

# SLC AGRICOLA

## 2Q23 Review: 50 shades of green

LatAm Agribusiness

### Main takeaways:

(i) Cooling prices and limited volumes in soy and corn reduce revenues; (ii) EBITDA was posted at R\$569.8mn (+1.7% vs. Genial Est.), showing a -30.5% y/y retraction, being impacted by the price deceleration catalyzed by an increase in unit cost; (iii) Net income fell -28.2% y/y to R\$348.8mn (-6.3% vs. Genial Est.); (iv) Leverage increased to 1.61x Net Debt. EBITDA (vs. 1.06x 1Q23); (v) There was a cash flow burn amounted at -R\$386mn, due to the depreciation of the USD/BRL exchange rate, followed by the increased pressures on working capital; (vi) We see SLC with an **EV/EBITDA 23E of 5.8x** (vs. 6.2x historical), trading this time already at a level closer to its historical value. With a **bearish scenario for soybean and corn prices**, we prefer to maintain our **12M Target Price at R\$47.00**, and as we see the asymmetry being basically consumed in the face of the recent rise in shares prices, the **upside becomes narrower**, at **+8.22%**, which leads us to **downgrade** the **rating to NEUTRAL**.

SLC released its results on 09<sup>th</sup> of august, after the market closed. The Company reported numbers in **line with our expectations**, but weak in the annual comparison due to the cooling process in agricultural commodities pricing, **lower invoiced volume**, and **higher unit cost**. Even with the **sharp drop in agricultural commodities**, the company managed to **maintain good margins considering its historical level**. In addition, the company updated its productivity projections and should exceed its budget.

### 2Q23 Review

**Falling prices and reduced soybean and corn volumes steer revenue downwards.** The Company reported net revenue of R\$1.4bn (+2.2% vs. Genial Est.), down -13.2% y/y, due to the slowdown in agricultural commodity prices and lower invoiced volumes of soybeans and corn. We believe that the Company will sell part of the soybean volume in the off-season, considering that it is the window of time when prices are usually more attractive. As for corn and cotton, harvesting is still needed, with 24% and 61% of the planting area remaining, respectively. We expect both to exceed SLC's initial target, which will likely lead to improved numbers throughout 2H23 and into 1Q24.

**EBITDA feel the impact of a price reduction catalyzed by an increase in unit cost.** Adjusted EBITDA reached R\$569.8mn (+1.7% vs. Genial Est.), down -30.5% y/y, with a margin of 39.4% (-9.8p.p. y/y). In our view, both EBITDA decline and margin compression are linked to the price reduction catalyzed by the increase in unit cost. Inputs made more pressure on SLC in 2Q23 compared to a year ago, with costs reaching R\$7,157/t for lint cotton, representing an increase of +28.6% y/y, and soybeans reached R\$1,399/t with an increase of +18.6% y/y.

### Analysts

#### Igor Guedes

+55 (11) 3206-8244  
igor.guedes@genial.com.vc

#### Lucas Bonventi

+55 (11) 3206-8244  
lucas.bonventi@genial.com.vc

#### Renan Rossi

+55 (11) 3206-8244  
renan.rossi@genial.com.vc

### Company

#### SLCE3 BZ Equity

Neutral

Price: R\$ 43.43 (09-Aug-2023)

Target Price 12M: R\$ 47.00

Seed cotton was also reported with a significant increase in costs, marking R\$682/t (+41.5% y/y). Conversely, cotton seed revenue was also up by +29.2% y/y, reaching the R\$21.8mn mark (+2.6% vs. Genial Est.). On the flip side, cotton lint revenue suffered more, being posted at R\$449.2mn (-3.1% vs. Genial Est.), representing a -28.5% y/y decrease.

The volume of soybeans invoiced was 356.7k/t, leading to a drop of -8.2% y/y, also pulling net revenue down by price dynamics, reaching R\$807.9mn (+2.1% vs. Genial Est.), which despite the -18.1% y/y drop, slightly exceeded our expectations. Another positive point, but less relevant, was the reduction in expenses, influenced by lower selling expenses (-45.5% y/y).

**Net profit down and leverage up. Nevertheless, situation is under control.** SLC reported a net profit of R\$348.8mn, down -28.2% y/y, with a margin of 24.1% (-5.1p.p. y/y). Profit was negatively impacted by a financial result clocking in at -R\$172.6mn, a +31.2% worsening due to higher debt. The **Net Debt/EBITDA** stood at **1.61x** (vs. 1.06x 1Q23), with leverage gaining momentum in the sequential movement, as net debt expanded to R\$3.9b (+38% q/q). The main cause of the increase in net debt was the payments made for agricultural inputs related to the 2022/23 crop, as well as lease payments.

**Cash flow squeezed by exchange rate and seasonal pressure in working capital.**

We also highlight a cash flow burn in the order of -R\$386mn, as a result of **(i)** the depreciation of the USD/BRL exchange rate, followed by **(ii)** the increase in the need for working capital, linked to the payment of inputs and the lease, converted into the increase in leverage we mentioned, through a consumption in cash flow reducing SLC's net position in 2Q23. Still, we believe that the Company maintains a comfortable level of leverage considering the seasonal effect at this time of year putting greater pressure on working capital. We see CAPEX in a continuous downward movement, at R\$122mn (-21.3% y/y), in line with the -38% y/y reduction in the software category, which was overloaded in 2022 due to the implementation of new technologies farms area. In addition, we point out that SLC has been moving towards a more Asset Light stance, not only from the point of view of leased land, but also in the leasing of machinery and equipment, increasing discipline in capital allocation and reducing the need for investments pressuring cash flow for the acquisition of machinery.

**Table 1. Income Statement SLC (2Q23 vs. Genial Est.)**

(R\$ millions)	2Q23			2Q22	
	Reported	Genial Est.	% R/E	Reported	% y/y
<b>Ner Revenue</b>	<b>1.444</b>	<b>1.413</b>	<b>2,2%</b>	<b>1.665</b>	<b>-13,2%</b>
COGS	(875)	(853)	2,6%	(845)	3,6%
<b>EBITDA</b>	<b>570</b>	<b>560</b>	<b>1,7%</b>	<b>820</b>	<b>-30,5%</b>
EBITDA Margin (%)	39,4%	39,6%	-0,2p.p	49,3%	-9,83p.p
<b>EBIT</b>	<b>518</b>	<b>505</b>	<b>2,5%</b>	<b>781</b>	<b>-33,7%</b>
EBIT Margin (%)	35,8%	35,8%	0,1p.p	46,9%	-11,09p.p
Depr. and Amot.	52	55	-5,6%	39	33,8%
Financial Result	(173)	(158)	9,2%	(132)	31,2%
<b>Net Income</b>	<b>349</b>	<b>372</b>	<b>-6,3%</b>	<b>486</b>	<b>-28,2%</b>
Net Margin (%)	24,1%	26,3%	-2,19p.p	29,2%	-5,02p.p

Source: SLC, Genial Investimentos

## Our Take on SLC

SLC advanced well in the purchases of agricultural inputs for the 22/23 crop, taking advantage of the fall to fix price, reaching a purchased position of almost 100%, with the exception of phosphates, which stood at 97%, and pesticides, which reached the 87% mark. Regarding agricultural commodities, hedges for the 22/23 and 23/24 harvests are sequenced, ensuring better prices than spot. However, despite the progression, we believe that the pace for 23/24 is still slow, which leaves the numbers outside historical protection, given the modest level of advance compared to the time of year vs. previous years. Thus, we understand that the situation remains fragile at this point, evidencing a potential risk, since we had a bearish bias for the price curves in agricultural commodities.

The 2Q23 result showed a slowdown y/y in most agricultural crops, mostly driven by price, but also by an increase in costs. However, our perception is that the pressure on margins for the 2022/23 crop was already priced in by the market earlier this year, so that investors are now looking at the cyclical situation of the 2023/24 crop, with El Niño laying ahead. Our main motivation behind the Buy rating was that the consensus pointed to a more significant increase in costs for 2023/24 compared to our projections, resulting in a price asymmetry that we considered attractive. In the longer term, the Company remains committed to enhancing the use of advanced technology, including the adoption of biological products, which may lead to a reduction in the amount of chemical pesticides used. We estimate that 1/3 of the input cost reduction should be credited to the adoption of biological solutions and site-specific applications, respectively.

**50 shades of green.** However, the stock has performed well over the past 60 days, up ~20%, so we start to see SLC with a **23E EV/EBITDA of 5.8x** (vs. historical 6.2x), trading closer to its historical value. Looking at Price/NAV, the indicator also shows a small discount, at 1.03x 23E vs. 1.05x historical. Despite looking like a smaller gap, it is important to highlight that today the indicator hides the true discount potential, considering that the leased lands are not on SLC's balance sheet, showing that the market paid a more stretched valuation when the Company was not as asset light as it is today, which in turn demonstrates from an additional angle that there is still some level of price distortion.

There are a few different ways to interpret the scenario going forward. For us, there was a lack of correlation of market pricing with weather events and cost dynamics, penalizing SLC more than necessary until about 3 months ago, but the rise in stocks after that seems to us to have wiped those points off the map. It's like looking at 50 shades of the same color... some see darker, some see lighter... some are more bearish, some are more bullish.

Our take, on the other hand, is consolidated in 3 points: **(i)** Still tight situation in costs for 2022/23, despite an improvement for 2023/24, **(ii)** recent rise in share prices having recomposed the gap we saw for the structuring of costs for the 2023/24 harvest, our opinion is that the asymmetry has basically been exhausted, and if we add this to the **(iii)** bearish scenario of soybean and corn prices, we prefer to wait for a more acute advance by SLC in the hedge to change our assumptions, momentarily solidifying our **12M Target Price of R\$47.00**, which now has a **narrower upside of +8.22%**. Faced with a smaller safety margin, we are **downgrading** to a **NEUTRAL** rating.

## Disclosure Section

### 1. GENERAL DISCLAIMER

This report has been produced by the research department (“Genial Institucional Research”) of Genial Institucional Corretora de Câmbio, Títulos e Valores Mobiliários S.A. (“GENIAL INSTITUTIONAL CCTVM”). Genial Institucional is a brand name of Genial Investimentos CCTVM.

#### Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	49%
Neutral	Expected return between +10% and -10% relative to the Company's industry average	41%
Sell	Expected return below -10% in relation to the Company's sector average	5%
under Review	Under review	5%

This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUTIONAL CCTVM. GENIAL INSTITUTIONAL CCTVM accepts no liability whatsoever for the actions of third parties in this respect.

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither GENIAL INSTITUTIONAL CCTVM nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report

GENIAL INSTITUTIONAL CCTVM may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of GENIAL INSTITUTIONAL CCTVM.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by GENIAL INSTITUTIONAL CCTVM with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

The locally listed shares of Brazilian companies may only be purchased by investors outside of Brazil who are “eligible investors” within the meaning of applicable laws and regulations.

## 2. ANALYST(S) DISCLOSURES AND CERTIFICATION

The principal analyst, IGOR GUEDES, is responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

The analysts hereby certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers and it was prepared in an independent manner, including with respect to the person and to GENIAL INSTITUTIONAL.

The analyst hereby certifies that he (she) has no connection with any individual who works for the issuer(s) discussed in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, either directly or indirectly, in his or her own name or on behalf of a third party, does not hold any of the securities covered in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, is not directly or indirectly involved in the purchase, disposal or brokering of the securities covered in this report.

The analyst hereby certifies that he (she), or the his (her) spouse or companion, has no direct or indirect financial interest in the issuer covered in this report (other than trading shares in investment funds, in which the analyst cannot control, directly or indirectly, the administration or management of the fund, or which do not concentrate investments in sectors or companies that are covered by reports produced by the analyst).

The analyst's compensation is, directly or indirectly, determined by income from GENIAL INSTITUTIONAL's business and financial operations.

In addition, the analysts certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The compensation of the analyst who prepared this report is determined by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of GENIAL INSTITUTIONAL CCTVM, its affiliates and/or subsidiaries as a whole, of which investment banking, sales and trading are a part. Compensation paid to analysts is the sole responsibility of GENIAL INSTITUTIONAL CCTVM.

The analyst hereby certifies that he (she), or his (her) spouse or companion, does not serve as an officer, director, or advisory board member of the subject company.

The principal analyst is responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

### 3. ADDITIONAL DISCLOSURE

- (i) This document was prepared by GENIAL INSTITUTIONAL Research and is hereby supplied for the sole purpose of providing information about companies and their securities.
- (ii) The information contained herein is provided for informational purposes only and does not constitute an offer to buy or sell, and should not be construed as a solicitation to acquire, any securities in any jurisdiction. The opinions expressed herein regarding the purchase, sale or holding of securities, or with respect to the weighting of such securities in a real or hypothetical portfolio, are based on careful analysis by the analysts who prepared this report and should not be construed by current or future investors as recommendations for any particular investment decision or action. The investor's final decision should be made considering all of the risks and fees involved. This report is based on information obtained from primary or secondary public sources, or directly from companies, and is combined with estimates and calculations prepared by GENIAL INSTITUTIONAL CCTVM. This report does not purport to be a complete statement of all material facts related to any company, industry, security or market strategy mentioned. The information has been obtained from sources believed to be reliable, but GENIAL INSTITUTIONAL CCTVM does not make any express or implied representation or warranty as to the completeness, reliability or accuracy of such information. The information, opinions, estimates and projections contained in this document are based on current data and are subject to change. Prices and availability of financial instruments are indicative only and subject to change without notice. GENIAL INSTITUTIONAL CCTVM is under no obligation to update or revise this document or to advise of any changes in such data.
- (iii) The securities discussed in this report, as well as the opinions and recommendations contained herein, may not be appropriate for every type of investor. This report does not take into account the investments objectives, financial situation or particular needs of any particular investor. Investors who wish to buy, sell or invest in securities that are covered in this report should seek independent financial advice that takes individual characteristics and needs into consideration, before making any investment decision with respect to the securities in question. Each investor should make independent investment decisions after carefully analyzing the risks, fees and commissions involved. If a financial instrument is denominated in a currency other than an investor's currency, changes in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and the reader of this report assumes all foreign exchange risks. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment. Past performance does not necessarily indicate future results, and no representation or warranty, express or implied, is made herein regarding future performance. Therefore, GENIAL INSTITUTIONAL CCTVM, its affiliated companies, and the analysts involved in this report take no responsibility for any direct, indirect or consequential loss resulting from the use of the information contained in this report, and anyone using this report undertakes to irrevocably indemnify GENIAL INSTITUTIONAL CCTVM and its affiliates from any claims and demands.
- (iv) Prices in this report are believed to be reliable as of the date on which this report was issued and are derived from one or more of the following: (i) sources as expressly specified alongside the relevant data; (ii) the quoted price on the main regulated market for the security in question; (iii) other public sources believed to be reliable; or (iv) GENIAL INSTITUTIONAL CCTVM's proprietary data or data available to GENIAL INSTITUTIONAL CCTVM.

- (v)** No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this report.
- (vi)** GENIAL INSTITUTIONAL CCTVM makes no representations herein that investors will obtain profits. GENIAL INSTITUTIONAL CCTVM will not share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. GENIAL INSTITUTIONAL CCTVM accepts no fiduciary duties on behalf of recipients of this report and in communicating this report is not acting in a fiduciary capacity. This report is not to be relied upon in substitution for the exercise of recipient's independent judgment. Opinions, estimates, and projections expressed herein constitute the current judgment of the analyst responsible for the substance of this report as of the date on which the report was issued and are therefore subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GENIAL INSTITUTIONAL CCTVM as a result of using different assumptions and criteria. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment.
- (vii)** Because the personal views of analysts may differ from one another, GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates may have issued or may issue reports that are inconsistent with, and/or reach different conclusions from, the information presented herein. Any such opinions, estimates, and projections must not be construed as a representation that the matters referred to therein will occur. Prices and availability of financial instruments are indicative only and subject to change without notice. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly.
- (viii)** This document may not be: (a) photocopied or duplicated in any manner, in whole or in part, and/or (b) distributed without GENIAL INSTITUTIONAL CCTVM's prior written consent. GENIAL INSTITUTIONAL CCTVM accepts no liability whatsoever for the actions of third parties in this respect.
- (ix)** Neither GENIAL INSTITUTIONAL CCTVM nor any of its affiliates, nor any of their respective directors, employees or agents, accepts any liability for any loss or damage arising out of the use of all or any part of this report.
- (x)** GENIAL INSTITUTIONAL CCTVM (or its affiliates, officers, directors or employees) may, to the extent permitted by law, have acted upon or used the information herein contained before the publication of this report and may have a position in securities issued by the companies mentioned herein and may make a market or act as a principal in any transactions in any such securities. Genial Institucional may from time to time perform investment banking or other services to, or solicit investment banking or other business from, the companies mentioned herein.



#### 4. IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Genial Institucional CCTVM, a company authorized to engage in securities activities in Brazil. Genial Institucional CCTVM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) and is not being provided pursuant to a soft-dollar arrangement.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Brasil Plural Securities LLC, a registered broker dealer in the United States with an office at 545 Madison Ave., New York, NY 10022, (212) 897-3737. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Genial Institucional CCTVM.

Brasil Plural Securities LLC accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Brasil Plural Securities LLC and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

The disclosures contained in research reports produced by GENIAL INSTITUTIONAL CCTVM and distributed by Brasil Plural Securities LLC in the U.S. shall be governed by and construed in accordance with U.S. law. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUTIONAL CCTVM. Additional information relative to the financial instruments discussed in this report is available upon request.

#### **UK Disclaimer:**

(i) This document is STRICTLY CONFIDENTIAL to the recipient, may not be distributed to the press or other media and may not be reproduced in any form. this document is directed only at persons who are “INVESTMENT PROFESSIONALS” falling within article 19(5) of the FSMA 2000 (FINANCIAL PROMOTION) ORDER 2005, or HIGH NET WORTH BODIES falling within ARTICLE 49(2) of that order (together THE “RELEVANT PERSONS”). This document must not be acted on or relied on by persons who are not RELEVANT PERSONS.

(ii) The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction.

Copyright 2023 GENIAL GENIAL INSTITUTIONAL CCTVM