Q3 2017 Earnings Call

Company Participants

- Aurelio Pavinato, CEO and Member of the Board of Executive Officers
- Ivo Marcon Brum, Chief Financial & IR 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 of 2017 Earnings Conference Call. Today we have with us Mr. Aurelio Pavinato, CEO; and Mr. Ivo Marco Brum, CFO and Investor Relations Officer. We would like to inform you that this event is being recorded. (Operator Instructions) Also, today's live webcast, both audio and slide show, may be accessed through SLC Agricola website at www.slcagricola.com.br in the Investor Relations section by clicking on the banner webcast 3Q '17.

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. (Operator Instructions) Before proceeding, let me mention the 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 operators et cetera 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. Aurelio Pavinato, CEO. Mr. Pavinato, 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 2017. First, I should point out that as mentioned in our earnings release, this quarter's results once again were extremely strong with record-high EBITDA and net income. A significant drop in our leverage ratio and our record-high cotton yield in the '16/'17 crop year. We will take a close look at the numbers in a moment.

Please go to Slide 3, where we will begin with comments on the recent price variation in our main products. With higher prices in early 2017 and better profitability in relation to competing crops, such as soybean and corn, the cotton planted area should expand significantly in the '17/'18 crop year by around 11% year-over-year, according to USDA data.

This projected expansion in the area had a negative impact on future cotton prices on ICE in the Third Quarter, with an average depreciation of around 8% on the prior quarter.

On the other hand, in China, I previously mentioned it, an aggressive program for the sale of the government stocks was launched in 2016, reversing the cycle of builds in cotton lint stocks that took place from '11 to '15, with the country now leading the drawdown in world cotton stocks. Some analysts estimate that the country will close 2017 with a decrease of around 18% in ending stocks compared to a year earlier.

This probably will lead to the need for China to import more cotton as of the end of 2018, which could be positive for prices.

Let's go now to Slide 4. The price of soybean future contracts traded on the Chicago Board of Trade presented significant volatility in the last quarter due to the expectations regarding the U.S. crops, which was in full development phase. Despite the confirmation of normal crops in the United States, global restocking trends in '17/'18 will still depend on the development of South America crops, which is currently in the planting and early development stages. Also, consider that the demand continues to grow steadily every year, we foresee higher prices over the next couple of years.

Moving to the corn. As you can see on Slide 5, prices on the CBOT fell over the course of the Third Quarter, mainly due to the robust U.S. crops. And consequently, the expectation of U.S. and global stocks remaining at high levels.

In Brazil, as you can see on the charts, there was a recent decoupling from international prices, mainly due to the producers' decision to hold inventories, giving the product's low pricing in reais.

Let's go, please, to Slide 7, which shows our operational performance in the '16/'17 crop year. This quarter was completed -- we completed the harvesting operations for the '16/'17 crop year with very strong results. The final cotton lint yield set a new record of 1,807 kilograms per hectare, based on the age of the first and second crops or 304x of the cottonseed.

In the case of the soybean, whose harvesting was concluded in April, the yield (inaudible) also exceeded the initial expectation by 7%. And the second crop of corn registered a yield of a 6.7 tons per hectare, (exactly) below the initial estimate due to the lower grain weight at timing of harvest.

Moving on to Slide eight shows the closing of production costs for the '16/'17 crop year, with costs per hectare down in relation to the initial estimate, despite the good yield. And consequent increases in transportation, storage and processing costs. Demonstrating our ongoing efforts to control expenses and use inputs efficiently.

I will now pass it over to my colleague, Ivo Brum, CFO and Investor Relations Officer.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, everyone. Let's go to Slide 10 which shows some highlights from our income statement for the period. The good performance in the field continues to be reflected in our financial results. The net revenue reached BRL 561 million in the quarter and BRL 1.5 billion in the nine months, 45% higher year-over-year.

Adjusted EBITDA stood at BRL 116.8 million in the quarter and BRL 314 million in the year-to-date. Net income came to BRL 70 million in the quarter and BRL 232.6 million in the nine months. Both EBITDA and net income set new records for the quarter and nine months period. This performance is mainly explained by normalization of yields after last year's crop shortfall.

Let's go now to Slide 11, which shows a breakdown of our net debt. Net debt declined 19% sequentially to close the quarter at BRL 844 million. This let the net debt-to-EBITDA ratio to fall as well to 1.7x, which is considered a very comfortable level. I also should point out that we are currently in the process of strengthening our debt profile since the short-term Constitutional Funds lines are not attractive this year, leading us to replace them potentially with the issue of BRL 200 million in Certificates of Agribusiness Receivables due in three years, which should be concluded in the coming weeks.

I will now pass the call back over to Aurelio Pavinato to comment on the outlook for '17/'18 crop year.

Aurelio Pavinato {BIO 16456795 <GO>}

Thank you, Ivo. The outlook for the new crop year is positive with planting of the super-early and early soybean varieties which enables the planting of second-crop cotton and corn began in late September and was concluded in October in Mato Grosso and Mato Grosso do Sul states and is currently being concluded in state of MaranhÃ£o, which should give ample time for planting a second crop in January and February. We also estimate a slight drop in production cost per hectare for the new crop year with a negative variation of 0.6% in the average cost per hectare in Brazilian reals on the prior crop year, as you can see on Slide 13, which is due to our successful strategy for negotiating inputs.

Lastly, we had managed to implement a good part of our hedge problem for 2018, which is guaranteeing prices similar to those practiced in 2017, as you can see on Slide 14, which enabled us to project profitability for next year remaining at these good levels.

Thank you. Let's now open the call for questions.

Questions And Answers

Operator

(Operator Instructions)This does conclude today's presentation. You may disconnect your lines at this time. And have a nice day.