

Q3 2019 Earnings Call

Company Participants

- Aurelio Pavinato, Chief Executive Officer & Member of the Board of Executive Officers
- Ivo Marcon Brum, Chief Financial & Investor Relations Officer and Member of the Board of Executive Officers

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola Third Quarter 2019 Earnings Conference Call. Today, we're having Mr. Aurelio Pavinato, CEO; and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer. (Operator Instructions) Also, today's live webcast, both audio and slide show may be accessed through SLC Agricola website at www.slccagricola.com.br in the Investor Relations section by clicking on the banner webcast 3Q '19. The following presentation is also available to download on the webcast platform. The following information is available in thousands of Brazilian real and in IFRS, except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of SLC Agricola 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 operating factors could also affect the future results of the company and could cause the results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Aurelio Pavinato, CEO. You may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Good morning. Thank you for participating in SLC Agricola's earnings conference call for the third quarter of fiscal year 2019. Let's turn to Slide 3, please. In line with your current strategy of monetizing real big gains, this month we concluded the sales of 5,205 hectare of it -- 4,562 were available for BRL83.2 million in cash or BRL20,000 per arable hectare. The property is part of the Parnaíba Farm in Maranhão state. According to our calculations the transaction generated some internal rate of return in U.S. Dollars of 14.1%. The company continues to operate the -- on the area sold with leasing payments at market prices.

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On Slide 4, you can see that the face value of our land portfolio, which already reflects the results of the 2019 property appraisal conducted by delight. The appraisal determines a total value of BRL3.86 billion, which represents the preface of 3.4% on 2018 for a net gain of BRL183.5 million.

Let's turn to Slide 6, where we comment on the price scenario for our main products. Cotton prices already improved over the past few weeks, which we attribute to recent development in the U.S. China trade war, which have you straighten it's demand for fiber and to the risk and traditions to forecast for the U.S. cotton crop, which is in the harvest phase.

Let's go now to Slide 7. For grains, international price also have improved in recent months, basically due to this configuration of shortfalls in U.S. output. The supply-demand balance for soybean and corn is pointed to address the in the '19 '20 crop years.

Let's go now to slide 9, where we will comment on our operating performances in the '18 '19 crop year. With bean harvest of all crop already concluded, the final soybean yield was 3,725 kilograms per hectare, a new record and 5.7% above the initial projection, and 0.8% higher than the last crop year. The result also used 16% above the national average for the '18, '19 crop year based on the data from CONAB. In the case of cotton due to the rains in April and May, we mentioned it last quarter after concluding the harvest, we adjust the estimated yield, and with 75% of process already conclude the current projection for the cotton in leased yields considering the average of the first and second crop is 1,666 kilograms per hectare, down 2.4% from the initial budget. For corn the yield was 7,021 kilograms per hectare, 22.8% higher than the last crop year, 3% higher than the initial budget and 27.5% above the national average according to CONAB figures for the second crop.

I will now pass the call over to the my colleague, Ivo Brum, our CFO and IRO, who will comment on our financial results in the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, everyone. Let's move to Slide 11, which shows some highlights from our income statement for the period. Given the characteristic of our business, and also the current accounting methodology, the results of one quarter off into would both reflect the real situation of the crop yield at our home. So we always if arise that looking at the two-year or periods of 9 to 6 months is usually much more accurate.

Net rate in during the year-to-date the grew by 32% to flatten the higher volumes the voices and highest price for our keep crops. Especially, soybean and corn. Adjusted EBITDA BRL9[ph] million with margin of 28%, which represents growth of 23% over the same nine months to year of 2018, reflecting the higher volume and marketing expansion in all crops. Net income from the field was BRL226 million with margin up 13% with the result affected by calculation of Fair Value of Biological Assets.

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Here I should not -- cotton price fell over the third one which leads to a revision of the calculation also based on this factor. However, the cotton price have recovered supported strong growth in the position for sale in 2020 are reflected by our hedge position, which means that the marketing that effectively we will realize it by the open when the fossil -- too deep highest them the simply significant or the fair value of your --.

Turning to Slide 12, you can see these our someone -- statement of cash flow.

These in the generation of the cash flow operation in the lower working capital needs as we participate last quarter, the third quarter of this year is already cash flow positive at BRL217 million, this invest -- the highest volume of cotton invoices in the fourth quarter, you project multiplication rule for the remainder of the year. Let's turn to Slide 13, please. Reflecting out free cash flow net debt sale in relation to second quarter and given our EBITDA in the last 12 months, our net debt it is our ratio now stands at 1.8x.

I will now pass the whole back over Aurelio Pavinato for his comments on the outlook for the next crop.

Aurelio Pavinato {BIO 16456795 <GO>}

Thank you, Ivo. Let's turn to Slide 15, please. And usually as we present our initial planting - and projection for yield production cost to put an area for the new season, which is currently in the cleansing phase. We are estimating a total planted area of 450,000 hectares. The potential is higher, but consider delaying in the offset of the range in the state of -- we reduced the corn area by 8,000 hectares as a second clock.

For yields, which you can see Slide 16, compared to the budget for the '18 '19 crop year, we estimated increases of his 6.4% for bottom consider the average of first and second crops of 2.3% for soybeans, and of 6.0% for second crop corn. The weather outlook for the coming season call for normal conditions according to lower November 1 to report the most probable scenario is also a weak El Nino, which we generally favors crop development in Brazil. On Slide 17, you can see a summary of your estimate for the production cost per hectare which 5.8% increase in relation to '18, '19 crop year.

Mainly due to the depreciation in the Brazilian real against the dollar over the crop -- course of the year 2019. Luckily for our sales prices in the coming year, you can see our hedge position on Slide 18. Taking advantage of the recovery in cotton price in recent weeks. We advance in our sales for 2020 and currently it's 8.3% of our quantity in next year has been harvest[ph]. So giving this combination of factors namely plus the area heals cost and prices are expectation for the '19 '20 crop year are positive and we project continued good profitability for the new crop year that is a cycle. Thank you. And now we are able to answer questions.

(Question And Answer)

Operator

Ladies and gentlemen, we will now initiate the question-and-answer section. (Operator Instructions) Thank you. This does conclude today's presentation. You may disconnect your line and have a nice day.

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