Q2 2019 Earnings Call

Company Participants

- Ivo Marcon Brum, 'Chief Financial and Investor Relations Officer'

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola Second Quarter 2019 Earnings Conference Call. Today, we have with us Mr.Ivo Marcon Brum, CFO and Investor Relations Officer. We'd like to inform you this event is being recorded.

After the conference remarks are concluded there will be a question-and-answer session. (Operator Instructions) Also today's live webcast, both audio and slideshow, may be accessed through the SLC Agricola website at www.slcagricola.com.br in the Investors Relations section by clicking in the banner webcast 2Q '19. The following presentation is also available to download on the webcast platform. The following information is available in thousands of Brazilian reals and the IFRS, except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of the SLC Agricola management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to the future events and therefore, depend on the 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 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.Ivo Marcon Brum, CFO and Investor Relations Officer.

You may proceed.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, and welcome for our conference call. Let's move please to slide 3. The international scenario for agricultural commodities price, as you can see in the chart, has been highly volatile, which is due to three main factors: trade war between United States and China, the active swine fever event in China and the conditions for our -- for the '19-'20 crop year in United States.

These industry scenarios are of greater uncertainty. With new variables in play, it's important to remember the policies that you have adopted to successfully cross more volatile periods such as this. On slide 4, you can see the summary of our hedge position.

With over 90% of our cotton and soybean already sold for 2019 at a price well above the current spot market.

And our corn crop is already 80% sold at an average price of BRL23.4 per bag, which is 17% higher than the sales price of 2018. Our industry operates with low cycles, which means that we have ample window of time to take decisions on working prices in order to avoid negative fluctuation in the short and medium term. Let's turn to slide 6 please. Our operational performance also works to protect our business by guaranteeing high levels of competitiveness in the business.

The soybean harvest has last concluded in April with the final yield already announced in the first quarter, slightly higher than last year and 6% higher than our initial estimate. For cotton, with nearly two-thirds of our crops harvested to date, our yield estimate was revised back to initial estimate following the heavy rain in May which caused losses in the base of the plants, especially in Northeast. Corn yield with 80% of harvest concluded is estimated at 7.1 tons per hectare, 4.5% above the budget. Let's move to slide 8.

In the first semester of the year, our results were again very positive with records for net revenue, for invoices and adjusted EBITDA. EBITDA grew 6.5% on 2018, due to the 12% increase in gross income. Despite the higher gross income, net income was slightly lower than in the first half of the last year reflecting the dynamics in the booking of the biological assets for soybean due to the crop early maturation this year. There was a higher percentage of the fair value of the biological assets booked in December 2018, as well, the implementation of the IFRS 16.

In the quarter, adjusted EBITDA was lower than the second quarter of last year, mainly due to the lower soybean volume invoiced. The lower soybean volume invoiced is explained by anticipation of invoicing this year, with a higher share of the crop invoiced in the first quarter. In the six-month period, soybean volume invoiced is higher than the same period of 2018. Cotton and corn volume invoiced also grew with margin expansion.

Net income in the quarter advanced 26% year-on-year, mainly due to the higher apportionment of the variation in the fair value of biological assets reflecting the largest cotton area. Let's move to slide 9. Free cash flow in the first six months of the year was negative at around BRL400 million reflecting the higher working capital needs in the period, mainly due to a strong expansion in the cotton area in the -- in '18-'19 crop year. Note that the first half of the year is when payments of the agricultural inputs are made.

However, the second half of the year will be marked by the invoicing of the bulk of the cotton crop supporting strong cash generation without any increase in the working capital needs. On slide 10, you can see that during the first semester of -- we also paid dividends for the fiscal year 2018 of BRL186 million and concluded the share repurchase program in which BRL42 million were invested. As a result, adjusted net debt, which you can see on the slide 11 increased from BRL943 million at the end of the last year to BRL1.6 billion, which corresponds to 2.3x adjusted EBITDA in the last 12 months. To support this higher working capital need, we have successfully raised BRL360 million through the local bonds with interest of 99% of the CDI rate and amortization in fourth and fifth years.

Thank you. And let's got to open the call for questions.

Operator

(Operator Instructions) Thank you all. This does conclude today's presentation.

You may disconnect your lines at this time, and have a nice day.