

Q1 2017 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, we would like to welcome everyone to SLC Agricola First Quarter of 2017 Earnings Conference Call. Today, we have with us Mr. Aurelio Pavinato, CEO; and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would 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. At that time, further instructions will be given. (Operator Instructions)

Also, today's live webcast, both audio and slide show, may be accessed through SLC Agricola website at www.slccagricola.com.br in the Investor Relations section by clicking on the banner Webcast 1Q17. The following presentation is also available to download on the Webcast platform. The following information is available in thousands of Brazilian reais and in IFRS, except when otherwise indicated.

Before proceeding, let me mention that 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. Investor should understand that general economic conditions, industry conditions and other operating factors could also affect the future result 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 first quarter of 2017. Please go to slide 3, where we will begin with comments on the recent price variations in our main products and short-term price outlook.

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Cotton prices in the international market continue on their upward trend. As we have been saying in our earnings release and conference calls, this shift in the level of prices to the current level of between \$0.75 and \$0.80 per pound is due to the series of reductions in world stocks, which in 2016/2017 is of two consecutive crop years.

The USDA is currently estimating global stockpiles at 89.5 million bales, which is down significantly from the peak reached in the 2014/2015 crop year of 112.5 million bales. Data released yesterday by the USDA points to a continuation of this trend in the year 2017/2018 crop year.

Recently, the department estimated another drawdown in the stockpiles to the end of the crop year at 87.1 million bales. The drawdown in the US stocks, the world's largest exporter, also had a positive effect on international cotton prices is stronger than expected. The world demand for US cotton led to successive revisions in forecasts for exports and inventory drawdowns. As we can see on slide 4, the initial forecast for export was 10.5 million bales was revised significantly upwards to 14.0 million bales.

Moving on to slide 5, we can see the drop in soybean prices in the year-to-date, which is mainly to the record harvest in Latin America, which combined with the unprecedented rise in the United States last year led to a build in world stocks.

On the other hand, the slowdown in the pace of producer sales combined with good demand, especially from China, are the main support factors at this time, keeping prices close to the level of \$10 per bushel.

For corn, we must differentiate between the situation in international and local prices, as you can see on slide 6, since they had solid opposite trends [ph] in the recent months. The shortage of corn in Brazil during 2016 led to a decoupling with the export parity which follows prices in Chicago. This parity began to undergo a correction in early 2017 with the start of the new crop year, leading domestic prices to fall despite the relative stability in international prices.

The world corn supply-demand balance is comfortable for the time being. However, with the contraction in the US economy plus the end of this crop year, which is underway and a retraction from US seller, prices in Chicago recovered in the late 2016 and early 2017. The USDA current estimates points to a reduction in world corn stock for the 2017/2018 crop year, which should continue to provide price support.

Let's go please to slide 8, which shows our operation performances in the 2016/2017 crop year. As detailed in our earnings release, the current crop year have been highly favorable for good crop development in all regions where we are operating, which have led us to revise upwards our yield estimate for practically all crops.

For soybean, whose harvest has already been concluded, we will attain a yield of 3,282 kilograms per hectare or 6.7% higher than our initial forecast. A highlight was the yield at our Planalto Farm in Mato Grosso do Sul, which was 4,380 kilograms per hectare on 6,420 hectare, setting a new record for our company and our internal benchmark.

On slide 9, we can see the situation of the cotton crop, which represent excellent aspects and whose field evaluation had led us to revise upwards our yield forecast by 7.6% for the cotton crop -- first-crop and by 2.7% for cotton second-crop. Cotton harvesting will begin in the late of May. In the case of second-crop corn for the time being, we are keeping unchanged our yield forecast of 6,877 kilograms per hectare.

We can now move on to slide 10, where we demonstrate an update of our hedge position and a comparison against 2016. I would like to point out to the level of FX hedge at BRL3.5 per dollar for 75% of our exposure, and the cotton price of \$0.746 per pound compared to our realized price of \$0.704 in 2016.

I will now pass the call over to my colleague, Ivo Brum, our CFO and IRO, who will comment on our financial results in the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, everyone. Let's go to slide 12, which shows some highlights from our income statement for the period. The good performance of our crops had already begun to be reflecting our results this quarter with 13.6% reduction in unit cost of soybean prices, an increase the mark-to-market adjustment of our Biological Assets.

We also registered significant gains in sales price in the quarter compared to a year ago with increase of 12.7% for soybean, 16% for corn and 54% for cotton, with this increase supporting net revenue growth of 9%, as we can see on this table. Given the lower soybean unit cost and higher prices, EBITDA and net income set new record for the first quarter of the year of BRL123.5 million and BRL83.9 million, respectively, which consolidates our expectation of a significant improvement in the results compared to 2016.

Let's go to slide 13, please, which shows breakdown of our net debt. Net debt declined in the quarter in relation to the end 2016 to close the period at BRL829.7 million. And with the improvement in the EBITDA, the net debt/EBITDA ratio also fell to 2.6 -- 2.55 times already, reaching what we consider comfortable level for this indicator.

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

Questions And Answers

Operator

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

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