Q1 2020 Earnings Call

Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial and Investor Relations Officer

Presentation

Operator

Good morning ladies and gentlemen and thank you for waiting. At this time, I would like to welcome everyone to SLC Agricola's First Quarter of 2020 Earnings Conference Call. Today with us we have, Mr. Aurelio Pavinato, CEO and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer. We'd like to inform you that this event is being recorded and all participants will be in a listen-only-mode during the Company's presentation. After the Company's remarks are completed, there will be a question-and-answer session. (Operator Instructions).

Also today -- today's live webcast, both audio and live show may be accessed through the SLC Agricola website at www.slcagricola.com.br in the Investors Relations section by clicking on the banner, webcast 1Q'20. The following presentation is also available to download on the webcast platform. The following information is available in thousands of Brazilian Reals, ISRS accessing other sites indicated. Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of SLC management and on information currently available to the Company. They were risks, uncertainties and assumptions because they relate to the future events and therefore depend on the sequences that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Aurelio Pavinato, CEO. You may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Hello and thank you all for participating at SLC Agricola's earnings conference call for the first quarter of 2020. Let's take a look at the Slide 3 please, where we will begin by addressing the COVID-19 situation. The Company responded quickly and prudently by forming a crisis committee which was made responsible for preparing continuously, monitoring our contingency plans and our response guide. We see are two important tools for identifying the risks and vulnerabilities and for establishing the protection, control and containment measures in the case of any spread of COVID-19 in our operations. The main actions implemented are described on this slide. We clarify with satisfaction that to-date we have not detected any cases of COVID-19 among our employees.

On slide 4, we argue that the operating units are naturally isolated given that they are located in rural zones with a safe distance from the nearest small towns. In addition, the geographical distribution of the units also proves particularly useful for billing if such a situation, since it reduces the risk of the contraction and therefore the risk of an impact on operations. Our business despite industry considered essential fully guided to the continuity of its operations, however the operations that subject to any constraints in the supply and distribution chains that could be (inaudible) due to the pandemic. Nonetheless, we note that, that to date, no restrictions have been put that could cause impacts on the normal functioning of our processes. In relation to possible financing impact, let's move on to slide 5, please. As times like these concerns with cash and liquidity preservation, financial leverage and cost control efficiency are naturally (inaudible). In this sense, it's pertinent to note that the Company started the current crisis with a very comfortable leverage situation closing first quarter '20 with a net debt-EBITDA ratio of 1.9 times. The Company's debt is 100% denominated in Brazilian Real. I think to end of the year present excellent results in terms of yields. The CapEx plan was revised to further preserve capital. In light of the restriction currently in force on the movement and gathering of people, the Company's Board of Directors upon recommendation in the Executive Board in the meeting held on April 9th decided to postpone date of the Annual Shareholders Meeting to July, 29th, 2020 which originally was going to be held for April 29th, 2020.

Moreover, the Board of Directors approved the (inaudible) distribution of mandatory annual dividend. Based on the competent the adjusted net income, it for the fiscal year and December 2019, in the amount of R$73.7 million. Now, we can advance to slide 6, please. Here we present possible impact in our market. We believe that 2 key factors should be taken into consideration in this case. The logistics chain and the fulfillment of the agreement. In both cases, the risks present are significant, but have not yet appeared in practice. To date, there have been no significant disruption in the export logistics, on the contrary, Brazil has posted new record in export volumes.

Contractual compliance has in this original day strong correlation between the way negotiations are conducted and the players choosing commercial partners. Now let's move to slide 8, where I will comment on our operational performance. It is the end of our soybean harvest, the final yield of the tenure for the 1920 crop year was 3,900 kg/hectare or 65 bags per hectare, compared to 3,840 kilograms per hectare, report in March. The final yield was 8.1% higher than our initial estimate and 19.4% higher than the national average. Based on May 2020, estimated from CONAB's report. Note that for the 3rd straight year, we set a new yield record for this crop, which is in line with the Company's current strategy to focus on maximizing operating efficiency. The Cotton and Corn crops are currently in the ball and grain filling phase, respectivity and are presenting high yield potential.

Now we can go to slide 10 please. Where I will make some comments on the international prices of our main product. The first quarter of 2020 (inaudible) sizable activity in international cotton prices. The economic uncertainties generated by the pandemic which had a readily effect markets is general, led to declines of over 20% in the US dollar prices, also this fiber compared to that -- to those at the start of the year.

However, price recovered over the course of April and currently are down by around 60% from January. The drop in commodities price over the course of the year will impact decision made for planting introduced the countries and then are there any fear notably United States, which currently are in the early phase of sowing. Finding demand however that proves the resilience especially due to the recovery in Chinese imports driving by expectation RCR rebuilding in the biggest had which have been the main factor of supporting prices, especially after the best cycle, the best cycle marked by the US - China trade war, which contributes to this scenario of depressed commodity prices in international market.

Following the USVA supply and demand report released in the first few months of the year, the agency revised upwards, it's expectation for Chinese soybean imports by approximately 13% from the initial estimates of 85 million tonnes to 96 million tonnes. In corn, in the international scenario, the drop in corn price was approximately 15% compared to the first days of the year reflected large part to the expectation for a weaker consumption in United States is notable because of the shutdown of corn base it on our plan and the resulting increase in the count estimates in the stock. In the Brazilian context, the marked improved robust throughout the first quarter due to the demand from the animal protein sector and from export market.

I will now pass it over to the colleague Ivo Brum, CFO and IRO officer for the comments on the finance for the quarter.

Ivo Marcon Brum {BIO 16639894 <GO>}

Hello, please let's move to slide 12, where you show highlights of the income statement. The net revenue advanced 2.2% from first quarter 2019. Despite the Portland 5% decline in the volume invoices. For quarterly, our product with the highest add value volume invoices was 23% higher than the first quarter, 2019. Except for soybean, our crops resisted increase the unit price compared to the year ago quarter. Adjusted EBITDA was R$183 million, 20% lower than the first quarter, 2019. The main factors contributing to this variation in adjusted EBITDA where the lower soybean volume invoices and the lower margin of corn invoices compared to prior quarter. The lower margin on quarter lead explain it by the crops lower use in 2018-19 crop year, versus 2017-18 crop year and by the increase in the cost factor between those periods. Net income however comes to R$156 million in the first quarter 2020 growing 40% on the prior-year quarter. The main factor contributing to the growth while the variation in the fair value of to be a large assets for soybean which increased by R$148 million, compared to first quarter 2019.

The variation explained by the assumption use it the calculation. As commented in the first quarter 2019 earnings release, following the calculation of valuation of the fair value of the largest asset of soybean 2018-19 crop year, both the crops price in yields improved leading the variation of fair value to underestimate the crop seasons in the debt year.

To conclude on this slide 13, we present our debt position. The Company adjust net debt ended the first quarter 2020 at R$1.4 billion, an increase of R$475 million for the end of the 4th quarter, 2019. Net debt was affected mainly by the higher working capital needs, which is in turn were influenced by the premiums of mutual inputs for the 2019-20 crop year. Note that the growth in debt during the period was expected, we'll see in the Company cash conversion cycle. Leverage, measured by the net debt EBITDA ratio closed the quarter at 1.9 times and with our cash position of R$774 million.

I will now hand it back to Pavinoto, so that he can comment on the outlook for the reminder of the year and also for the upcoming crop.

Aurelio Pavinato {BIO 16456795 <GO>}

Thank you Ivo. On slide 15, we presented updated table on hedging position for '19-'20 and '20-'21 crop year. It's price is already considered in Reals. We made significant advance on the hedge position both in for the current and the next crop year. It's prices are superior to the current market and also higher than those achieved on the previous crop year, especially when converted to Real. We also made progress in purchase of inputs for the 2020-21st crop year. To date, we are rather heavy acquired more than 2/3rd of our fertilizer needs and more than 50% of the estimated demand for chemicals, it is both the negotiation resisting our significant drop in the US dollar amount of then compared to the '19-'20 crop year.

Considering the current scenario for crops in prices in dollars as well as the currency exchange rate, we expect the good level of profitability to be maintained in 2020-21st. Once again, our hedging policy proves to be efficient in protecting the business against short-term price volatility. And as a final word, i'd like to close by stating that to be firmly believe that the Brazilian Agri business -- Agri business and especially SLC Agricola will rise, even strong after the COVID-19 pendamic. Thank you, and now we hold for questions.

Operator

Thank you, ladies and gentlemen and now we will initiate the question and answer session. (Operator Instructions). Thank you. This does concludes today's presentation. You may disconnect your line at this time and have a nice day.