



Ethanol Summit 2011
São Paulo, 6 e 7 de Junho 2011

Um novo ciclo de investimentos para a cana no Brasil

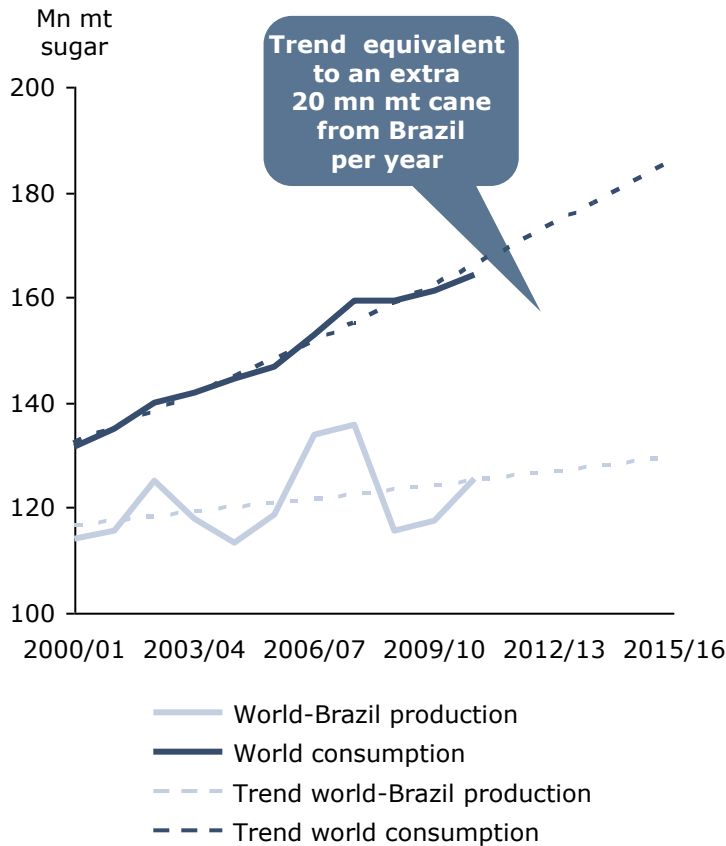
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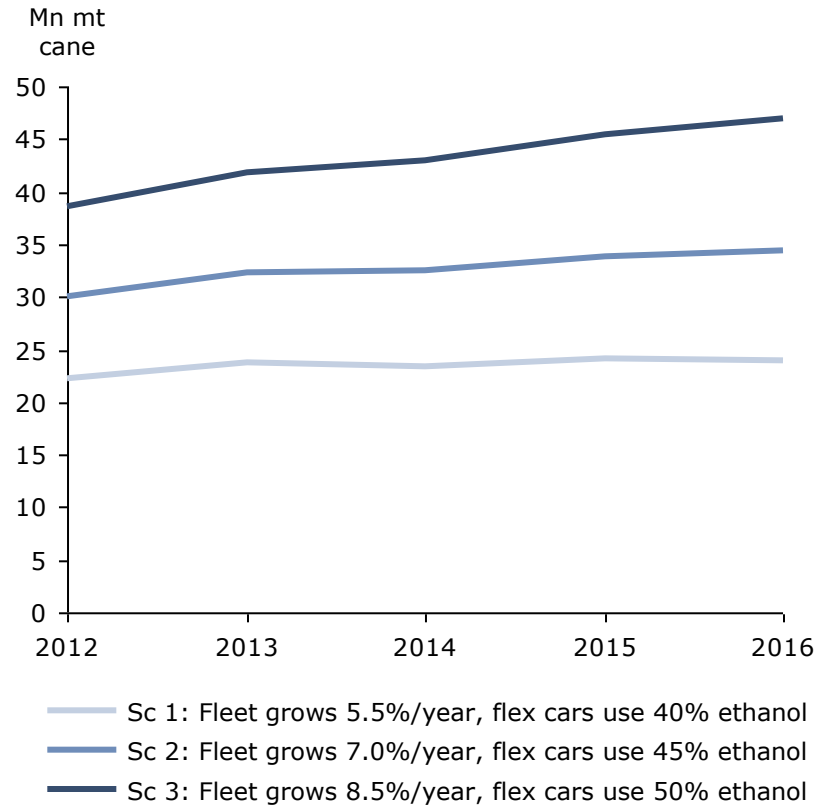
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Outlook for growth - how much cane?

Trends in world sugar production and consumption



Cane required for ethanol production under different scenarios



Sources: F O Licht, EPE, Rabobank projections

Outlook for funding - how much investment, what debt/equity split?

- Cost of greenfield projects is currently high, estimated at around USD 120/mt crushing capacity (c. USD 0.5 bn for a 4 mn mt/yr mill)
- Even though the sector's financial leverage is declining, many mills and their banks will be reluctant to see any return to high leverage
 - Bad experiences following 2008 – not many bankruptcies, but a lot of bank loan restructuring
 - More stringent credit terms
 - Sector limits
- Thus, banks are not keen to see high debt/equity ratios for new projects, while mills may not be able to provide a high proportion of equity
- Access to funding via capital markets (issues of bonds or equity) is limited to relatively few, larger players

Outlook for the business environment - how attractive is it to invest?

- How attractive are returns on capital and on equity from investments (whether greenfield projects or acquisitions)?
 - Costs
 - Prices
 - Exchange rates

- Quality of earnings and of earnings growth – stability and visibility not simple in a commodity market environment; for sugar & ethanol, 66% of cost of production is related to agricultural activities; diversification helps:
 - Cogeneration
 - Integration of various stages in the supply chain

- Is the regulatory and legal environment clear?

Conclusion – a new cycle of investment in Brazilian cane?

- Enormous scope for industry growth, as demand for sugar and for renewable energy rises
- Industry output currently constrained by cane productivity; likely to become capacity-constrained in the next 2 years
- Current business environment is one of heightened uncertainty, impacting both industry participants and potential providers of finance
- What combination of public sector and private sector initiatives will help to reduce uncertainty and catalyze new investment in the near future?
- Other challenges to rapid expansion still exist: constraints to growth – e.g., availability of labour, machinery



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