Q1 2016 Earnings Call

Company Participants

- Aurélio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial & Investor Relations Officer

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we'd like to welcome everyone to SLC Agricola First Quarter of 2016 Earnings Conference Call. Today, we have with us Mr. Aurélio Pavinato, CEO; and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We'd like to inform you this event is being recorded. After the company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. Also, today's live webcast, both audio and slideshow, may be accessed through SLC Agricola website at www.slcagricola.com.br in the Investor Relations section by clicking on the banner, Webcast First Quarter 2016. The following presentation is also available to download on the webcast platform.

The following information is available in thousands of Brazilian reais and in IFRS, except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and the 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 results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Aurélio Pavinato, CEO. Mr. Pavinato, you may proceed.

Aurélio Pavinato

Good morning. Thank you for participating in SLC Agricola's earnings conference call for the first quarter of 2016. Please go to slide three where we will comment on the price movements of our main products in the past few months. In general, the price of grains and cotton improved over the past two months in response to the consolidation and a lower production level of the 2015-2016 crop year and the current outlook for the next crop year.

The international cotton market, in contrast to recent quarters, was marked by more volatility in early 2016. After falling to the lowest level of the last seven years, in March, cotton prices returned to over $0.60 on the New York Stock Exchange. The continuous deterioration in world production and the resulting draw-downs in cotton lint stocks outside of China were the main drivers of the recovery.

China's policy continues to affect the cotton market since, after a cycle of several years of stockpiling, that has surpassed 200% of its annual consumption, the Chinese government began selling its cotton lint reserves. This process should be slow with the Chinese stocks taking several years to normalize.

As we can see on slide four, global production at 2015-2016 crops was of 99.5 million bales against a consumption of 190 million bales. The forecast for the 2016-2017 season is of a production of 104.4 million bales and consumption of 110.8 million bales.

So, for the second consecutive year, we will see reductions in global inventories and the stock-to-use ratio will fall from 77% to 67%. This confirmed the thesis that the cotton has reached its minimum price level and that the trend is of a gradual price recovery.

Soybean prices also post a recovery in 2016. The increase is explained by the recent shortfall in output in South America in this 2015-2016 crop year, combined with the consistent demand which should lead to tighter stocks expected for the 2016-2017 crop year, as you can see on slide five.

Adding to this are the weather uncertainties arising from the high probability of the occurrence of the La Niña phenomenon, which historically very significantly affects the yields in United States and in South America, a similar scenario affecting international corn prices.

As we can see on slide six, the demand continues to be increasing for the cereal. And the prices due to the competition for (06:37) soybean should continue to trend upwards. In case of Brazil, specifically, prices soared in the first months of the year due to the high volume of exports which caused shortage in early 2016. We see even cases of commodities being imported.

In addition, Brazil has already closed export commitments for high volumes at the current 2015-2016 crops around 23 million tons, which associates to the lower forecasted production due to the reduced rain during the fall should keep prices in levels above the export party, probably maintained at the import party, which is the current situation.

Let's go please to slide eight, which shows our operating performance in the 2015-2016 crop year. As detailed in our earnings release, this crop year was very challenged in terms of weather with the lowest rainfall of the last few decades, especially in the Northeast as well as uneven distribution. We see a high concentration of rainfall in general and virtually no precipitation in February and March, as we can see on this chart, which illustrates the situation at the Panorama Farm in Bahia.

We also present on slide 9 and 10 charts with accumulated rainfall volumes for the crop year in Bahia and Maranhão states. Note that the precipitation levels for the current crop was 60% below historical average and 30% below the sufficiency level, roughly 1,000 millimeters per season at Panorama Farm and 36% below historical levels and 10% below sufficiency level at the Parnaíba Farm.

These charts also demonstrate the similar events. With rains below sufficiency levels, revenues only 3 times (09:21) over the past 25 years. This results in losses mainly in the soybean crop and cotton first crop as shown in the table on slide 11. For the second crop, however, planted in Maranhão in the Midwest region, cotton was in line with the forecast and corn represents only a slight reduction.

We can now move on to slide 12. Due to the weather scenario we are facing this crop year, we had to revise our plans for the year and adopt actions to preserve our financial solidity. We reduced BRL 50 million our project CapEx for the year from BRL 125 million to BRL 75 million. We will also review production cost reduction of BRL 45 million and reduction in our payment related to fertilizer purchases for the year of BRL 61 million.

We believe that these measures will be sufficient to maintain our satisfactory finance situation over the course of this year despite the very atypical weather scenario. This shows just how prepared our company is to handle this year's adversities.

I will take this opportunity to also leave you an optimistic message for the next crop year 2016-2017 to summarize some points that we - that (11:22). We will have better prices, stable production costs in reais and probably favorable weather.

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

Ivo Marcon Brum {BIO 16639894 <GO>}

Thank you, Pavinato. Good morning, everyone. Let's go to slide 14, which shows some highlights from our income statement for the period. Net revenue grew 15.6% from the first quarter 2015, mainly due to the significant increase in the volume of the soybean invoiced. EBITDA in the first quarter 2016 was stable compared to the prior quarter with the lower margin in the cotton crop offsetting the higher volume and margin in the soybean crop.

Cotton margin declined in the period, which is explained by the allocation to this crop of the results of the Trade Finance operations, which don't have a bad exchange rate due to the contract date as well by the lower price in the dollar of the cotton invoiced compared to first quarter 2015 and the higher production cost.

Basically, net income in the quarter was slightly negative at BRL 2.7 million compared to positive BRL 33 million in the first quarter of the last year. The (12:57) was the appropriation of the large scale assets, mostly the portion allocated to these costs.

Finally, you can go to slide 15, which shows a breakdown of our net debt. Net debt remained stable, ending the first quarter at BRL 1.1 billion with the main factors, the effect of the exchange variation in the dollar-denominated debt, which reduced the net – the debt balance, but it was offset by the higher volume of Finame and the working capital lines in the amount of BRL 40 million.

The ratio of adjusted net debt to adjusted EBITDA also remained stable, ending the first quarter at 3.26 times compared to 30.22 (sic) [3.22] (13:52) times at the end of the last year.

Thank you. And now, we will open the call for questions.

Q&A

Operator

Ladies and gentlemen. We will now initiate the question-and-answer session. Thank you. This does conclude today's presentation. You may disconnect your lines at this time, and have a nice day.