

Allocation Brazil

Measures to Curb Inflation in Limelight

International Scenario Might Calm the Market in April

March brought to Europe, Northern Africa and Asia, a number of serious events, such as the disaster in Japan, civil war in Libya and the fall of the Portuguese Cabinet, which affected most markets negatively. However, we expect the international scenario to improve in April for two main reasons. First, these events were of a non-recurring nature. Second, key indicators suggest economic recovery in China, US and Europe continues, despite all the social and political turmoil mentioned above, and the inflationary pressures.

All attention focuses on the next move by the Central Bank

Inflation continues at a high level, while economic activity also seems intense. Credit figures released in February were high, although there were doubts about the base of comparison, with Carnival holidays having been in February in 2010 and March in 2011. Data on credit suggests that average maturity terms for credit lines increased, which might explain part of this behavior, as it reduces the concern of an increase in the level of interest rate hikes.

This unabated inflation is evidence that Government action was not enough, indicating the need for further measures. We are still in the middle of the interest rate hike cycle intended to curb inflation. In April, we bet on a final 50 basis points hike for this ongoing move, to 12.25%, after which we believe the Central Bank will wait and see if it needs to increase rates further in the final part of the year. After this last move, it is likely that the CB will make use of alternative measures to continue its fight against inflation. We believe that the market mood will depend greatly on what it decides. If it announces further measures in April, we believe market tension should ease while, if it does nothing more, nervousness might prevail.

Another issue not likely to affect the short term, but which should appear more and more on the market's radar, is the possibility of Moody's rating agency upgrading the Brazilian sovereign risk. The agency suggested that it might do so by the end of the second quarter. Currently, Brazil remains at the lowest investment grade level, ten levels below the top of the range.

After the results season, and with this expectation of a tense local scenario, we have changed our portfolio for April. We increased the weight of Vale to 20 from 15% and made substitutions with the same weights: 1) Eletropaulo for Tractebel, with dividends already paid out, and 2) We substituted MRV and PDG for Even and EZ Tec because the first two reported reduced margins. Finally, we withdrew Telesp, as the share performed well and we see no short-term catalyst.

Suggested Portfolio – April/11

LONG/OVERWEIGHT

| Stock | Ticker | Traded Vol.* | Weight % |
|------------------|--------|--------------|-------------|
| Bradesco | BBDC4 | 167.7 | 10% |
| Even | EVEN3 | 10.4 | 6% |
| EZ Tec | EZTC3 | 3.5 | 6% |
| HRT | H RTP3 | 74.7 | 6% |
| Lojas Americanas | LAME4 | 36.6 | 6% |
| Lojas Renner | LREN3 | 59.7 | 6% |
| Petrobras | PETR4 | 660.2 | 20% |
| Tiete | GETI4 | 9.9 | 10% |
| Tractebel | TBLE3 | 15.0 | 10% |
| Vale | VALE5 | 752.3 | 20% |
| Total | - | - | 100% |

Source: Banif Research

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

Oswaldo Telles Filho
otelles@banifib.com.br
+55 11 3074-8061

"LONG"/Overweight – Suggested Portfolio

| Company | Ticker | Current | 52 - week | | Performance | |
|----------|--------|---------|-----------|-------|-------------|-------|
| | | Price | High | Low | YTD | 12M |
| Bradesco | BBDC4 | 33.35 | 36.28 | 24.70 | 2.6% | 15.7% |

Catalyst: 4Q10 results continued the positive trend reported during the rest of FY10. ROE remained high at 22% (nearly flat throughout the year) and insurance continued to contribute significantly to the bottom line (around 20%). We believe in a continued high spread between the basic interest rate and rates passed through to clients. Apart from this, higher inflation tends to generate gains for banks. In our opinion, these characteristics outweigh the fact that the government intends to reduce credit concessions to curb high inflation.

| Company | Ticker | Current | 52 - week | | Performance | |
|---------|--------|---------|-----------|------|-------------|-------|
| | | Price | High | Low | YTD | 12M |
| Even | EVEN3 | 8.42 | 10.11 | 5.06 | -2.1% | 30.8% |

Catalyst: We still like PDG and believe that it will be able to deliver an impressive growth in launches. However, its margins came under pressure, which tends to hurt stock performance. Therefore, we decided to swap PDG for EVEN, since the latter has underperformed its peers. In addition, EVEN has successfully turned around in the last two years (2009-10) and is ready to present a sustainable growth in both operational and financial terms during the next years.

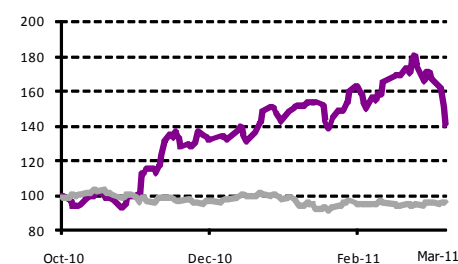
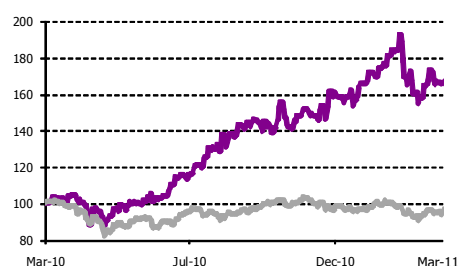
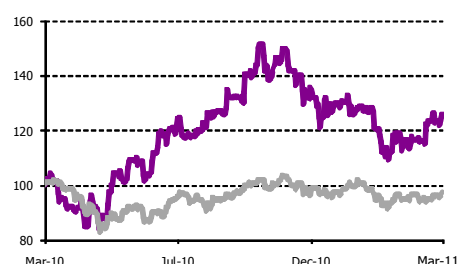
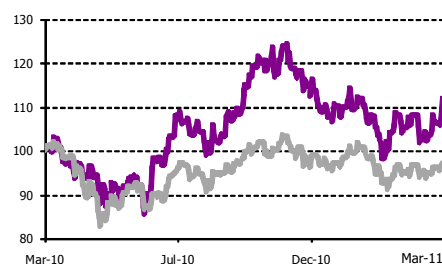
| Company | Ticker | Current | 52 - week | | Performance | |
|---------|--------|---------|-----------|-----|-------------|-------|
| | | Price | High | Low | YTD | 12M |
| EZTEC | EZTC3 | 14.00 | 15.83 | 6.9 | -0.2% | 77.5% |

Catalyst We decided to swap EZTEC for MRV, since the former posted much better 4Q10 financial results than the latter. MRV's margins dropped much more than expected due to cost increases, while EZTEC was able to maintain margins at the industry's highest level. In addition, EZTEC is one of the most undervalued companies in the homebuilder industry. The company has a bright scenario for 2011, when it expects to increase launches by nearly 22% and maintain gross margin at above 40%.

| Company | Ticker | Current | 52 - week | | Performance | |
|---------|--------|---------|-----------|-------|-------------|-----|
| | | Price | High | Low | YTD | 12M |
| HRT | HRT3 | 1,701 | 2,220 | 1,105 | 7.0% | - |

Catalyst The share price moved back and forth sharply during the month, closing far below where it started. We believe that this is an opportunity, as we continue believing in the company's fundamentals, which is why we reiterate our suggestion for our monthly portfolio. The company's share has a price well below its main peers from an EV/barrel perspective. The news flow in April is likely to be positive, with the start-up of a drilling campaign in the Amazon region. Additionally, we believe that the company's business plan is credible and presents many positive ST catalysts. Moreover, we consider that the recent non-cash merger with UNX makes perfect sense and dovetails with the company's long-term goals. The company arranged the deal with favorable price conditions, despite the initial negative view from the market.

Stock x IBOV



“LONG”/Overweight – Suggested Portfolio

| Company | Ticker | Current Price | 52 - week | | Performance | |
|------------------|--------|---------------|-----------|-------|-------------|------|
| | | | High | Low | YTD | 12M |
| Lojas Americanas | LAME4 | 13.60 | 19.14 | 11.07 | -10.7% | 3.3% |

Catalyst Results in 2010 presented significant improvements in operational margins and a reduction in working capital needs, which boosted earnings growth. The company has also reported a solid SSS growth of 11% in 2010, despite 2009’s strong comparison base. The recently announced investment of a minimum of R\$570 million in the capital increase of B2W, its e-commerce subsidiary, should not jeopardize the organic expansion plans for the bricks and mortar business. In 2010, Lojas Americanas opened 70 new stores, and the company remains on track to fulfill its guidance to open 330 additional stores in the 2011-13 period. Moreover, positive factors such as i) a low average sales ticket; ii) a broad assortment of products; iii) penetration in all social classes and iv) nationwide presence, place the company in a good position compared to other retailers, even in a tighter scenario of credit scarcity and interest rate increases. Risks: strong competition for its subsidiary B2W in the e-commerce sector and a P/E multiple higher than the sector average.

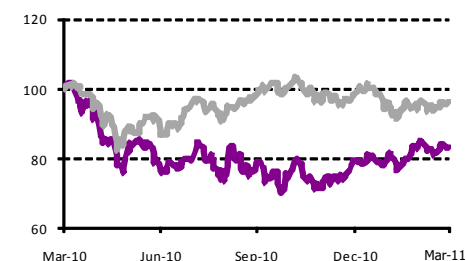
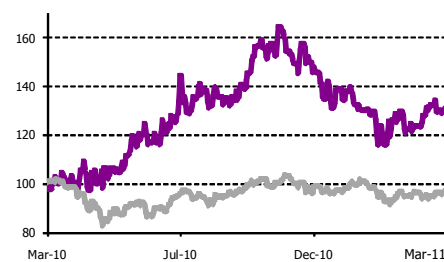
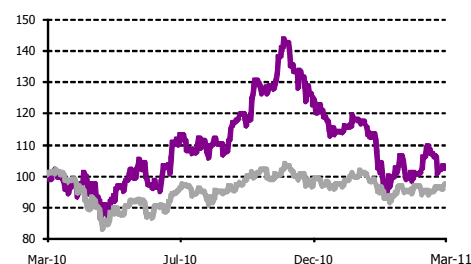
| Company | Ticker | Current Price | 52 - week | | Performance | |
|--------------|--------|---------------|-----------|-------|-------------|-------|
| | | | High | Low | YTD | 12M |
| Lojas Renner | LREN3 | 52.89 | 67.06 | 36.72 | -6.0% | 33.9% |

Catalyst: 4Q10 results confirmed expectations by repeating the good performance of 3Q. Sales growth returned to higher levels, with SSS up 10.0% YoY in 4Q10 and 10.3% YoY in FY2010, above market expectations. The increase in cotton prices did not affect gross margin, which reached 56.0% in 2010 and was 190 bps better YoY. Consumer finance services also continued to contribute positively, with an outstanding reduction in bad debt, which helped sustain the consolidated EBITDA margin. Furthermore, supported by new, smaller formats, Renner has an ambitious expansion plan to open 30 stores in 2011 (20 compact) and 160 stores in the next five years (100 compact), more than doubling its current 134 stores. Finally, another good growth opportunity comes from the e-commerce platform, which started to include apparel, accessories and footwear in addition to the existing mix of underwear, wristwatches and fragrances. Risks: execution risks related to the new compact store format and margin compression from the pre-operating expenses of new stores.

| Company | Ticker | Current Price | 52 - week | | Performance | |
|-----------|--------|---------------|-----------|-------|-------------|--------|
| | | | High | Low | YTD | 12M |
| Petrobras | PETR4 | 28.51 | 34.96 | 23.46 | 5.0% | -16.1% |

Catalyst: The increase in oil prices, the company's release of sequentially good news in the recent past and the good prospects for the near future, are likely to continue to influence the company's shares positively. We believe that belief in the company's growth prospects, which remain far above those of its peers, are likely to prevail over the negative views on the management and investment decisions. We expect oil production and refining capacity to increase substantially, with a growing domestic market for its products. Risk: political noise regarding the change in top management.

Stock x IBOV



“LONG”/Overweight – Suggested Portfolio

| Company | Ticker | Current | 52 - week | | Performance | |
|---------|--------|---------|-----------|-------|-------------|-------|
| | | Price | High | Low | YTD | 12M |
| Tietê | GETI4 | 24.80 | 24.98 | 16.82 | 3.3% | 42.2% |

Catalyst: We estimate that the company will continue to distribute good dividends in coming years, due to its high cash generation from the electricity sales contract to Eletropaulo. In 2010, the payout ratio was 117%. Risks: in the long term, the company will sell its electricity through auctions held by the Government. This could result in it obtaining lower prices than it gets from the current contract with Eletropaulo, which expires in 2015.

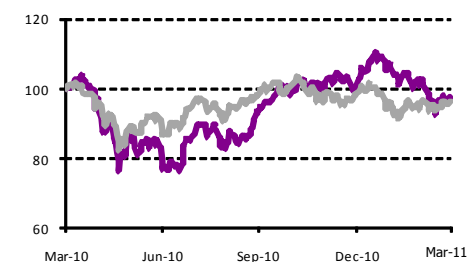
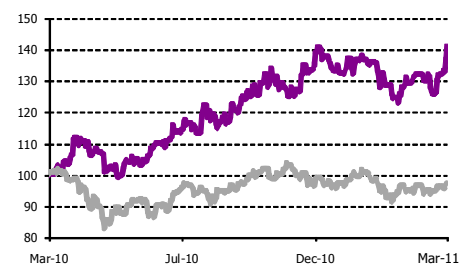
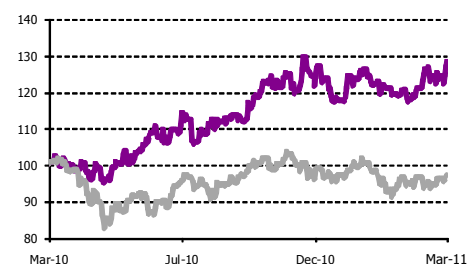
| Company | Ticker | Current | 52 - week | | Performance | |
|-----------|--------|---------|-----------|-------|-------------|-------|
| | | Price | High | Low | YTD | 12M |
| Tractebel | TBLE3 | 27.60 | 28.48 | 19.00 | 0.5% | 43.2% |

Catalyst: The company reported good results for 2010, with improved revenues and EBITDA. In addition, for 2011, we are more optimistic on Gencos than on Discos, because Discos will start to face the third cycle of tariff revision, with a probable reduction to tariffs. Risks: in our opinion, the consortium controlling Jirau will absorb any increase in the cost of construction. However, Tractebel will not have this commitment passed to it on transfer because the acquisition of the plant needs approval by a committee independent of Tractebel.

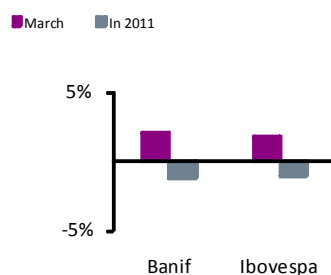
| Company | Ticker | Current | 52 - week | | Performance | |
|---------|--------|---------|-----------|-------|-------------|-------|
| | | Price | High | Low | YTD | 12M |
| Vale | VALE5 | 47.39 | 53.65 | 36.58 | -1.7% | -1.8% |

Catalyst: Rumors regarding the change in CEO caused the company's share to under perform the Ibovespa in March. We believe in a positive outcome for this matter, as the company will hire a head hunting firm to select the candidate by providing three names, which may include one or more of Vale's top management. If this scenario moves forward in April, when the Board will have many meetings in which to make official decisions, the price of the shares should react positively.

Stock x IBOV

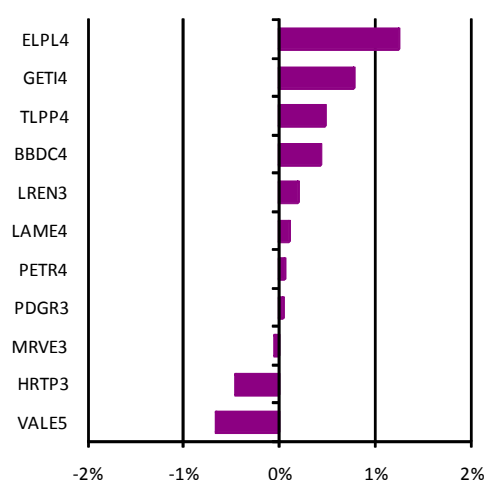


Banif (LONG) x Ibovespa



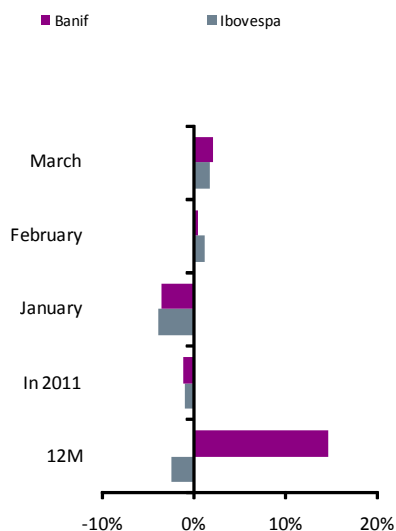
Source: Economática

Weighted performance in March/11



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

Banif x Ibovespa Evolution



| <u>2009</u> | Banif | IBOV | Banif - Ibov |
|----------------|---------------|---------------|---------------------|
| Jun-09 | -5.95% | -3.26% | -2.70% |
| Jul-09 | 8.03% | 6.41% | 1.61% |
| Aug-09 | 5.72% | 3.15% | 2.57% |
| Sept-09 | 9.75% | 8.90% | 0.85% |
| Oct-09 | 0.57% | 0.05% | 0.52% |
| Nov-09 | 8.83% | 8.93% | -0.10% |
| Dec-09 | 1.05% | 1.87% | -0.82% |
| <u>2010</u> | Banif | IBOV | Banif - Ibov |
| Jan-10 | -2.57% | -4.65% | 2.08% |
| Feb-10 | 1.53% | 1.68% | -0.15% |
| Mar-10 | 4.30% | 5.82% | -1.52% |
| Apr-10 | -3.37% | -4.04% | 0.67% |
| May-10 | -3.18% | -6.64% | 3.46% |
| Jun-10 | -0.25% | -3.35% | 3.10% |
| Jul-10 | 12.13% | 10.80% | 1.33% |
| Aug-10 | 0.42% | -3.51% | 3.93% |
| Sept-10 | 7.01% | 6.58% | 0.43% |
| Oct-10 | 3.67% | 1.79% | 1.88% |
| Nov-10 | -1.26% | -4.20% | 2.94% |
| Dec-10 | 0.88% | 2.36% | -1.48% |
| <u>2011</u> | Banif | IBOV | Banif - Ibov |
| Jan-11 | -3.62% | -3.94% | 0.32% |
| Feb-11 | 0.35% | 1.22% | -0.87% |
| Mar-11 | 2.15% | 1.79% | 0.36% |
| In 2011 | -1.20% | -1.03% | -0.17% |
| 12M | 14.72% | -2.54% | 17.26% |
| 18M | 30.91% | 11.01% | 19.90% |

Source: Economática and Banif - Research

Analyst Disclaimer and Important Report Disclosures:

The analysts mentioned in this report hereby certify that: 1) all of the views accurately reflect his or her personal views about any or all of the subject securities or issuers; 2) no part of any of the analysts compensation is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research; and 3) they do not hold securities issued by the company (ies) mentioned in this report that exceed 5% of their assets.

Investment ratings are a function of Banif Banco de Investimento's expectations of a relative return to the expected performance of the main index of the country of origin. Ratings are: Buy for stocks viewed as having an upside 500 bps higher than the expected performance of the index; a Neutral for stocks expected to have an upside between -500 bps and +500 bps to the expected performance of the index and; Sell for those stocks expected to have a performance 500 bps below the expected performance of the index. It is important to note that a recommendation may differ from the rating system when the analyst believes that the stock may reach the appreciation / depreciation in the very short term.

Banif Banco de Investimento is not currently having any investment banking or other business connections with the company (ies) mentioned in this report, however, investors should bear in mind that it is seeking or will seek to do so at any time and may receive compensation for services provided or have commercial relations with the company(ies) analyzed in this report, or with individuals, legal entities, funds, trusts or estates that act representing the same interest as the company(ies).

Banif Banco de Investimento and/or its officers, directors, or shareholders, may from time to time have long or short positions in the financial instruments of the company mentioned in this document, or may serve in an advisory capacity with respect to such instruments.

This document is for information purposes only and was made by Banif Banco de Investimento. Under no circumstances should this document be used or considered as an offer to sell or a solicitation to buy the securities or other instruments mentioned in it. The information in this document has been obtained from sources believed reliable, but Banif Banco de Investimento makes no representations concerning the truth or accuracy of the content or substance of this report, or of the future market value of any securities, notes, or private claims mentioned within. Opinions expressed herein constitute the current judgment of the author as of the date published and are subject to change without notice, and Banif Banco de Investimento makes no representations that they will endeavor to update their analysis upon any change of circumstances.

The products mentioned in this document is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Banif Banco de Investimento or its subsidiaries or affiliates to any registration or licensing requirement with such jurisdiction.

Additional Information for US Readers: Banif Banco de Investimento is a registered broker-dealer. The research was prepared Non-US research analysts that are not registered or qualified as research analysts with the NYSE and or FINRA, but satisfy the registration and qualification requirements or other research-related standards of a non-US jurisdiction. Any US Person receiving this report and wishing to effect any transaction in any security discussed in this report should do so with Banif Securities, at 140 East 45th Street, 2nd floor, New York, NY.

Brasil - São Paulo
Banif Banco de Investimento S/A
Av. Juscelino Kubitschek, 1700 - 15º
São Paulo, SP 04543-000
Tel: + 55 11 3074 8000

Brasil - Rio de Janeiro
Banif Banco de Investimento S/A
Praia de Botafogo 228 - 7º Andar
Rio de Janeiro, RJ 22359-900
Tel: + 55 21 3138 3100

Portugal - Lisbon
Banif - Banco de Investimento
Rua Tierno Galvan, Torre 3, 14º.
Lisbon, Portugal 1070-274
Tel : + 351 21 389 3326

USA - Miami
Banif Securities, Inc.
1001 Brickell Bay Dr, Suite 2906
Miami, FL 33131
Tel: +1 305 416 9492