

Company Name: Cosan
Company Ticker: CSAN3 BZ
Date: 2013-11-07
Event Description: Q3 2013 Earnings Call

Market Cap: 17,233.31
Current PX: 42.32
YTD Change(\$): +.57
YTD Change(%): +1.365

Bloomberg Estimates - EPS
Current Quarter: 0.500
Current Year: 1.176
Bloomberg Estimates - Sales
Current Quarter: 9847.500
Current Year: 36290.667

Q3 2013 Earnings Call

Company Participants

- Marcelo Eduardo Martins

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. At this time, we'd like to welcome everyone to Cosan's Third Quarter of 2013 Results Conference Call.

Today with us we have Mr. Marcelo Martins, CFO and Investor Relations Officer, and Mr. Guilherme Machado, Investor Relations Manager.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Cosan's remarks, there will be a question-and-answer session for industry analysts. At the time, further instructions will be given. [Operator Instructions] The audio and slideshow of this presentation are available through live webcast at www.cosan.com.br/ir. The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan's 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 operation factors could also affect the future results of Cosan and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Martins. You may now begin your conference.

Marcelo Eduardo Martins

Good morning, everyone. Thanks for attending our quarterly earnings call.

We'd like to start the presentation talking a little bit about the consolidated pro forma figures of Cosan. As you know, in this consolidated pro forma, we basically take into consideration 50% of Raízen Combustíveis and Raízen Energia, 100% of Comgás, 100% of Lubricants and Specialties, Rumo, Radar, and other businesses.

In this quarter, in comparison with the third quarter of 2012, we saw an increase in net revenues of 36% on a consolidated basis, reaching R\$9.5 billion in this quarter and also an increasing 56% of the EBITDA, that reaching R\$1.2 billion in this quarter as well, with an EBITDA margin of 12%.

The numbers are not necessarily comparable. As you know, in the third quarter of the previous year, we didn't consolidated Comgás. We concluded the acquisition of Comgás in the second half of – I'm sorry, after the month of October of 2012, and therefore, we did not include Comgás in the previous quarter in the second – third quarter of 2012.

Now talking a little bit about the different business lines, starting with Raízen Combustíveis, there was a 9% jump in the volume sold, reaching 6.1 billion liters in the third quarter of 2013, representing a 17% increase in net revenues that

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reached R\$12.7 billion in this quarter. The EBITDA also jumped 29% to R\$483 million, with a margin of 3.8% in this quarter.

The main factors that impacted good performance in this business are the best prices, or better prices practiced during the quarter, and also a partial recovery of the volumes of the jet fuel. As you know, in the previous quarter, we had a negative impact. We had a much lower than expected volume in aviation – into the aviation business, mainly in the jet fuels. And we saw a recovery in this volume during this quarter.

There is also a number that we will start to disclose now, and that I'd like to call your attention to, which is the rebates to the dealers, which basically means that we're paying to the dealers. As opposed to up front or the CapEx, it's going to be – or has been divided into. There is an upfront payment that we pay to the dealers upon the conversion of the stations. But there's a good part of the fees they get, which is aligned with the performance of the business over time, which basically means that the higher the volume, the higher the rebate they'll get from Raízen Combustíveis.

We had a total rebate of R\$13.4 million in the third quarter of last year, which basically was equivalent to R\$2.4 per cubic meter. And in this quarter, that number jumps to R\$26.7 million, representing an EBITDA margin of R\$4.4 per cubic meter.

Now, I'll talk a little bit about Raízen Energia. We saw a reduction in the sugarcane crushed, in the volume of cane crushed, in this quarter of 2%, which as a consequence, had an impact on the production of sugar and ethanol. And it gave sugar a 1% reduction, leading us 2.1 million tons of sugar produced in this quarter, and 884,000 cubic meters of ethanol.

The TSR also went down by 8%, reaching 135 kilos per ton. And the volume of energy, so in the market, in the spot market, also came down, adding an impact on the volume of power sold in this quarter in comparison with the same quarter of last year.

The energy price went up as most of the contracts – I mean as the bulk of the volume is still linked to the contracts we have, and we reached R\$171 per megawatt hour during this quarter.

Raízen Energia saw a jump in its revenues of 44% as a result of better prices, mainly for ethanol, and an EBITDA increase of 6%, reaching R\$900 million in this quarter, represented by a margin of 28%. When we compare the margin of 28% to the previous quarter, we saw that there was a reduction of 10%, which is mainly a result of the fact that we have acquired roughly 35% of the ethanol that was sold in this quarter from the market, which obviously had a higher cost, and therefore, a negative impact on the margin. But overall, it was a very good quarter in terms of the performance of the business, in terms of the EBITDA generated by the sugar and ethanol business.

Now, talking a little bit about Comgás, Comgás had also a very good quarter, a 1% increase in the volume sold, represented by 1.3 million cubic meters sold in this quarter. The gross revenue, increase of 18% reaching R\$2.1 billion, and an EBITDA increase of 16% reaching R\$370 million in this quarter was enhanced by an EBITDA margin of 22%. In terms of the contribution margin, we saw a, basically the same breakdown as we saw in the last quarter and the same quarter of last year as well.

Now, moving to Rumo, Rumo had a very good quarter, as expected. We saw an increase in 7% in the volume loaded, as planned according to the investments we've made in this business. Potentially, we basically signed our agreement with ALL.

We saw an increase in the net revenues of 51%, which is R\$330 million during this quarter and an EBITDA jump of 34%, reaching R\$150 million in this quarter with a margin of 35%. We had to include a provision for doubtful accounts of R\$15 million – R\$15.8 million in this quarter, which basically reduced EBITDA and therefore, the EBITDA margin as well.

For Radar, we saw a reduction in EBITDA – I'm sorry for lubricants, we saw an increase in the total volume, sort of 18% and a reduction in EBITDA of 9% from R\$34 million to R\$31 million and an increase in net revenues of 10% from R\$207 million to R\$407 million. The biggest impact on the reduction of the EBITDA was basically a non-recurring marketing expense that was incurred during this quarter.

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In this business, it's difficult to predict when the investment in marketing will take place. What we'll probably consider for next year is trying to allocate an equal amount to every quarter so that we would avoid this sort of impact that we saw in this quarter, which was equivalent to roughly R\$3 million, having a negative a negative impact on EBITDA.

Radar saw a reduction in net revenues of 23%, as we didn't sell any property during this quarter. And an EBITDA increase of 211% is a function of the revaluation of the land portfolio, as we have to reassess the value of the properties in every quarter of the year.

In terms of our net debt position, there was an increase of our net debt from R\$9.1 billion to R\$9.9 billion in this quarter, compared to last quarter. We had basically the payment of dividends in this quarter and some debt that was also repaid during this third quarter of the fiscal year, and therefore, the increase in the leverage of the company on a consolidated basis.

On the other hand, we basically improved the profile of our debt maturity. We have 18% of our debt mature in the short-term and 82% in the long-term. And the net to EBITDA – net debt to EBITDA ratio considering the last 12 months was of 2.4 times, considering an EBITDA of R\$4.1 billion on a pro forma basis for Cosan.

Our guidance was basically revised. We reduced the projected CapEx for this quarter by R\$200 million, and that's a function of a reduction in the CapEx, mainly at the Raízen Energia. All across the board, we had several projects that we basically reviewed and we decided to reduce not only the CapEx overall for the business, but also we decided to increase the minimum return required for CapEx projects in the sugar and ethanol business.

The only other number that changes in the guidance was Comgás number of clients and then the network expansion as well, as we have already reached a level that is within the projected numbers for this fiscal year of 2013.

With that, I would like to end my presentation and turn it back to you for your questions. Thank you.

Q&A

Operator

Thank you. We'll now begin the question-and-answer session for investors and analysts. [Operator Instructions] [indiscernible] (14:04)

<Q>: Hi, good morning. Petrobras has been making a large number of comments recently about a new fuel price formula that they may receive approval for from the government that would create a closer link between international and domestic fuel prices. I'm interested in your thoughts on the prospect of this policy change and what would be the significance for Combustíveis if this were to be approved?

<A - **Marcelo Eduardo Martins**>: Well, it's been a matter of debate between Petrobras, the market, and the government as well, who has on some occasions denied the introduction of this formula.

It's obviously very welcome if it happens. I think it's going to have a positive impact on the fuel distribution business in terms of the overall margins of the business, but most importantly in our case, it should have a very positive impact for the ethanol business, the ethanol production business.

One of the biggest complaints of the producers of ethanol is that we don't have any sort of predictability in terms of prices, as Petrobras is keeping gasoline or fuels prices absolutely artificially low in the domestic market. So again, I think it's hard to say whether the government would be willing to do it before next year's elections, but if it does happen, I think it will be very welcome, not only by the fuel distribution, but mainly for the ethanol producers in Brazil.

And, I think that it should basically incentivize an increase in production of ethanol, which could potentially reduce the dependence of gasoline imports, which will certainly have a positive impact for Petrobras.

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<Q>: Okay. And then a question about your foreign exchange losses, so obviously, very happy to see the losses reversing this quarter versus the June quarter. Was that purely a matter of changes in the forex market, or is that a matter of hedging on your part?

<A - **Marcelo Eduardo Martins**>: No. It's mainly a function of the forex market. When you compare the numbers with last year, you will note that last year there was an appreciation of the real, and that ended up having a positive impact on the results of the business.

In this quarter, it was very neutral because the – we saw no variance in the FX during the quarter, so we ended the quarter at the same level we started the quarter. We don't know what's going to happen in this quarter, as we're now seeing some volatility back in the market.

But the only point I'd like to make is that it's 100% accounting only. I mean it doesn't have any financial impact, as we are 100% hedged on our debt at the Cosan level, except for the work, which has its interest hedged, but not the principle, and in the case of Raízen, they basically have a natural hedge, as they have more revenues in U.S. dollars during the year than they have actually to service or amortize their debt.

So overall, we have no impact this quarter, and we would not expect any substantial impact to the extent that the exchange rate remains relatively stable, which is hard to predict at this point in time.

<Q>: Right. Appreciate the responses. Thanks very much.

<A - **Marcelo Eduardo Martins**>: Thank you.

Operator

[Operator Instructions]. Thank you. That concludes the question-and-answer session for investors and analysts. I would like to invite Mr. Marcelo Martins to proceed with his closing statements.

Marcelo Eduardo Martins

Well, first of all, [ph] Rodrigo (18:56), let me just apologize. We just saw your name here on the screen once she had already ended the call. I mean we're happy to answer your questions when you call us here in the office.

Well, I would like to thank you all for participating in this call. We're very happy with the results, not only because these are very solid results in our opinion, but because we continue to see substantial upside coming from our businesses and the capital discipline we're trying to introduce to all of our business lines. And despite the volatility we're seeing in the economic environment in Brazil, we continue to deliver good results and we're very keen to having next quarter, a very good next quarter, which would basically wrap up this year as a record year for our company. Thanks again. And we'll talk to you next time.

Operator

Cosan's conference call is concluded. Thank you very much for your participation and have a good day.

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