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SLCE3.SA - Q3 2020 SLC Agricola SA Earnings Call (Portuguese)

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CONFERENCE CALL PARTICIPANTS**Aurelio Pavinato - CEO****Ivo Brum - CFO****PRESENTATION****Operator**

I'd like to welcome everyone to SLC Agricola Third Quarter 2020 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. (Operator Instructions) Also, today's live webcast, both audio and slide show may be accessed through SLC Agricola's website at www.slccagricola.com.br in Investor Relations section by clicking on the banner webcast 3Q '20. 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 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 the 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 exposed in search forward-looking statements. Now I'll turn the conference over to Mr. Aurelio Pavinato, CEO. You may proceed.

Aurelio Pavinato - CEO

Hello. Thank you for participating in SLC Agricola earnings conference call for the third quarter of 2020. Let's go to Slide 3, where I will make brief comments on the recent price movements for our main products.

In general, price for cotton, soy and corn traded upwards over the last few months, which was intensified in the case of Brazil due to the continuous depreciation of the Brazilian real against the dollar. For the cotton market in specific, the quarter was marked by 2 season negative revisions on new production estimates for countries on the northern hemisphere due to unfavorable weather. Due to that, a scenario of consumption recovery was added. These factors provide the fundamentals for our price recovery, which are currently around the BRL 0.70 per pound level, given that the estimate for surplus between supply and demand was revised downward again. And at the moment, points out to only 1.9 million barrels according to USDA.

Aside the quotations for the spot contract in Chicago and local price in Brazil has increased along the third quarter of the year. For the current cycle, the 2021st crop year, the supply-and-demand scenario will present the second consecutive year of debt at the 2 million tons after a debt of 18 million tons in the previous year. The recovery in Chinese demand has been a key supporting factor for our prices, especially after the previous cycle, which was marked by the trade dispute between China and the U.S. and also by the African swine fever, which contributes to reduced international prices of the commodity in 2019.

In the local market, the maintenance of the premiums and the Brazilian real depreciation enabled record prices and more recently, allows for quotations above BRL 150 per bag based on superior data for Paranaguá port. Corn prices in Chicago increased as well during the quarter. In this case, mainly due to the reduction in, which is due to the climate. In this case, reflects of and right of use. With that, the final added destined for CDO should be 6% lower if you compared to the first estimates of the USDA.

In Brazil, the market demonstrated strong demand during the year via the protein market and also via the export program. Globally, however, the supply and demand scenario is expected to be stable according to the latest figures from USDA, with a small surplus of 2.9 million tons.

We can now move on to Slide 5, where we will discuss our initial estimated for the 2020, '21st crop year. The first forecast is for the new crop year is of 471,700 hectares, a new record and posting growth of 5.2% over '19 to end of year. The late onset of rains for the middle western region this

year caused delayed soybean planting and consequently, a reduction in the plant window of our cotton second crop. With that, part of our second crop area initially planned for cotton was transferred to corn which has a wider planting window.

On Slide 6, we demonstrate the results of the independent land appraisal for 2020, conducted by -- with Deloitte. In September, the new appraisal was concluded for a Elsiario land portfolio, which present a total value of almost BRL 4 billion, an increase of 4.62% in relation to 2019. The average value of the hectare is currently at the BRL 19,300 per hectare. As expected, the period was marked by the beginning of a land price recovery in the country. I will now hand the call over to Ivo Brum, CFO and IR Officer, for his comments on the financial results for the price recovery in the CFO and IR Officer, for his comments on the period.

Ivo Brum - CFO

Hello, everyone. You can move now over to Slide 8, where I will comment on the income statement. The net revenue increase 15% in the 9-month period against 2019. And adjusted EBITDA for the year up to September was of BRL 562.3 million with a margin of 28%. The combination of the weaker real along 2020 and the commodity price recovery over the last few months contributes to achievement of the net profit of BRL 316.8 million, 40% higher than 2019.

On Slide 9, we highlight the positive free cash flow generation in the quarter at BRL 315.1 million, reflecting the improvement in the cash flow, which is of the second semester of the year. With that, on Slide 10, we present the net debt position for the company which closed third quarter at BRL 1.2 billion, a drop of BRL 234 million over the second quarter, reflecting the positive free cash flow. Net debt-to-EBITDA ratio also dropped to 1.4x. You see on the leverage side, we highlight that the Board of Directors approved in meeting held on the October 5 the issuance of the agribusiness recovery certificates in the amount of BRL 400 million. An upper limit of BRL 408 million, having as coordinators the banks Bradesco, Itaú and Santander. Additionally, we arrived at funds of BRL 100 million on October 29, from Santander -- Bank Santander in the first operation with the green bond carryout by the company, enabling a differentiated loan rate due to our practice in the environmental management and social responsibility.

To close this section on the Slide 11, present a few details on the payment of interest on capital. Considering the cash generation in the period as well as the taxable profit, management approved, which is on the previous slide, the payment of BRL 37.1 million as interest on capital to its shareholders. Payment will be made on December 16. We have a cut-off date of November 13. The amount corresponding to the payment of interest on equity on capital will be imputed in the calculation of the mandatory dividend for the fiscal year 2020 as provided for in the company's by law. I will now hand it back over to Pavinato for his final remarks.

Aurelio Pavinato - CEO

Thank you, Ivo. Let's move on to Slide 13, where we show the updated hedge position. The significant depreciation in prices for all of our main crops allowed for strong advancing our hedging position for '19, '20, '20, '21 and even '21st, '22nd crop years, given that input purchases have started for the next crop. When taken into account costs, dollar prices and also the current FX level, we expect the good profitability level to be maintained in 2021 for crop year. And we also foresee an excellent outlook for the '21, '22 crop year.

And final words, on Slide 14, I'd like to acknowledge the creation of SLC Ventures, upon the revision of the strategic planning for the year with our direct and manager which was carried out in digital format, among the other deliberations planned for instruments in new agribusiness with a digital focus was outlined and approved with the board in connection with the new technological trends in cars in the sector. The initiative gives a new mandate to our innovation strategy with a view towards renewing the business in the long-term and complement the various effects -- efforts already underway that aims at strengthening the current business. The eco for carrying out the investment will be as health ventures. Thank you. And now we will be open to the call for our Q&A.

Operator

(Operator Instructions) This concludes today's presentation. You may disconnect your line at this time, and have a nice day.

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