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Q1 2015 Earnings Call

Company Participants

- Aurélio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial & Investor Relations Officer

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola's First Quarter of 2015 Earnings Conference Call. Today, we have with us Mr. Aurélio Pavinato, CEO, and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you, this event is being recorded, and all participants will be in 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

Also, today's live webcast, both audio and slide show, may be accessed through SLC Agricola's website at www.slcagricola.com.br in the Investor Relations section, by clicking on the banner, Webcast 1Q15. 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.

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. Aurélio Pavinato, CEO. Mr. Pavinato, you may proceed, sir.

Aurélio Pavinato

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Good morning. Thank you for participating in the SLC Agricola's Earnings Conference Call for the first quarter 2015. On slide two, I'd like to start with the situation of commodity prices in the period.

Cotton prices have shown little volatility in the international market in recent quarters. One of the main factors behind this lower volatility is the ending of the cotton harvest in the northern hemisphere for 2014/2015 crop year, for which production estimates are well consolidated.

Despite the stability in international prices, domestic cotton prices rose significantly (02:55-03:01) first few months of 2015. The main factors include the good export parity and local currency depreciation.

In the international market, cotton prices began to show sign of the recovery in recent weeks. Currently, at the range of $0.66 to $0.67 per pound. As we have commented before in our conference calls, the current level of cotton prices is below production costs in many producing countries, which discourages planting.

In Brazil, however, where yields are higher, and that is also benefit of the effect devaluation, we see costs falling in dollar terms. In the United States, the National Cotton Council expects the cotton produced area for the next crop years to contract by 14.6%. In China, depressed (04:10) area is expect to contract by 23.6%, according to the China Cotton Association.

In addition to the smaller cuts, the area, the lower prices for cotton are improving its competitiveness against synthetic fibers, and consequently, demand for the commodity, which supports current prices.

Soybean prices also pass through our period of at least two quarters of relative stability, reducing production growth in the United States and South America in 2014/2015 crop year is counterbalancing the very few (04:59) demand in Asia markets.

The USDA's initial estimate for planting indications in the United States for the 2015/2016 crop year, points to a slight expansion in the soybean produced area of 1%, 284.6 million acres (05:23).

Even so, given current price and cost levels in the United States, profitability for the countries producing is expected to be much lower. This also reflects the situation of corn, whose prices like those for soybean have been stable since late 2014.

In the United States, also due to the low profitability expected for the crop, the USDA forecast is calling for a reduction in corn produced area of 1.5%, 289.2 million acres. Similar to soybean, the performance of the 2015/2016 corn crop in United States will be very important for determining prices during its development over the coming months.

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Turning to slide three, please. You can see figures on the performance of our crops in 2014/2015 compared to the previous crops year. Currently we have H7 (06:38) of our soybean harvests, with our yield revised to 315,000 kilograms per hectare (06:47), or up 8.1% on the previous crop year, and slightly higher than our initial forecast of 312,000 kilograms per hectare (07:03).

In the case of cotton, our crops are in the flower and cotton ball development phases, and presents very good aspects. Our farms in the states of Bahia and Goias were affected by drought, but the rainfall normalized in March and April, as results we are maintaining our initial quarter yield projection for both the first and second crops.

In the case of corn, for which planted area is almost 500,000 hectares, harvest began in the previous weeks after the soybean harvest, and we are forecasting yields below target due to the drought in January (07:47).

On the other hand, the second crop of corn, which represents 88% of the corn that cultivates by the company is still in the vegetative phases, and in full reproduction phase, and demonstrate high potential, since rainfall in April and beginning of May exceeds the historical average, which is beneficial for this crop. We expect yield for the second crop, corn might be above the initial target thus compensating loses occurred on the first crop of corn.

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 periods.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, everyone. Let's go to slide four, which presents a summary of our income statement. Net revenue in the first quarter grew by 3.8% year-over-year with the higher revenue from crops offset by the higher loss from corns hedge (09:06).

Gross income increased 4.7% with the higher gross income from the crops and the positive net attribution of biological assets between revenues and cost offset by decrease of R$35 million in the hedge result. However, the adjusted EBITDA margin of 18.4% in the quarter is below the level we are expecting for the whole of 2015.

In the products, prices invoiced in the quarter are below the average price allotting for the year. Soybean volumes invoiced in the quarter reflected FOB prices of $10.87 per bushel, and $0.64 per pound for cotton, compared to the average hedged price for the whole of 2015 of $11.74 per bushel for soybean, and $0.732 per pound per quarter.

And in the case of the effect from exchange variation, the exchange rate locked in for the period is also below the average for the whole of the year, with the average (10:25) hedged for the first quarter at R$2.43 per dollar compared to R$2.60 per dollar for 2015.

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So over the coming quarters, we expect to reduce our margins to the historic level of around 25%, adjusted EBITDA margin, since we are capturing the effect of the local currency depreciation in our obtained crop use in the line with our planting, with the yield for soybean 8.31% higher than the last year.

Operating income was virtually stable in relation to the prior year. However, net income was R$10 million lower reflecting the higher financial expenses due to the local currency depreciation, which affect accounts payable pegged to the dollar. Since exchange variation loss will be offset over the course of the year. Since as we pay suppliers, we sell those features (11:31) in accordance with our risk policy, which works to ensure that the dollar exchange rate for the cost is in line with the level - of that our sales revenue. We also registered higher selling expenses due to the higher volume of cotton exported in the quarter compared to the last year.

Let's go to slide five, which shows a breakdown of our net debt. Our gross debt increase of 10% over the fourth quarter to the end with R$1.24 billion, the main variation was due to the effect of the exchange variation on the dollar pegged transaction in the amount of R$101 million.

Adjusted net debt for the gains obtained from slots (12:29) to reais, results in adjusted net debt of R$940 million, therefore down from the fourth quarter net debt of R$960 million, and representing 3.22 times the adjusted EBITDA of the last 12 months. It's important to note that the effect of the exchange variation dollar denominated debt, not swapped (12:57) to reais, falls under hedge accounting into dollars.

Thank you. And we will now start with the question-and-answer session.

Q&A

Operator

Thank you, sir. Seeing no questions, this concludes today's question-and-answer session, and concludes today's conference.

Thank you very much for your time. You may disconnect your line at this time, and have a nice day.

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