Q3 2019 Earnings Call

Company Participants

- Eduardo Miron, Chief Executive Officer
- Marco Antonio Spada, Chief Financial and Investor Relations Officer
- Marcos Molina, Chairman
- Miguel Gularte, Chief Executive Officer, South American Operation
- Tim Klein, Chief Executive Officer, North American Operation
- Unidentified Speaker

Other Participants

- Analyst
- Isabella Simonato
- Lucas Ferreira
- Luciana Carvalho
- Thiago Duarte
- Tiago Mello

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. At this time, we would like to welcome everyone to Marfrig Global Foods SA Conference Call to present the Results for the Third Quarter 2019.

The audio for this conference is being broadcast simultaneously through the website, www.marfrig.com.br/ir, where the slideshow presentation is also available. We inform you that all participants will be in listen-only mode during the company presentation; ensuing this, we will go on to the Q&A session. (Operator Instructions).

Before proceeding, we would like to mention that forward-looking statements made during this conference call referring to the company perspective financial and operating goals are based on the assumptions and beliefs of the company as well as on information currently available. These forward-looking statements are no guarantee of performance as they refer to future events and therefore depend on circumstances that may or may not occur, investors should understand the general economic conditions, industry conditions and other operating factors could also affect the future results of Marfrig and cause results to differ materially from those expressed in the statements.

We now turn over the floor to Mr.Marcos Molina Founder and Marfrig Global Foods Chairman. You may proceed, sir.

Marcos Molina {BIO 15363967 <GO>}

A good afternoon to all of you. I would like to thank all of you for your participation in one more conference call for Marfrig.

This quarter was a special quarter with a record of results confirming that we have resumed our operations with better indicators. Our operations presented successive strides in terms of profitability and performance. Marfrig has a highlighted position and is well prepared to face the growing demand and also to position itself well in the new global scenario. Now this scenario shows a much stronger demand from China when it comes to beef.

Our operations are strategically very well positioned. In North America, we have a highly efficient operation that is acknowledged for its excellent production as well as the quality of its products. The operation of South America finds itself in a privileged position in Brazil, in Argentina, in Uruguay as well as in Chile. We have significantly enhanced our exports to China. Another important highlight for the quarter was the announcement of a partnership with an American company, ADM, one of the greatest beef producers, vegetable, protein throughout the world. We began our production and the marketing of our plant-based products in Brazil with the launch at Burger King.

We are also in a final stage enabling us to launch this and other countries as well as in other food networks. As a greatest hamburger producers worldwide, we have the obligation of supplying to our clients one more option as part of our portfolio and allow consumers to decide.

We would like to thank all of our associates, our clients for another quarter of good performance and partnership.

With this I would like to give the floor to Eduardo Miron, our CEO.

Eduardo Miron

Good afternoon. I would like to thank all of you for your presence at one more conference call for Marfrig Global Foods.

Here we have Miguel Gularte, the CEO for South America; and Tim Klein, the CEO for North America besides Marco Spada.

For this quarter for the first time, we are carrying out a conference call in Portuguese and English with simultaneous translation. Let us go therefore to the results for the third quarter '19.

For the fourth consecutive quarter, we achieved net profit of more than BRL100 million for the quarter, which shows a resumption of profitability and a better financial situation. Net revenues were BRL12.7 billion, a record in the company. Adjusted EBITDA was also a record obtaining BRL1.5 billion of growth, 11.8% vis-a-vis the third quarter 2018; the margin was 11.8%. Another highlight for the quarter was the operating cash flow of BRL1.3 billion and BRL844 million for free cash flow to reinforce the positive trend for the year and compliance with the guidance that was disseminated for '19.

We can maintain our commitment to sustainable value generation and I would like to highlight the issuance of our sustainable transition bonds and the signing of a protocol of intentions with the HDI with the objective of developing a long-term project for the production of cattle in Para and Rondonia in the Amazon region, and we want to be sustainable all the way from the raw material to calf production. The idea is to offer technology to these producers to improve their profitability. Nowadays, these producers are seeking more area and they cause deforestation and the idea is to enhance productivity in their respective areas.

We now go on to Slide Number 4 to speak about our strategic highlights. We announced the agreement with Archer Daniels Midland for plant-based products. ADM is responsible for the sourcing of raw material used in the process and Marfrig produces and distributes these plant-based products. The first product is being sold through Burger King called Rebel Whopper, once again made from Marfrig's vegetable burger. This is aligned to the customers' needs and our other vegetable products will be launched soon.

I would like to give the floor to Marco Spada to remark on the results.

Marco Antonio Spada {BIO 20767498 <GO>}

Thank you, Eduardo.

And in the coming slides, I will refer to the highlights and we begin with North America.

To explain the variations, the values reported here are in dollars and they also include the pro forma results for the third quarter 2018, which includes the Ohio sale and the purchase of Iowa as comparison.

In the third quarter of 2019, we had a growth in volume and revenues a revenue reaching $2.249 billion, an increase of 6.2% vis-a-vis the third quarter '18 and this because of the average prices in the domestic market and driven by the solid and consistent growth in U.S. beef demand and also due to the cap that we have in terms of our competitors. The growth income was $374 million, an increase of 25% vis-a-vis the third quarter '18. This better performance is explained by an improvement in prices in the domestic market and the average cattle. Now, the average cost was of 2.03 in the first quarter 2019 compared to 1.85 in the third quarter '18.

We go on to Slide Number 7, where we will speak about this South American highlights.

Before we begin speaking about the figures, it is important to recall the situation we had in the third quarter '18. The truck strike had recently ended and we had a concentration of volumes in the third quarter with a positive impact on results. Therefore the basis of comparison for this quarter is not the best.

Having said that, the net revenue for South America was 2.5% lower when compared to the third quarter '18 due to the lower sales volume and a reduction in the primary processing plants and a lower availability of animals in Uruguay, simply as information if we compare this with a second quarter 2019 to eliminate that impact, we have an increase of 10% in revenues when compared to this year.

In the third quarter '19, gross income was BRL404 million, down a point to vis-a-vis the third quarter '18. And if we compare this to the second quarter '19, the improvement was of 2%. I would like to remind you that this quarter we still do not have the benefit of the new sales we will carry out to China.

We now go on to Slide Number 9, where we will speak about the consolidated performance of the company.

We had a record performance during the quarter. Net revenue posed a growth of 3.6% reaching BRL12.7 billion, a record for the company. Now this performance can be explained mainly through the increase in the revenues in North America and the higher prices in the domestic market and for exports in South America offset in a proper 3% in the total volume sold. Adjusted EBITDA was BRL1.5 million, once again, a record on the growth of 28.6% vis-a-vis the third quarter '18 with a margin of 11.8%.

Another highlight is the positive net revenues for the fourth consecutive quarter. We recorded a profit of BRL100 million in the third quarter '19 vis-a-vis a BRL126 million in the third quarter '18. We now go on to the next slide, where we will speak about our cash flow. After the profit mentioned previously, the non-cash and the working capital allowed us to reach operating cash flow of BRL1.3 million. Now the resources test into CapEx for maintenance and small enhancements represented BRL131 million. Interest over debt totaled BRL286 million impacted by the additional costs due to the issuance carried out in August. Thus, the operating cash flow before M&A and the payment of dividend was of BRL844 million. This was used for the payment to third parties and a reduction of indebtedness. We now go on to the net debt and leverage indicators for the company.

Debt for the quarter -- in real, we had an important component which was 9%, directly impacting the total debt of the company in dollars, because this makes a sense, because 98% of our debt is in non real and in fact 85% of our revenue. So, the net income was 2.4% better than the past quarter explained due to the generation of free cash flow, which I mentioned before.

In this quarter, we paid $79 million in dividends to the partners at National Beef. The non-cash index measured by the EBITDA in the last 12 months was 2.43 times in dollars with the reduction of 0.26 times as compared to the second quarter 2019.

In the next slide, you will see more in detail our debt.

As we mentioned before, the growing evolution of our positions, which brought us an improvement in EBITDA is causing our deleverage and we obtained 2.43 times this quarter as compared to 2.59 times in the past one. Another point is our liability management exercise performed last quarter and the issue of sustainable bonds in this quarter, the first in 10 years of the company.

Now in the next slide, let's start about the guidance for 2019. Based in the accumulated results up to September this year, and the positive trend, we expect the coming quarter, we reaffirm our guidance given in the first quarter. As we foresaw, the second part of the year is very strong. In this quarter, we obtained another all-time record in revenues with BRL49 billion with an important accumulated sum. 11.8% was a clear evolution as compared to the first quarter of the year.

The free cash flow obtained BRL844 million real over twice as much the first quarter. And in this quarter, we didn't have the contributions of the results of the two new plants, which were authorized to export to China in September last. This give gives us more confidence as to the excellent results we expect for the fourth quarter.

Now, I give back the word to Miron for his final remarks.

Eduardo Miron

Well, thank you very much Spada.

Now, we will share with you our expectations for the 4Q. As to the USA, our third quarter was spectacular moved by the improvement in the spreads and due to the cutout ratio as mentioned and this spread will continue strong at the year end, because local demand is still heated and we don't have any problems with the availability of capital.

In Brazil, we had the impact of Chinese authorizations occurred in September and we had a record of volume and revenue in our experts mainly through China. And today, we had the confirmation of two new plants approved for China. Increasing thus, the impact of 20% our new capacity of export to China from Brazil. Now we will have more plants, seven in Brazil, four in Uruguay, and two in Argentina, exporting to China -- Uruguay.

This last quarter is seasonally the weakest because of the capital unavailability and strong export demand, and the country should now have better improvement. In Argentina, despite the new political scenario, which is a point of attention. They have an evolution in margin and making the use of the scenario of exchange devaluation.

Now going to final considerations, I reinforce again our optimism to achieve all the targets disclosed in the guidance for the year. We remain focused in our operational excellence and the continuous evaluation of the best footprint for the company strategy. The low leverage and the commitment to financial rigidity remain non-negotiable and our strong point is the generation of results for the company. All our teams are engaged and I take this opportunity to thank the work of all of you during the last journey.

Now, I open for Q&A, reminding you that today we have the presence of the South America and North America CEOs with us.

Questions And Answers

Operator

(Question And Answer)

Well, thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Isabella Simonato, Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

Well, thank you very much. Good afternoon. Good afternoon, Miron and Marco.

I have a question -- two questions in fact focused to in South America. First, I would like to understand better the improvement in margin in the quarter, because I understand that Uruguay has a more challenging scenario. But offsetting this, we saw the balance data for bovine; and while in Argentina, we understand that they have a very healthy export margin.

So, I would like to understand the gross margin performance in the secondary quarter and the third quarter, because of last year it was a difficult comparison margin, but this would be of help, the recent situation. And also speaking about the export scenario in South America, when we think on the new authorizations for China and how much this will now represent in the type of margin gain we can expect from this higher exposure to China? Thank you.

A - Eduardo Miron

Isabella, thank you for your question. And as we mentioned and you repeated very well, the comparison is not the best one when you consider our second Q and the strength in the growth of margin towards the third Q, which for us represents a bit more. The quarter effect that you see has the impact in volume. Because in terms of price and cost, this was very well managed and therefore, we didn't have the price effect in this variation.

And lastly in terms of China, obviously, this is a market with a very strong profitability. We did not have the privilege of making use of this in the third Q in full. And I repeat here that with the authorizations that we had in September and now the new ones, we have a material growth and this is what reinforces our conviction of good results for the fourth Q as good as they were in the third or even better than what we just had.

Miguel Gularte is also in line with us. So, if he wants to add with something that I missed, I will open it for you Miguel. Would you like to say something on that?

A - Miguel Gularte {BIO 20767495 <GO>}

Well, good afternoon, Isabella. And adding to what Miron said, we really have an effect, which we expect for the fourth quarter, because we have two new authorizations (inaudible) and today our participation with two new plants on Gabriel and also another one in Mato Grosso. This effect with more exports to China also have a consequence in our internal markets in the domestic market, and this offer will make us increase the prices in Brazil, because our domestic market today had the more restricted offer. And therefore, we hope to change this in the fourth Q. And this also points to an improvement in the operating margin and increasing costs and productivity, all this for the fourth Q.

Did I answer the question? I hope I did.

Q - Isabella Simonato {BIO 16693071 <GO>}

Well, it's very clear. Thank you, Gularte.

Operator

Now, our next question comes from Thiago Duarte, BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello. Good afternoon to all. I would like to pose three questions. First, going back to the topic of discussion with Isabella's question in terms of the margins for South America. I think that was very clear the dynamics, which is more positive for Brazil in the 4Q with the authorization of new plants and the price dynamic seems to be more favorable than in the past Q. But I would like to help us think on this margin in the consolidated of South America, how will it evolve and how could you break down for us even if it's only in number order? How was the margin that you disclosed of 10.6% margin, how can you unfold it or break it down between Brazil, Argentina, and Uruguay? I think that the one who leads this margin down is Uruguay. Could you explain a bit more this breakdown in order to be able to think better on the consolidation of South America for first Q?

The second in terms of CapEx, the CapEx you informed came below what we understood to be a maintenance level in this first three Qs of the year. I would like to understand that this level of CapEx you understand as sustainable for the next quarters and help us understand this cash flow in the fourth Q and in next year.

And the last question; I also that it was quite clear, your optimistic tone as to the U.S. America, U.S. and North American markets. But when we see the historic performance of North American last year and the history in the -- of other players in the same area, the seasonality was slightly worse than in the last Q; doesn't mean to be a bad one, but lower. I would like to see understand how you understand that and the problems you had with the fire in one of your plans and I would like to understand if you can maintain this 3Q level in the fourth Q? Thank you.

A - Eduardo Miron

Well, thank you. Thiago. Thank you for your three questions.

And starting with South America, as you know in any average, it will always prevail. So, the 10.6%, but we fight for every cent, so it's 10.7%. And this number is more towards the center of Brazil, which is our largest part, where we have our largest operation. And you're right, if Argentina generates more than that, more than what you are seeing, in the third Q as we mentioned with Uruguay, which is our second operation among the three we have in South America having the worst performance; therefore, it pulled down the figure. But taking into account that Brazil is once more -- the -- our plans that directs the result. So, this is something that we have very clearly ahead of us.

And now CapEx, we had discussed before since the beginning of the year that the normal curve of any business and ours is not different. Naturally, we start higher in the beginning of the year to benefit from improvements and investments towards the year end. We have operations, it's part of our Varzea Grande and part of Tangara as well.

And in the beginning of the year, there is the trend of being more active in the beginning of the year and we think that this BRL131 current level as compared to the BRL130 million is the adequate figure for us in terms of CapEx and maintenance and small improvements. Therefore, this response to your second question in terms of your third question, the exceptional of results that we had at National Beef and the outlook for the fourth quarter, the outlook as I mentioned in the final remarks continues to be very good. We believe the performance will be as good as it has already been. We do have the seasonality that happened in the third quarter. Naturally, it tends to be a strong quarter and we did have an additional impact that was already mentioned. Now, all of these factors remain very strong in the fourth quarter as well as demand.

However, nothing better than the CEO of National Beef to compliment on this question. So, I will give the floor to Tim Klein to speak about this. And hopefully, he can give you a more complete answer.

Tim, you have the floor.

A - Tim Klein {BIO 16522695 <GO>}

Thank you. This is Tim Klein.

The -- as Eduardo mentioned, the U.S. fundamentals are very much in our favor. We expect that they will continue to be in our favor for -- five quarters. And in terms of the fire and the impact it had on our markets that was a very short-term impact. There was a storage product in the marketplace for a period of a few weeks. And over that time period, other -- picked up the lost volume and -- expanded during that time period returned to pre-fire level of about four weeks after the fire.

Was there anything else?

Q - Thiago Duarte {BIO 16541921 <GO>}

No. That's very clear. Thank you very much.

Operator

Our next question comes from Lucas Ferreira from J.P. Morgan. You may proceed sir.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good afternoon. My first question refers to the guidance. When you offer the guidance, if I'm not mistaken the exchange rate, the benchmark was 390, you still did not have authorizations from China. I do not recall if the Tyson incident had happened or not. My question is the following by looking at the guidance, are you ever more confident that you will attain the higher point of the range. This makes sense in terms of EBITDA revenue and if you think that you will be able to deliver more than half above the range of the guidance.

The other question is about the price of cattle in Brazil. The prices have begun to soar to react and the authorizations of course change, but the increase 15% to 20%. If this is a reason of concern, if you still have spreads improving, if you look at the margins at China and if the issue of availability of cattle is of concern in Brazil? Thank you.

A - Marco Antonio Spada {BIO 20767498 <GO>}

Hello, Lucas. This is Spada.

When it comes to the guidance when we offered the guidance at the end of the first semester, it was absolutely no problem with a competitor's plant in the U.S. and the exchange rate was someone lower. We based ourselves on a reference of 3.90 calculations, which meant that a great deal of the things we had forecast ended up not happening and what we did not expect, for example, the fire helped and aided and abetted, offsetting the problems. Our projections expected a recovery of the domestic market in Brazil much before what has truly happened and the resumption of prices in Brazil is only beginning to happen now.

Our expectation is that this would have happened way back. And one thing offsets the other and yes, we are reaffirming our guidance. We do have confidence that we will attain the guidance, but I do not believe that we will hit the roof of the expectations of guidance in terms of cash flow. For example, we will fully comply with the guidance. Perhaps in terms of margins, we can get to the upper half and revenues without a doubt will surpass the base. But in terms of cash flow, we will have a higher expectation, but not the top half of the range.

To address your question on the price of cattle, yes, there has been an increase in price of cattle. This is happening in Brazil. We have been following up on this along with what is happening with the sale of prices to China. It is a very direct relationship with the exchange rate that has also increased. So, what do we see that the exports to China are very strong at high prices (Technical Difficulty) of the production in Brazil what is important is the sale value and we have to complement the sale value when it comes to the exports to China. And of course, this will increase considerably in the fourth quarter. Thank you very much.

Operator

Our next question comes from Tiago Mello from Bradesco Bank. You may proceed.

Q - Tiago Mello {BIO 21458596 <GO>}

Good afternoon and thank you for taking my question. I have two questions. In fact, the first referring to the plant-based line that was recently launched. I would like to know if we could have a few more details in terms of the financials to understand, which has been the behavior in terms of margins and your outlook of growth and how representative this will be incoming years? And the second question is a follow-up in terms of the U.S. operation and regarding the incident at the Tyson plant, I would like to better understand what will happen with the gross margin subsequent to this event. Thank you.

A - Eduardo Miron

Tiago, there is a question that speaks about what happened in that contingency, but I will return first to the question on the plant-based product. This is very recent. As you know, the beginning, the launch was in September. We have made the decisions to increase that business segment. We have several plants connected to that, a product line that will be further explored during the coming months until the end of the year, which means that we're that highly motivated.

And as within the initiative, the financials of course are not the main driver for our decisions. We have no doubt whatsoever that this is a business that will generate significant returns. It's something that the customers are demanding, but perhaps it's too early on to speak about the financials regarding this business. Very possibly, the fourth quarter will show us more material data. We will be able to better separate the information. At this specific point in time, what I can say is that we are highly satisfied with the sales evolution and with the acceptance of this product that has truly acceptance quality.

Your second question refers to something that would happen, a complicated question, because evidently any impact of discontinuity will have a material impact as well, especially in operations, where we do have a significant shortfall as in North America. Our concern of course is to maintain all the possible control and measures in place for the protection of our equity, so that this will not happen.

Now, if this happens, we know there will be a material impact. We're extremely proud of all of the processes that we have put in place. Whenever something happens, this is a new call to attention, a warning and we re-enforce our controls and work strongly to show how important the controls are in our day-to-day work, which means that we have been quite successful in terms of this. We had a bad experience at the plant, it wasn't material, but it has taken us some months to come back again, so we are working on prevention, on enhancement, on education, and prevention.

Q - Tiago Mello {BIO 21458596 <GO>}

Thank you, thank you. That was a very clear response.

Operator

Our next question comes from the Luciana Carvalho from Banco do Brasil. You may proceed.

Q - Luciana Carvalho {BIO 18724665 <GO>}

Hey. Good afternoon and congratulations for your results. My question is geared to the domestic market of Brazil. You showed a reduction of volume, but an evolution of 10% quarter-on-quarter. If you could give us more details on this sequential increase, which are the categories that had the greatest impact? And if there is any outlook for the fourth quarter compared with 3Q 2018 given that sequential improvement we saw quarter-on-quarter? Thank you.

A - Marco Antonio Spada {BIO 20767498 <GO>}

Luciana, this is Spada and I would like to ask Miguel to respond to your question referring to what is his outlook for the domestic market and which are the main drivers that we expect to see in place.

Miguel, you have the floor.

A - Miguel Gularte {BIO 20767495 <GO>}

Luciana, regarding the quarter, we're trying to see what will happen with these new authorizations to China considering that we do have a price income and we have to continue moving forward in the specific case of Marfrig. We're working with what will offer us the best added value and we're working with branded products that are very strong in the market.

And once again gearing -- there is just some customers -- sometimes, the average price is lower. We're working with hinterlands of Sao Paulo, where the economic situation of course is felt with a lower intensity. And we're working with different procedures in that case compared to our exports. And we have to be very careful and take into account the segment that we work with. This is a practice that we adopted when we began to see a growth and that will now obviously will be intensified. And well, this began in October; we're now in November. And of course, we're carefully thinking about the destination of our products and the correct pricing.

Q - Luciana Carvalho {BIO 18724665 <GO>}

Thank you very much. We have another question on Argentina. Could you give us a follow-up of the situation? we know that the result are benefiting from export. And now with the recent elections, how do you see this market from now on, some risk associated to it, could you explain a bit more in Argentina to us?

A - Eduardo Miron

Well, Luciana, what we see as to Argentina is that today as you said, we are very much benefited from export with the exchange evaluation that is taking place and our Argentina operation today is well divided in two different operations. We have in natura beef for export, which is benefiting from the situation and the processed food with hamburgers, beef patties, and all of that turning the domestic market.

And the return of Kirchner to the government; with that, we expect no taxations on the exports to take place and we think that it won't remain in the situation we see today. But we do not believe that they will penalize or bringing back such a bad situation as in the past. So, we are confident that the situation will remain positive for us.

And I don't know, maybe, Miguel, would you have something to add to what I said already?

A - Miguel Gularte {BIO 20767495 <GO>}

Well, in the case of Marfrig, we have a program in Argentina of improvement and this enables us to choose up products. But in Argentina, the operations are very well balanced between external and internal market. And in Argentina today, we do not have a constant offer of raw material and there was no impact on the peso and dollar different operations, but the price of raw material in Argentina was quite competitive. And I think that this will remain like that in our Argentina operation. And the challenge that can happen, with the political situation is that the fact that we have this good balance between foreign market and domestic market.

Q - Luciana Carvalho {BIO 18724665 <GO>}

Well, thank you very much.

Operator

Our next question comes from Gustavo Troyano, Itau BBA.

Q - Analyst

Well, good afternoon friends. My name is Antonio. I have a question on the cattle offer for next year. We know that demand will be quite strong due to the problem with the pig, beef. And when we analyze cattle as was mentioned recently, we look the future prices around BRL200 for the arroba. And we see here, the great discussion on the reduction of the female primary processing and with the cattle -- also with the calves.

In Argentina, it's difficult to say what will happen with the political environment, and in Uruguay is already in a negative cycle. But my question is that when you analyze this coordination -- combination of factors, I haven't -- I don't remember such a favorable situation vis-a-vis other cattle breeders in the world. How do you think that this environment will to some extent contaminate the operations, because the margin and considers the cutout ratio and the contamination of this in expert environment.

I would like to understand from you to what extent you think that this is important, because the experts represents the small part in your North American Business. How do you think does this contaminate that UF margins for not -- since it's in we are seeing such a favorable offer prices around the world and the offer of cattle as well? If you could give your opinion, I would be very thankful.

A - Unidentified Speaker

Antonio, how are you Antonio?

So, you said it very properly. We have going back to our context. We have two operations that cover the Americas and not necessarily they behave in the same way. We have the South American environment with one behavior and the Americans -- Americas behavior that it's turned geared more to the domestic market.

Our guidance has been on the one side the movement of experts, which is led by China and on the other hand, the economic strong movement that tries to look for increase of value due to the spot prices in the U.S. And I think that the communicating -- can be challenged here to see how much this one would affect the other on our side with think that in our current environment the issue of the price of capital is more than compensated and offset by the price paid for the products due to the market dynamics, which we think will go on like that and therefore the dynamics in the U.S. is also undergoing a similar situation.

And there is a very large offer, which makes margins to be maintained and we foresee for the next few years the continuity of this environment. So, in common, these two speak about communicate -- we have environments where the demand for product is equally strong and also in the two environments we have equal offer of cattle that is balancing the cost price.

It's important to mention I think that we did mention that in a more subtle way that given the fact that sales are focused concentrated in some markets, the price of cattle tends to adjust to the price because in this specific markets the price also adjust itself. And as to effects in South America, also there is an adjustment. So, we see that there is a dynamics of this market due to a stronger U.S. dollar, which enables or creates a higher motivation for markets to direct to export. Therefore, what we already had as a trend in our expert market in South America is maintaining itself.

So, our expert potential stand to continually improving as we have this demand and this demand is probably going to continue. So, on the side of -- on the hand -- on one hand of comments, what we think of the capital demand and the aspect of markets that are communicating -- Miguel is in line with us. He can say how he sees the cattle market and Tim Klein is also in line, so he can speak about the cattle offer in the U.S. to supplement.

Miguel, please.

It seems we have a problem in the line. So, we will speak first to Tim. Very well, it seems Miguel Gularte is back.

A - Miguel Gularte {BIO 20767495 <GO>}

To complement the response given by Eduardo Miron, I would say that in the case of Marfrig because of its geographic position in Brazil, Argentina, and Uruguay, we are able to mitigate some factors, we're able to gear products to one or another market. Now in the case of china, which is one of the big moves we now have in the market and it's not only an export market, but also important for the domestic market.

We think, we will have a very reasonable quarter. Some say that this will soar in one year or some say, it will soar in five years. Now when we think about the production of pig, this is a very family-oriented business and we believe the process there will be much longer. Now when it comes to our choices for export destinations and when we think about China spearheading our exports, we're working with very significant products and the domestic market is also important for this. When it comes to the price of cattle. Only 30% or 35% of our primary processing plants are being geared for the production of products to China and there is a trend there for that everything will balance out. So, we have to be careful making these choices. We have to focus on productivity. And of course that segmentation is mentioned before.

A - Tim Klein {BIO 16522695 <GO>}

Yes, this is Tim Kline.

In regards to North America, the fundamentals of our business as I said earlier are very much in our favor. The relationship between the supply of cattle and the capacity in the industry to process those cattle is very tight. So, as cattle supplies increase, the industry is able to process those and maintain very profitable margins.

In the U.S., only 13% of our volume it goes export, so the export market don't have as big of an impact. Although as China buys more products from other countries, there is demand for U.S. beef to make up the lost volume. So that overall improves the cutout in the U.S. and improves the margin structure.

Q - Analyst

That's very clear. Thank you very much.

Operator

With this we would like to conclude the question-and-answer session. We will return the floor to Mr.Eduardo Miron, the company's CEO for the closing remarks. You may proceed. Mr.Miron.

A - Eduardo Miron

Once again, we would like to end by thanking all of you for participating in this conference call and thank all of those, who have helped us come up with these spectacular figures for the quarter. We continue to be very optimistic. The fourth quarter should be equally spectacular and we're ready for the challenges of the industry through our operations.

We're here with Marcos Molina and Marcos would also like to make a closing remark. And with this, we will conclude our earnings results call.

Marcos?

A - Marcos Molina {BIO 15363967 <GO>}

Simply to speak to you about our general strategy, the demand from China has surprised all of us, especially myself from the Chairman in terms of strategy, we have tended to be more conservative and it was only when we saw the demand that we believed in it.

Now, what is happening is that beef competed a great deal with the pork process products, sausage, ham, everything that comes from pork meat. These processed products, of course, had a much lower cost and beef. What has happened at present is that with the increase of pork and all of the markets including Brazil as well as other markets, there is a greater consumption of beef and the consumption of beef has had an enormous increase domestically as well as in terms of exports and they demand of China has increased the demand from all other countries.

Now South America exports a great deal of meat to Chile or now exporting to Argentina and Uruguay and this demand from China for Argentinean and Uruguayan meat has increased the price in Chile and other markets in a way we have never seen before.

So, we think that the fourth quarter and 2020 will be very positive for the sector. Besides the United States, I would like you to -- I would like to remind you that United States has no authorizations to export to China yet. Last week, there was the approval of Canada for exports to China and Canada also has a healthy beef production for the United States. This should have a positive impact on the U.S. market.

And if there is, that agreement between U.S. and China this will open up the market for U.S. beef, which could further leverage the business in the United States, which means the scenario for beef is very positive; and strategically, we are convinced that we did make the right moves in the past. When it comes to process meat, hamburger meat represents 10% of our production at present.

We have had a growth in processed meat. We don't have a figure so far for the plant-based hamburgers. We also don't have a forecast. This is a business where we could grow considerably because of our production we're using our idle capacity for production and we're also using our sales and distribution to bolster this, which means that we have a very positive scenario; and for 2020, we're going to begin thinking about paying out dividends. As you can observe and National Beef has paid out a great deal of dividends to its shareholders and we would now like to transfer this for the Marfrig shareholders.

Once again, thank you very much again, and hope to see you in the next call. Thank you.

Operator

Thank you. The conference call for Marfrig SA ends here. We would like to thank all of you for your participation. Have a good day.