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SLC AGRICOLA

1Q25 Review: Spot irrigation, but drought expected ahead

LatAm Agribusiness

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Company

SLCE3 BZ Equity
Neutral

Price: R$ 18.98 (14-May-2025)
Target Price 12M: R$ 21.00

Main Takeaways:

(i) Net revenue of **R$2.8bn** (+28.3% vs. Genial Est.; +42.1% y/y), driven by higher sales volumes of soybeans and cottonseed; **(ii)** Adjusted **EBITDA** of **R$944mn** (+20.4% vs. Genial Est.; +34.0% y/y), with a margin of **33.3%** (-2.2 p.p. y/y), sustained by productivity gains in soybeans; **(iii) Net income** of **R$511mn** (+29.0% vs. Genial Est.; +123.1% y/y), benefiting from the strong expansion in consolidated gross income; **(iv) FCF** of **-R$1.4bn** (-12.5% vs. Genial Est.; +625.1% y/y), pressured by land acquisitions (-R$636mn) and the purchase of the remaining stake in SLC LandCo (-R$281mn), in addition to higher working capital (WC) requirements and CAPEX growth (+116.5% y/y); **(ix)** Announced the purchase of **48khy of agricultural land** from **Agrícola Xingu** with payment split into two installments; we consider the valuation to be discounted (30–50% below market), which strengthens the balance sheet and reduces the average cost of land acquisition; **(x) FCF yield** projected at **3% for 25E (ex-acquisitions)**, with cash consumption also expected in 2026, limiting the distribution of resources; we project a **dividend yield of 3–4% for 25-26E**, below the historical average; **(xi)** For the **25/26E harvest**, we expect **excess supply of soybeans and cotton**, given the expansion of production in Brazil; corn shows **prospects of a supply deficit**, but with limited impact on results given its lower weight in the portfolio; **(xii)** Announcement of a temporary tariff agreement between the US and China mitigates part of the **increase in the basis of soybeans**; Even with good results in 1Q25, we revised our projection for **FCF 25-26E** expenditure in view of the progress of **M&As**, leading to a **downgrade of the rating** to **NEUTRAL** (vs. Buy), with a reassessment of the **12M Target Price** to **R$21.00** (vs. R$22.00), implying an **upside of +10.6%**.

Table 1. Income Statement SLC (1Q25 vs. Genial Est.)

(R$ millions)	1Q25 Reported	1Q25E Genial Est.	% R/E	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**2.835**	**2.210**	**28,3%**	**2.045**	**38,6%**	**1.995**	**42,1%**
COGS	(1.759)	(1.326)	32,6%	(1.494)	17,7%	(1.349)	30,4%
Adjusted EBITDA	**944**	**784**	**20,4%**	**611**	**54,4%**	**704**	**34,0%**
EBITDA Margin (%)	33,3%	35,5%	-2,2p.p	29,9%	3,4p.p	35,3%	-2p.p
EBIT	**866**	**648**	**33,6%**	**267**	**225,0%**	**499**	**73,7%**
EBIT Margin (%)	30,6%	29,3%	1,2p.p	13,0%	17,5p.p	25,0%	5,6p.p
D&A	(93)	(90)	3,2%	(82)	13,8%	(60)	54,3%
Financial Result	(132)	(220)	-40,0%	(373)	-64,6%	(190)	-30,7%
Net Income	**511**	**396**	**29,0%**	**(51)**	**-**	**229**	**123,1%**
Net Margin (%)	18,0%	17,9%	0,1p.p	-2,5%	-	11,5%	6,5p.p

Source: SLC, Genial Investimentos

SLC reported its **1Q25 results on May 13**, after the market closed. Our understanding was that the **results were good**, with **EBITDA exceeding +13.3% vs. BBG consensus**. The company reported **Net Revenue** of **R$2.8bn** (+28% vs. Genial Est.; +42.1% y/y), driven by sales of **cotton and soybean kernels**.

Adjusted EBITDA totaled **R$944mn** (+20.4% vs. Genial Est.; +34.0% y/y), reflecting the improvement in gross income from soybeans (+102.4% y/y) and cottonseed (+237.5% y/y), whose profitability was also favored by lower costs, more than offsetting the **negative points** in the profitability of **corn** and **lint cotton**. **Net income** reached **R$511mn** (+29.0% vs. Genial Est.; +123.1% y/y), reinforced by gains from the **USD/BRL EoP FX rate variation** (5.74 vs. 6.19).

Although the quarter's results were positive, we believe that **(i)** the heated M&A pipeline, with a **(ii)** gross up of CAPEX aimed at increasing the planted area, **deteriorated our expectations** for **FCF yield** for **2025** and **2026**. Therefore, **we are downgrading** the company's **recommendation to NEUTRAL** (vs. Buy previously), resulting in a **cut in the 12M Target Price** to **R$21.00** (vs. R$22.00 previously).

1Q25 Review

Soybeans: Gross profit/t driven by cost reduction. Gross profit/t reached R$909/t (+15.7% vs. Genial Est.), showing significant growth of +54.6% y/y, mainly explained by the -29.5% y/y drop in COGS/t, which in turn reached R$958/t. We believe that the slowdown in costs is related to productivity gains in the 2024/25 harvest compared to the previous cycle. Billed volume grew +30.9% y/y, totaling 664kt, while the sales price registered a slight decline of -4.1% y/y, to R$1,867/t. Net revenue from operations totaled R$1.3bn (+35.3% y/y). Although the currency hedge had a negative impact on the period's results (-R$17mn), operating performance was robust, supported by higher billed volume and a more efficient cost structure.

Corn: Gross profit/t was negative due to lower prices and higher costs. Gross profit/t was -R$110/t (-0.8% vs. Genial Est.), reversing the gain of R$180/t observed in 1Q24, impacted by the +50.6% y/y increase in COGS/t, which accelerated to R$813/t. In addition, we observed a slight decline in the sales price of -2.4% y/y, which reached R$703/t. Billed volume declined sharply, totaling 2kt (-91.7% y/y), while Net Revenue totaled R$1.7mn (-91.9% y/y), reflecting the combination of lower corn representation in the mix and greater concentration of revenue in less profitable farms.

Cotton lint: Gross profit/t penalized by lower prices and pressure on COGS/t. Gross profit/t of cotton lint fell to R$3,355/t (-1.7% vs. Genial Est.), down -36.7% y/y, reflecting the decline in the sales price (-14.6% y/y), which reached R$9,503/t, combined with a +5.4% y/y increase in COGS/t, totaling R$6,148/t. Billed volume increased by +25.9% y/y, totaling 97kt, but this was not enough to mitigate the adverse effects on margins. We highlight that the performance reflected the shipment of products from the 2023/24 harvest, marked by higher production costs than in the previous season.

Cottonseed: Gross profit/t increased due to productivity gains and firm prices. Gross profit/t of cottonseed totaled R$455/t (+78.8% vs. Genial Est.), growing +169.2% y/y, benefiting from a -7.9% y/y decline in COGS/t to R$547/t, demonstrating prominent productivity gains. We also observed a +31.3% y/y acceleration in the sales price, which reached R$1,002/t. Billed volume also grew +25.3% y/y, reaching 95kt, reinforcing the line's good performance in the quarter.

Our Take on SLC

FCF: Consumption pressured by acquisitions and working capital. FCF was negative at **-R$1.4bn**, compiling a **cash burn 6x higher** than in the same period last year. We believe that the weak FCF performance is linked to the **disbursement of** -R$636mn for land acquisitions (Paladino, Paysandu, and Unaí/MG), in addition to -R$281mn related to the purchase of the remaining stake in SLC LandCo. **Operating cash generation** totaled **+R$986mn** (+34.6% y/y), but this was more than offset by the increase in **working capital** (WC) requirements, which caused a **tightening of -R$1.2bn** (+56.7% worse y/y), and by the growth in investments, with **CAPEX** of **R$229mn** (+9.8% vs. Genial Est.; +116.5% y/y). Even though there was a compression in FCF, a large part of the cash outflows went to **payments for M&As**, and on the operating side, the movement is considered seasonal for the period, given the concentration of payments for agricultural inputs and strategic investments aimed at expanding the planted area. As a result, FCF showed a burn that was 12.5% below Genial Est. and our projection of -R$1.6bn.

Announcement of land purchase agreement with Agrícola Xingu. The company signed an agreement with Agrícola Xingu to purchase **40khy** in Bahia (Fazenda Paladino) for **R$723mn** (R$33k/ha) and **8khy** in Minas Gerais (part of Fazenda Pamplona), including **+500ha not yet leased**, for **R$190mn** (R$36k/ha). Payment will be made in two equal installments—upon signing and in March 2026 for Bahia, and upon signing and after issuance of the title deed for Minas Gerais (MG). We believe that this discounted valuation (30–50% below market price) is a positive point, reducing the cost of land acquisition and strengthening the company's balance sheet.

The **NPV** of converting **leased areas** into **owned land** was estimated at **+R$300–400mn Genial Est.**, despite the value per hectare disbursed representing a significant discount compared to the average valuation of R$58k/ha. This investment reduced the **FCF yield 25-26E** by **-5 p.p.** considering the first installment paid for in 2025 and the second in 2026. As a result, the **FCF 25E** remains **in negative territory** and the **26E** also **becomes negative**, which limits the ability to distribute earnings to shareholders.

FCF yield 25-26E and limited dividend distribution. We estimate an **FCF yield** of **3% 25E** (excluding acquisition installments). Considering the acquisition disbursements, SLC should consume FCF in both 2025 and 2026, restricting the generation of funds for distribution. In this scenario, we project a **dividend yield** of **3–4%** for **25-26E** (below the company's historical average), due to the **higher expenditure** required for **CAPEX** to sustain growth.

2025/26E harvest: Soybeans and cotton in excess supply and corn in deficit. In the case of **soybeans**, we expect an oversupply in the next two years, sustained by strong Brazilian production and possible expansion of areas for the 25/26E harvest, leading to an average forecast of US$10.5/bushel Genial Est. 25E vs. US$10.68/bushel May/25 on May 13. For **cotton**, prices already seem to have settled at a new lower level – 66.5ccp front-month on May 13 vs. 70ccp Genial Est. 25E– driven by increased low-cost production in Brazil, keeping the market under pressure from high inventories. Although **corn** presents a more favorable outlook – with an expected supply deficit and prices at US$4.5/bushel Genial Est. 25E vs. US$4.44/bushel CBOT on May 13 – we believe that its impact on the company's results will tend to be less significant, due to its lower relative weight in the company's crop portfolio.

Spot irrigation, but drought expected ahead. We believe that the announcement of a **temporary tariff agreement** for 90 days should **mitigate** the expected increase we had projected in the **basis** for soybeans in Brazilian ports due to the redirection of Chinese purchases, **attenuating** the **only trigger** plausible to contain the expected decline due to the excess supply we expect for the **next two years**, even if more mitigating vs. **+US$250c/bushel in 2018**. As for **cotton**, whose demand is very **sensitive** to **GDP** performance, we believe that the US-China agreement would mitigate the pressures arising from recession fears, mitigating expectations of a more abrupt drop in prices for 25E.

Although the quarter's results were positive, we believe that **(i)** the busy M&A pipeline, with a **(ii)** gross up of CAPEX aimed at increasing planted areas, **has deteriorated our expectations** for **FCF yield** for **2025** and **2026**. Therefore, **we are downgrading** the company's **rating to NEUTRAL** (vs. Buy previously), resulting in a **cut in the 12M Target Price** to **R$21.00** (vs. R$22.00 previously), implying an **upside** of **+10.6%.**

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under Review	Under review	**5%**

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