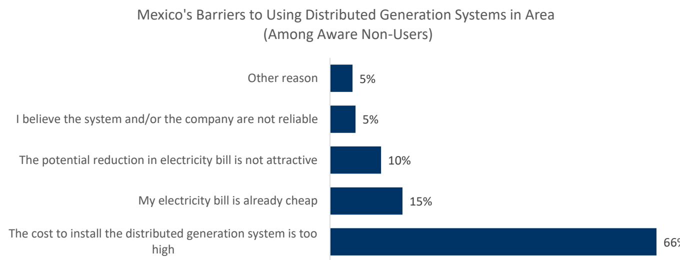
Source: AlphaWise, Morgan Stanley research.

Exhibit 172: High installation prices is the top reason preventing consumers that are aware of DG systems but are currently not using one, representing 75% of Brazilian interviewed consumers...



Source: AlphaWise, Morgan Stanley research.

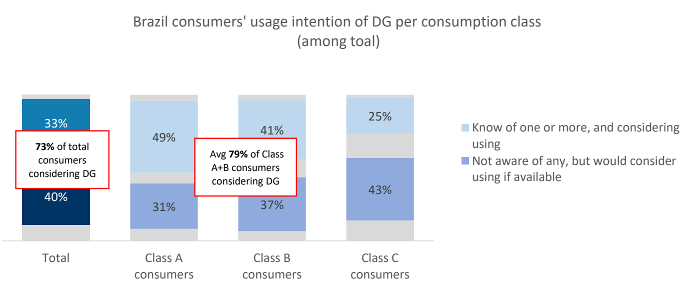
Exhibit 173: ...While in Mexico, it is slightly lower, at ~66%.



Source: AlphaWise, Morgan Stanley research.

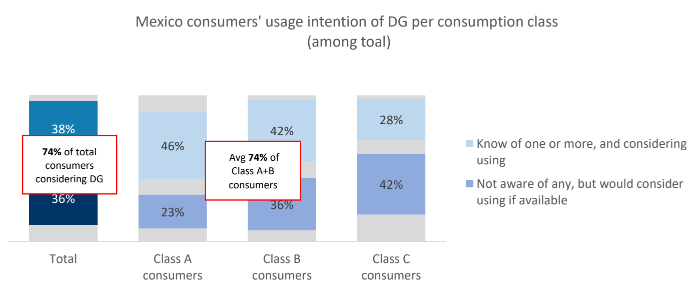
However, the combination of consumers' high usage intention… According to the survey results, ~73% of Brazil and ~74% of Mexico consumers would consider using DG in the future, either if they know or not about the system. Among high-income consumers (classes A & B), the usage intention is even higher for Brazil consumers, reaching 79%.

Exhibit 174: In Brazil, ~73% of consumers would consider using DG in the future.



Source: AlphaWise, Morgan Stanley research.

Exhibit 175: In Mexico, ~74% of consumers would consider using DG in the future.



Source: AlphaWise, Morgan Stanley research.

… With DG's capacity, solid growth potential will likely support higher consumers' penetration. Brazil's Energy Planning Entity (EPE) expects DG's installed capacity to achieve 28.2 GW by 2028, implying a ~20% CAGR versus 2021's levels and increasing representativeness to the country's total electricity demand from ~2% in 2021 to ~8% in 2031. As a second reference, looking as a percentage of installed capacity, DG is expected to grow from ~4% in 2021 to ~14% in 2031. In Mexico, the NREL expects installed capacity to surpass 4.5 GW by 2028 (more than doubling vs. 2021). In a longer-term perspective, the EPE expects Brazil's DG installed capacity to reach 37.2 GW in 2031, requiring investments of ~US$26bn. In Mexico, the CRE expects the country's installed capacity growing toward ~12.4 GW in 2034.

In our view, DG's fast supply growth potential will likely be supported by the combination of:

1. **Continued regulation improvement,** mostly supported by new legislation for DG in Brazil which was approved in Jan/22, bringing legal certainty for the sector;
2. **Attractive incentives:** provided by authorities, such as Brazil's distribution fee discounts that, despite gradual elimination could persist for longer;
3. **Attractive development conditions:** DG's relatively attractive return potential vs. other utility projects currently; and
4. **Adequate financing availability:** as more than 70 financing lines (from public and private institutions) available for MMDG developers and customers, according to Absolar.

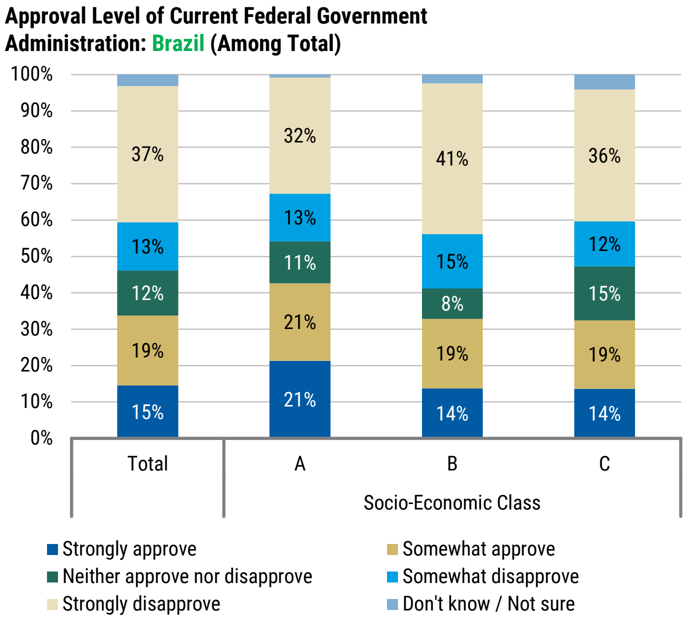
How to play DG growth in LatAm? The OW-rated **Energisa (ENGI11)** is our preferred name in our LatAm Utilities coverage universe to play distributed generation growth, although DG represents ~5% of its current consolidated EBITDA. Since the company acquired Alsol in Jun/19, a subsidiary fully focused on DG, ENGI has invested heavily in the segment (e.g., ~R$300mn since 2020) and achieved ~93MW installed as of 2Q22. According to management, DG continue to offer relatively attractive returns, and expects to invest more ~R$2.3bn to develop additional 460MW until 2024. In addition to ENGI's DG growth outlook, the stock combines attractive valuation (~30% upside to price target) and ~12% real equity IRR, which is too cheap to ignore, in our view, for a high-quality name that operates with one of the highest outperformance to regulatory returns.

Back to the basics — What's Distributed Generation (DG)? When energy is self-produced and distributed by consumers through small-scale power plants (mostly renewable sources, such as solar, wind and small hydro); also, net metering systems allow the use of excess generation as credits to reduce their electricity bills within 5 years. DG can generally take place at two models: i) Locally: generation at the point of consumption (i.e., consumers' rooftops); or ii) Remotely: when the energy is generated by remote self-consumption (i.e., energy used in two or more units belonging to the same client) or shared generation (i.e., energy designated to cooperatives or consortiums).

Appendix: Additional Survey Charts

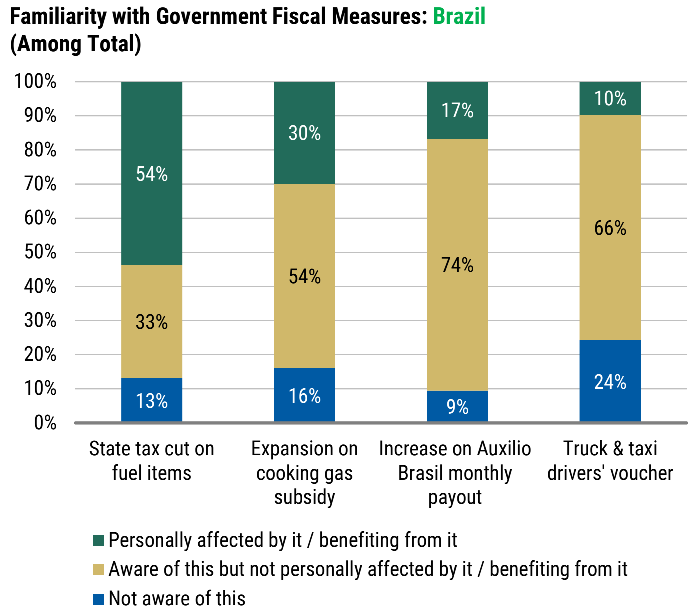
Brazil Fiscal Measures

Exhibit 176: Federal Government Approval: Brazil



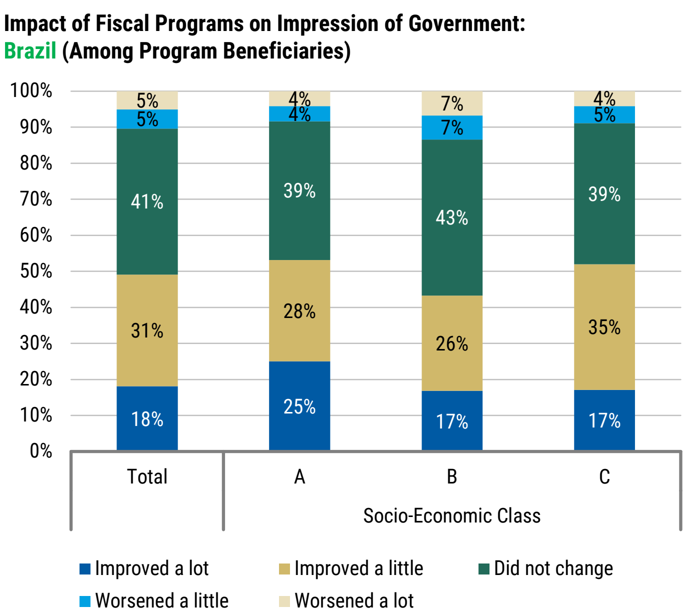
Source: AlphaWise, Morgan Stanley Research

Exhibit 177: Familiarity with Government Fiscal Measures: Brazil



Source: AlphaWise, Morgan Stanley Research

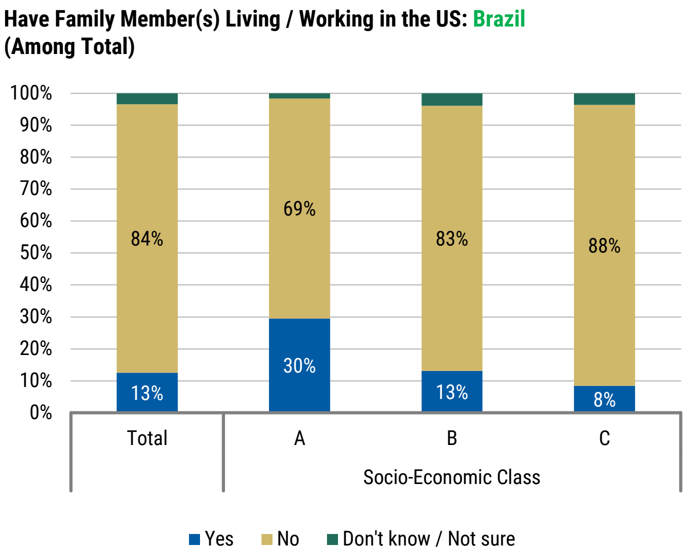
Exhibit 178: Impact of Fiscal Programs on Impression of Government: Brazil



Source: AlphaWise, Morgan Stanley Research

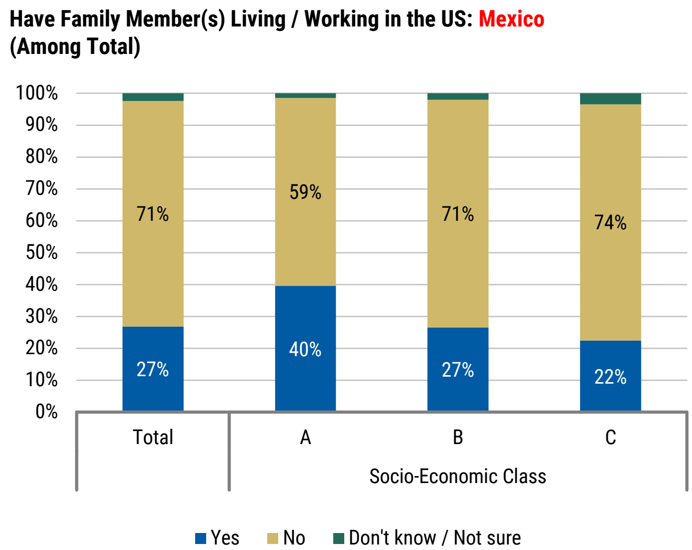
Remittances

Exhibit 179: Family Members Working in US: Brazil



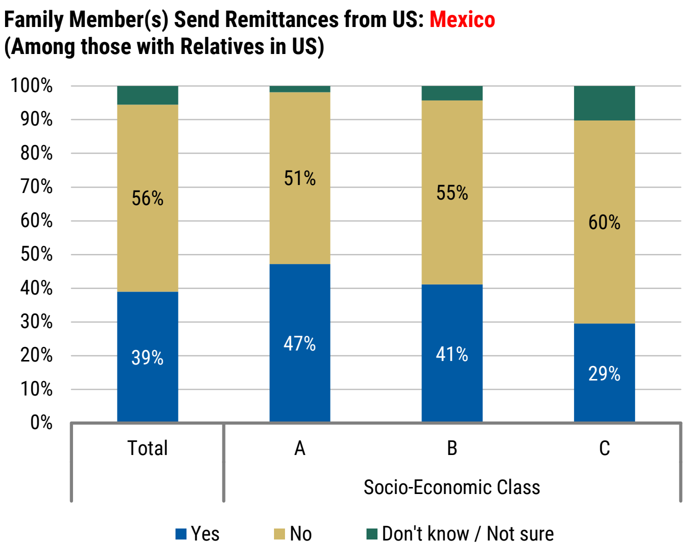
Source: AlphaWise, Morgan Stanley Research

Exhibit 180: Family Members Working in US: Mexico



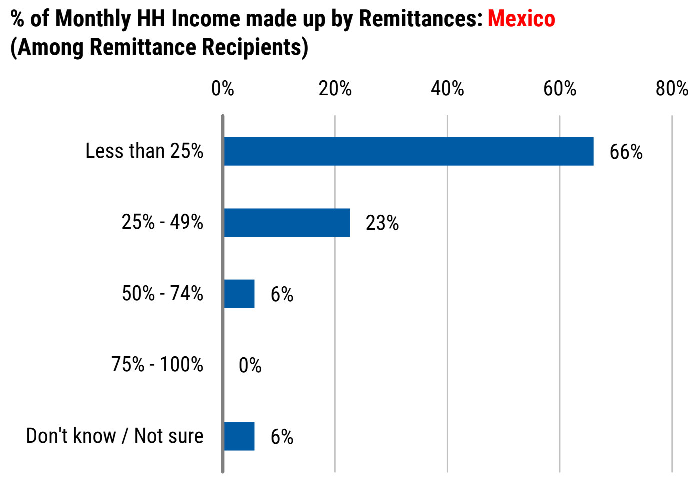
Source: AlphaWise, Morgan Stanley Research

Exhibit 181: US Family Members Sending Remittances (Among Those With Relatives)



Source: AlphaWise, Morgan Stanley Research

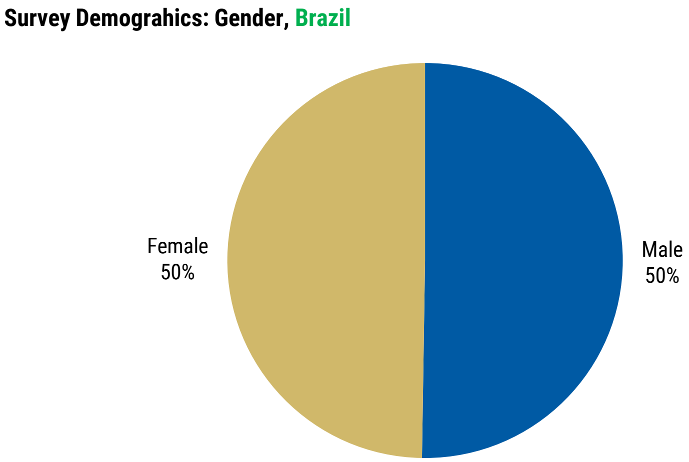
Exhibit 182: Remittances % of Household Income (Among Recipients)



Source: AlphaWise, Morgan Stanley Research

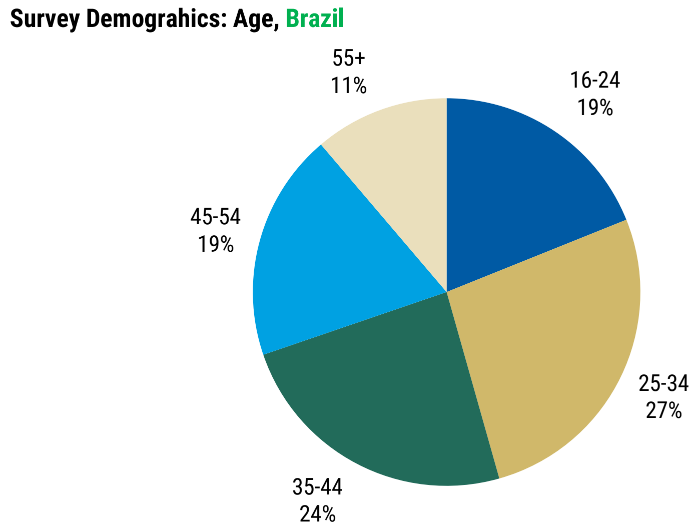
Survey Demographics

Exhibit 183: Gender Breakdown, Brazil



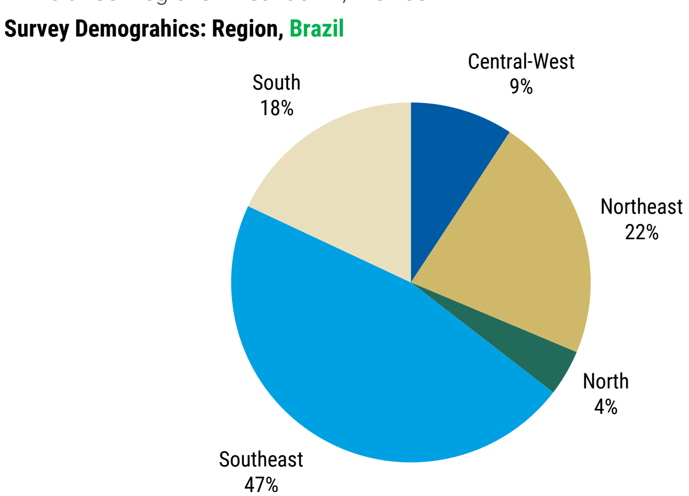
Source: AlphaWise, Morgan Stanley Research

Exhibit 184: Age Breakdown, Brazil



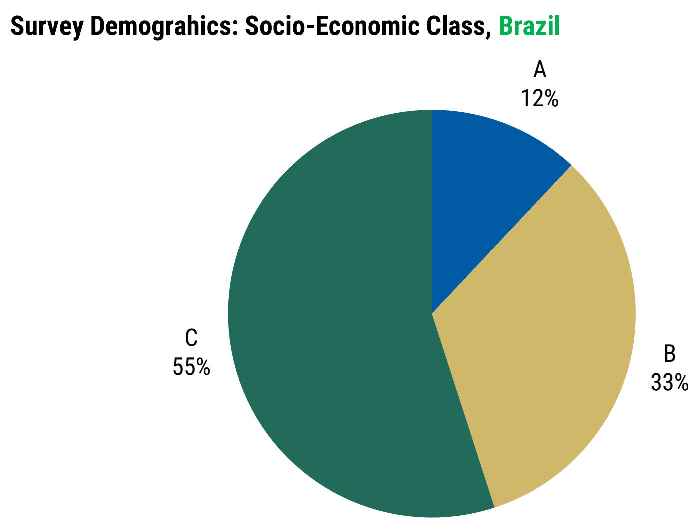
Source: AlphaWise, Morgan Stanley Research

Exhibit 185: Regional Breakdown, Mexico



Source: AlphaWise, Morgan Stanley Research

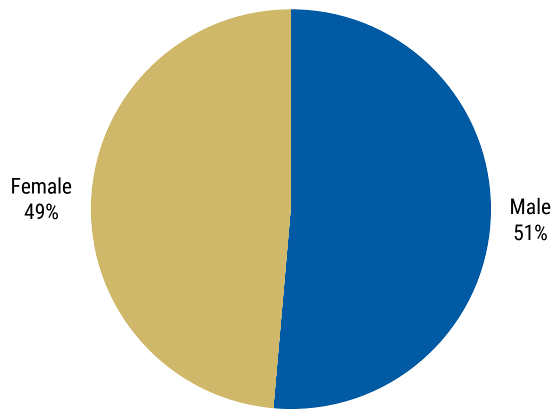
Exhibit 186: Socio-Economic Class Breakdown, Mexico



Source: AlphaWise, Morgan Stanley Research

Exhibit 187: Gender Breakdown, Mexico

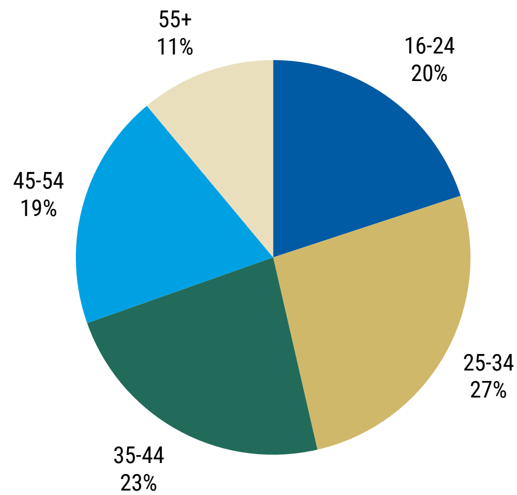
Survey Demograhics: Gender, Mexico



Source: AlphaWise, Morgan Stanley Research

Exhibit 188: Age Breakdown, Mexico

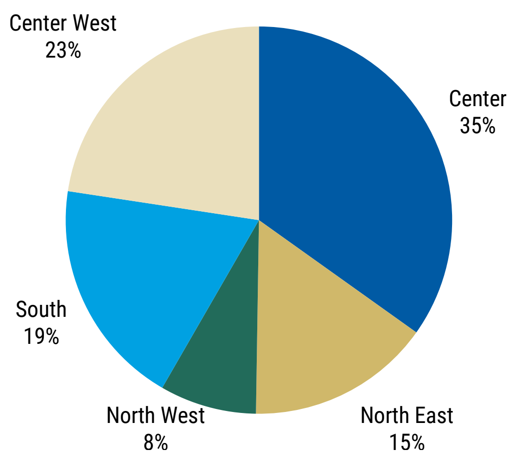
Survey Demograhics: Age, Mexico



Source: AlphaWise, Morgan Stanley Research

Exhibit 189: Regional Breakdown, Mexico

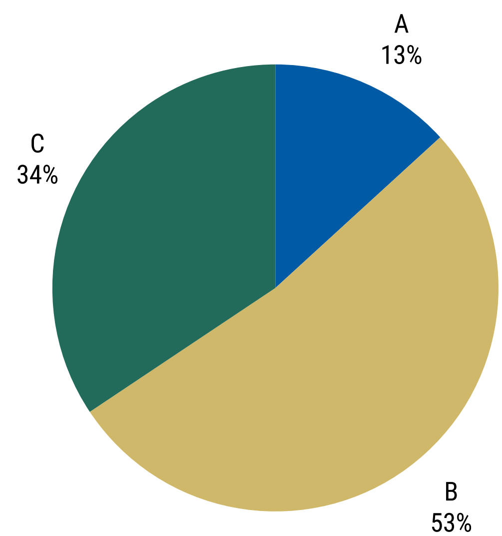
Survey Demograhics: Region, Mexico



Source: AlphaWise, Morgan Stanley Research

Exhibit 190: Socio-Economic Class Breakdown, Mexico

Survey Demograhics: Socio-Economic Class, Mexico



Source: AlphaWise, Morgan Stanley Research

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(as of September 30, 2022)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1342	38%	295	41%	22%	590	39%
Equal-weight/Hold	1582	45%	335	47%	21%	702	46%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	610	17%	84	12%	14%	219	14%
Total	3,534		714			1511	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
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INDUSTRY COVERAGE: LatAm Retail & eCommerce

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Andrew R Ruben		
Americanas S.A. (AMER3.SA)	E (01/06/2020)	R$19.33
Atacadao S.A. (CRFB3.SA)	O (12/15/2021)	R$19.81
C&A Modas S.A. (CEAB3.SA)	E (06/21/2021)	R$3.58
Cencosud SA (CENCOSUD.SN)	E (12/15/2021)	Ch$1,250.10
Companhia Brasileira de Distribuicao (PCAR3.SA)	E (01/06/2020)	R$19.88
El Puerto de Liverpool SAB de CV (LIVEPOLC1.MX)	U (01/06/2020)	M$90.18
Falabella S.A. (FALABELLA.SN)	O (12/15/2021)	Ch$1,939.00
Lojas Renner SA (LREN3.SA)	U (12/15/2021)	R$29.98
Magazine Luiza S.A. (MGLU3.SA)	E (03/25/2022)	R$5.09
Meliuz S.A. (CASH3.SA)	E (09/20/2021)	R$1.23
Mercadolibre Inc. (MELI.O)	O (01/06/2020)	US$948.25
Mobly S.A. (MBLY3.SA)	E (11/12/2021)	R$2.88
Natura & Co Holding SA (NTCO3.SA)	E (08/06/2020)	R$14.63
Pet Center Comercio e Participacoes S.A. (PETZ3.SA)	E (02/17/2022)	R$10.91
Sendas Distribuidora S.A. (ASAI3.SA)	O (04/15/2021)	R$18.08
Via S.A. (VIIA3.SA)	U (12/15/2021)	R$3.60
Wal-Mart de Mexico (WALMEX.MX)	O (01/06/2020)	M$71.67

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INDUSTRY COVERAGE: LatAm Food & Beverage

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Ricardo L Alves		
Ambev SA (ABEV3.SA)	U (12/02/2020)	R$16.24
Arca Continental SAB de CV (AC.MX)	U (12/08/2021)	M$143.48
BECLE SAB de CV (CUERVO.MX)	O (06/23/2020)	M$35.85
BRF SA (BRFS3.SA)	U (04/24/2022)	R$13.85
Coca-Cola Femsa SAB de CV (KOFUBL.MX)	E (09/05/2019)	M$121.83
Embotelladora Andina (AKOb.N)	E (07/20/2021)	US$10.70
Fomento Economico Mexicano SAB de CV (FMX.N)	O (11/23/2021)	US$65.54
Gruma SAB de CV (GRUMAB.MX)	U (03/24/2022)	M$199.56
Grupo Bimbo SAB de CV (BIMBOA.MX)	O (10/20/2020)	M$71.44
Grupo LALA SAB de CV (LALAB.MX)	E (07/20/2021)	M$12.29
JBS SA (JBSS3.SA)	O (09/05/2019)	R$25.22
Marfrig ON (MRFG3.SA)	O (02/21/2022)	R$10.05
Minerva SA (BEEF3.SA)	O (09/05/2019)	R$12.55

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INDUSTRY COVERAGE: Latin America Telecom

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Cesar A Medina		
America Movil (AMX.N)	O (08/10/2017)	US$17.03
ENTEL (ENTEL.SN)	U (09/30/2016)	Ch$2,755.00
Grupo Televisa (TV.N)	O (12/09/2021)	US$5.68
Liberty Latin America Ltd (LILA.O)	E (04/15/2021)	US$6.67
Millicom International Cellular SA (TIGOsdb.ST)	E (07/07/2022)	SKr 135.20
Oi S.A. (OIBRQ.PK)		US$0.00
OPERADORA DE SITES MEXICANOS (SITES1A1.MX)	U (01/26/2016)	M$16.55

Telecom Argentina (TEO.N)	U (04/03/2018)	US$4.22
Telefonica Brasil SA (VIV.N)	O (05/09/2022)	US$7.98
TIM Participacoes (TIMB.N)	E (05/09/2022)	US$11.82

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INDUSTRY COVERAGE: Brazil Education Services

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Javier Martinez de Olcoz Cerdan		
Afya Ltd (AFYA.O)	E (07/21/2021)	US$15.16
Anima Educacao (ANIM3.SA)	E (05/31/2022)	R$6.28
Arco Platform Ltd (ARCE.O)	O (05/06/2021)	US$12.02
COGNA EDUCACAO (COGN3.SA)	U (07/21/2021)	R$2.99
Cruzeiro do Sul (CSED3.SA)	O (03/22/2021)	R$4.97
Ser Educacional SA (SEER3.SA)	U (05/31/2022)	R$7.55
Vasta Platform Ltd (VSTA.O)	O (08/25/2020)	US$5.58
Vitru Ltd (VTRU.O)	O (10/13/2020)	US$19.90
YDUQS PART (YDUQ3.SA)	O (04/07/2020)	R$14.71

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INDUSTRY COVERAGE: Latam Restaurants and Leisure

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Javier Martinez de Olcoz Cerdan		
Alsea SAB de CV (ALSEA.MX)	O (06/25/2020)	M$36.45
Arcos Dorados Holdings Inc (ARCO.N)	O (06/25/2020)	US$7.84
BK Brasil (BKBR3.SA)	O (02/02/2021)	R$6.91
SmartFit (SMFT3.SA)	O (08/05/2022)	R$15.89

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INDUSTRY COVERAGE: Brazilian Real Estate

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Nikolaj Lippmann		
BRMalls Participacoes (BRML3.SA)	E (05/22/2022)	R$9.86
Cyrela Brazil Realty S.A. (CYRE3.SA)	O (11/29/2020)	R$19.67
Iguatemi S.A. (IGTI11.SA)	O (01/18/2022)	R$21.91
MRV (MRVE3.SA)	E (09/22/2022)	R$12.17
Multiplan Empreendimentos Imobiliarios (MULT3.SA)	O (08/10/2022)	R$25.83
Plano & Plano (PLPL3.SA)	E (04/13/2021)	R$4.28
SYN prop e tech SA (SYNE3.SA)	E (05/25/2021)	R$4.97

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INDUSTRY COVERAGE: Brazil Electric Utilities

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Fernando P Amaral		
Alupar Investimento SA (ALUP11.SA)	O (11/30/2020)	R$27.43
CTEEP Cia Transm Energia Eletr Paulista (TRPL4.SA)	O (11/30/2020)	R$23.61
Transmissora Alianca Energia Eletrica SA (TAEE11.SA)	U (11/30/2020)	R$39.64

Miguel F Rodrigues		
AES Brasil On (AESB3.SA)	U (02/18/2020)	R$9.67
Auren Energia SA (AURE3.SA)	E (09/07/2022)	R$14.19
Companhia Energetica de Minas Gerais (CMIG4.SA)	O (06/22/2017)	R$11.31
Companhia Paranaense de Energia (CPLE6.SA)	E (03/23/2020)	R$6.69
CPFL ENERGIA (CPFE3.SA)	O (07/22/2019)	R$35.09
Eletrobras (ELET3.SA)	O (08/17/2022)	R$44.65
Eletrobras (ELET6.SA)	O (08/05/2022)	R$46.10
Energias do Brasil (ENBR3.SA)	E (03/23/2020)	R$22.54
Energisa SA (ENGI11.SA)	O (03/08/2021)	R$43.98
Engie Brasil (EGIE3.SA)	++	R$39.97
Equatorial Energia SA (EQTL3.SA)	O (05/07/2019)	R$28.30
Light (LIGT3.SA)	E (08/03/2020)	R$5.92

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INDUSTRY COVERAGE: LatAm Healthcare

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Javier Martinez de Olcoz Cerdan		
Diagnosticos da America SA (DASA3.SA)	O (05/17/2021)	R$20.71
Fleury S.A. (FLRY3.SA)	U (05/15/2020)	R$18.69
Hapvida (HAPV3.SA)	O (04/24/2020)	R$8.27
Hypera SA (HYPE3.SA)	O (03/12/2019)	R$45.42
INSTITUTO HERMES PARDINI SA (PARD3.SA)	E (05/15/2020)	R$23.04
OdontoPrev (ODPV3.SA)	E (10/07/2020)	R$9.42
Raia Drogasil SA (RADL3.SA)	E (10/27/2015)	R$23.95
Rede D'Or Sao Luiz SA (RDOR3.SA)	O (04/06/2021)	R$31.57

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INDUSTRY COVERAGE: Brazil Financial Institutions

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Jorge Kuri		
B3 SA BRASIL BOLSA BALCAO (B3SA3.SA)	E (07/21/2017)	R$14.48
Banco Bradesco (BBD.N)	O (08/07/2019)	US$4.09
Banco BTG Pactual SA (BPAC11.SA)	O (03/28/2017)	R$26.52
Banco do Brasil (BBAS3.SA)	O (03/07/2018)	R$39.23
Banco Pan SA (BPAN4.SA)		R$7.72
Banco Santander Brasil (BSBR.N)	O (08/07/2019)	US$6.25
BB Seguridade Participacoes S.A. (BBSE3.SA)	E (02/12/2019)	R$26.86
Boa Vista Servicos SA (BOAS3.SA)	O (11/08/2020)	R$6.08
Caixa Seguridade Participacoes S.A. (CXSE3.SA)	O (06/10/2021)	R$8.76
Cielo S.A. (CIEL3.SA)	E (12/18/2020)	R$5.55
Inter & Co Inc. (INTR.O)	U (06/13/2018)	US$3.33
Itau Unibanco Holding S.A. (ITUB.N)	O (08/07/2019)	US$5.73
Nu Holdings Ltd. (NU.N)	O (01/03/2022)	US$4.92
PagSeguro Digital (PAGS.N)	O (02/19/2018)	US$15.53
Porto Seguro (PSSA3.SA)	U (04/17/2009)	R$21.64
StoneCo Ltd. (STNE.O)	O (12/07/2020)	US$11.69
XP Inc (XP.O)	O (01/06/2020)	US$20.86

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INDUSTRY COVERAGE: Latin America Transportation & Infrastructure

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Josh Milberg, CFA		
Aeris (AERI3.SA)	E (03/29/2021)	R$2.11
Armac (ARML3.SA)	U (07/24/2022)	R$15.77
ASUR (ASR.N)	U (02/07/2020)	US$208.56
Azul SA (AZUL.N)	U (03/23/2021)	US$9.74
CCR (CCRO3.SA)	O (05/05/2021)	R$12.90
Copa Holdings (CPA.N)	O (09/07/2016)	US$72.87
Dexco SA (DXCO3.SA)	O (06/02/2022)	R$9.93
EcoRodovias (ECOR3.SA)	O (05/05/2021)	R$5.54
G.A. Pacifico (PAC.N)	E (02/20/2018)	US$136.50
GMexico Transportes SA de CV (GMXT.MX)	E (06/26/2022)	M$33.22
Gol Airlines (GOL.N)	U (03/23/2021)	US$3.88
Grupo Traxion SAB de CV (TRAXIONA.MX)	O (11/09/2017)	M$18.21
Hidrovias do Brasil SA (HBSA3.SA)	O (11/03/2020)	R$2.55
Infraestructura Viable SA de CV (FVIA16.MX)	E (11/27/2016)	M$25.50
Iochpe-Maxion (MYPK3.SA)	E (11/09/2020)	R$13.13
Localiza Rent A Car SA (RENT3.SA)	O (08/29/2022)	R$65.65
Movida Participacoes S.A. (MOVI3.SA)	E (08/09/2017)	R$13.94
OMA (OMAB.O)	O (05/22/2022)	US$53.70
PROMOTORA Y OPERADORA DE INF (PINFRA.MX)	E (12/10/2018)	M$137.29
Randon (RAPT4.SA)	E (06/02/2022)	R$10.00
Rumo Logistica (RAIL3.SA)	O (05/24/2016)	R$19.40
Santos Brasil (STBP3.SA)	O (01/21/2021)	R$8.11
Sequoia SA (SEQL3.SA)	E (03/22/2022)	R$6.37
Vamos (VAMO3.SA)	O (09/05/2021)	R$15.00
Volaris (VLRS.N)	O (04/24/2018)	US$8.13
WEG (WEGE3.SA)	O (09/29/2022)	R$33.24
Nikolaj Lippmann		
Cementos Argos S.A. (CCB.CN)	O (01/22/2019)	Co$3,500.00
Cemex (CX.N)	O (09/10/2020)	US$3.73
CEMEX Latam Holdings S.A. (CLH.CN)	E (03/19/2020)	Co$4,500.00

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INDUSTRY COVERAGE: Latin America Steel

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Carlos De Alba		
CSN (CSNA3.SA)	E (10/17/2021)	R$13.90
Gerdau S.A. (GGBR4.SA)	E (10/17/2021)	R$25.51
Ternium S.A. (TX.N)	E (10/17/2021)	US$29.81
Usiminas (USIM5.SA)	E (04/02/2020)	R$7.90
Jens Spiess, CFA		
Grupo Simec S.A.B. de C.V. (SIMECB.MX)	U (05/26/2021)	M$203.99
Industrias CH, S.A.B, de C.V. (ICHB.MX)	U (07/05/2022)	M$228.35

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INDUSTRY COVERAGE: LatAm Pulp & Paper

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/04/2022)
Carlos De Alba		
Empresas CMPC SA (CMPC.SN)	E (09/25/2022)	Ch$1,540.00
Empresas Copec S.A. (COPEC.SN)	E (09/25/2022)	Ch$6,500.00
Klabin SA (KLBN11.SA)	O (03/21/2021)	R$18.69
Suzano Papel e Celulose (SUZB3.SA)	E (03/20/2022)	R$45.77
Jens Spiess, CFA		
Kimberly - Clark de Mexico S.A.B. de C.V (KIMBERA.MX)	O (07/11/2022)	M$26.14

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