Q1 2014 Earnings Call

Company Participants

- Alvaro Penteado de Castro, Executive Manager of IR

Other Participants

- Alex Sciacio, Analyst
- Felipe Koh, Analyst
- Jon Brandt, Analyst
- Lucas Ferreira, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call of Duratex. Thank you for standing by. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to Mr. Alvaro Penteado de Castro, Financial and IR manager. Please go ahead, sir.

Alvaro Penteado de Castro {BIO 5537843 <GO>}

Thank you. Good morning, to all of you following Duratex's First Quarter conference call. I'd like to start on page two with some highlights of the period. Starting, I'd like to highlight the greater net revenue for our First Quarter. We reached BRL929 million, even without Tablemac number, which amounted to BRL41.6 million.

In this regard I would like to state that Tablemac has been consolidated in Duratex's numbers only two months, January and February. We have a one-month lagging period, meaning that it was supposed to be consolidated December until February, but December we still have Tablemac under the equity methodology.

So all the numbers shown in this presentation and in Duratex results will consolidate only two months of these Colombian operations. I'd like to state also that yesterday it was approved in our general assembly a stock dividend worth 10% via capitalization of reserves. So we will have an increase in the number of shares by 60.5 million. Shareholders with, let's say, 100 shares will receive 10 shares via a stock dividend, and the implicit acquisition bonus cost will be of BRL2.81 per share.

Another highlight is the disclosure of a material fact that we made during the month of March, stating a CapEx of BRL1.3 billion, under which Duratex intends to erect two new units of panels, one of MDF and another one of MDP. Between the years of 2016 and 2017, and within the same material fact, the acquisition of forestry assets to supply the Uberaba mill, thus reducing the supply distance of wood to that mill, reducing costs -- reducing the cost via a shorter average distance.

We also introduced the Hydra brand into the Thermosystem. We started this introduction with new products. The return on the market has been very positive, and with already some new products, we participated in a couple of important fairs in the First Quarter. The first one was Feicon; the other one, Revestir. And we have stands of Thermosystem already, showing new products, new designs that we are releasing to the market.

Finally, in the same general assembly yesterday, all the Board members were reconducted to their posts, but Fabio Schvartsman, which was substituted by Raul Calfat, which is a Board member of the Votorantim Group.

Following to that on slide 3, we have here some information about revenues. We can see here where revenues were generated from. We can see that wood division Brazil -- the way you were supposed to read in the past amounted to BRL542 million, down by almost 90% quarter on quarter and down by 2.1% year on year.

This is very relevant, because despite the seasonally weak quarter, we managed to keep revenues almost in line with what we posted a year ago, even without price increases, and remembering that the beginning of 2013 was unusually strong. Very strong volume in a way that we were able to push price increases in the very beginning of 2013 differently than what happened in the beginning of 2014.

The Colombian operation we detached here. And we are highlighting the numbers in yellow: BRL41.6 million, remembering that we have only two months of this operation here.

Then, finally, the Deca division -- a very positive highlight, with a quarter-on-quarter increase of almost 4% in revenues and 11% on a year-on-year basis. Finally, the gross margin: a little down from the Fourth Quarter, basically because of the cost pressures and that these economies of scale, seen specifically in the wood division. And on a year-on-year basis, of course, we have almost 15 months without price increases and cost pressures that I will comment later on this presentation.

The breakdown: Deca division accounted for 37.2% of total revenues; wood division, Brazil, 58.3%; and Colombia, 4.5%. One highlight here is the increasing export volume, reaching almost 10%. Of course, the revenues from the Colombian operation are accounted here; else, the domestic market is still the most important origin of revenues.

On slide 4, we probably will present the results during the course of this year this way, for the market to be more used to the Colombian operation. So in the first part of this table, we have the Brazilian operation; we have shipped volume for the wood division Brazil 599,000 cubic meters.

The recurring adjusted EBITDA consolidated, BRL231.6 million, with a margin of 26.1% and a recurring adjusted net income of BRL126 million, with a recurring ROE of 11.5%. Some comments here: when we talk about EBITDA, we can see a reducement on a quarter-on-quarter basis and year-on-year basis, basically because of increasing cost pressure coming from resin; commercial expenses -- selling expenses, to be more precisely; and these economies of scale because of lower volume on the wood division; and, of course, higher labor costs.

Then we have the Colombia numbers, with 33.9 thousand cubic meters, an EBITDA of BRL8.5 million with a margin of 20.4%, and a return on equity of 5.9%.

Finally, we have the consolidated number. Here already we added the Deca performance in terms of volume: 7 million items a year -- items during the quarter, which shows a 9% increase quarter on quarter and an 8% increase year on year.

This performance was very important, because it shows that Deca is back on track in terms of more normalized trend of volume shift, remembering that during the First Quarter we had an unusual weak period in terms of volume shift. So the performance of the First Quarter shows that Deca recuperated its shipment track.

On the wood case, year on year we have a 3.3% growth -- of course, that when we add the volumes of the Colombian operation, without it we have a reducement of 2.2%. The good news is that we managed to keep the prices kind of flat year on year.

So this is how we operate. We intend to keep or maintain our profitability, despite we had a reducement of margins. We are sure that competitors experienced more pressure than us, remembering that Duratex has some competitive advantages based on the shortest average logging distance between wood and mill, which is translated into lower wood costs.

We have the highest degree of integration between timberland and wood supply. And also, we have an integration with resin manufacturing about or a little more than 65% of all our resin needs are set by our own resin operation.

Following to that, on slide 5, we have some information about the Brazilian wood panel market. One highlight here is the performance -- a strong performance, still, of the MDF segment. When analyzed on a yearly basis -- First Quarter 2014 against First Quarter 2013 -- we can see that volume for the MDF segment increased by almost 9%. Of course, that's on a quarter-on-quarter basis.

We have the seasonality effect -- we've been saying to the market and remembering that First Quarter tends to be weaker. Last year was an unusual quarter, started very strongly and remained pretty much flattish during the course of the year, with even a very strong Fourth Quarter, which was not the case in the very beginning of this year, a weak/normal First Quarter. So we have these very strong comparison dates.

In the end, the industry posted a growth of volume of 2.2% year on year and a reducement of 12.5% quarter on quarter. When we analyze this sort of performance with the available capacity of the industry, we can see that the average occupancy rate of MDF was around 76% for the industry in MDF and about 71% in MDP.

If we consider that there were some plant stoppages for maintenance during the beginning of this year, we can imply that some of our competitors operated above 80% of capacity rate, which is a very good level. We expect -- and if we turn the page and see on slide 6, we expect that Duratex performance catches up with the market in the following quarters, as competitors are already running with higher degrees of occupancy rates. As the market speeds up, as we expect it does, Duratex tends to recuperate market share in the coming quarters.

So on slide 6, we can see that as the industry performed plus 2.1%, Duratex underperformed the market, showing a reducement of 2.2% in terms of volume shift. One highlight here is that we are comparing here in this graph Duratex as you were supposed to see in the past. And we detached the operation -- a consolidated operation with Tablemac on the right-hand side. So Duratex ex-Tablemac posted a 599.6 thousand cubic meters' worth of shipments. And when we take into consideration Tablemac, this number rose to 633.6 thousand cubic meters.

Slide 7, we bring the operating performance for the wood division. Of course, the negative highlight comes from the year-on-year impact on the gross margin and EBITDA margin. The explanation here when we address gross margin is these economies of scale and higher costs of paper, resin, labor, and the negative impact of the exchange rate when analyzed year on year and quarter on quarter -- plus the depreciation effect. As we inaugurated a great deal of new capacity at the end of last year, there is extra depreciation you analyze the performance on a yearly basis.

On top of that, when we analyze the operating results on EBITDA, we have also some extra selling expenses via freight cost. As you saw, revenues in the export market increased, basically via a greater degree of exports of panels. And that translated into higher freight cost into this division.

In the end I think the positive news here is margins very close to the 30% level. We believe that as volume increases during the next quarters and the economies of scale, we might be able to dilute fixed costs and recuperate these margins in a way to close the year more likely within that range that we believe is sustainable in terms of margins -- between 32% and 34%.

Following to that on slide 8, we have the performance of the building material industry. Here via the ABRAMAT index, that measures the performance of revenues -- in the revenues terms for the industry -- we can see that three first months of 2014 posted a 0.9% growth year on year. And you will see in the following slides that Deca outperformed by most these markets. Deca posted a growth of 11.2% in revenue terms year on year.

Following to that, slide 9. We can see the recuperation in terms of volume shifts in the Deca division on a yearly basis: volume increasing by 8%, reaching almost 7.1 million items shipped during the quarter, up by 9.1% quarter on quarter. Remembering that, again, Fourth Quarter 2013 was unusually low, and during this First Quarter that recuperated already its pace of shipments.

Slide 10 -- the highlight here is the level of margins during the First Quarter 2014: pretty much in line with the margins of the Fourth Quarter. Here, economies of scale compensated, basically, the cost pressures that we experienced between the end of last year until the end of this First Quarter, since we haven't had price increases during this period -- likewise in the wood division.

Remembering that we have higher depreciation level, given the entrance of new capacity, specifically, via the inauguration of the Queimados unit; and higher labor costs, given the salary increases that we experienced during the Fourth Quarter last year. And on the operating level, a higher degree of selling expenses via more marketing expenses to brand the Hydra brands and the Thermosystem, and the participation in three different fairs during this period with a higher level of expenses when compared to a year ago.

With regard to debt, on slide 11, there was an increase in the net debt level, reaching 1.61 times EBITDA for the last 12 months. The comment here is that we had a number of events of cash disbursements. We concluded the tender offer for Tablemac, where BRL152 million were spent to acquire about a 43% stake on that operation. In the end Duratex has ended up with 80% stake in Tablemac, but cash was spent to achieve that -- again, BRL152 million.

We also paid during the First Quarter dividends for the second half of last year, and we also paid an extraordinary dividend of 10%, making payout reaching 40%. In the end BRL116 million were paid via dividends and interest on capital during the period. Plus the acquisition of the Caxuana, of course, that I will comment on in the next slides for about BRL40 million cash. Plus the acquisition of treasury stock -- more or less BRL10 million during the quarter.

In the end we had a cash disbursement of around BRL310 million during the period that contributes to explain the increase of the net debt level. That, according to our internal policies, is still very comfortable. We have a cap of 3 times net debt to EBITDA, and 1.6 is perceived to be a very -- pretty decent leverage level.

In terms of amortization schedule, we have a pretty comfortable schedule for this year. We still have maturing about BRL545 million. We have in cash BRL873 million. And besides next year, when we have BRL898 million, for the coming years the amortization schedule is pretty balanced? And we might revolve of these maturing debts between 2014 and 2015 with not much trouble.

With regard to the origin of debt, 75% were state and domestic currency. Almost 22% in foreign-denominated currency, which is fully hedged. And Colombia is contributing to 2.4% of the total debt.

On the following slide, we have some information about the CapEx for the last years. We expect to spend about BRL700 million during this year, a cash base. When we analyze what was accomplished during the First Quarter 2014, BRL271 million, this was on a cash basis.

If we take into account the way we acquired the Caxuana forestry, via cash and a swap of land, there was an extra BRL90 million via land. So the CapEx for the period was around BRL360 million.

Two highlights here. During this CapEx for the quarter, the completion of the Tablemac and their offer that I commented already, we acquired 14.8 billion shares for COP8.60. That amounted to around BRL152 million, making Duratex reach an 80.62% stake on the Tablemac capital stock.

The other highlight, which I already commented, is the acquisition of the forestry assets of Caxuana for BRL150 million, of which BRL90 million were paid via a land swap. We gave land belonging to Duratex in the state of Sao Paulo as part of the payments for the forestry assets, and the remaining portion of the acquisition was paid via cash.

Slide 13 brings more information about this very strategic CapEx program for the next coming years in the wood division. According to this material fact of March 13, the total investment should be for BRL1.3 billion in the state of Minas Gerais. We will have by the time that we complete the investment the largest unit of wood panel in Latin America, with two plants in the same site, for a total of 1.4 million cubic meters' worth of effective capacity.

These two new lines will be erected consecutively -- the first one probably to be due by the end of 2016, and the second line to be due by the end of 2017. Presently we have some flexibility in terms of this investment cycle, since we have not committed ourselves with the suppliers of the equipment. But since we have already acquired the forestry assets to accommodate this extra capacity, the message is that investment will come to the market firstly, as we expect; but if you have a downturn between now and the end of the this year, beginning of next year, we can reschedule this investment according to future market perspectives.

This project should be, for the point of view of cost, a benchmark, since the new mills will be erected inside of forestry assets. So the logging distance -- the average distance between the forestry and the mill -- will be the shortest and should be a fully-integrated model with wood; and very strategically located, close to very important furniture standards in the state of Minas Gerais, and north of Sao Paulo -- and even very close to the center west, and strategically located close to the northeast region.

The second leg of this CapEx, which was the acquisition of about 21,000 hectares of planted forest, was to feed our Uberaba mill. Currently, Uberaba is being fed with wood coming from this forestry of ours named Monte Carmelo. Monte Carmelo is the site which will bear the investment for the two new mills. So we acquire forestry assets further from the Monte Carmelo, reducing thus the supply distance of wood to the Uberaba region.

We have two plants in Uberaba -- one of MDF and another one of MDP, which, supplying the logistics of the deliverance of wood, should contribute to reduce the cost of this raw material, leaving the assets of Monte Carmelo to feed entirely the new project.

Following to that on slide 15, we have the evolution of capacity since 2007. The highlight, of course, is the increase of shipping capacity of MDF, reaching 2.1 million cubic meters at the end of last year. And of course during 2014 until 2016, when we should have an extra plant -- an extra 700,000 cubic meter line. We still don't know which will come first, MDF or MDP but by the end of 2016, we should have this new mill erected and ready to run. And by the end of 2017 a new mill of 700,000 cubic meters, bringing capacity to something around 5.6 thousand cubic meters.

On the Deca front, the highlight here was the commission of the Queimados mill, which added a 25% capacity to the sanitary wares segment. And investments that are still being carried on in the metal feeding segment. Still, this year we are investing marginally to grow this capacity a little further, accompanying the demand trends for this market.

Finally, some takeaways from how to attack this position. We have still a pretty balanced capital structure, which enables us to explore M&A opportunities, remembering that this year, still, we have advanced in M&A, acquiring two operations.

The first one, the majority controlling stake in Tablemac for BRL152 million; and the Caxuana forestry assets for BRL150 million. So on the M&A front, already BRL300 million being spent during the beginning of this year. And again, we are very focused in looking for opportunities to grow further in core businesses or synergistic businesses.

We completed in the end of last year a major investment. We are still bearing the financial cost of these investments, increasing depreciation on our gross margin level, and investments that are not fully running or not running yet with an adequate occupancy rate so as to contribute to the dilution of fixed costs and a contribution of increasing the returns of the Company.

But the Company is positioned to capture future demand growth as we expect it to happen. We have, again, a high degree of timberland integration. We have a unique situation of having the capacity to grow 1.4 million cubic meters' worth of new capacity, with existing timberland assets. This is unique in this industry. No one else has this ability, and this should contribute to improved returns, looking forward.

With regard to the geographical location of all our plants, we have a unique situation. In the wood division, we have plants in the very south of Brazil in Sao Paulo, which is the major market in Brazil; and also, a very important asset in Minas Gerais, where we are growing further our output capacity.

In Deca we have plants in the South, Santa Catarina, Espirito Santo, Sao Paulo, Rio de Janeiro, Paraiba, Recife. So plants very well spread, very close to consuming markets, which gives us time-to-market advantage when compared to some other competitors.

And finally, we have very motivated team. We entered the profitability and we expect to make the difference when comparing to some other companies within this market.

With that, that concludes my remarks, and I will put myself available for the questions that you may have. Thank you.

Questions And Answers

Operator

Jon Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

I wanted to ask what you think: one is this sort of demand and the likelihood of price increases this year, given the World Cup. If you could sort of talk about your expectations for demand in the wood panel market for the rest of the year? And what is the likelihood that you get a price increase given, I imagine, that we are going to see a little bit of weakness heading into June and July.

Then, secondly, I wanted to ask you about the new project. You said there is a little bit of flexibility as to when you bring those projects on. If it's not May 2016, it must be late 2017. So walk us through the assumptions from a demand standpoint -- what growth rates you are assuming, and demand for the next couple of years, and when you would need to make a decision as to when you would go forward with those projects for 2016 and 2017. Thank you.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

First, with regard to demand: well, so far the market started pretty much in line with what we expected. So there was no news to us.

During the course of this First Quarter, we tried to pass this view of hours to the market, remembering that last year the year started unusually strongly. And this year it was starting more normal, with the sort of seasonality more pronounced. So in a way that we would not be able to push back increases during the beginning of this year.

As you pointed out, the World Cup event brings some uncertainty up to this present moment. It's difficult to say if the impact of it will be neutral, or negative, whatever. But this -- we do not expect, let's say, too much from that. We are playing -- probably the industry is playing more safe, not bringing prices up, specifically because we still have some idleness in this market.

And as this market speeds up, we expect probably to moderate the price base more towards the second half of this year. It is difficult to say. Up to this present moment, we are analyzing the market. But this is what we can see right now.

We don't have anything officially scheduled with regard to price hikes. What we have is an expectancy to improve margins via the acceleration of demand, and via that, diluting fixed costs. Okay?

With regard to the second point that you raised with regard to the new projects -- yes, we have flexibility up to this point. And even during the investment, we had flexibility. I think this is very important for the market to understand, because it is not a rule of thumb. We are committed, and the plants will start.

They will follow the original schedule if we believe the market is growing according to our expectancy, to our projection, which is a growth in volume between 4% and 6%. This is the best-case scenario when we draw this project.

So we still believe that the market should grow between 4% and 6% this year, remembering that last year the market grew by 6% even after a very good year, which was 2012, when we had volume growing around 12% over 2011. So we are still seeing this market with a very positive view -- of course, that we will have punctual moments, like the First Quarter this year. It is a little weak.

Next year, probably the First Quarter will be likewise weak. We have no information or very short visibility at this present point. But if we take the history of performance, normally First Quarters are seasonally weak. And after that, we see activity picking up, and volume converting to this 2 to 3 times GDP growth, which implies a 4% to 6% volume growth for the industry.

And it is a matter of course that Duratex will always try to manage its profitability vis-a-vis its market share. But we are more oriented to profitability than market share.

Q - Jon Brandt {BIO 5506998 <GO>}

Okay. Thank you very much.

Operator

Thiago Lofiego, Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

I have two questions. First one: if you could talk a bit about your demand growth expectations for wood panels for 2014? And also, if you have a sense of how inventories are at the chain for wood panels, specifically at your customer base at this point.

The second question is regarding, in the Second Quarter trends, if you could talk a little bit about specific trends in terms of margins and volumes? And if you could give us some color on how April is evolving in terms of rough demand for both wood panels and Deca? Thank you.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Growth during this year -- I think Deca -- let me rephrase. We have a unique business model. Okay? We have the wood division, and that's a division -- they have dynamics of their own. Okay?

Last year the wood division underperformed the wood. This year the wood division began on a slower pace than the Deca division. So our uniqueness in this standard the Company's oriented gives more sustainability or less volatility to results, nominally speaking; okay?

When we analyze Deca, Deca is really capturing the momentum of remodeling. Remodeling is outperforming already the sales to new real estate. The information we have from the retail is positive. Nothing changed in terms of credit to the end consumer in the retail of building materials.

And on top of that, we expect Deca to grow considerably in the shower business, in the Thermosystem segment. Remembering that the performance in that specific segment tends to increase from now until the month of September/October. These tend to be the best months for the revenue of electronic showers.

So we are really into or expecting the performance in terms of volume and revenues in Deca to keep accelerating from now onwards. Visibility, as you know, is short since we have concentration of revenues in the last days of the month. So we will know how the month will close, April, between now and the end of next week. This concentration is something that exists in this market, is usual, and gives us the versatility for the Company.

In the inventory level on the wood division, if you analyze the occupancy rate for the industry and shipment, there was some inventory buildup, but nothing too much unusual. I will say that the normal inventory level for panels is between 15 and 20 days.

Probably we have right now something more close to 30 days' worth of inventory, which is something very okay for this momentum. There's nothing more to say with that regard.

I would say that nothing changed with regard to our expectancy for the year. Again, we still expect volume for this industry to grow between 4% and 6%, which implies volume growth around or close to 400,000 cubic meters on a year-on-year basis.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, Alvaro.

Operator

Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

My doubt relates to the average realized prices of wood panels this quarter, which, excluding Tablemac, were down something around 3.8% quarter on quarter. So I am just wondering if that relates to -- how much of that relates to the different sales mix in the quarter -- MDP, MDF, coated products? And also, maybe, have a different pricing in the export market?

But how much of that also could relate to a seasonal effect and lower-priced base in the First Quarter? And that's -- I'm asking because I just wanted to understand what is the correct number to look at for the Second Quarter, if we see some kind of a normalization of this different mix base? That's all. Thank you.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Well when we analyzed the unit revenue on a year-on-year basis and on a quarter-on-quarter basis -- specifically on a quarter-on-quarter basis, which is what you mentioned, there was a reducement of almost 2% in unit revenue.

Well prices were stable. So what drove that -- performance was mixed. Again, we have a number or a great deal of variety of products. Okay? Even within the coating products, we have the tailor-made finishings, and we have, like, let's say, the very commoditized finishings, like the whites.

So it doesn't mean that if we have a higher coated mix, I might have a higher unit revenue. It depends on what I'm selling. It is difficult to say guidance for unit revenue, where it is going to.

My guess is since there was not a price hike, neither a reducement, the unit price will be around the BRL900 level; okay? Until we have an official view or an official positioning with regard to hikes or a reducement. Until then, it's stability. Okay?

Q - Lucas Ferreira {BIO 16552031 <GO>}

All right. Thank you.

Operator

Jon Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

Thanks for the follow-up. Just quickly, on selling expenses, I know you ran through some of the reasons why the increase. I'm just wondering, how sustainable is that? Should we expect selling expenses as a percent of revenue to remain at current levels? Or should we expect them to decrease back to where they were previously?

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

My guess is that it will tend to be diluted when compared to revenues as we speed up revenues within the domestic market. Remembering that part of that decrease was due to the realization of three local fairs, where we had three stands: one for Deca, one for wood, and another one for Thermosystem. So we stand more via the introduction of the Hydra brand and Thermosystem.

We revealed a number of new products. With that respect, we are receiving a new low-pressure coating press that should be assembled during the first half-year and will be due by the second half-year to contribute to enrich the sales mix.

So we expect this to be diluted. I don't know to which level, but the First Quarter was unusually high when compared to revenues.

Q - Jon Brandt {BIO 5506998 <GO>}

Okay. Thank you.

Operator

Q - Felipe Koh {BIO 17962174 <GO>}

I have two questions. The first one is based on pricing. You mentioned that we could see some stability on the wood panel pricings, but we saw that you faced a kind of cost pressure during the 1Q 2014. I was just wondering if in the past Duratex usually kind of implement prices when there is some cost pressure? Or usually when demand is more stronger? Could we see any price implementations in the coming quarters? This is my first question.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Well again, with regard to prices, what we have so far is stability. Okay? We have no intention in the very short run to high prices.

Cost pressure -- we believe that from now onwards, we will see it a little bit contributed for a hike in cost -- more depreciated real that is recently appreciated a little bit, taking off some of this pressure off the FX-related costs.

On top of that, methanol, which is an important component of the resin, started to see the little bit in dollar terms, already, by close to 6%. And you can follow that price in the Methanex website.

So we expect that the reducement in cost pressure, plus gains of scale should contribute to some improvement in the margin in the short run, even without price hikes, of which we have no guidance so far. But it is not looking like we are to move prices up in this very short run.

Q - Felipe Koh {BIO 17962174 <GO>}

Thank you. My second question regards CapEx. I saw here that you are budgeting BRL700 million for this year. I just wonder how much this can reflect maintenance?

We know that you guys started up two new plants that came out of Itapetininga. I just wonder, what is the new level of maintenance? And the growth -- if the size acquisitions that you made in the first few, if there is anything on budget to spend this year?

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Okay. With regard to CapEx, about BRL330 million is for maintenance, okay, of which around BRL230 million for the forestry asset maintenance and rest for the other asset maintenance.

So between the BRL330 million and the BRL700 million, we expect BRL370 million to be spent on the acquisitions we made already and organic growth. The two main important projects, organically speaking, is this new low-pressure coating lines in the wood division that -- we just receive it in the port, and we are shipping it to the plant to start the assembly process.

And the second investment is the investment in the metal feeding segments to increase capacity by around 5%. And again, BRL150 million for the Tablemac and around BRL40 million cash base for the acquisition of Caxuana, which was already spent.

Q - Felipe Koh {BIO 17962174 <GO>}

Thank you.

Operator

Alex Sciacio, Santander.

Q - Alex Sciacio {BIO 16118415 <GO>}

Just a quick question on costs. Just wondering if you have any cost reductions initiative going in place which can help to mitigate the cost pressures that you are facing, as well, if you can share with us?

And also, in terms of the Uberaba wood costs that you mentioned, that the new lines at Taquari could contribute to reduce the average cost of wood in that region -- if you can give any idea on how much could be this impact? And how long could it take to materialize? Thank you.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Well yes, cost is an ongoing issue in the Company. We are always looking for ways to reduce cost. I would say that yes, the first one -- the Caxuana deal was very important to reduce the cost of woods for the Uberaba mill.

When we take into account the logistic cost in cost of raw woods, it represents close to a third of the price of this raw wood. So the market price -- I'm talking about something around, probably, BRL12 per cubic meter out of a price of wood, around BRL44, BRL46, of the wood in the forest.

So it is meaningful, and distance matters a lot. So yes, there is going to be, let's say, short-term advantages coming from this movement of Caxuana. On top of that we are also looking for ways to reduce the cost of resin. For example, we are studying -- or we are already conducting some imports of urea that was formerly acquired locally. And we found some suppliers outside Brazil with better pricing in a way to reduce the price of resin, so this probably should be seen during the second Q, already.

On top of that, methanol prices are reducing already in dollar terms. If you analyze or if you check the Methanex website, you will see that the price of methanol was around $632 during the First Quarter, and right now it is trading already at $599 in April.

So there was already some reducement. We expect this cost to reduce a little further, because its increase was not expected during the beginning of this year. Maybe it has to do with the severe winter that the Northern hemisphere experienced during the end of last year and beginning of this year, pushing natural gas prices up. So as the weather improves in the Northern hemisphere, we expect the cost of this raw material to be reduced.

On top of that, the asset now is playing more on our side. You know that in the very short run, when we have a depreciation of real, there is a limited impact on the cost side. On the more longer term, we cannot equate that real -- their prices. Of course, that we were not able to push prices up yet. But eventually, this will come towards some momentum that we will be more successful as the activity speeds up, as it is expected to.

Specifically and seasonally speaking, normally, second half of the year we have a more favorable momentum. But let's hope that we have a normal 2014 when this possibility turns into a reality.

Q - Alex Sciacio {BIO 16118415 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Alvaro Penteado to proceed with his closing statements. Please go ahead, sir.

A - Alvaro Penteado de Castro {BIO 5537843 <GO>}

Thank you, all for accompanying our conference call. Myself and my team (carpazina) -- we are available to address the questions that you have. Have a great day. Thank you, again for following our First Quarter disclosure results. Thank you.

Operator

That does conclude the Duratex audio conference for today. Thank you very much for your participation. Have a good day, and thank you for using Chorus Call.