

Q3 2013 Earnings Call

Company Participants

- Marcelo Martins, CFO, IR Officer

Other Participants

- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan's Earnings of 2013 Brazil Conference Call. Today with us, we have Mr. Marcelo Martins, CFO and Investors Relations Officer. And Mr. Guilherme Machado, Investor Relations Manager.

We would like to inform you that this event is recorded and all participants will be in listen-only mode during the company's presentation. After Cosan's remarks, there will be a question and answer session for industry analysts.

(Operator Instructions).

The audio and slideshow of this presentation are available through a live webcast www.cosan.com.br/ri. These slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan's management and on information currently available to the company.

They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operation factors can also affect the future results of Cosan and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Martins. You may begin your conference.

Marcelo Martins {BIO 16440115 <GO>}

FINAL

Good morning, everyone. Thanks for attending our quarterly earnings call. I'd like to start the presentation talking a little bit about consolidated performance figures of Cosan. As you know, in this consolidated performance, we basically take into consideration 50% of high [ph] Combustiveis high [ph] Energia; 100% of Comgas; 100% of Lubricant and Specialties, Rumo, Rader and other businesses.

In this quarter, in comparison with Third Quarter of 2012, we saw an increase in net revenues of 36% on a consolidated basis, reaching BRL9.5 billion in this quarter. And also an increase in 56% of the EBITDA that reaches BRL1.2 billion in this quarter, as well, with an EBITDA margin of 12%.

The numbers are not necessarily comparable, as you know; in the Third Quarter of the previous year, we didn't consolidate Comgas. We concluded the acquisition of Comgas in the second half of -- I'm sorry -- after the month of October of 2012. And therefore we did not include Comgas in the previous quarter, in the second and Third Quarter of 2012.

Now, talking a little bit about the different business lines -- starting with highs in Combustiveis. There was a 9% jump in the volume (inaudible), which in 6.1 billion liters in the Third Quarter of 12 -- 2013. Representing a 17% increase in net revenues that reached the BRL12.7 billion in this quarter. The EBITDA also jumped 29% to BRL483 million with a margin of 3.8% in this quarter.

The main factor that impacted a good performance in this business are the best prices. So, better prices practiced during the quarter. And also a partial recovery of the volumes of the jet fuel. As you know, in the previous quarter, we had a negative impact. We had a much lower than expected volume in aviation -- in the aviation business, mainly in the jet fuels. And we saw a recovery in this volume during this quarter.

There's also a number that we'll start to disclose now and that I'd like to call your attention to, which is the rebates to the dealers which basically means that we're paying to the dealers as opposed to up front. The CapEx is going to be -- or has been divided into -- there's an upfront payment that we pay through to the dealers upon the conversion of the stations. But there is a good part of the fees they get which is aligned with the performance of the business over time, which basically means that the higher the volume, the higher the rebate they'll get from highs in Combustiveis.

We had a total rebate of BRL13.4 million paid in the Third Quarter of last year, which basically was equivalent to BRL2.4 per cubic meter. And in the quarter, that number jumped to BRL26.7 million to presenting an EBITDA margin of BRL4.4 per cubic meter.

Now, talking a little bit about high Energia. We saw a reduction in the sugar cane crushed -- in the volume of cane crushed in this quarter of 2%, which, as a consequence, had an impact on the production of sugar and ethanol. In case of sugar, a 1% reduction, leading us to 2.1 million tons of sugar produced in this quarter and 884,000 cubic meters of ethanol.

Bloomberg Transcript

FINAL

The TSR [ph] also went down by 8%, which is 135 kilos per ton and the volume of energy. So, in the market -- in the spot market, also, came down, having an impact on the volume of power sold in this quarter, in comparison with the same quarter of last year.

The energy price went up as most of the contracts -- I mean, as the bulk of the (inaudible) link to the contracts we have. And we reached BRL171 per megawatt hour during this quarter.

High Energia saw a jump in its revenues of 44% as a result of better prices, mainly for ethanol. And an EBITDA increase of 6%, reaching BRL900 million in this quarter represented by a margin of 28%. When we compare the margin of 28% to the previous quarter, we saw that there was a reduction of 10%, which is mainly a result of the fact that we have acquired roughly 35% of the ethanol that was sold in this quarter from the market, which obviously had a -- had a higher cost. And therefore, a negative impact on the margin.

But overall, it was a very good quarter, in terms of the performance of the business in terms of the EBITDA generated by the sugar and ethanol business.

Now, talking a little bit about Comgas. Comgas had also a very good quarter -- 1% increase in the volume sold, represented by 1.3 million cubic meters sold in this quarter. The gross revenue includes over 18%, reaching 2.1 billion reais and an EBITDA increase of 16%, reaching BRL370 million in this quarter, represented by an EBITDA margin of 22%.

In terms of the contribution margin, we saw a -- basically the same breakdown as we saw in the last quarter and the same quarter of last year, as well.

Now, moving to Rumo. Rumo had a very good quarter, as expected. We saw an increase in 7% in the volume loaded, as planned, according to the investments we made in this business since we -- we basically signed our agreement with ALL. We saw an increase in the net revenues of 51%, reaching BRL330 million in this quarter and an EBITDA jump of 34%, reaching BRL115 million in this quarter with a margin of 35%.

We had to include a provision for doubtful [ph] accounts of BRL15 million -- BRL15.8 million in this quarter, which basically reduced the EBITDA and therefore the EBITDA margin, as well.

For Rader, we saw a reduction in EBITDA -- I'm sorry. For Lubricants, we saw an increase in the total volumes sold of 18% and a reduction in EBITDA of 9% from BRL34 million to BRL31 million. And an increase in net revenues of 10% from BRL407 million.

The biggest impact on the reduction of the EBITDA was basically a non-recurring marketing expense that was incurred during this quarter. In this business, it's difficult to predict when the investment and marketing will take place -- what we'll probably consider for next year is trying to allocate an equal amount to every quarter so that we would avoid

Bloomberg Transcript

this sort of impact that we saw in this quarter, which was equivalent to roughly BRL3 million, having a negative impact on EBITDA.

Rader saw a reduction in net revenues of 22%. As we didn't sell any property during this quarter. And EBITDA increase of 211 [ph] % in the function of the evaluation of the land portfolio as we -- as we have to reassess the value of the properties in every quarter of the year.

Because of our net acquisition, there was a -- there was an increase of our net debt from BRL9.1 billion to BRL9.9 billion in this quarter, compared to last quarter. We had basically the payment of dividend in this quarter and some that -- there was also repaid during this Third Quarter of the fiscal year. And for the increase in the leverage of the company on a consolidated basis.

On the other hand, we basically improved the profile of our debt maturity. We have 18% of our debt mature in the short term and 82% in the long term. And net EBITDA -- net EBITDA ratio over the last several months was 2.4 times, considering an EBITDA of BRL4.1 billion on a performance basis for both those.

Our guidance was basically revised. We've reduced the projected CapEx for this quarter by BRL12 million and that's a function of a reduction in the CapEx mainly at the high Energia. All across the board, we had several projects that we basically were reviewed. And we decided to reduce not only the CapEx overall for the business. But also we decided to increase the minimum return required for CapEx projects in the sugar and ethanol business.

The only other number that changed in the guidance was Comgas number of clients and in the network expansion, as well. As we have already reached the level that is within the projected numbers for this fiscal year of 2013.

With that, I'll let you hand my presentation and turn it back to you for your questions. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions). Mr. (inaudible) has a question.

Q - Unidentified Participant

Hi. Good morning. Petrobras has been making a large number of comments recently about a new fuel price formula that they may receive approval for from the government that would create a closer link between international and domestic fuel prices.

I'm interested in your thoughts on the prospect of this policy change and what would be significance for Combustiveis if this were to be approved.

A - Marcelo Martins {BIO 16440115 <GO>}

Well, it's -- it's been a matter of debate between Petrobras, the market and the government as well, who has, in some occasions, denied the introduction of this formula. It's obviously very welcome if it happens. I think it's going to have a positive impact on the fuel distribution business, in terms of the overall margins of the business.

But most importantly in our case, it should have a very positive impact for the ethanol business -- the ethanol production business. One of the biggest complaints of the -- of the producers of ethanol is that we don't have any sort of predictability, in terms of prices, as Petrobras is keeping gasoline or fuel prices artificially low in the domestic market.

So, again, I think it's hard to say whether the government will be willing to do it before next year's elections. But if it does happen, I think it will be very welcome. But only by -- by the fuel distribution -- but mainly for the ethanol producers in Brazil. And I think that it should basically incentivize an increase in production of ethanol, which could potentially reduce the dependence of gasoline imports, which will certainly have a positive impact for Petrobras.

Q - Unidentified Participant

Okay. And then a question about your foreign exchange losses. So, obviously very happy to see the losses reversing this quarter versus the June quarter. Was the purely a matter of changes in Forex market, or -- or is that matter of hedging on your part?

A - Marcelo Martins {BIO 16440115 <GO>}

No, it's mainly a function of the -- the Forex market. Excuse me. When you compare the numbers with last year, you will notice that last year, there was a operation of the real and that ended up having a positive impact on the business.

In this quarter, it was very neutral because the -- we saw no variants in any effects to end the quarter. So, we had to end the quarter at the same level we started the quarter. We don't know what's going to happen in this quarter as we're now seeing some relativity back in the market. But the only point I'd like to make is that it -- it's a 100% accounting only.

I mean, it doesn't have any financial impact as we are a 100% hedged on our debt as Cosan level, except for the -- the bird [ph] which has its interest hedged but not the principal. And in the case of high using, they basically have a natural hedge as they have more revenues in US dollars during the year than they have actually to service or amortize their debt.

So, overall, we have no impact this quarter and we would not expect any substantial impact to the extent that the exchange rate remains relatively stable, which is hard to

FINAL

Bloomberg Transcript

predict at this point in time.

Q - Unidentified Participant

Right. Appreciate the responses. Thanks very much.

A - Marcelo Martins {BIO 16440115 <GO>}

Thank you.

Operator

(Operator Instructions). Thank you. That concludes the question and answer session for investors and analysts. I would like to invite Mr. Marcelo Martins to proceed with his closing statements.

A - Marcelo Martins {BIO 16440115 <GO>}

Well, first of all, Jodivo [ph], we apologize. We just saw your name here on the screen when she had already ended the call. I mean, we're happy to answer your questions when you call us here in the office.

Well, I wanted to thank you all for -- for participating in this call. We're very happy with the results -- not only because these are very solid results in our opinion. But because it -- we continue to see a substantial upside coming from our businesses and -- and -- the -- the capital discipline we're trying to introduce to all of our business lines.

And despite the volatility we're seeing in the economic environment in Brazil, we continue to deliver good results. And we're very keen to having next quarter -- a very good next quarter, which would basically wrap up this year as a record year for our company. Thanks again. And we'll talk to you next time.

Operator

Cosan's conference call is concluded. Thank you, very much for your participation and have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the

views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript