

Q3 2012 Earnings Call

Company Participants

- Marcelo Martins, CFO and IR Officer

Other Participants

- Celina Merrill, Analyst
- Pedro Herrera, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan Limited and Cosan SA's Third Quarter of 2012 results conference call. Today with us we have Mr. Marcos Lutz, Cosan's CEO; Mr. Marcelo Martins, Cosan's CFO and Investor Relations Officer; and Guilherme Machado, Head of IR. We would like to inform you that this event is recorded. (Operator Instructions)

The audio and slideshow of this presentation are available through a live webcast at www.cosan.com.br/ri. The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan Limited and Cosan SA's 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 Cosan Limited and Cosan SA's and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to the CFO and Investor Relations Officer, Marcelo Martins. Mr. Martins, you may begin your conference.

Marcelo Martins {BIO 16440115 <GO>}

Thank you. Good morning, everyone. Thanks for attending our quarterly call. I'd like to start this call by talking a little bit about the highlights of our different businesses starting

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with our consolidated EBITDA of BRL495 million during this quarter, which is a substantial advance compared to the same quarter of last year.

Raizen Combustiveis, which is Raizen's downstream business, posted an EBITDA margin of 3.4% equivalent to BRL61.7 per cubic meter, excluding non-recurring effects, which is a record EBITDA for the Company. Raizen Energia, which is our upstream business, presented a net revenue growth of 4% compared to the same quarter of last year. Rumo increased its transported volume and presented a record EBITDA margin of 42.8%. And the lubricants business, Cosan Lubrificantes, started its process of expanding out of Brazil through the incorporation of businesses in Bolivia, Uruguay, and Paraguay.

I'd like to start now on the presentation talking a little bit about the consolidated numbers for Cosan. We had a net revenue variation of 33% of a variation compared to the same quarter of last year, but those figures are not necessarily comparable; once in this quarter we had the contribution or the incorporation of the downstream business that was contributed by Shell into Raizen Combustiveis.

And during this quarter of last year, we had only 100% of our upstream business, which now reconsolidate 50% and 100% of Cosan's downstream business, which was actually the business that had the fuel stations branded Esso here in Brazil.

Therefore, during this quarter of this year, we had an EBITDA of 93 -- I am sorry, net income of BRL93.8 million and an EBITDA of BRL494.6 million, representing an EBITDA margin of 7.8%.

In terms of the different business lines, we had in Raizen Energia a reduction in the crushing of sugarcane compared to last year equivalent to 27%. So during this quarter, we crushed 8.2 million tons compared to 11.3 million tons in the same quarter of last year.

Just wanted to remind you that this is the last quarter during the crop season, which is the Third Quarter in our fiscal year. And so considering that, we had a big disruption in the production of sugarcane in the Center-South region in Brazil this year. Raizen Energia was also impacted. But the impact on Raizen was lower than the impact on the average of the industry. So the crop reduction in Raizen was of less than 10%, of 9.8% compared to an average of 11.5% in the Center-South market.

So the reason why we were less impacted by this crop disruption and then the rest of the market is given the fact that we have been investing for the last two years in the renewal of the cane fields, which ended up having a positive effect in a year when that the price was good compared to previous years, mainly as a function of the lower production in Brazil.

In terms of the sugar production during this quarter, there was also reduction of 19%, which was lower than the reduction of 28% in the production of ethanol. We produced 656,000 tons of sugar during this quarter and 325 million liters of ethanol.

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The TSR went up compared to last year, jumping from 138.5 kilos per ton to 143.6 kilos in this quarter, representing an increase of 3.7%. The volume of cogeneration sold as a function of the reduction in the sugarcane crushing also came down from 380,000 megawatt hours to 349,600 megawatt hours. On the other hand, the price increased from BRL134 to BRL152 per megawatt hour. Mechanization of the fields of the production of sugarcane has also increased from 78% to 86.3% in this Third Quarter of 2012.

The net revenues variation of the Company was a 4.1% positive. So in this quarter of last year, Cosan upstream business generated revenues -- net revenues of BRL1.68 billion. And in this quarter, the revenues were equivalent to BRL1.75 billion. We had a reduction in terms of revenues of sugar, but we had an increase in revenues of ethanol.

The reason why we ended up having an increase is given the fact that the price of ethanol is better or was better in the Third Quarter of this year compared to the same quarter of last year, but also because we decided to sell in advance during this quarter as opposed to wait to sell in the Fourth Quarter, because we had the expectation, which ended up materializing that given the additional supply of ethanol in Brazil, prices would start to go down and which ended up being the case.

So the EBITDA for this business jumps from BRL384 million last year to BRL502 million during this quarter, which represented a big jump in EBITDA margin that comes from 22.8% to 28.7% in this quarter.

Just talking a little bit about the hedging of sugar exports, we have still some hedging to do in this quarter, which is not expected to be fulfilled. And we have for next crop 798,000 tons of sugar at an average price of (\$0.2455) per pound and those -- that percentage represents 27.2% of the projected volume of sugar to be exported from Raizen next year.

Now, talking about the fuels business, the downstream business, we had a reduction in the volume sold in the market, on a pro forma basis, because during this quarter of last year, Raizen was not formed yet. We sold 4 -- sorry 5.45 billion liters and in this quarter we sold 5.29 billion liters, representing a reduction of 2.9%. There was an increase in sales of gasoline that used to represent 28%, and in this quarter, represented 35% of the overall volume sold, and a reduction in the sales of ethanol that last year in this quarter represented 14% and this quarter went down to 8.5%. There was a shift from ethanol into gasoline considering that the parity of the price of ethanol compared to the price of gasoline was higher than 70% during this quarter.

In terms of net revenues was an -- there was an increase of 8.7% from BRL9.27 billion to BRL10.08 billion in this quarter. And there was a big jump in the EBITDA coming from BRL220 million last year to BRL347.6 million during this quarter. The EBITDA margin also went up from 2.4% to 3.4%. A good way to measure the performance of this business is through the multiple --- the EBITDA multiple per cubic meter.

We had an EBITDA per cubic meter of BRL65.6, representing a 63% variation --- positive variation from the same quarter of last year. But we adjusted this multiple by reducing

non-recurring items equivalent to roughly BRL20 million and that number came down to BRL61.7 per cubic meter, which is in absolute terms, a record considering the past performance of both the Shell's and Cosan's downstream businesses.

Now, moving to the other businesses, to the controlled businesses, Cosan's controlled businesses. Rumo had also a very good quarter in terms of EBITDA and in net revenues, but there was a reduction in the elevated or the loaded volume at the port. The reason for that reduction was the lower production of sugarcane and as a consequence sugar in Brazil. So we saw reduction of 5.4% in the volume elevated.

On the other hand, there was an increase in the average revenue per loaded ton, which jumped from BRL68 to BRL90. And in terms of net revenues, there was a jump of 26% from BRL114 million to BRL143.1 million in this quarter.

The EBITDA also increased 62.3% from BRL37.7 million to BRL61.2 million, represented by a margin of 42.8% compared to 33.2% last year. This is also a record margin in Rumo's business. And the reason why we had such a high margin is because this is the time of the year, which means the last quarter of the crop season when we make all the adjustments for the take-or-pay agreements that Rumo has. So you should expect non-recurring, which ends up being a recurring revenue during this Third Quarter of the year. It's non-recurring during the quarter, but it's recurring in the sense that it happens or it should happen every year.

So now moving to the sugar retail business, we had a good quarter in terms of volume and average price. The volume went up by 5.3% from 157,000 tons to 165,700 tons during this quarter at an average revenue of BRL1.448 million compared to BRL1.391 million last quarter -- last year and the net revenue jump of 10% coming from BRL219 million to BRL240 million.

In terms of EBITDA margin, it went down from 7.5% to 6.2%. And the overall EBITDA also came down from BRL16.5 million to BRL15 million. The reason why the average price went up, the volume went up, but the EBITDA came down was because the cost of acquiring the sugar also went up. So this is what we call the origination cost, the cost of buying sugar -- refined sugar in the market mainly from Raizen, which ended up going up in this quarter as well.

So there is a last business unit that you are probably familiar with which incorporates not only the lubricants business, but also it's where we allocate 100% of the corporate expenses into Cosan. So it's all in this business cost or in this business line, if you will. So the numbers are not comparable, because last year we didn't have a corporate unit apart from Raizen, if you will. And today, as Cosan is a separate entity, we have a different corporate unit that is 100% allocated to this business.

So in terms of net revenues -- and this is represented by the sale of lubricants, finished lubes and base oil -- there was an increase of 26% from BRL209 million to BRL263.5 million and a reduction in the EBITDA as I mentioned before as a function of the allocation of the corporate costs to this business line.

So in terms of the debt position of Cosan on a consolidated basis, we had at Cosan, a total consolidated debt of BRL4.8 billion, cash equivalents of BRL1.195 billion, and a net debt position of BRL3.62 billion. We deducted from that number, 50% of the capital contribution to be made by Shell in two more installments, the next one is going to be in the month of April of this year and the last one will be in April of 2013.

When we get 50% of that projected capital contribution and we reduce it from the net debt position, we get BRL2.7 billion roughly, which divided by the (less of month) EBITDA of Cosan, results in the multiple of 1.2 times net debt to EBITDA.

We had during this quarter debt amortized in the amount of BRL566 million. And this again considers Raizen and Cosan and we raised BRL228 million of new debt. So we had a reduction in the debt position. We had a reduction in the cash position as well, and therefore, the BRL2.7 billion net debt position, representing a multiple of EBITDA of 1.2 times.

In terms of our guidance for this fiscal year, as the end of the year approaches and the end of the crop season has already happened, we were not kind of revised the numbers. I think the numbers -- the projected performance of the business is very much in line with the numbers we have projected here, probably more towards the midpoint in the range that we have indicated as opposed to the lower end, which means that we have already come up with a total crushing of 53 million tons during this fiscal year.

We project an EBITDA for Raizen Energia between BRL1.5 billion and BRL2.05 billion. We are already very close to the bottom end as when we look at the last three quarters, we'll come up with an EBITDA higher than BRL1.7 billion for this business only. Raizen Combustiveis, we don't expect a higher volume, but we expect the EBITDA to be more in the upper end of the range. And we are projecting a range of BRL1 billion to BRL1.2 billion.

Rumo and Cosan Alimentos are very much in line with the performance of the business --- businesses. In the case of Cosan Alimentos, we have already reached the bottom end of the range. And so overall, we are very keen to achieving the numbers we have projected and release to the market.

We are in the process of concluding our planning cycle within Cosan and our subsidiaries. And once we are finished with this planning cycle, we'll be in a position to release our guidance for next year --- for the next fiscal year. And along with that guidance, we want to update the synergies, not only the synergies generated through the merger of the downstream businesses, but also our projects in terms of synergies moving forward. And we'll also provide you with a guidance for the EBITDA per cubic meter in the downstream business.

So this --- with that, I would like to hand my presentation and turn it back to you for questions. I am here with Marcos Lutz and we'll be ready to answer your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) Celina Merrill, Credit Suisse.

Q - Celina Merrill {BIO 6748233 <GO>}

Thank you for the call and congratulations on the results. I had a question about your capital structure. Can you please talk about your financing plans for this coming year, if any? And is that going to change or be updated once you have the Raizen financial statements out to the market?

A - Marcelo Martins {BIO 16440115 <GO>}

Hi, Celina, it's Marcelo. Well we, at Cosan, we have no need raise more debt at this point in time, but as we keep consolidating our businesses and we could prospectively invest more in the business lines, there is a chance that we'll need to raise more money for that specific purpose. Therefore, even though we have no plans to raise money at this point in time, it could change to the extent that we see some interesting business opportunities or acquisition or expansion opportunities.

In terms of Raizen, they have some debt to refinance as you know. Even though they are going to get a capital injection from Shell this year, they have the 2014 bonds that will come due soon and they have to be ready to tap the market. We still haven't discussed what are the sources of financing for Raizen. They have recently raised money in the bank market if it continued to the case, but they keep their options open and the capital markets would be an option as well.

So I think our biggest priority now is to release the financial -- the closing financials. As you know, we are in the process of concluding them and we should release them very soon. We need to finish the rating process as well and -- because we want to be in a position to disclose the new rating for Raizen as we expect it to be upgraded to investment grade.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay. Great. Thank you very much.

Operator

(Operator Instructions) Pedro Herrera, HSBC.

Q - Pedro Herrera {BIO 15159561 <GO>}

Congratulations on the earnings. Just a quick question regarding your -- the restructuring of your shares. Can you give us an update on what's going on with that?

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A - Marcelo Martins {BIO 16440115 <GO>}

Pedro, there was some speculation in the market recently. What I can tell you is that we never disclosed to the market any details of a possible restructuring as you know and we've been saying. We've been working with the controlling shareholder, but there is nothing concrete to be released that should be said at this point in time.

Q - Pedro Herrera {BIO 15159561 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Martins for any closing remarks.

A - Marcelo Martins {BIO 16440115 <GO>}

Well thank you very much for attending our call. We wanted to share with you our happiness with the results of this quarter. I think that we are meeting our target in terms of value creation through the synergies on the merger of the two downstream businesses and incorporation of the upstream business under Raizen as well. And we also wanted to let you know that we have a new website that has been --- our website was updated and it's been up since yesterday. So we just wanted to invite you to take a look at it. We have more information available and we hope you like it. So thank you very much for attending this call and we'll speak to you soon.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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