xp research

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Transportation – Infrastructure

Brazil Toll Roads

Analyzing Paraná's Block 5; Auction This Week

Medium-Size Project with Solid Economics Likely to Attract Interest

Brazil's next toll road auction -- Paraná's Block 5 -- is scheduled for Oct 30. It is a 30-year federal concession for a 424 km brownfield toll road, connecting the state of Paraná to several other states (e.g., São Paulo, Mato Grosso do Sul, Santa Catarina) and neighboring countries (e.g., Paraguay). **We expect competition at the auction**, driven by: (i) attractive economics (regulatory IRR of 12.33% vs. 9.21%-12.34% in recent auctions); (ii) medium scale (R$6.7bn vs. R$4.4-10.8bn in previous projects); and (ii) a positive design that mitigates potential demand risks. **For listed operators, we believe interest could be stronger from MOTV**, given its strategic alignment and potential to unlock operational synergies. **Bid proposals are scheduled for submission on Oct 27 (Monday).**

We built an easy-to-use financial model for the project (shared upon request), which can be used during the auction to assess bids' expected return levels. Please refer to page 3 for IRR and NPV sensitivity analyses.

The project in a nutshell. Paraná's Block 5 is a 30-year federal concession for a 424 km brownfield toll road, connecting the state of Paraná to several other states (e.g., São Paulo, Mato Grosso do Sul, Santa Catarina) and neighboring countries (e.g., Paraguay). The project entails total investments of R$6.7bn (with ~56% expected by year 7) and total operating expenses of R$5.2bn.

Auction & timeline details. The submission of proposals is set for Oct 27, with the auction taking place on Oct 30. Bidding criteria will be the largest tariff discount with an additional concession fee payment for every percentage point offered beyond 18% discount (18-23% = R$67mn/p.p.; 23-30% = R$80mn/p.p.; >= 30% = R$100mn/p.p.). We view the gradual concession fee criteria positively, as it helps prevent overly aggressive bids.

Lower leverage pressure expected for listed players. We believe the project should not imply leverage pressure on MOTV or ECOR, with a flattish net debt/EBITDA during the peak investment phase, followed by rapid deleveraging thereafter. This outlook reflects several factors: (i) the project's medium size (R$6.7bn vs. R$4.4-10.8bn in recent federal auctions); (ii) a diluted capex (~56% to be deployed by year 7); and (iii) strong EBITDA generation since the early years of the concession.

Assessing potential bidders. We believe the project has the potential to be competitive due to: (i) attractive economics (regulatory IRR of 12.33% vs. 9.21%-12.34% in recent auctions); (ii) medium scale; and (iii) favorable risk-sharing mechanisms that mitigates potential demand risks. As such, Motiva and EPR could emerge as potential bidders, despite the latter having won the Block 4 auction last week, which could limit its interest. Our view relies on: (i) the project's strategic fit; and (ii) their existing operations in the region (Paraná's Block 3 for MOTV and Blocks 4 and 6 for EPR), benefiting from (a) greater familiarity with the region and (b) potential to unlock operational synergies. Finally, we expect limited appetite from ECOR on: (i) a reduced regional presence; and (ii) a more restrictive capital structure (a high leverage position and relative capex commitments).

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Company	Ticker	Current Price	Target Price	Upside	Rec.	EBITDA (R$ mn) 2025E	EBITDA (R$ mn) 2026E	P/E 2025E	P/E 2026E	EV/EBITDA 2025E	EV/EBITDA 2026E	Mkt. Cap (R$ mn)	IRR (%)
Motiva	MOTV3	R$ 15.35	R$ 15.30	0%	Buy	R$ 10,144	R$ 11,335	17.7x	13.7x	6.4x	6.0x	R$ 31,007	10.4%
Ecorodovias	ECOR3	R$ 7.93	R$ 8.30	5%	Buy	R$ 5,689	R$ 5,794	6.3x	8.8x	5.0x	5.5x	R$ 5,522	11.9%

Sources: Company Data, Valor Economico, PPI SP, LSEG Refinitiv and XP Research.

Paraná's Block 5 Project in Charts

Understanding the Project

Paraná's Block 5 is a 30-year federal concession for a 424 km brownfield toll road, connecting the state of Paraná to several other states (e.g., São Paulo, Mato Grosso do Sul, Santa Catarina) and neighboring countries (e.g., Paraguay).

Total capex amounts to R$6.7bn, with ~56% expected to be deployed through the initial seven years. We highlight: (i) 238 km of road dualizations; (ii) 20 km of marginal lanes; and (iii) 4 km of bypasses.

Figure 01: Paraná's Block 5 Concession

Project Financials' Summary

Top-line: Government traffic estimates imply a 1.9% CAGR (~1.0x XP's GDP estimate); and (ii) tariff increases in real terms following the completion of important road works.

EBITDA: Government figures imply an initial EBITDA margin of 71% at the start of the concession (first normalized year), gradually converging to ~80% in the long term. Total opex is estimated at ~R$5.2bn, mainly on: (i) road system operations/ maintenance; and (ii) variable costs related to concession & supervision fees and resilient infra.

FCF profile: We highlight a controlled cash flow dynamic on strong EBITDA generation from the outset and a balanced capex calendar. As a result, we expect the project to face limited leverage pressure in the short term, followed by rapid deleveraging after the heavier investment phase.

Figure 02: Traffic & Tariff Structure

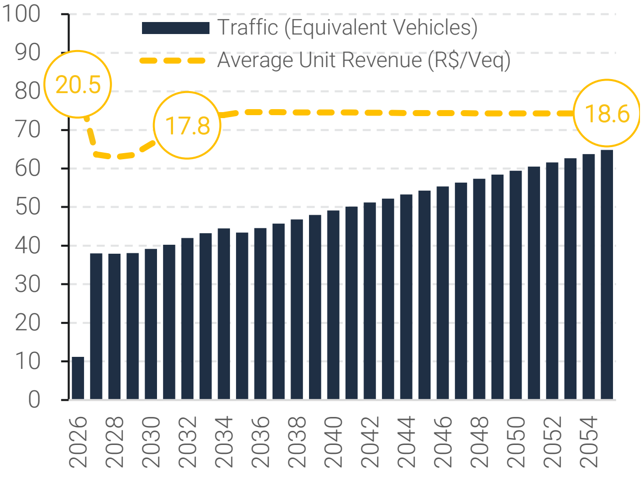


Figure 03: Net Revenues and EBITDA Margins

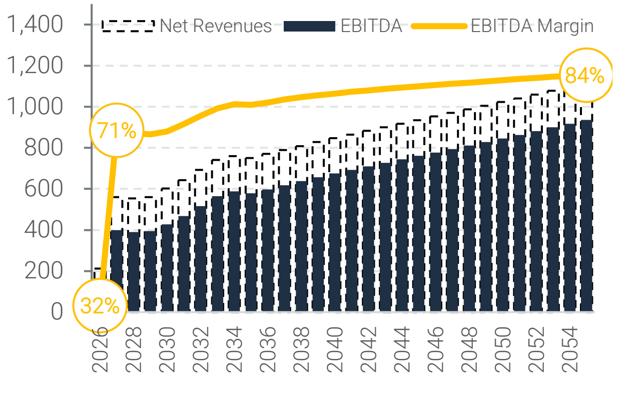
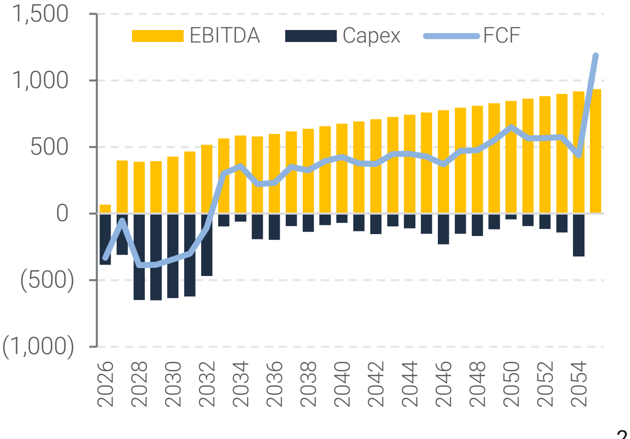


Figure 04: Cash Flow Profile



Sources: PPI SP , Valor Econômico and XP Research

Assessing the Project's Return Potential

Deep diving into the project's return prospects. The government model is based on an 12.33% real, unlevered IRR. In order to assess players' expected return upon their potential bids (tariff discount and concession fee), our model uses four main variables (sources of upside/downside to bidding proposals): (i) auction bid; (ii) traffic growth; (iii) capex optimization; and (iv) opex optimization.

In Figure 05, we show a sensitivity analysis for the project's IRR (real, unlevered) and NPV (using the government's discount rate) under different scenarios.

Our analysis draws a sensitivity analysis on government estimates, which include: (i) 30Y traffic CAGR of 1.9% (~1.0x XP's estimate for long-term GDP growth); (ii) total capex of R$6.7bn; (iii) total opex of R$5.2bn; and (iv) a base tariff R$20.5 per equivalent vehicle (EV).

Figure 05: IRR and NPV Sensitivity Before Leverage

		Tarrif Discount (%)											
		IRR (%)						NPV (R$mn)					
Capex / Opex Multiplier	30yr CAGR Traffic Growth (%)	0%	5%	10%	15%	20%	25%	0%	5%	10%	15%	20%	25%
120%	1.5%	5.2%	4.4%	3.6%	2.7%	1.8%	0.7%	-1,183	-1,321	-1,458	-1,596	-1,838	-2,259
	1.7%	6.9%	6.0%	5.1%	4.2%	3.2%	2.0%	-923	-1,074	-1,224	-1,375	-1,630	-2,064
	1.9%	8.5%	7.6%	6.6%	5.7%	4.6%	3.2%	-655	-819	-983	-1,147	-1,416	-1,863
	2.1%	10.1%	9.1%	8.1%	7.1%	5.9%	4.4%	-379	-556	-734	-912	-1,194	-1,656
	2.3%	11.8%	10.7%	9.6%	8.6%	7.2%	5.6%	-94	-286	-478	-670	-967	-1,442
110%	1.5%	6.7%	5.8%	4.9%	4.0%	2.9%	1.7%	-856	-993	-1,131	-1,268	-1,511	-1,932
	1.7%	8.4%	7.5%	6.5%	5.6%	4.4%	3.0%	-596	-746	-897	-1,047	-1,303	-1,737
	1.9%	10.2%	9.2%	8.2%	7.1%	5.8%	4.3%	-328	-491	-655	-819	-1,088	-1,536
	2.1%	12.0%	10.9%	9.8%	8.7%	7.2%	5.5%	-51	-229	-407	-584	-867	-1,328
	2.3%	13.8%	12.6%	11.4%	10.2%	8.6%	6.7%	234	42	-150	-342	-639	-1,115
100%	1.5%	8.4%	7.5%	6.5%	5.5%	4.3%	2.9%	-528	-666	-803	-941	-1,183	-1,604
	1.7%	10.4%	9.3%	8.2%	7.2%	5.8%	4.2%	-268	-419	-569	-720	-975	-1,409
	1.9%	12.3%	11.1%	10.0%	8.9%	7.3%	5.5%	0	-164	-328	-492	-761	-1,208
	2.1%	14.4%	13.0%	11.8%	10.5%	8.8%	6.8%	276	99	-79	-257	-539	-1,001
	2.3%	16.5%	15.0%	13.6%	12.2%	10.3%	8.1%	561	369	177	-15	-312	-787
90%	1.5%	10.6%	9.5%	8.4%	7.3%	5.9%	4.2%	-201	-338	-476	-613	-856	-1,277
	1.7%	12.8%	11.6%	10.4%	9.2%	7.5%	5.6%	59	-91	-242	-392	-648	-1,082
	1.9%	15.1%	13.7%	12.3%	11.0%	9.2%	6.9%	328	164	0	-164	-433	-881
	2.1%	17.5%	15.9%	14.4%	12.9%	10.8%	8.3%	604	426	248	71	-212	-673
	2.3%	20.1%	18.2%	16.5%	14.8%	12.4%	9.6%	889	697	505	313	16	-460
80%	1.5%	13.6%	12.2%	10.9%	9.7%	7.9%	5.7%	127	-11	-148	-286	-528	-949
	1.7%	16.2%	14.6%	13.1%	11.7%	9.6%	7.2%	387	236	86	-65	-320	-754
	1.9%	19.0%	17.2%	15.5%	13.9%	11.4%	8.6%	655	491	327	163	-106	-553
	2.1%	22.1%	19.9%	17.9%	16.1%	13.3%	10.0%	931	754	576	398	116	-346
	2.3%	25.5%	22.9%	20.6%	18.4%	15.2%	11.5%	1,216	1,024	832	640	343	-132

Sources: ANTT and XP Research

Can Listed Players Afford this Project?

Strong Fundamentals, Demand Uncertainty, and Risk Attenuators

Demand risk potential amidst attractive economics. On the positive side, we highlight the project's strong fundamentals, supported by: (i) a high regulatory IRR of 12.33% (vs. 9.21%-12.34% in recent federal auctions); and (ii) a relatively moderate investment size of R$6.8bn (vs. R$4.4-10.8bn in recent concessions). Conversely, we see potential demand risks stemming from: (i) a less favorable traffic mix, including (a) a high share of light vehicles (~73% of total), which tends to be more seasonal; and (b) the fact that not all stretches are currently tolled, with new segments to be tolled representing ~48% of total traffic (vs. ~30% in Paraná's Block 4); and (ii) a relatively high base tariff of ~R$20.4/EV (vs. R$9.9-14.2/EV in previous Paraná blocks), which may encourage drivers to opt for more affordable alternative routes.

Positive design features reduce financial risk. We highlight that the project is well designed, incorporating features such as: (i) mitigated top-line risk, as the contract includes a 90-110% demand band mechanism, with 50% of any downside or upside shared with the government; (ii) strong cash flow generation from the outset, given that all toll plazas are expected to be operational by year 2; and (iii) a balanced capex deployment profile, with ~56% of total investments concentrated in the first seven years.

Lower leverage pressure expected for listed players. We believe the project should not exert leverage pressure on MOTV or ECOR, with a flattish net debt/EBITDA during the heavier investment phase and rapid deleveraging thereafter (see Figures 06-09). However, we anticipate a contrasting interest dynamic: (i) ECOR may show limited appetite given its already elevated leverage and significant capex commitments; and (ii) while MOTV has historically favored larger concessions (recent projects awarded involved investments of R$8.8-9.8bn), the company may demonstrate interest (similar to its participation in the Block 4 auction last week) given the project's alignment with its strategy of expanding operations in the Southeast and could unlock operational synergies with its existing footprint in Paraná.

We note that the analysis below is a hypothetical simulation of the listed players' financial impacts from eventually adding this project to their portfolios. We used the government's official estimates for the project (without potential tariff discounts during the auction) and XP's official estimates for Motiva and Ecorodovias.

Figure 06: Ecorodovias' Net Debt/EBITDA

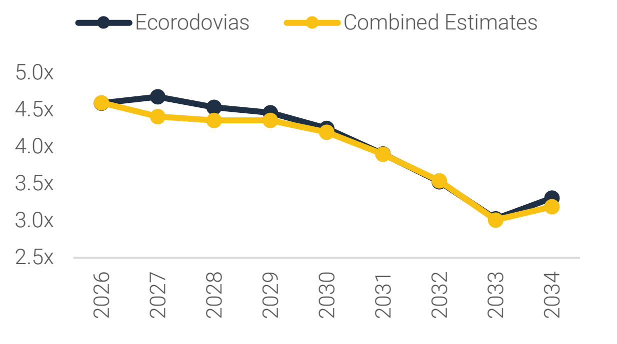


Figure 07: ECOR's (lhs) and Project FCF (rhs) – R$mn

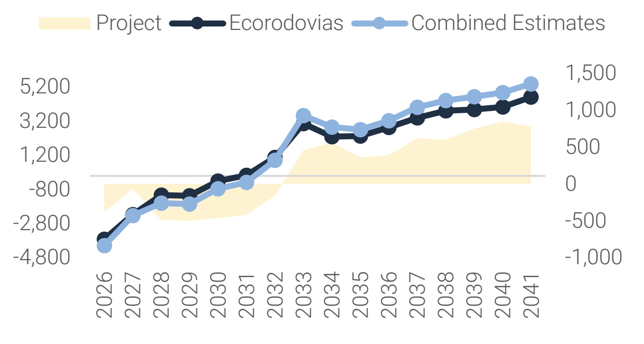


Figure 08: Motiva's Net Debt/EBITDA

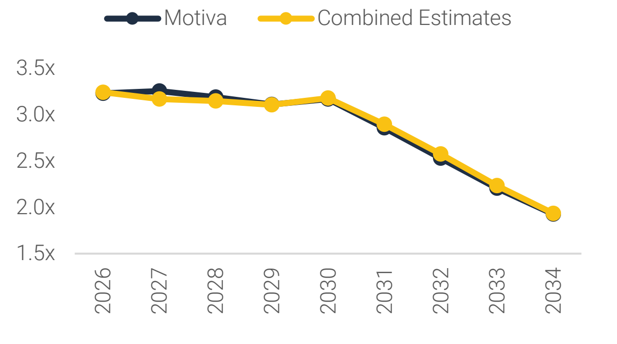
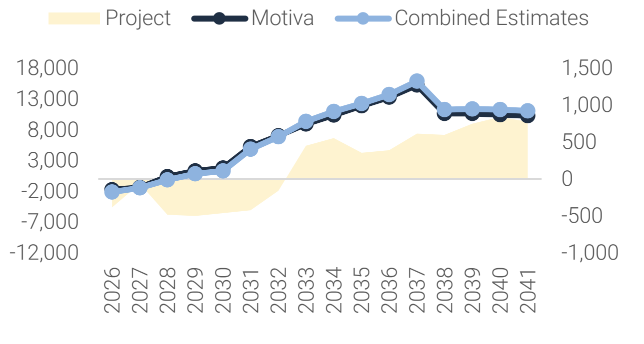


Figure 09: Motiva' (lhs) and Project FCF (rhs) – R$mn



Sources: ANTT, Company Data and XP Research

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