

1Q07 Result

May 3, 2007

EQUITY RESEARCH

COPEsul

(CPSL3: R\$ 35.40)

Target Price: **R\$ 37.60**

Recommendation: **UNDERPERFORM**

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Market Cap. (R\$ m)	P/E (x)			EV (R\$ m)	EV/EBITDA (x)			Market Cap./ Net Rev. 07E (x)	P/BV (x)	Pay-Out 2007E (%)	Div. Yield 2007E (%)
	06	07E	08E		06	07E	08E				
5,317.7	8.6	7.0	7.9	5,395.1	4.7	3.8	4.2	0.7	3.6	75.2	10.8

The Copesul result was good and in line with our expectations. Net income came to R\$ 193.0 million and was 11.8% higher than our projection due to better financial and operating results. The positive highlight of the quarter was the upturn in the average price which benefited the operating margins.

Table 1. Financial Statement

(R\$ million)	1Q07	1Q07E	4Q06	1Q06	1Q07 / 1Q07E	1Q07 / 4Q06	1Q07 / 1Q06
Net Revenues	1,746.6	1,710.2	1,669.7	1,441.3	2.1%	4.6%	21.2%
(-) COGS	1,397.2	1,383.1	1,341.7	1,175.8	1.0%	4.1%	18.8%
Gross Income	349.4	327.1	328.1	265.5	6.8%	6.5%	31.6%
(-) Operating Expenses	55.3	46.1	44.6	27.8	20.0%	24.0%	98.7%
EBIT	294.1	281.0	283.4	237.6	4.7%	3.7%	23.7%
Net Financial Result	4.7	(11.0)	17.6	(2.0)	-	-73.3%	-
Interest on Own Capital	-	-	(40.9)	-	-	-	-
Equity Accounting	-	-	-	-	-	-	-
Non-Operating Result	(2.8)	-	(0.8)	(4.6)	-	263.4%	-39.2%
EBIT – Income before Tax	296.0	270.0	259.4	231.1	9.6%	14.1%	28.1%
Income Tax and Social Contribution	(97.2)	(91.8)	(80.7)	(77.0)	5.8%	20.3%	26.1%
Deferred Tax	(5.8)	-	1.2	-	-	-	-
Part. and Stat. Contrib. and Min. Interests	-	(5.6)	(12.1)	(4.8)	-	-	-
Reversal of Interest on Own Capital	-	-	40.9	-	-	-	-
Net Income	193.0	172.6	208.6	149.3	11.8%	-7.5%	29.3%
EBITDA	349.1	342.3	342.9	290.5	2.0%	1.8%	20.1%
Operating Margins							
Gross Margin	20.0%	19.1%	19.6%	18.4%	0.9 pp	0.4 pp	1.6 pp
Operating Margin	16.8%	16.4%	17.0%	16.5%	0.4 pp	-0.1 pp	0.3 pp
EBITDA Margin	20.0%	20.0%	20.5%	20.2%	0.0 pp	-0.5 pp	-0.2 pp
Net Margin	11.0%	10.1%	12.5%	10.4%	1.0 pp	-1.4 pp	0.7 pp

Source: Company and Fator Corretora estimates

Operating Performance

Sales amounted to 752,000 tons of petrochemical products in 1Q07 and were only 1.0% and 0.4% below our projection and the sales in 4Q06, respectively. Sales rose by 6.7% over 1Q06. On the other hand, the average price realized surpassed our projection and net revenues in 1Q07 came to R\$ 1,746.6 million, 2.1% above our estimate and 4.6% and 21.2% higher than in 4Q06 and 1Q06, respectively.

Table 2. Sales

('000 t)	1Q07	1Q07E	4Q06	1Q06	1Q07 / 1Q07E	1Q07 / 4Q06	1Q07 / 1Q06
Ethylene	300.0	317.1	311.0	279.0	-5.4%	-3.5%	7.5%
Propylene	155.0	167.2	164.0	151.0	-7.3%	-5.5%	2.6%
Butadiene	24.0	29.6	29.0	26.0	-18.8%	-17.2%	-7.7%
Benzene	84.0	86.7	85.0	70.0	-3.1%	-1.2%	20.0%
Toluene	22.0	11.2	11.0	18.0	96.1%	100.0%	22.2%
Xylenes	11.0	12.2	12.0	10.0	-10.1%	-8.3%	10.0%
BTE Petrochemical Oil	14.0	19.4	19.0	13.0	-27.7%	-26.3%	7.7%
MTBE	35.0	27.5	27.0	32.0	27.1%	29.6%	9.4%
Gasoline for Finishing	-	-	-	-	-	-	-
Gasoline A	70.0	67.3	66.0	56.0	4.0%	6.1%	25.0%
LPG	-	-	-	1.0	-	-	-
Refined II	8.0	9.2	9.0	8.0	-12.8%	-11.1%	0.0%
Buteno-1	9.0	12.2	12.0	9.0	-26.4%	-25.0%	0.0%
Others	20.0	10.2	10.0	32.0	96.1%	100.0%	-37.5%
Total	752.0	769.9	755.0	705.0	-2.3%	-0.4%	6.7%

Source: Company and Fator Corretora estimates

The cost of acquiring raw materials was better than expected, as we had estimated higher costs due to the performance of the spot prices curve for naphtha and ethylene on the international market which did not occur. As a result, the gross margin came to 20.0% and was 0.9 percentage point above expectations and 0.4 p.p. and 1.6 p.p. above the gross margin in 4Q06 and 1Q06, respectively.

EBITDA in 1Q07 came to R\$ 349.1 million and was 2.0%, 1.8% and 20.1% higher than our projection and the 4Q06 and 1Q06 results, respectively. This was due to the higher prices realized and lower raw material costs. The EBITDA margin was 20.0% in 1Q06 and in line with our expectation.

Financial Situation

The variation in the exchange rate in 1Q07 led the company to book net financial revenues of R\$ 4.7 million, which was above our projection of net financial expenses of R\$ 11.0 million and net financial expenses of R\$ 23.3 million and R\$ 2.0 million in 4Q06 and 1Q06, respectively.

Net debt fell from R\$ 118.1 million on 31/12/2006 to R\$ 77.5 million on 31/03/2007, thanks to good operating cash generation and the exchange rate variation.

Outlook

The outlook for the petrochemical sector for 2007 is brighter. We are estimating higher average prices on the domestic market and the price of petroleum to remain at around \$60/barrel in 2S07. We expect this scenario to last until the end of 2008.

It is worth noting that in the model for the acquisition of the Ipiranga Group by Ultrapar, Braskem and Petrobras, Copesul will make an offer to close the capital at a price of R\$ 37.60 per share. We would recommend minority shareholders to accept the offer.

The Copesul result was in line with our expectations and we do not expect any reflection in the share prices. We are maintaining our UNDERPERFORM recommendation and target price of R\$ 37.60 for December 2007, which is the amount offered to close the capital by Ultrapar, Braskem and Petrobras.

Valuation Method Used to Calculate the Target Price of the Copesul share: discounted cash flow at average rate of 12.4% p.a. and growth to perpetuity of 3.0% p.a.

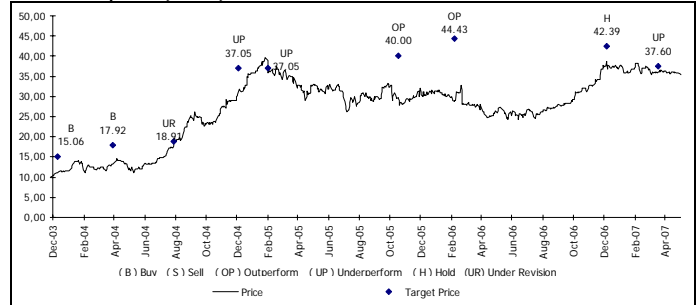
Risk Assessment: companies in this sector are exposed to the risk of increases in the price of naphtha, linked to petroleum.

The current equity analyst began covering the Copesul share on 24/04/2006.

Previous Recommendations:

Date	Recommendation	Target price (R\$/share)
10/12/03	BUY	15.06
29/03/04	BUY	17.92
26/07/04	UNDER REVIEW	18.91
03/12/04	OUTPERFORM	37.05
31/01/05	UNDERPERFORM	37.05
06/02/06	OUTPERFORM	44.43
08/12/06	HOLD	42.39
20/03/07	UNDERPERFORM	37.60

Share Price, Target Price and Performance of Fator Corretora Recommendation for shares in Copesul. (CPSL3)



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Fator Corretora Recommendations - Criteria and Distribution

Recommendation	Criteria	Distribution	
		Quantity	Recommendation
Buy	The total return of the share is expected to be significantly above Ibovespa's variation.	29	31.9
Outperform	The total return of the share is expected to be above Ibovespa's variation.	21	23.1
Hold	The total return of the share is expected to be in line with Ibovespa's variation.	30	33.0
Underperform	The total return of the share is expected to be below Ibovespa's variation.	11	12.1
Sell	The total return of the share is expected to be significantly below Ibovespa's variation.	0	0.0
Total		91	100.0

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