Q3 2018 Earnings Call

Company Participants

- AlÃpio Ferreira Pinto, Chief Operations and Logistics Officer & Member of the Executive Officers Board
- Gustavo Henrique Braga Couto, Chief Consumer Market Officer & Member of the Executive Officers Board
- Ivan De SÃ¡ Pereira, CEO & Member of the Executive Officers Board
- JosÃ© Roberto Lettiere, Unknown
- Luis ClÃ¡udio Sacramento Bispo, Unknown
- Marcelo Fernandes BraganÃ§a, Chief Posts Network Officer & Member of the Executive Officers Board
- Unidentified Speaker, Unknown

Other Participants

- Andre Saleme Hachem, Research Analyst
- Bruno Montanari, Equity Analyst
- Fernanda Perez Da Cunha, Senior Associate
- Gustavo Allevato, Research Analyst
- Regis Cardoso, Research Analyst
- Thiago Callegari L. Duarte, Analyst
- Vicente Falanga Neto, Research Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the webcast, the conference call of Petrobras Distribuidora for analysts and investors for information concerning the results of Q3 2018. (Operator Instructions)

We have with us here Mr. Ivan De SÃ¡, Chairman; Mr. JosÃ© Roberto Lettiere, CFO and Investor Relations Director of Petrobras Distribuidora S.A.; Mr. Marcelo BraganÃ§a, Executive Director of the Gas Station Network and Retail; Mr. Gustavo Couto, Executive Director for Corporate Market and Lubricants; and Mr. AlÃpio Ferreira, Executive Director for Operations and Logistics.

We remind you that this meeting is being recorded. And we would like you to give attention to Slide #2 that has really the disclaimer for shareholders and investors.

This presentation may contain forecasts concerning future events. These forecasts reflect only expectations of the management of the company concerning future conditions of the economy, apart from the sector, the performance and the financial results of the company amongst others.

The terms anticipates, believes, hopes, foresees, intends, plans, projects. And has the aim, should as well as other similar words aim at identifying these forecasts which, evidently, involve risks and uncertainties, foreseen or not by the company and, consequently, are not guarantees of future results of the company. Therefore, the future results of the operations of the company may differ from current expectations. And the reader must not base himself/herself exclusively on the information contained here. The company does not oblige itself to update presentations and forecasts due to new information or future changes. The amounts informed after 2018 are estimates or goals. Additionally, the financial and operational information included in this presentation are subject to rounding off the numbers. So the total number shown in the graphs may differ from the direct sum of the values that preceded them.

Finally, we highlight that this presentation contains some financial indicators that are not recognized by BR GAAP or IFRS. These indicators do not have standardized meanings and cannot be compared to indicators used by other companies.

We supply these indicators because we use them as units of measure for performance of the company. They should not be considered in an isolated way or as a substitute for other financial metrics that may be used in relation to BR GAAP or IFRS.

The presentation of results for Q3 for Petrobras Distribuidora will be done by our CFO and Investor Relations Director, Mr. JosÃ© Roberto Lettiere. Next, the directors of the company will be available to answer questions of the participants.

Now I would like to pass the floor to Mr. JosÃ© Roberto Lettiere.

JosÃ© Roberto Lettiere

Well we'd like to welcome you all to our conference call for the earnings of Q3 '18. I remind you that this presentation is available on the CVM site and also on our Investor Relations site. I'm very proud of this first participation, leading the conference call with you, concerning Petrobras Distribuidora. I would like to remind you that we have Mr. FÃ¡bio from Investor Relations; and Bispo, our Controller.

Going on to Slide #3. We have here the main highlights of performance in Q3 '18. The net profit in this quarter was BRL 1,078,000,000, in comparison with BRL 394 million in the same period of 2017. The significant increase in net profit results from a greater net revenue in all the segments of the company, also receivables collected from Eletrobras and the signature of an out-of-court agreement with the Government of the State of Mato Grosso to eliminate a tax liability of BRL 1.3 billion. The initiative of the company in making this agreement with the State of Mato Grosso shows the importance of the risk management aligned with the business' strategy.

We continue with focus on profitability and optimization of our capital structure. We would like to highlight that the company closed the quarter with an operational cash of BRL 222 million after the distribution on -- interest on owned capital and dividends totaling approximately BRL 1 billion.

Continuing now with -- on Slide #4. We'd like to show the EBITDA variations for nine months between the years 2017 and 2018. In order to analyze the adjusted EBITDA in a correct way, it becomes necessary to normalize the basis. We'd like to highlight the nonrecurring effects in the respective periods. In the first nine months of 2017 and 2018, we suffered the impact of important events. That is why it is necessary to make these adjustments.

In July 2017, the PIS and COFINS tax rates went up, generating an appraisal of the fuel inventory of the company worth BRL 169 million or BRL 5 per cubic meter.

In May 2018, we had the truck drivers' strike, which had, as a consequence, a reduction in the price of diesel oil due to a decision made by the federal government. The accounting value of the company's inventory dropped by BRL 237 million or BRL 8 per cubic meter. Thus, the adjusted EBITDA reported on a normalized base for the period of nine months in 2018 would be BRL 2,149,000,000 or BRL 69 per cubic meter in comparison with the EBITDA of BRL 2 million in line or BRL 663 per cubic meter (sic) (BRL 63 per cubic meter) in comparison to the same period of nine months 2017, thus showing an increase of 6.6%.

Another highlight, when comparing the periods, we may see a drop here in SG&A from BRL 95 million as a result of a drop in expenses with personnel and also strong, strict budget control, still with a zero-base, hence adopted by the company at the beginning of the year, which has been an important factor to control expenses.

Now going on to Slide #5, analyzing the evolution of EBITDA between Q3 '17 and Q3 '18. We'd like to highlight nonrecurring events already mentioned previously, such as gains in the inventory due to the increase of PIS and COFINS tax rates in Q3 '17, BRL 169 million as well as the residual effects of the truck drivers' strike in Q3 '18 worth BRL 38 million. We add to this the provisional accrual for bonuses in December 2018, exceptionally in Q3 '18 worth nine months allocated during this -- equivalent to nine months allocated in this quarter.

For the calculation of the normalized EBITDA, we considered only the amount concerning the provision or accrual for the premium or bonus. In this way, we may see in the comparison, with a normalized basis, an EBITDA that had a reduction due to the joint effect of these and a greater participation of ethanol and also lower volume of sales. And also reduction in the sale of fuel to thermoelectric power plants, which were less in comparison with -- when compared to Q3 '17. The normalized EBITDA margin in Q3 '18 is BRL 67 per cubic meter versus BRL 80 per cubic meter in Q3 '17.

On Slide #6, we highlight the variations already mentioned on EBITDA, highlighting the comparison between the periods, considering the reported margins and also the margins on normalized basis.

When we compare Q3 '18 with Q3 '17, we notice a reduction of BRL 35 per cubic meter. On normalized basis, this difference would drop, dropping to BRL 13 per cubic meter as already mentioned on the previous slide.

In the comparison with Q2 '18, we observe an increase of BRL 8 per cubic meter. On normalized basis, we see a reduction of BRL 5 per cubic meter. This variation is explained mainly by the change in the mix of the Otto cycle, with a greater presence of ethanol than gasoline, which gives us a better margin and also an increase in provisions for clients, PDD for clients. In the comparison of nine months, we also present an increase -- we see an increase worth BRL 6 per cubic meter.

Now we'd like to go on to Slide #7, where we have the highlights of our results -- consolidated results, a better understanding of these results can be made by analyzing each business. And we will do this next, for example, the gas station network and corporate market, which includes the market segments of large consumers, also airlines and special markets.

In Q3 '18, the physical volume of sales was lower by 3.1% when compared to the same period of 2017. As a result of a reduction in the Otto cycle and also fuel sold to thermal power plants and non-thermal power plants. Net revenue -- consolidated net revenue had an increase of 21.1% in relation to the same quarter 2018 (sic) (2017) due to higher prices. Also, the gross profit had a reduction of 15.8% in Q3 '18, with a reduction of the unit gross margin of BRL 159 per cubic meter in Q3 '17 to BRL 139 per cubic meter in Q3 2018 due to the reduction in volumes already mentioned previously.

Going on to Slide #8. We see, here, the performance of the gas station network in Q3 '18. In the gas station network, we had a reduction of 2.4% in physical volumes when compared to Q3 2018 and the same period in the previous year, especially in the Otto cycle as a result of an increase in the sales of diesel.

At the end of this quarter, the company presented a growth in its gas station networks with 201 net units in relation to September 2017 and 38 net gas stations in June 2018. We invested BRL 618 million, all of this as a result of higher prices and even with the impact of the reduction of 2.4% in volumes.

Gross profit had a reduction of 31.7% in relation to Q3 2017 as a result of the impact of the residual loss in the inventory of diesel oil and also the reduction in the average margins for sale due to a greater presence of ethanol in the mix of the sale of the company. And thus, with lower margins than those of gasoline.

The gross -- unit gross margin reached BRL 131 per cubic meter and maintained in a stable condition in comparison with Q2 '18 -- 2018. This change in scenario resulted in a reduction in the adjusted EBITDA for the gas station network in Q3 2018 when compared to Q3 2017.

Apart from the reduction in volume and change in the mix of the Otto cycle, we also had adjustments in provisions or accruals. And this also had an impact on the performance of the business. We note that in Q3 '17, we had an extraordinary gain in inventory as a result of PIS and COFINS tax rates that had an impact on the quarter worth BRL 127 million. The adjusted EBITDA margin recorded in Q3 '18 was BRL 53 per cubic meter.

We continue the presentation on Slide 9, where we show the highlights of our consolidated results. To understand better this result is through -- we must analyze each business.

Now -- I would like to go on now. Corporate market, Slide #9. The corporate market, we have here at the consolidated vision with large consumers, airlines and also special markets. In this quarter, it is possible to notice an increase of 9.5% in the adjusted gross margin in relation to Q3 '17, reaching BRL 173 per cubic meter. Apart from this, the adjusted EBITDA had a growth of 8.4% in relation to the same period of the previous year, BRL 515 million compared to BRL 475 million, a good result in the corporate market and has an impact especially on gains with an increase in the profitability and due to good services and a competitive price.

Now talking about the market of large consumers. The volume had a drop of 6.1% in relation to Q3 2017, mainly due to the drop in sales of oil for thermoelectrical power plants. The net revenue of the segment, here we see a reduction of 19% as a result of lower average margins in sales, a loss in diesel inventory, lower sales of diesel for thermal and nonthermal use. And also, oil for thermal power plants. In adjusted EBITDA, we noticed a reduction of 31.2% in relation to Q3 '17 due to lower sales volumes as already mentioned.

Also, we'd like to highlight that in Q3 '17, we had an extraordinary events with an increase in PIS and COFINS tax rates, which generated also gains in our inventory value. In Q3 '18, we also had the residual effect of the truck drivers' strike. And on normalized basis, the adjusted EBITDA in Q3 '18 would be BRL 225 million in relation to BRL 249 million in Q3 '17, a difference of BRL 24 million.

Now the airline market. In comparison with the previous year, the volumes grew by 5%, showing more sales to domestic and foreign airlines. We had a result with an impact by the gains, which were favorable. And also, with our hedging policy, we have positive results.

Special markets. The adjusted EBITDA margin in the segment closed Q3 '18 with BRL 139 per cubic meter, an increase of 44% in relation to Q3 2017, especially due to the increase in the margin.

Now we would like to go directly to Slide #13 to talk about cash generation, debt, leverage and subsequent events. On this slide, we show the data concerning cash generation. The company closed Q3 2018 with BRL 1.5 billion in cash and a good cash -- free cash flow generation worth BRL 939 million. We'd like to highlight that the company closes Q3 '18 with a net debt EBITDA relation adjusted of 1.5x in comparison to 1x in Q3 '18 and 1.3x in Q3 '17.

The net debt of the company at the end of the quarter was approximately BRL 4.2 billion, an increase of 31% in relation to Q2 '18, especially as a result of the increase in gross debt due to an operation of debentures based on receivable certificates from agribusiness. The gross debt of the company has an average maturity time of three years. It is totally referenced in reals, local currency. And has an average cost of 110.3% of the CDI at the end of Q3 '18.

Finally, we had, as a subsequent event, as already communicated to the market on October 31, receiving -- we received the sixth installment of the -- concerning the payment of the debt by EletrobrÃ¡s based on the agreement signed with BR in 2018 -- in April 2018. The amount to be received is BRL 4.6 billion through 36 monthly installments, which are to be using market rates. We have already received BRL 880 million.

I thank you all for participating. And now we will begin the Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Mr. Andre Hachem from ItaÃº Bank.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

The first question has to do with the commercial strategy. We have seen -- during the last semester, we see that the volume is lower than natural. How do you see the strategy to increase prices in the future? Can we imagine that the company's strategy has arrived at its end, that the company is not able to increase prices? Also, the loss of inventory, for example, due to the truck drivers' strike? So -- finally, a last question concerning the bonus for performance. What are the metrics that it is linked to? And why was it all concentrated in Q3, the bonus for performance?

A - Marcelo Fernandes BraganÃ§a

Marcelo BraganÃ§a speaking. I will answer your first question, concerning the price strategy, the sales strategy and then Lettiere will talk about inventory adjustments. We continue maintaining our strategy as we had mentioned, especially when we look at the margin in the ecosystem, the margin when compared with the previous quarter had some drops due to some problems that were solved. When we compare with Q2, there is a small increase. And we had more ethanol -- we sold more ethanol, which favors us. This year was a challenging year. It's been a challenging year, maybe a more difficult year with many issues. We had the truck drivers' strike, the Otto cycle, company's income. But in the future -- when we look at the future, maybe we've been through the worst part of the problem. There are some regulatory issues. But we see oil and exchange dropping, which removes pressure from the price and favors a recovery of demand. And also, it helps us to make adjustments. We believe there is space to improve our capture of margin. We also see more favorable environment concerning the brand, where we've seen some recognition, very favorable moment for the brand, the company has capital to invest. And we will continue following our thesis, going after growth. And also a small capture of margin in order to improve the profitability of the business, talking especially about retail, which supplements the corporate market. The corporate market, we continue working with our portfolio, which is an edge of BR Distribuidora. And we have had some gains in margin, which have shown -- which are interesting with the sales. We should continue with this strategy since we have a diversified portfolio in relation to our competitors.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

Just another question. You mentioned margin. But we see a performance that is worse than that of RaÃzen and Ipiranga competitors. Are you concerned about this?

A - Marcelo Fernandes BraganÃ§a

Well yes, we are concerned. When I look at diesel, while it grows in relation to the previous quarter, it grows in relation to the year, we see an improvement in volumes comparing to year-to-year, quarter-to-quarter. But in fact, in the Otto cycle, we suffer more with this change. The mix now is favoring ethanol, which is a market that brings us a greater challenge in terms of volumes. We have worked either to develop products or working with the relationship being closer to the end consumer to recover volumes in the Otto cycle. Yes. We are working to obtain this recovery of the Otto cycle, which has dropped in the market. But we understand that there is potential for improvement. In resale, we had a small gain in market share in ethanol year-to-date this year. And we -- in diesel, also, more market share, especially in resale. Now you asked about inventory. Reminding you, in Q2, the impact was BRL 200 million. Q3, we had a residual impact, BRL 38 million. Now concerning other provisions or accruals, we have many impacts. Please look at the explanatory notes, note #22. There we have an important part concerning variable compensation that we had not implement. And this came into force only in 2018.

Operator

Our next question comes from Mr. Gustavo Allevato, Santander Bank.

Q - Gustavo Allevato {BIO 18933135 <GO>}

I have some questions. The first has to do with B2B. The evolution in thermoelectric power plants in relation to Q3. The second point, on thermoelectric power plants, was there an increase in provisions, accruals concerning the supply? When we look at accounts receivable, it went from BRL 4.8 million to BRL 5.3 billion. Finally, for Marcelo, in retail, what is the target for gas stations in 2018? Or forecast for 2019? So do you believe it will be closer to 160 or 200?

A - Gustavo Henrique Braga Couto {BIO 20453935 <GO>}

Gustavo here. I will answer the first 2 questions concerning thermoelectric power plants. First, I'd like to say that more and more we follow this strategy in making these investments, year-to-date, the volume corresponds to 5% of the corporate market. We've been working to be less and less dependent on thermoelectric power plants. You can see, in September, 5% of the accumulated volume in the year. But yes, there was a reduction in the integrated system. We still have a strong dominance. And this can be seen in August; dropped in September; in October, we have a low volume. So we are not counting on significant volumes in October in relation to the other quarter when we had an increase and a reduction in relation to last year. This should be the scenario in the next few years because there is a lower dependence on thermoelectric power plants. Concerning provisions or accruals, there was no increase. We increased our sales. We have been working in the segments with good credit risk. We have guarantees. So we haven't had an increase in provisions. We -- in the corporate market, we have very low delinquency during 2018.

A - Marcelo Fernandes BraganÃ§a

Marcelo talking about number of gas stations. Until Q3, we had 84 active gas stations in terms of growth. In fact, we -- when we look at the new conversions and the changes in banners, we have 272 gas stations that we had losses. We lost some gas stations. The market is very challenging for resellers. The financial health is -- we mentioned this, there are some accruals, provisions concerning credits to resellers. But we have maintained our market closer to 250 more. In Q4, we have a stronger quarter. And we have been working, not only to maintain the number of gas stations. I mentioned here we created the network planning department for the capital allocation to be better, to have less cannibalism in the network and a growth not only quantitative but qualitative too.

Q - Gustavo Allevato {BIO 18933135 <GO>}

It's clear. Concerning the previous question, the increase in accounts receivables, is this related to the supply to thermoelectric power plants?

A - Gustavo Henrique Braga Couto {BIO 20453935 <GO>}

Gustavo, we had an increase, yes, in accounts receivable in thermoelectric power plants. We sold more in -- especially in August. We sent more fuel in August and then a drop in September. So there was an increase in accounts receivable.

Operator

Our next question comes from Mr. Regis Cardoso from CrÃ©dit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

I have some questions, all of them related to margin. A great issue is, why is the margin -- why did the margin drop in gas stations quarter-after-quarter, if you have a better explanation and any specific points that you may add? The margin for gas station network, did you analyze the impact of the growth of the sales of ethanol in relation to gasoline? Another point, the trend for the margins in the quarter? In September, was it better? Was there a recovery? And finally, PDD was a relevant part of the explanation for the deterioration of D&A by cubic meter for resellers. And it improved, we see, in the other segments.

A - Marcelo Fernandes BraganÃ§a

Well Marcelo. First talking about the margins, gross margin in the segment. This drop in Q3 -- comparing Q3 last year and this year. First, the impact of the increase in PIS/COFINS tax rates, it represents here the impact on the gas station network, BRL 22, BRL 23 per cubic meter. The truck drivers' strike, which left a balance to this quarter, another BRL 4 to BRL 5 per cubic meter for resellers. And also the mix effect, BRL 4 to BRL 5 per cubic meter. This is what we calculated here for this great change in the mix, selling more ethanol than gasoline. This -- adding up these numbers, we have BRL 30 per cubic meter, a direct impact on margin. When I go to EBITDA margin, I can add yet another BRL 10, BRL 11, BRL 6 to BRL 7 due to the increase in PDD that we had in this quarter in comparison with last year. And this has 2 reasons. One is the market, the financial health of resellers, especially after the truck drivers' strike, their financial health deteriorated and also debts. And we understood that there was a great difficulty. So in the end, this had an impact on PDD. Also, another BRL 3, BRL 4 due to an allocation in this quarter of number of employees, in comparison with the previous quarter, we had an increase. So I have BRL 30, BRL 31 in gross margin. BRL 10 to BRL 11 in EBITDA with PDD and PLR that have an impact on D&A. Of course, as I said, we -- it has been a more difficult year as you can see. And as I said, I believe the worst is over. We still have some regulatory issues. But we see a much better scenario with better margins. And the last point, September was a better month in terms of margin in comparison with July and August. July with the truck drivers' strike. But, in September, we had a recovery. And we hope this will be the normal from now on, especially when compared to July and August.

Q - Regis Cardoso {BIO 20098524 <GO>}

A follow-up. These comparisons that you made are year-over-year. If you have the comparison in relation to the quarters? And also, within the quarter, I understood that there was growth. Please detail how this was influenced by gains in inventory? Did you look at the monthly gross margin? Did this suffer the impact of inventory? Or is your comment based on feedback and capacity of your resellers?

A - Marcelo Fernandes BraganÃ§a

In fact, we talk about commercial margin without considering any effect. So there is a recovery in this margin during the quarter, yes. And it has been growing when we look at July until September. An effort was made to recover this margin. The effects of the variance in the inventory, price going up or down, this is based on the rules of the game. We -- for example, we had the increase as we said in the PIS and COFINS tax rates, an increase in tax rates, also truck drivers' strike. And also, regulatory issues. We made few adjustments in the commercial margin. And my comparison -- the comparison I made was with Q3 last year. Later on, we can give you a comparison with Q2. But I compared to Q3 last year. You are right, there was a recovery. And looking at the methodology, not considering extraordinary items, where we see a recovery.

Q - Regis Cardoso {BIO 20098524 <GO>}

Just a quick follow-up. What are your expectations in terms of margin for now? Another follow-up question on provisions for variable. Here it says BRL 21 million. But I understood from the release when you were just BRL 96 million in inventory and you mentioned the strike, adding up everything, we get to BRL 58 million, 2/3. The total amount of the provision would be BRL 87 million, according to my calculation. So how much did you make provisions or accruals for variable compensation?

A - Marcelo Fernandes BraganÃ§a

I'm calling Mr. Bispo to give you the details and the breakdown.

A - Luis ClÃ¡udio Sacramento Bispo {BIO 20546601 <GO>}

Concerning this issue, it's correct, BRL 87 million. Here we see the total involving not only accruals for variable compensation but also an estimate for provisions, participation in results, considering our expectation for profits. So in fact, 2/3 have to do with Q1, Q2 2018. And a 1/3 Q3, BRL 58 million that we would have in previous quarters and BRL 29 million concerning this quarter.

Q - Regis Cardoso {BIO 20098524 <GO>}

Could you comment on your expectations concerning margin for the future?

A - Marcelo Fernandes BraganÃ§a

Well it's been a challenging year. You have followed this. We have made all our efforts, as mentioned here. We're aligned with the market. We're managing issues involving the market and internally origination D&A. So we have total focus on profitability. Let's wait a little more. There is a seasonality, an important seasonality. I would wait because we have gains in productivity. This is our focus always.

Operator

Our next question comes from Mr. Bruno Montanari from Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

First, the results from airlines. Very strong in relation to retail, which is recovering. The margins in -- from airlines, are they sustainable? Or the trend is to see a drop due to the price of oil? The second question, retail. You mentioned in one of the answers, regulatory issues that could change. Please tell us what you believe could change in the regulatory environment? Finally, the overhead has an average of BRL 155 per quarter, Q3, BRL 187 million. Was there any factor that explains this increase? Is it sustainable from now on?

A - Gustavo Henrique Braga Couto {BIO 20453935 <GO>}

I will answer the question concerning airlines. We had a result in Q3 that was better due to the exchange variation. So there is an impact, an important impact when you have an appraisal, when the domestic currency real is worth more. Airlines, international -- with international airlines, you have a drop due to the exchange rate. But as I announced, we are working to reduce costs at airports that have a deficit. And this has improved our efficiency, operational efficiency resulting in better margins. Q3 is higher due to the exchange rate effect, exchange variation. There should be a drop if you work with a lower exchange rate. Yes. There may be a drop.

A - Unidentified Speaker

Bruno, concerning the regulatory environment, we are following. We are participating in all the discussions with airlines in the market. We have a proposal of currently with suggestions. We have participated in debates. We've been discussing with resellers, unions. We have participated. What happens is that we understand that this sector is well organized, well structured. But right now, sometimes there are decisions that are taking longer. This is what we see this year, especially after the truck drivers' strike. Today, we see an improvement and a more rational scenario. So we believe that in the future, it will be better. And this had an impact, especially in the short term in the past, with these discussions, an impact that could impact one of the chains' links. We're monitoring. We are participating actively in discussions in order to preserve the company's interest. I don't believe it will be an issue in the future.

Bruno, you mentioned about SG&A, overhead expenses, corporate expenses. Basically, you have 2 groups that have the main variances. We have a pension plan. We have provisions for health care plans and actuary. In Q3 '18, this represented BRL 79 million and last year, BRL 99 million. This is what we're allocating for in terms of overhead corporates.

A - Gustavo Henrique Braga Couto {BIO 20453935 <GO>}

Bruno, Gustavo, again. I'd like to go back to airlines concerning our hedging. So in spite of exchange variation, we had an improvement in the margin of airlines. And since last year, we've been adopting hedging policy to avoid fluctuations. So we had an improvement in Q3. But I believe the opposite will happen due to the exchange variation in the future.

A - Unidentified Speaker

Bruno, I'd like to comment on Gustavo's point. These impacts on margins that Gustavo mentioned, this is because we have a hedging and cash flow methodologies. We don't have hedge accounting. So the impact is on operational and financial. Then you have the numbers in P&L.

Operator

Our next question comes from Mr. Vicente Falanga, Bradesco Bank.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Congratulations, Mr. Lettiere. We wish you success. I had 2 questions. You made an interesting comment. In spite of the imports, you were able to improve share. Why do we have this resilience in other brands? So how to bring these consumers back to brand gas stations? So in spite of the results that are better less use of cash, this fine from Mato Grosso, was it paid totally within the quarter?

A - AlÃpio Ferreira Pinto

AlÃpio here. Answering about imports, we noticed that with the subsidy in diesel oil, imports dropped. We still have imports. But with much lower margins. Imports suffered a drop. And this gave us a more stable market. There is a great uncertainty for the imports, especially the volumes next year. But the margins that were there in the first semester, especially those gas stations that don't have the normal brands.

A - Marcelo Fernandes BraganÃ§a

Just to supplement, we monitor. The brand continues to be the main driver for choice. The second is location convenience of the gas station. Price is normally the third variable for consumers. When we have an environment of families' earnings dropping and in the Otto cycle, you may have consumers looking at price and buying ethanol, which has a lower price. Like we saw this year, higher prices this year, less income, less money in consumers' pockets and they don't give priority to what is best and sometimes they buy only based on price. We believe that in the medium term, brand and convenience will have more value. So we see that there is a resilience. The economy coming back next year, improving next year, continued -- consumers will attach value not only to price but other attributes.

A - Unidentified Speaker

We notice that a great factor in competitiveness was the greater volume of imports. What we noticed is that with this environment, less volume, a lower volume of imported product, this is yet another factor. Cash generation, the agreement with the State of Mato Grosso, BRL 373 million, apart from bringing us a benefit because the cost of the provision, the accrual was very high with specific indexation, BRL 200 million a year. So now this -- the payment had a direct impact on cash generation. Another positive aspect was receivables from Petrobras, which resulted in BRL 460 million being paid in the quarter and with a positive cash generation from operations, all of this helped us to pay interest on owned capital and dividends. So the balance from all of this, perhaps this helped us to become a fortress in cash generation and in terms of cash flow is very well structured. So in terms of cash generation, working capital, this has allowed us -- these have allowed us to make payments as the payment of BRL 1 billion in JCP and dividends.

Operator

Our next question comes from Mr. Thiago Duarte, BTG Bank.

Q - Thiago Callegari L. Duarte {BIO 16541921 <GO>}

Two quick questions. This was mentioned on Slide #6. We see the normalized numbers for the profitability of the business. You tried to purge nonrecurring effects in the last two years. And I would like to ask what you consider to be the margin of the business today, purging nonrecurring effects and adding gains in efficiency that were captured? And your vision when we think of BRL 69 per cubic meter, which is a normalized EBITDA of the business in the first nine months of the year. Do you believe this is a good margin for us to use as a basis from now on, considering all the points that were mentioned? That's the first question. The second question, could you remind us what you consider to be the situation of receivables from EletrobrÃ¡s? And also, there is -- there are the issues of privatization, too. So what do you believe will happen? I know it's not under your control, concerning receivables in the next few months.

A - Unidentified Speaker

So the first point, obviously, we're happy that this analysis helped you, the BRL 69 per cubic meter, they have contained an important impact due to volume. Now -- plus the business concept as we have these volumes, of course, in the beginning, we see that this profitability, the trend, there is a growth trend, it should grow. When the market reacts, when we have a better market and with our initiatives, we want to have higher profitability. Concerning the second point, receivables from EletrobrÃ¡s. We received more than BRL 800 million after the agreement signed with them. We have -- we see a scenario of stability. On October 31, we had a material fact. We received an installment. So our cash flow is being maintained. We see stability.

Q - Thiago Callegari L. Duarte {BIO 16541921 <GO>}

And when you say that the recovery of volumes is important to improve margins, in your mind, it's only leverage of the business, operational leverage, fixed costs? Do you believe that you could, with these expenses, sell more? Or is it linked to sales, especially gas station network? The volume would help you with price. Why volume is -- why is volume so important to you?

A - Marcelo Fernandes BraganÃ§a

Thiago, Marcelo speaking. Two points. We have an infrastructure that is there, which allows us to sell more as we did in the past. This way, we would dilute the cost with more volume. The second point, as the throughput, as the volume per gas station goes up, when I sell more, this allows me with a better financial -- this improves the financial health of the reseller and allows me to capture more margin. These 2 things are true. And we see, therefore, space for improvement in profits.

Operator

Our next question comes from Mrs. Fernanda Cunha from Citibank.

Q - Fernanda Perez Da Cunha {BIO 20784520 <GO>}

I will go back to margin. I would like to focus more on data published, the volumes in September. What caught my attention, how BR behaved in this sector. There was a drop of 7%, at the same time, there is space to increase margin. How is the trade-off? Should we see resellers suffering a drop? Or the increase in margin is very small? And the second question, the margins published by ANP concerning imports, we see that there were imports. And I'd like to know this impact was not significant? Or did you have losses in this quarter?

A - Marcelo Fernandes BraganÃ§a

Fernanda, Marcelo speaking. Obviously, we have a plan. We understand there is space to recover volume. From September -- from August to September, there was a drop, year-to-date, nine months. In resellers, there is a drop of 0.4%. We're winning a little in diesel. We are winning in ethanol. We are losing a little in gasoline. There was a drop because we maintained profitability. As I said, when I compare September with August and July, it was better in terms of results. Now we see, at the end of the year, traditionally, there is more demand for gasoline, thus improving margin. And we see space for fine tuning and beginning to recover volume, especially in the Otto cycle because we have an increase in ethanol, 40% growth in comparison with the previous year. It doesn't compensate the profitability from gasoline. And we see space to make up -- to fine tune things and maintain the capture of margin and recovering volume in gasoline because we are winning market share and volume.

A - AlÃpio Ferreira Pinto

Fernanda, AlÃpio. The imports in Q3 are, as you can see it, the residual volume from June to July. The margins were attractive in imports. This was of the residual amount from June to July. It does not represent a negative result for the company.

Operator

We'd like to conclude the Q&A session. Now we'd like to pass the floor to Mr. JosÃ© Roberto Lettiere for his final comments.

A - JosÃ© Roberto Lettiere

Well we'd like to thank you for participating in this conference call. For earnings, we're able to share and answer questions. Thank you for the questions. Continuing our work after growth and better results. Now I'd like to pass the floor to Ivan. And he will make his final comments. Thank you.

A - Ivan De SÃ¡ Pereira {BIO 21810537 <GO>}

We'd like to thank you all for participating. It was very good to have this dialogue with you. I would say that, although we had a difficult year, the results of BR shares were robust, whether in cash generation or net profit. But we also, at times, we were able to strengthen the brand. Our indicators are very positive. And we see that in terms of governance, we have been recognized. In terms of cost reduction, it's a highlight cost reduction. So in spite of the difficult year that we had until now, as we mentioned, highlights this result that was very relevant, cash generation, good perspectives to pay dividends to shareholders. Thank you.

Operator

Thank you. Ladies and gentlemen, the conference call and the slide presentation will be available on our website, ri.br.com.br. This includes this webcast and the conference call. Thank you for participating. Please disconnect the lines. We wish you a good afternoon.