Company Name: Sao Martinho
Company Ticker: SMTO3 BZ
Date: 2020-02-11
Event Description: Q3 2020 Earnings Call

Market Cap: 9547.68554313
Current PX: 26.97
YTD Change($): 2.97
YTD Change(%): 12.375

Bloomberg Estimates - EPS
Current Quarter: 0.56
Current Year: 1.701
Bloomberg Estimates - Sales
Current Quarter: 1343
Current Year: 3745.5

Q3 2020 Earnings Call

Company Participants

- Felipe Vicchiato, Chief Financial Officer and IR
- Fabio Venturelli, Chief Executive Officer

Other Participants

- Thiago Mello
- Isabella Simonato
- Gabriel Barra
- Analyst
- Rodrigo Reis de Almeida
- Thiago Duarte
- Fernanda Cunha

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to Sao Martinho S.A. Conference Call to discuss the Results related to the Third Quarter of '19/'20 Harvest. Today with us, we have Mr.Felipe Vicchiato, Chief Financial and Investor Relations Officer; and Mrs.Aline Reigada, Sao Martinho's Investor Relations Manager.

The audio and the slides of this presentation will be simultaneously broadcast over the web on the website www.saomartinho.com.br/ir. We would like to inform that all participants will be in listen-only mode during the company's presentation. After the company's remarks there will be a Q&A session for investors and analysts and further instructions will be provided. (Operator Instructions).

We would also like to inform you that any information made during this conference call may constitute forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ materially from those sets forth in the forward-looking statements.

Now, I would like to turn the floor over to Mr.Felipe Vicchiato, who will start today's conference call. Thank you very much.

Felipe Vicchiato, Chief Financial Officer and IR

Good afternoon, everyone. Thank you all for joining us today at Sao Martinho Conference Call related to the '19/'20 quarter results. I would like to start with Slides 3, where we carry the agenda of this conference call. First of all, I would like to mention the operating highlights of the Crop year, and give you an update on the climate issues related to the next Crop year. We will talk about financial highlights, the margin by product and the cost for Sugar and Ethanol for the quarter and the crop year. I will talk about the company's debt position, which is item 4 and next we will go to our hedged position for sugar in US dollars. And finally, I will comment on the sugar and ethanol market how things stand right now and what we anticipate for our less quarter.

Page 4, has a summary of the company's operating highlights. As a material fact that you had access to by the end of December, we ended with crushed sugarcane with 20.45 or 10% over the previous crop year. This increase in crushed sugarcane stems from our own sugarcane going from 13.7 million tons to 15.7 million tons, up by 15%. Our agricultural yield went from 74.2 to 82.9 representing 11.7% increase.

Then, we will look at production the previous crop year was very unusual, because of the expensive drought. The 18, 19 number was 992 kilograms. Now things are more normal close to 50 kilograms. That's why, we ended with 89.4. Sugar and Ethanol production, Ethanol was 1.09 million grew up 99 -- 992 growing to 1106 representing an increase of 11.4 million liters 7% for ethanol, 7% above the previous crop year.

Cogeneration, we increased cogeneration reaching 910 kilowatt hours. This sugar, ethanol combination in the crop year, led us to increase TRS produced by 8.5%. This improvement in productivity comes from a better mix because the previous crop year was affected and also we -- our yield tends to grow looking-forward as we gradually implement new technologies and we also harvest the sugarcane that was planted about a year and a half ago. So technology tends to improve our yield.

Today, thus far summer rains were very good and the regions were some working mills are located. It has been raining continuously and a good rainfall, which is important. We -- I mean, assuming the rainfall will go on until the end of March and things will be according to expected. We expect to have a very productive crop year for 2021 and our guidance for 2021 will be release late April early May and then that's when we will have a better idea about the end of the summer crop and what will be the productivity our yield for next crop year.

Now, moving to Slide 5. We have our financial highlights, the total sales volume of sugar in ethanol was up by 14.8%, sugar volume was up by 11.8% going from 241 tons to 269,000 tons than the ethanol volume went from 284 cubic meters to 332. There's growth stems from increased production and also led by our commercial strategy. When we allocated higher ethanol volume these last two quarters. Best -- given the best prices of sugar and ethanol our net revenue was up by 22% going to 1.29 billion, EBITDA grew almost 30% reaching 15.41 million with a margin already above 15% in this quarter with 52% EBIT grew 50% growing 23%.

Income before -- profit before income tax also grew vis-a-vis the previous crop year in addition to operating expenses profits before taxes was mainly driven by IAA. It's through Copersucar, this was a non-recurring gain in other operating expenses of around BRL349 million, and income tax and -- [ph] this tax impact amounts approximately to BRL30 million, we expect a looking-forward or looking towards the next 5-years at least. We should experience a similar impact because the court ordered debt securities have any well maturities until the year D plus one [ph].

Net income was BRL343 million and cash income BRL339 million. In addition to sugar and ethanol is also important to highlight that the cogeneration volume was up 37% this quarter. As a result of increased crushed cane because it ended much sooner, and this crop year was a big longer when compared to the previous crop year, that's why we were able to cogenerate bit more and so the average price was 13% higher on a quarter-on-quarter comparison.

Page 6, here we have the margins by product looking at sugar and ethanol in particular. This quarter the sugar margin was growing 2.3 percentage points basically due to the lower cash costs and production. So if one side dilute -- the costs were more diluted vis-a-vis the previous quarter. But the realized sugar prices were very low growing only 0.9% on a quarter-on-quarter comparison. Ethanol, there was 6% increase quarter-on-quarter, and the cost was down 1.9%, basically, because we diluted cost of that Boa Vista , which has a lower CapEx volume once we compare this quarter with a previous one.

Our cash cost for sugar and ethanol and here we are talking about a cost including maintenance CapEx. This number should be very close to what we posted a year ago. Therefore, we will be observing the inflationary impact and there were several like diesel costs et cetera. We were not -- we didn't manage to absorb the content kind of [ph] price because the ethanol and sugar prices were up on average 8% on an year-over-year comparison. But these costs will be observed especially those related to impose crop protection products and even cost of labor.

In the last quarter, as you noticed from the release, we posted a very important inventory volume in this was released in the last quarter and this accounts for approximately 33% of the volume produced during the crop year, both sugar and ethanol inventories had a large volume sugar inventory. We already how that pricing number and I'll elaborate it further later on, and ethanol is based on -- [ph]. And this should be -- this happened in the last week of January, it should occur in February and also in March in the last quarter. Given my inventory, this is a very strong volume given that Sao Martinho intends to sales 5% of what it produced in the crop year during that fiscal year.

Now, moving to the next slide on page 7. We talked about the company's debt position. Our net debt was BRL2.9 million growing 22% when compared to March '19, basically this increase in debt position as you can tell by looking at the chart. Chart 1, reflects higher working capital specialty inventories as I was saying in addition to higher shareholders remuneration, which happen in the 9-month period 2021, also buyback of shares. I -- my debt is the nominated in U.S. dollar and the exchange rate increase, reaching BRL4 [ph] in December, but the debt is still at a very comfortable level.

We ended at BRL1.4 billion in cash by December and the cash pay almost three years of maturity, a shorter maturity from 12 to 24 in even 36 months. So our position is very comfortable and we do not need any further volumes just to rule out the debt. And this is enough to pay for all of the investments that we previously announced. Especially, investments in cogeneration and the ethanol as we released in our material fact for ethanol.

Now moving to the next slide, we refer to our hedge position for sugar and U.S. dollars, either 1920 harvest. We have almost 400,000 of the volume, already invoice for the quarter almost 14 tons. And this average price if we look at it, that was the highest quarterly price posted in the 1920 harvest. We used our storage space to store sugar. If we look at the March position, we had an important volume and a better average price.

For the harvest season 2021, we had almost 513,000 tons of hedged sugar at the price of $13.65. This volume accounts for approximately 60% of our own sugarcane for the next crop year 2021. Also taking into account that we will produce just at a minimum price of sugar for the next crop year.

Looking at the minimum amount producer of sugar in the mills we are down by 60%. If for some reason, we turn the mix and we decide to produce more sugar. This percentage will go from 60% to 45% to 40%, but it will all depend on the size of the crop for the next crop year. But in terms of TRS looking at my exposure and revenue in terms of TRS that 60% of hedged sugarcane accounts for less than 25% of hedged TRS for the next coming crop year. So, once we look at the combination of sugar and ethanol and the remuneration on see [ph] that should occur in the next harvest season.

And finally and to conclude the call and move to the Q&A session here, we have a summary of the sugar and ethanol market. The chart above shows the sugar market, we are anticipating a deficit in the worldwide sugarcane production. It is estimated that will be a deficit of 11 million tonnes stemming from adverse climate conditions in India and Thailand, which is much more severe that was previously anticipated. Assuming that this deficit materializes and there is no change in sugar production in Brazil.

Sugar prices therefore should remain very high in the coming quarters. Currently, the price is about $0.15, which is an equivalent prize for hydrous ethanol, almost BRL100 barrels per cubic meter which are price paid by the mills today. For a long time in the last few weeks sugar prices were close to the hydrous ethanol prices.

And if today, mills were to produce sugar and ethanol and selling at those prices, the remuneration of both ethanol and sugar would be the same. In the case of ethanol prices are very sound, mainly because of consumption increase in the domestic market. And we now see the parity reaching close to 70%, when compared to gasoline.

Next year, this healthy ethanol price combined with the new price, I mean the new conditions, would lead us to say that ethanol prices, again will remain very good. Therefore, these are my initial remarks.

And now, I will open the floor for questions. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Operator

Thank you. We will now initiate the Q&A session to investors and analysts. (Operator Instruction) Our first question comes from Thiago Mello from Bradesco.

Thiago Mello

Good afternoon, Felipe, Aline and Luiza. Thank you for taking my question. First of all, I would like to know whether if you could give me an update on the corn based ethanol. What is the status of the approvals? And what are the main aspects that have led to this delay, whether you could give me a potential guidance? And the second point refers to the activity of exported ethanol, whether you could give us any information regarding who is -- who are you exporting to and whether we should still see the same behavior in the next coming quarters?

Felipe Vicchiato, Chief Financial Officer and IR

Hello, Tiago, good afternoon. In regards to exported ethanol, we shouldn't expect any relevant volume for the quarters looking forward. At this quarter in particular, we exported ethanol to the Japanese market, it is a very specific ethanol, which is used like for a drink, but we shouldn't have the same performance in the next quarters.

In terms of corn-based ethanol, there are no delays, the project is moving forward as our technical team is working on a very detailed project. Therefore, in the next few months, we should have the final approval by the board and we will have the go-ahead to initiate the project. In terms of the schedule to initiate the plans nothing has changed, we are just working internally and collecting more detail information in terms of CapEx and return, because ones the project is approved by the board, we should be able to initiate our investments on D+1 [ph]. So everything is moving according to plan.

Maybe we could also -- what could changes that maybe we could change the storage level for corn. We had a percentage of silos [ph] geared towards the storage of corn, and maybe we may reconsider an increase of the storage capacity. And the main competitive advantage is that, we would have more storage capacity and this has impacted our timing in terms of the final assessment, but that's just it and I think in the next coming months we will be able to announce -- formally announce our investments.

Thiago Mello

Very good, thank you very much.

Felipe Vicchiato, Chief Financial Officer and IR

Thank you, Thiago.

Operator

Next question comes from Isabella Simonato from Bank of America.

Isabella Simonato

Good afternoon, Felipe and Aline and everyone else. I have a few questions. My first question is whether you already have any idea of what will be your mix for the 2021 harvest season, especially regarding sugar prices and whether the mix should be more heavily based on sugar? And my second question is in keeping with Thiago's question about corn-based ethanol, is this the only project in your pipeline in terms of investments giving the opportunity with Boa Vista Do you believe that there should be something else that makes sense to you? And even thinking about the company's cash generation for the years looking forward and your dividend payout policy that you just mentioned, do you think that there is room for higher payout looking forward?

Felipe Vicchiato, Chief Financial Officer and IR

Hello, Isabella, good afternoon and thank you for your questions. In terms of the mix is still very soon to tell, too soon to tell. I mean, I think the mix is something that we will decide on a week-by-week basis, things have changed in the last few weeks, but prices are pretty much equivalent to ethanol prices. This is the current situation. But next year in addition to ethanol, ethanol have the addition of CBIOs so any ethanol sales that will occur. I mean the mill can sell ethanol together with the CBIO that will have an amount. I mean associated to it, but it's difficult to assume anything at this time.

It is also important to mention that if -- in Brazil for some reason decides to change the mix towards sugar, Brazil may place more sugar in a single crop year, and do away with that deficit, but giving the very healthy volume of ethanol demand, I don't think this will happen, some mills may turn towards sugar a bit more, but not enough to change the deficit scenario. Now, today the information I have to give you is that we will continue to have a mix more based on ethanol to cater to the domestic market.

Now, in addition to the corn-based ethanol project in Goias, we are now looking at another project, which is probably to have corn-based ethanol made at Sao Martinho. But there is a logistic issue because we have to carry the corn from the Midwest to Sao Martinho and this brings about an important freight costs, but Sao Martinho is twice the size of Boa Vista and it has a higher energy availability. But this is another project that we have in the pipeline and we are just looking at it internally and depending on how the market behaves we may start up some investments. But we would only start investments once the corn-plant in Boa Vista is approved, and if we do not find any operating challenges ahead.

But to answer your question about other investments, yes, and this investment would be in the Sao Martinho alone. If it makes sense on the scale point of view, if it is -- if we think it's important to make that investment.

Now about dividends, we had some dividend payout approved last year. The minimum dividend payout is 40% of the cash income assuming that we will have a good cash generation looking forward, particularly because of increased yield and investments, so we believe that we will have a good room to increase dividend payout. And the idea is that with excess cash we should be able to pay more dividends.

Isabella Simonato

Okay, very good. Only to clarify now in terms of corn-based ethanol, it wouldn't make sense unless it is adjacent to A mill that you're already operating by sugarcane. It doesn't make sense to us.

Felipe Vicchiato, Chief Financial Officer and IR

Because the main issue is the risk of the chips [ph], because you need power to run a corn-based mill and not only that not only you need corn, but you have to have enough power to run the boilers. And when you build an independent corn plant you also have to consider the boilers and higher CapEx and usually these two projects. I mean, corn-based ethanol Boa Vista and corn-based ethanol Sao Martinho these are projects that will certainly give us better returns.

Isabella Simonato

That's very clear. Thank you very much.

Felipe Vicchiato, Chief Financial Officer and IR

Thank you, Isabella.

Operator

Our next question is from Gabriel Barra from UBS.

Gabriel Barra

Hi, Felipe and Aline, thank you for taking my question. Let's talk a little bit about the mix as you were saying. In terms of parity, when you look at TRS remuneration ethanol in sugar the gap has closed. What could you tell us in terms of decision timing, you're making decisions on a weekly basis? What is in the way of deciding on ethanol premium now or later? A lot of the other companies have already hedged vast majority of their sugar production for the next crop here. You talked about the Renovabio, I think the media recently reported that you issue the first Renovabio, but there nobody is already entitled with the actual issuance of CBIO. What is the status of that? And the trading party hasn't been decided by market agents. And the third point, we looked at yield and as Felipe said part of it increase, I mean, looking at three sugarcane cycles in Meiosis, what is the comparison between the old and new production performance, what should we expect looking forward?

Felipe Vicchiato, Chief Financial Officer and IR

Thank you for your questions. In relation to the mix, what happens is that, we have -- I mean, the incentive today given the current sugar prices lead us to increase -- to gradually increase our sugar hedging. From December forward until the present age, we were able to hedge about 1,30,000 tons of sugar at a price close to BRL1,500 per ton. With that price, we are accelerating our sugar harvesting but always with an eye on the minimum sugar production.

Now, when you compare that to other crop here in March of 2020, if you look at my pageant book, you would say -- see that at the minimum sugar side you have -- I mean 80% of our own sugarcane already hedged, and a year ago we only had 50%, meaning that as sugar was strongly corrected. What I'm doing now, I'm just anticipating my hedging so as to ensure a price that is equivalent to ethanol prices today. So that was the main change giving this sugar rally. But the mix itself, I mean, in terms of production split this is a decision that we make almost every day looking at crushing and based on the price dynamics in the market, so maybe let's say, last year April was a month with extensive rainfall and the ethanol prices were corrected very quickly and it was positioned much better than what we anticipated. So, this was a thing that happened in that moment and we had to have the necessary inventory to cope with the demand. The difference between the year ago and now is that we are anticipating sugar hedging, always looking at the minimum level.

As for the ethanol market is very sound and because of CBIO it grew a lot. We cannot now take any further sugar risks and then loose the benefits of CBIO that will be materialized next year. I mean, ethanol and sugar prices were very close on the annual average, you still have CBIO which gives you an advantage. In terms of the CBIO process, Sao Martinho was already talking to the banks to structure CBIO, it's only a bureaucratic issue things would be ready between April and May. So the system should be ready and that should kick off negotiations and we believe by the middle of next year we will be able to start negotiating CBIO. Boa Vista was the first mill to receive see CBIO credit. Yesterday, Iracema, which is another unit from Sao Martinho was priced with -- for CBIO -- with CBIO credit. And so I believe that in the next few years -- few weeks all of our mills will be certified.

Now in regards to your last question about MBB with Meiosis the process has been going on for two years, I mean the planting of it, but harvesting, sugarcane harvesting after planting occur for the first time last year. Last year in the crop '18, '19, we just planted in a very small area and yield was 7% higher than what we had in the same area and in the same trial. This year was 6% higher in the same area in the same cutting stage. So yield has increased, I mean, given that sugarcane was 18 months old then healthier sugar cane with healthier it was a healthier sugar cane and therefore we expect to see a bigger cycle with more cuts than the average.

Therefore in the long range, we would need lower CapEx because it wouldn't make sense for me to replant cane that has high yield. But this is only something that I can tell you in a few years' time. Once we have to maybe replant sugarcane in for some reason with the (inaudible) one more time. But the average yield increase is between 6% or 7% because the cane is -- at the same stage planted in the same area. Did I leave anything behind?

Gabriel Barra

No, that was precisely it. Now in terms of Renovabio, what is your base price for those certification $10 or maybe you see a more pessimistic or optimistic scenario?

Felipe Vicchiato, Chief Financial Officer and IR

We are working with the same number that the government is working with.

Gabriel Barra

Okay. Thank you.

Felipe Vicchiato, Chief Financial Officer and IR

It's $10 per ton.

Gabriel Barra

Okay. Thank you.

Operator

Next question from Robert Rooney [ph] from Morgan Stanley.

Analyst

Good afternoon, and thank you for this call. My question is about cost of production. Throughout the crop year the cost was improving quarter-on-quarter with increase in crushing, but I just want to know whether you can give us any guidance for the next quarter given the fact that, I mean, Felipe said that by year end we should expect a stable unit cost. So, maybe we could think that the unit cost in the fourth quarter will be even better than it then the cost for the third quarter. So, can you give me your opinion about the cost for the next crop here since crushing should increase a bit more and maybe you could have even further reductions.

Fabio Venturelli, Chief Executive Officer

Robert, good afternoon, and thank you for your question. The cost for next quarter when you look at CPD only and not the cash cost, the full cash cost, I mean, COGS excluding (inaudible) and COGS should be better than the third quarter. Because I have more volume to tell and I'll be able to dilute my fixed costs even further. In terms of cash cost once you include CapEx and given the fact that the fourth quarter has a much larger CapEx volume because of planting, I wouldn't be able to tell you exactly whether it will be higher or lower than the third quarter, because I don't have the numbers out of the bag, but I would have to look at the CapEx schedule to give you a more detailed number. But when you look at the full-year and we have this number here, if we look at the full-year, this year's cash cost excluding (inaudible) this number is should be equal to the number of last year meaning that we will be able to observe 100% of the labor inflation et cetera.

Analyst

Perfect. It makes sense.

Felipe Vicchiato, Chief Financial Officer and IR

And your second question. Go ahead. Please conclude I was going to answer your second question.

Analyst

I just wanted to make sure that given the fact that the commodities prices should improve in the fourth quarter, should it make sense to think about a better EBIT margin, as your cost of COGS will be lower?

Felipe Vicchiato, Chief Financial Officer and IR

Yeah, EBITDA margin for sure. Well, first of all because COGS will be lower and looking at the every EBITDA margin and also because prices will be better, sugar prices are already hedged and it's better than what we had in previous quarters. Now in terms of your second question, could you repeat please, your second question?

Analyst

The question was just for the next crop year, if weather permits, do you think that you will see an increase in crushing or whether we should expect the dilution of fixed cost and a reduction in unit cash cost?

Felipe Vicchiato, Chief Financial Officer and IR

Well, absolutely. Our unit cost for the next crop year should be slightly lower when compared to this crop -- to this crop year, if we manage to improve our operating leverage, especially if we have a better TCH Sao Martinho in the past, if we only look at the Sao Martinho mill we had TCH of 92.

Analyst

In years when we had relevant rainfall, sunny days when we needed sunny days, so what is the major impact.

Felipe Vicchiato, Chief Financial Officer and IR

When I have a year, like, five tonnes per hectare, coming from the same hectare my marginal cost to harvest that hectare is simply the diesel cost to transport that cane from the plot to the mill. All other costs like labor costs, machinery, fertilizers, lending cause and admin costs they are all fixed costs. But as I increase crushing due to climate reasons like last crop year or because there are some deficiencies, because of investments in the new project, I mean, my marginal gain is quite relevant.

We should have a more detailed analysis of the sugar fields in mid-April when there's no more rain, and the -- our team has a better idea of how things evolve. But the improvement in our results can be relevant because of the number of hectors will be the same will improve TCH in the same area, I have the same amount of labor, the amount of fertilizers in the plots remains the same. I will only increase my marginal cost because of the amount of diesel used to transport the cane, because I would have to transport a higher tonnage of sugarcane. So if we succeed in increasing crushing for the next crop here, we will be able to significantly reduce our fixed cost.

Analyst

It's very clear, Felipe . Thank you very much.

Operator

(Operator Instructions) Our next question is from Rodrigo Almeida from Santander.

Rodrigo Reis de Almeida

Good afternoon, Felipe, and thank you for taking my question. I have two questions, the first relates to what Felipe said before about cost dilution. But I would just like to get some more information about the cost of third-party cane in the consequences to the next crop year. And what would be the mix between own and third-party sugarcane, because as I understood it, there should be a reduction in the third-party cane in the mix? And then my second question is about Renovabio, how the process stands and whether you also want to certify Santa Cruz in Sao Martinho? Thank you very much.

Felipe Vicchiato, Chief Financial Officer and IR

Hello, Rodrigo. In fact, just as the climate issue has been very positive to our own sugarcane. Once third-party came sometimes not located in the same region, we may just assume that the climate impact of the rainfall should also be positive when it comes to sugarcane from our partners and suppliers. In terms of the volume of third-party sugarcane looking on a nearly basis, there should be a nominal gross sugarcane coming from third parties when if we have a nominal capacity between 20 to 24 tons. So the closest our suppliers are with the sugarcane to us, we will be able to process, but we are open to crush mean whatever volume we get, but it's still very soon to understand the mix whether we will use more or less of third-party sugarcane, because to get that a more precise information, I need to have a more clear view of the yield and productivity and this will only come in the midst of April.

In terms of certification of Renovabio, things are still underway, two mills have been already certified. We are only missing Sao Martinho and Santa Cruz. Therefore, we believe that in the next month or two all the mills will be certified, so then when the new crop year comes all of our mills will be certified and any ethanol sales could already issue come with a CBIO certificate.

Operator

Next question from Thiago Duarte from BTG Pactual.

Thiago Duarte

Good afternoon, Felipe and Aline. I have two questions and a follow-up one. My first question is very much in keeping with this debate on the improvement in sugar fields, and the improvement in rainfall and the fact that rainfall has been very positive for the company. As you said before, maybe it's still too soon to talk about guidance because, you only get more information when the new crop year begins. But I just want to know whether it will make sense for us to think about the 23 million tons that I think the first time you brought this number for 2021 was during the Sao Martinho Day, but you also talked about that during your additional presentation. I just want to know whether you think that this number is feasible given the fact that the climate for '19/'20 crop year was better and everything points to the fact that it will even improve in the next crop year?

The second question relates to the certified mills. I don't know whether you're already have or if we already have the numbers for pre-CBIO for Boa Vista and Iracema. I just want to understand whether you believe that the efficiency ratio number is factored in, I just wanted to understand the total capacity to issue CBIO whether you are close to 28.3 tons of equivalent and the other number was close to 0.8. Do you have any visibility in terms of what will be the consolidated figure, so we can think about the certification of Santa Cruz in Sao Martinho?

And just a follow-up question about the dividends, that was a question by Isabella. It's clear when I look at your cash generation and your potential that looking at your figures you will be able to generate more in the fourth quarter because your inventories were high and also considering your dividend payout policy recently announced to the market. I just want to understand whether it will make sense in the absence of new projects that will demand more capital? At that magnitude, is it possible that the company would pay more than 40% of the cash income? I just want to understand the reasoning behind it. Thank you.

Felipe Vicchiato, Chief Financial Officer and IR

Hello, Thiago, good afternoon, and thank you for your questions. Let me see if I got everything right. In terms of crushing 23 million tons, as you said, in this crop year, we crushed 22.7 million tons. I would say that 23 is the minimum that I expect, it has to be higher than that. We are working towards increasing that number. But given the fact that I crushed 22.7 and rainfall levels are good and we are heavily investing in our fields, in our return on equity can be very interesting. So I understand that there should be a higher cane volume. I don't have that number yet, but I would say that this would be the low part of the range.

In terms of CBIO, there is a difference here, in the case of Iracema mill, we only have a certificate related to our own sugarcane, in the case of Boa Vista, Boa Vista has a higher volume of own cane. Therefore it's difficult to compare, we cannot compare that number of 1.3 from Boa Vista with the others. Just give me a second so I can access a number here.

Hi Thiago, I'm talking to my team to get access to the numbers, but there is a big difference between own sugarcane and third-party sugarcane. We haven't yet know how much third-party in sugarcane we have, that's why there is this relevant difference.

But once you look at Iracema comparing it to Boa Vista and Iracema and Sao Martinho there should be a difference. Once yield from Boa Vista and Sao Martinho, I mean it's much higher than Iracema, Iracema is a smaller mill, smaller farms and yield per machinery at Iracema and Sao Martinho in the case will be 1,200 tons cane a day and in Boa Vista about 900 and Iracema about 600 and this difference impacts for an overview. So I would say that from the 24,000 tons that I have Iracema should rank below the average when compared to the entire group. But Santa Cruz with 5,600, Sao Martinho with 10 and Boa Visa with 5 where we have good scale and productivity per machine about the same and the amount per hectare along the same lines. And this is another important piece of data.

I think that Iracema's figures shouldn't bring to the overall rating down. Analysts will monitor the ranking of the mills, and it's interesting to see that in some mills, I mean in smaller mills maybe due to the fact that there may be with financial difficulties while maybe there will be a better ranking, because when you calculate CBIO, the question you ask is how much fertilizer or crop protection products you use, if the company has any cash restriction and in that particular year they did not use fertilizer crop protection products at first. If you calculate the numbers, it will be in a better position when compared to another mill that is using fertilizers and crop protection products at the right level to increase yield. Therefore this is something that we monitor and as soon as we have a better comparison and more numbers we will be able to elaborate more on this subject.

And your last question on cash generation. Your analysis is correct. There are two major projects, one is cogeneration and the other one is corn-based ethanol that should be announced in the next coming months as the project is under review which is the Sao Martinho project, which is still in the early stages of analysis and there are no other major investment plans. And probably we will use our dividend policy and pay out over 40% which was the initial amount that we released last year.

Thiago Duarte

That's very clear. Thank you very much, Felipe.

Felipe Vicchiato, Chief Financial Officer and IR

Thank you, Thiago.

Operator

(Operator Instruction) Now Fernanda Cunha from Citibank.

Fernanda Cunha

Good afternoon, everyone and thank you for taking my question. In fact, I have two follow-up questions, first on Renovabio. We see that the authorization process for certifications, it's a bit slow. And it's not very clear, about how trading will take place, I mean the trading of receivables. And on the other hand the distributing companies already have a preliminary target. Do you believe that in 2020 things will happen more on the private level or not or maybe distributors can get a waiver or maybe the process can be delayed so that everything can be traded in the stock market?

And my second question, I just want Felipe, if you can clarify because you said that hedges now in the third quarter of '20 is about 1,500 barrels per ton. I just want to understand it because I'm trying to reconciliate how much you had in the previous quarter, it was hedge 1,246 and now you will have almost more than twice that amount a hedged at a level very close to what you had in the previous quarter. I just want to understand you're hedging strategy? And what you use as hedging strategy in this last quarter in the third quarter of '19/'20?

Felipe Vicchiato, Chief Financial Officer and IR

Hello, Fernanda. Thank you for your question. I will start with the last one. On hedging, in January, prices were up, I mean in the last weeks of December and in January the price for sugar in dollar prices went up substantially given that correction we were able to increase our hedge volume in January by a 130,000 tons of sugar at the price close to 1,500 barrels per ton. With that, my average price of sugar for the next crop year will be 530 or 513,000 tons at the price of 1263 plus a 130,000 tons at the price of 1,500 the average price. Therefore, it will be slightly above 1340, 1350. So that's the information I gave. And then still answering that same question, I said that as there was a sugar rally prizes what we are doing, we're anticipating that we wouldn't do that if prices were at the same level as they were in the previous quarter.

In terms of CBIO, I don't think that there has been any major delay, the mill can issues CBIO once it sells ethanol, but the crop year will only start in April and therefore even though you said that they have the obligation to buy, they do, but CBIO will only be issued when the crop season starts and then the mills begin to sell. The mills will produce from April through November, they will produce 100% ethanol. So let's say they will be 33 billion, 32 billion liters of ethanol available for sale in the market in that period and this is the period where distributors will be able to buy.

I don't see any movement or private negotiations or private trading. I think that the trading agents are working to have everything in place by May and June. So there was -- that's when they can start selling. The trade obligations for CBIO end in December.

Fernanda Cunha

So you have almost the whole year to buy you can you don't buy anything in November you buy everything in December. So the volume gain in terms of supply of CBIO.

Felipe Vicchiato, Chief Financial Officer and IR

No, really, starts as of April.

Fernanda Cunha

Okay. It's very clear. Thank you very much.

Operator

We now conclude the Q&A session. I would like to turn the floor to Mr.Felipe Vicchiato for his final remarks.

Felipe Vicchiato, Chief Financial Officer and IR

Thank you all very much for joining us today. And if you have any additional questions between today and next quarter, our team is available to answer that. Thank you and have a very nice afternoon.

Operator

Sao Martinho's conference call is now concluded. Thank you very much for participating and have a very nice afternoon.