International Conference Call
São Martinho (SMTO3)
2Q24 Earnings Results
Crop 2023/2024
November 10th, 2023

Operator: Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to the São Martinho S/A earnings conference call to discuss for the second quarter of the 23/24 crop year.

Here with us today are Mr. Felipe Vicchiato, Chief Financial and Investor Relations Officer, Alessandro Soares, New Business Manager, External Communication and IR, and investor relation team of São Marinho.

The audio and slides of the call are being simultaneously broadcast over the internet at www.saomartinho.com.br/ir. Please, note that all participants will be on listen-only mode during the company's presentation. We will then begin the Q&A session for investors and analysts, when further instructions will be provided. If anyone needs any assistance during this call, please ask the operator for assistance by dialing *0.

Please be advised that certain information contained in this conference call may contain forward-looking statements about future events. Such information is subject to known and unknown risks and uncertainties that may cause such expectations not to be realized or to differ materially from what was anticipated.

Now I would like to turn the floor to Mr. Felipe Vicchiato, who will initiate this conference call.

Felipe Vicchiato: Good afternoon, everyone. Thank you for joining us today during this earnings release call related to the crop year 23/24.

Now moving to page 3, here we will talk about 6 major topics: the first, operating topic and we will talk about our expectation for crushing this current season, the main highlights of the quarter going through the cash cost, the ethanol market, and how supply and demand is performing in the sugar market and the hedge this far, and finally, we will talk about the CapEx guidance for the year.

So, now moving to the next slide, on page 4, here we have a summary of how much sugar cane was crushed, we see 4% on a year-on-year comparison. Moreover, year-to-date, we are crushing more third-party cane rather than our own cane, we are crushing a lot of, you know, sugar cane from third parties, which has a better TRS, but this in terms of unit cost and cash cost is not so good, but throughout the crop year and by the end of the crop year, we would have around 70% of our own cane and 30% third-party cane, and this will certainly improve our unit cost. This is important because our unit cost hasn't been dropped in a more substantial way.

In terms of yield vis-à-vis last year is 18.7% higher, reaching 85.1, and the cane that is being cut, I mean, the plots have an average age of 3,5 years, so in the next half year we will have plots with a lower average age, and so, this should increase yield. TRS was down by 25% in the year-on-year comparison. Basically, the base of last year was very much contaminated by the severe drought from the previous crop year, and now TRS is almost back to normal.

So far, we crushed 212 tons of corn, 420,000 tons at the total according to our guidance from the mid-June. Sugar production, all the São Paulo mills are now turning to the mixed sugar, we so far 1.1 million tons of sugar, 12% higher when compared to the previous year. Sugar-based ethanol increased by 6.7%... no, I'm sorry, it was down by 4.2% sugar-cane-based ethanol, and then that was offset by corn because we produced 82,000m³ of corn-based ethanol. That's why there was an increase in ethanol basically due to the corn-based ethanol, so that gave us about 7% higher when compared to the previous year. So, in the São Paulo mills, the mix would be around 62-63% sugar, 37% ethanol once the crop year is over.

We anticipate that we will still crush 21.5 million tons until the end of the crop year, which will occur in the first week of December. Now if you look at the rainfall forecast, we believe that there will be some shutdown, so we won't be able to crush anything more than that.

We have approximately 1 million tons of cane in surplus so that we will… and part of that sugar cane will be crushed in March, depending on the rainy season in the summer and also in March, in the last two weeks of March, we may have a better climate for that crushing.

But certainly, crushing the cane in March is never that good because once you do that with a very low TRS, we have to really look to see whether it will pay off. But this year, according to all of the information we have to date, we will follow the guidance of 21.5 million tons. If we are lucky enough and the rainfall doesn't come that early, which would be unusual given the El Nino that we are experiencing this season, we will continue to crush until the beginning of the second half of December.

Now moving to the next slide, here we have the financial highlights. There was a drop of 3% in terms of our net revenue despite the fact that the sold amount in TRS equivalent we grew 6%, I mean, there was a drop of 6%. No, sorry [he says], it was up 6%. EBITDA was down by 16.9% and 29%, so both revenue and EBITDA this drop is mainly attributed to a lower price of ethanol. On a quarter-on-quarter comparison, ethanol was down by almost 30% and ethanol sales volume was down also by around 9%, and this is the main reason why we lost some EBITDA margin and revenue. Today we are operating with the São Paulo ethanol prices very close to breakeven, and in some weeks even below breakeven. Therefore, the market situation for ethanol is not that good, but that was partially offset with a higher sugar volume and a higher average price of sugar.

There was an increase of 27% in volume so and 16% average price and met revenue for sugar was up 50% in the half year. The difference between cash income and net income cash was R$400 million, most part of this cash comes from Copersucar's court ordered debt security because we got it during this year, usually we received that at the end of the year, November or December, but this event was anticipated and therefore we posted a gain in our P&L, we have R$330 million and cash income 200 million approximately, I mean, R$300 million of cash income was attributed to court ordered debt security and the remaining came from the run of mill operation, financial expenses etc.

Next slide, here we bring some details about the evolution of our cash income. Cash income for sugar and ethanol involves maintenance CapEx of the company, maintenance off season in the quarter, I mean, quarter-on-quarter. First quarter of 24 compared to the second quarter of 24 in the case of sugar cane, there was an increase of 2%, basically this growth is attributed to the increase in sugar prices, we separate here what is Consecana and sugar and ethanol. So basically, we started to see some dilution in fixed costs, not in unit cost of sugar that was going up even more. In the case of ethanol, there was a drop of 27% in the cash income quarter-on-quarter, I mean, the second quarter of 24, part of that is attributed to ethanol, but there is another part of that that involves higher cost dilution.

Year-to-date, we are growing 13% for the sugar cash cost, and there was a decrease in the ethanol cash income. We believe that sugar cash would end the year R$2.000 per ton, this already reflects a spot sugar price like the one we are seeing close to 0.25 or 0.26, and then we expect the unit cost of ethanol to be close to R$2.480 per cubic meter, already anticipating an improvement in the ethanol costs by the end of the season. So, at least there should be an increase of R$200 per cubic meter until the end of March, the end of the fiscal year.

If you read our release, you saw that out of our total production of sugar and ethanol, we have approximately 55% of the sugar volume to be sold in the second-half and about 2/3 of the production volume of ethanol to be sold in the second half given the fact that prices were down substantially in the second half, so we decided to hold our ethanol inventories then to be sold at a better moment of the crop year. Therefore, we believe that by then prices will be a bit better.

Moving on to the next slide, on page 7. Here we give you some more color in terms of the ethanol price evolution. We are now seeing one of the lowest levels since the beginning of the year, throughout the year there were several announcements about increase in taxes, increase in gasoline prices, there was also reduction in gasoline prices and then increases in gasoline prices, and we see that today gas prices at the refinery is pretty much in line with the international market and now it's just a matter of seeing the demand going back to ethanol so that by doing so prices will recover a little bit more.

Now, next slide, still talking about ethanol, which is an outlier, we look at the parity of ethanol, today is around 62% today, which is a very low level. When we look at the historical series, since January 2013, if we look at January 13, at the historical series, we noticed the performance of that parity and the behavior of the parity. In the midst of 2018-2019 when parity reached 60%, we then noticed a quicker participation of the Otto Cycle and there was 2 billion liters a month of ethanol that was going out, and now consumption has picked up a little, but it's still about 1.41-1.6 billion even with that parity of 62%.

So, at the end of the day, it's been more advantageous to fill the tank with ethanol. Of course, that there are different states of the country, but we hope that from today until the end of the year that parity should go back to the usual 70%.

Another important aspect that we think also happened this crop year is that the industry has had a high inventory level, was working with high inventories of ethanol because everybody thought that that federal taxes would return in January, but the fact is that taxes only came back in February and March. Therefore, there is a transfer inventory that is not normal. So, in addition to that, this has been a very strong crop year in terms of crushing and the mills have their inventories full. There will be a certain moment, which is right now, that the mills are producing, but many of them do not have enough silage to accommodate all the products, and this will probably put some pressure on ethanol prices.

We believe that by the end of the crop year things will be more normalized and then prices would go back to the parity of 70%. But we don't think that the price would ever go back to that R$3.000 as it was the case in previous years.

Next slide. Here we have a summary of our hedge position. We have for the 23/24 crop year 73% of the volume that I will sell is priced at 2.376 and for the next crop year 30% of the sugar volume is 2.972. So, 2 messages: in the second half in terms of sugar sales, the average price will be better when compared to the first half given that we use this strategy to carry over the inventories of sugar to be sold at a better premium, and it's been priced already, I mean, 3/4 of it has been priced; and for the next year 24/25, we already priced about 1/3 of the production. We made a lot of progress and it's a really reasonable price of 2.700 per ton, even though we think that the scenario is quite positive in terms of supply and demand, so within our risk policy, in this period I should have at least 30% already hedged, and that's what we did.

Now, next slide, and to conclude the presentation and to open for questions, we breakdown our CapEx. Our current estimate is that it will be R$2.7 billion of CapEx in view of an initial guidance of 2.5 billion. The two major increases related to operating improvement CapEx and part of that involves the biomethane project that was recently started, that also includes irrigation projects that improve the yield of the company, we also have harvesting in 2 lines in 2 rows that will also improve the performance of the company, and there is an CapEx increase involving trucks combined, etc., given the need of having a greater availability of equipment for the next crop year. We believe that the next crop year will be very, very strong for São Martinho, everything points to that, when we look at our sugar cane crop, yield should be very close to everything that I have already crushed, therefore we would need to use more equipment, that's why we're making that investment.

It is also worth saying that since the pandemic, in 2020, we've been tightening up our maintenance CapEx because of the price of the equipment, and prices this year were down a little bit, but still far from the levels during the pandemic. That's why we decided to do that now. But when you try to expand your CapEx using the machine for another year or so, you increase your maintenance cost, but it comes a time when that is no longer very economic, and so this is what is happening now, and that is why we made the decision to accelerate the modernization, and therefore we decided to anticipate CapEx.

I think these were the most important highlights and now we open for Q&A. Thank you.

Question and Answer Session

Operator: Thank you. We will now initiate the Q&A session for analysts and investors. For questions, please press * 1.

Our first question comes from Luiz Carvalho, from UBS.

Luiz Carvalho: Hello, can you hear me?

Felipe Vicchiato: Yes, yes, we can hear you well.

Luiz Carvalho: Hi, Felipe, congratulations on your results. I would like to refer to some of the points you mentioned and maybe we should revisit 2 subjects. First of all, could you please give us an update about the returns you have with the corn-based ethanol project? Because given this current ethanol landscape that you mentioned, which is a bit more challenging, how do you see the addition of capacity and new projects going forward? I think that the part about the return, is that along the lines of what you expected at the beginning?

And my other question is probably a recurring question and that is about capital allocation. We are experiencing a very healthy sugar cane cycle for the industry, there are record numbers everywhere, even in BRL terms. The company has a very interesting investment pipeline, as you said it yourself, you know, be it for improvements in general or to increase capacity to increase your crushing capacity, but I would just like to understand what is your view about expansions? Maybe you would, you know, expand your dividend payout at a given moment. And today, what's in the mind of the Board members and the Executive side of the company? Thank you.

Felipe Vicchiato: Luiz, thank you for your question. In terms of corn-based ethanol, clearly this year the results we anticipated for corn-based ethanol was totally out of what we expected corn prices to market, I mean, if we look at the other peers, everybody was buying corn at that same level, between R$65 to 70 per bag already adjusted to logistics in terms of where each mill is located, but corn prices in May dropped substantially, and with that DDG prices (and that's a very important byproduct that does the corn hedge, and that there is also the issue of ethanol production), the ramp-up was a little slower, and also the ethanol prices are really low.

Therefore, this year, even in the release we published a separate chart on corn-based ethanol, and I think that we reached the breakeven, but next year and looking at better corn prices, and that's what we have and what we are anticipating, even with greater pressure on ethanol prices, I think that we will be able to get R$150 million of EBITDA in corn, even with pressures on corn prices and DDG, but we expect to see lower prices of corn when compared to what we acquired back then.

Now, speaking about capital allocation, let's see, some of our major projects, the first one was biomethane, R$250 million to be ready by 2025, but this is a project finance we are funding 90% using funding from BNDES and Finep, and the cost of the funding is much cheaper, otherwise, the project would not be feasible, and there is probably a second corn-based ethanol plant, this is a decision that is going to be made 2 years from now. The fact that ethanol prices were down a lot now and CapEx is much higher, I don't think we will make any moves in that direction.

But, well, we are analyzing for the future, in about one or two years, maybe have a sugar cane mill at Boa Vista. This is a possibility given the fact that today sugar-cane-based ethanol is a lot more expensive than corn-based ethanol. We make all of the adjustments, DDGS, which is a cost detractor, and energy is a cost detractor for sugar-cane-based ethanol, which is less competitive when compared to corn-based ethanol. Therefore, it won’t make sense for us to migrate to a product with a larger margin.

In São Paulo, next year the plants will be ready to produce 100% anhydrous and if there is a window like we had last year, we will be able to deliver the product, but export ethanol from Boa Vista is complicated because of logistics, but at a current premium, if you think about a premium around 20 to 30% maybe it will make sense, we already started some preliminary studies and now we're just assessing that to see its feasibility, because we cannot just sit still giving this positive landscape for sugar cane.

In addition to all these projects, there are still some others, and then we will just analyze them in due time, and if it is the case, we will have some additional dividend payout.

Luiz Carvalho: OK, well, thank you. I just have a follow-up. When do you think we should expect an investment decision in this new sugar cane plant? And what would be the magnitude of this investment?

Felipe Vicchiato: Well, at the end of next year, I mean, the feasibility studies just started now, so we want to have sugar in the middle of 2025, this investment involves approximately R$500 million.

Luiz Carvalho: OK, great. Thank you very much.

Operator: Our next question is from Gabriel Barra, from Citibank.

Gabriel Barra: Can you hear me?

Felipe Vicchiato: Yes, I can hear you.

Gabriel Barra: Good afternoon and thank you for taking my questions. I would like to understand a little bit more the mindset of the company. The first point is about ethanol exports, we saw a significant drop, and given the trading dynamics in Brazil, we are a bit concerned, therefore, I would like to hear a bit more about your strategy, your export strategy, your commercialization strategy going forward because some things make sense, but looking at exports, maybe it could be a possibility. So, how is that window working for you?

The second point is about crushing and your capacity depending on the performance of the crop year, if you could tell us a little bit more about the amount of sugar cane that you have available, this will help us have some idea of amounts by the end of the crop year.

And if you allow me a last point, this would be about capital allocation again. We took a deep dive in this new biogas project of yours, it's quite interesting, but can you please elaborate a bit more on a few aspects, especially leverage, cost of the debt for the project? I just want to understand the economics of the project and what will be the level of return of that project. We just want to check that against our own numbers. Thank you very much.

Felipe Vicchiato: Gabriel, thank you for your questions. I'll start from your last question. That project has a cost, once you get Finep and BNDES, which is approximately 50 to 60% of CDI, and so this project, the leverage return, is around 25%. Ethanol exports, now answering your first question, there is no window today, we have no export windows, especially if you compare it to last year because given the Russia-Ukraine war we had a window, but this year there is no window. Exports are very insignificant, maybe in the second half, just 30.000 to 40.000m³, but very far from what we had last year. And our strategy is mostly concentrated once the crop season in Brazil ends, and we think that it is by the end of the season that we will be able to have better prices given the closing of the parity.

The parity today is at 60%, and historically, I mean, in offseason sometimes it reaches a number above 70%, but if it reaches 70%, it's good enough, so it will be about R$200-250/m³.

But now speaking about crushing, today, November 10th, we are talking about 3 more crushing weeks. The assertive level to crush and reached that 21.5 million tons of crushed cane is a very good number, And as I said at the beginning, if the weather remains dry, we will continue to crush until we have no more sugar cane. But we think it's very difficult that we will crush everything. There will be some leftovers for the next crop season, and we could crush even in March. But this will also be carried over to the next crop year because once you harvest the cane, you have the ratoon cane, so you need another crop year to grow it again.

Gabriel Barra: The leverage level of the project is about how much?

Felipe Vicchiato: 90%. It is 90%.

Gabriel Barra: Thank you. Perfect.

Operator: Our next question is from Pedro Fonseca, from XP.

Pedro Fonseca: Hello, Felipe. Good afternoon. My first question relates to freight, whether the delay in the grain trading has been a problem for you and whether you could tell us a little bit about the company's strategy in terms of timing of closing some contracts. And how do you see this line, especially thinking in terms of the next crop year, I mean, 24/25?

And the second question is that I would like to understand whether you could give me some more color on this drop in energy traded, both in the quarter and in the first 6 months. Thank you.

Felipe Vicchiato: I'll start from your last question. The drop in commercialized volume is a combination of the beginning, the start-up of the corn-based ethanol plant because we use energy to supply to the corn-based mill, and the sale of bagasse in the spot market, that was paying better than energy itself. That's why, you know, we generate less.

And the first question on freight, the bulk of our, let's say, the bulk of our sugar volume is dedicated to railroads, so 60% of our sugar is transported by railway, therefore, it's not a problem for us to distribute that sugar. The problem occurs when you depend on trucks, and that is a problem because you may have difficulties to distribute that product, but we can transport almost everything by rail.

Now let me give you a follow-up concerning sugar from Boa Vista and still on that note about freight, we are running a study, but freight is a challenge in that location, so sugar in Boa Vista combined with our tax benefit that is extended into 2032, this leads us to understand that this sugar has to be high for a long time, at levels where it currently is, 0.25 and even 0.30 in some cases. And why? Because the plant is very far away, the plant is far away, so that's why the freight cost for that plant is obviously more expensive. And so, we have 2 options: if ethanol gets worse, obviously, the sugar price at 28-30 cents will be reduced, but any improvement on ethanol, maybe it would pay out to have a plant in Goiás, Mato Grosso, or Mato Grosso do Sul, because we would also benefit from some tax benefits.

Pedro Fonseca: Perfect, Felipe. Thank you.

Operator: Next question is from Isabella Simonato, with Bank of America.

Isabella Simonato: Good afternoon, Felipe. Good afternoon, everyone and thank you very much for taking my question. I have a few questions on subjects you already mentioned. The first is, I mean, thinking about the 24/25 crop year, you said that you hope to get crushing very close to your record. which is a little bit below 23 million tons, if I'm not mistaken. If you could probably, you know, breakdown that calculation in terms of yield and probably also available sugar cane, or whether the difference is mainly in terms of crushing days. So, this is pretty much what I want to understand looking to the next crop year.

And my second question is on cost, your projected cost for this year's sugar, whether that is in fact cash cost or whether you are also taking into account Consecana or not, and probably whether that is what leads you to that increase. So, how should we look at that cost?

Felipe Vicchiato: OK. Next crop year, I mean, this improvement in crushing is mainly due to yield and not crop year days, we are recovering the sugar crops since 2 years ago when we had drought and frost in 2 consecutive years, last year we planted a large area for 18-month sugar cane to be harvested now in the next crop year, and that's why we should reach crushing very close to our record, and even slightly above. Therefore, we are talking here about yield. Well, certainly, you know, sugar cane suppliers can also help us because if our yield is better, theirs is also better.

Now, in terms of sugar cane cash cost, yes, we are using Consecana for sugar, we separated 100% Consecana of sugar in our sugar cost because some years ago when we were drawing up the cash cost for both sugar or ethanol, we would include Consecana because ethanol and sugar cane and Sugar had a spread difference, which was not too relevant. But once the spread became different, the gap is different now, that's why we separated Consecana from sugar cane. And so, this is mainly due to the increase in sugar cane prices.

Isabella Simonato: That's very clear. Thank you very much.

Operator: We now have a question from Tiago Duarte, from BTG Pactual.

Tiago Duarte: Good afternoon, Felipe. It's good to talk to you. I would like to go back to that debate about cash cost. In fact, I want to hear from you about the evolution of the crop year and your view in terms of cash cost in the total of the crop year in this half year. Well, starting with that view that you had up to most recently when you anticipated a more relevant drop in the unit cash cost, but now maybe the answer probably involves Consecana, I don't remember whether that was already factored in in your anticipation for a drop of your cash costs or not. So, I just want to hear what could be so different right now. This would be my first question.

And then my second question is about, I mean, you already talked about your results in the first 2 quarters from your corn-based ethanol plant, you talked about several elements, I mean, the corn prices are much higher, ethanol is weaker, DDG the same. I only want to understand that in addition to this pricing mismatch, I mean, the corn that is coming in into your cost and the byproducts from corn that had a substantial decrease in price, whether there is anything else in terms of the operation that would justify the fact that margins are not so desirable.

In other words, maybe to go from breakeven this year to that, you know, year EBITDA for next year. Is that merely a matter of price and cost, or are there other elements involving, like the plants or operating costs that we should expect that you are probably counting on until you reach that profitability level that you would expect for next year?

And the third point is that I would like to hear your views about this release of capacity to convert more saccharose into ethanol, sugar and ethanol. You said that this could be a possibility for us to think about for next year and that would involve building a sugar plant in Boa Vista. We've seen moves in this direction by other players and other mills, mills like the one in Boa Vista that only produce ethanol. I would hear from you how much room do you think there is for Brazil to bring new sugar through this increase in your sugar and ethanol increased production?

Felipe Vicchiato: Tiago, thank you for all your questions. I will start with the last question. I think we have to make a distinction here, today in Brazil we have about 120 million of industrial capacity and these are capacities for pure ethanol, and predominantly this capacity is located in states that offer tax benefits, which make the calculation a bit more complicated because in practical terms the ethanol prices that I'm realizing in these states of the federation is an ethanol price that is approximately 10 to 15% above Esalq.

However, if ethanol price has a spread that varies between 60 to 80% below sugar, as we are seeing in this current season, it's difficult for ends not to meet. So, if we say “OK, if ethanol goes up a bit and it hits the parity and consumption improves, to make a plant like that feasible, my sugar would have to be around 28 to 30 cents, and not, you know, 5”. And with that, I mean, in practice, when you calculate a plant like that, it's difficult for you to anticipate sugar prices after a period of 2 years. So, OK, to make ends meet, you would look between 70 to 90% of prices above ethanol and then after the third/fourth year the price would converge to about 20% above ethanol. So, it's relative.

This is our current calculation for Boa Vista, and as I said before, we are certainly concerned about producing cane-based ethanol and then we look at the screen price that will be a below cost, therefore, it becomes very clear that we would have to run a very complete study to see whether it will pay off to eliminate some of that risk.

Therefore, in the Midwest of the country there would be room to do that, but it certainly depends on the assumption of how much sugar prices will be above ethanol. In the case of the Midwest, is even worse because of the tax benefit. But now going to São Paulo, the major investments to improve the mix, they've been done in the past, and ourselves included. In an attempt to make more investments in our current plants, Iracema, São Marinho, Santa Cruz, I mean, it's nothing quite relevant in terms of the amount of sugar that I can produce.

If I want to place some relevant amount of sugar that would change my mix like to 80% sugar cane, then you wouldn't pay off because the total CapEx for amount of sugar that I would produce wouldn't be feasible. Therefore, I think that Brazil, if you look at stretching it very much, maybe you could have a period of 3 to 4 years, you would produce 3.000 to 4.000 tons in addition to that, giving all of the assumptions I mentioned.

Now, going to the Midwest, you have important mills, like São Marinho, Jalles, etc. with an investment capacity that, I mean, that's another aspect, the mill has to have a good investment capacity, and this investment will be of around half a billion BRLs, I mean, it's hard to see that you would spend all this money in an ethanol plant that will be converted into sugar, and then you run the risk of flipping the market, and then what do you do? Ends won't meet. Therefore, you have to take a lot of things into consideration so that you could make that calculation of that additional 4 million tons of sugar, only in well-capitalized mills – and I would say that there are not very many of those – would be able to move forward with a project like this. I mean, we have Raízen, São Martinho, etc., just a handful. There is the possibility, but I don't think there is abundant capital or a good enough financial capacity on the part of the companies to do that.

And then your first question was about cost evolution. OK. What happens with the cost? The first half of the year, Tiago, in the first half there were several things that happened to the crop year because of rainfall, a lot of stoppages, so my unit cost was not totally diluted. My total crushing in this first half we crushed 17 million tons of sugar cane when compared to 16 of last year, which was 4% higher. So, we have sugar cane to reach 10. So, cost evolution will occur further down the road, a bit further down the road, but the main impact in the case of sugar that increases is in fact Consecana cost.

If it were not for Consecana, this sugar cane cost with the same base should be falling by around 5% at least. Now, in the case of ethanol, it doesn't go down more here mainly because of Boa Vista because the Boa Vista's crushing will not be so good as we anticipated. The group is 21.5 million, but Boa Vista cost will be a bit worse due to climate conditions and also due to our corn operation.

Therefore, this harmed the ethanol cost as a whole for the group and it doesn't fall by the same rate. So, these are the main reasons, but also because throughout the crop year there were lots of things that happened. I mean, today we can no longer take anymore diesel credits, we bought today R$400 million in diesel, São Martinho is one of the largest diesel buyers. I mean, we see other mills taking more credit to offset, but we can no longer take any more credits, and this increases my cost by R$50 million. So, there were other things.

So, when I talked about the initial cost that was 5% lower, at the end, if I extend the crop year a bit more, and I will do that, usually the crop year ends in November, but I will extend it for at least one additional week. So, this extension in the crop year in my season will also imply an additional overtime and other costs, and because of that my fixed cost is not so diluted. But in the order of magnitude, in the case of sugar it should remain at R$2.000, the sugar price for next year is 2.700, so we are talking about R$700 million for 1 million tons of sugar of our own cane.

Now, ethanol for next year should be in line with this year, and this will depend on how much more sugar I can crush next year to dilute the cost even more.

Now the corn plant had R$150 million of next year, the assumptions are the following: we can crush the total capacity of the plan, which is 490 tons of corn a year, corn price we buy at about R$50 to 55 per bag, which is the current price, and the DDGS price we would sell approximately the same amount we are selling in this quarter. So, corn is indeed very important, but obviously they're ramping-up, I mean, going from 420 to 490, this helps to get to that 50 million in EBITDA.

Tiago Duarte: Yeah, that's very, very clear. The answers were very clear. Thank you, Felipe.

Operator: As a reminder, for questions, just type *1. And to remove your question from the queue, just press * 2. Please, hold.

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

Felipe Vicchiato: Thank you so much for joining us today. I think we were able to address all the main aspects and points about this quarter and the crop year. If you have any additional question, please, let us know. Thank you.

Operator: The conference call of São Martinho is now concluded. We thank you very much for joining us and we wish you a very good afternoon.