

Company: ROS AGRO PLC
Conference Title: ROS AGRO PLC 9M and 3Q 2019 Financial Results
Moderator: Maxim Basov
Date: Tuesday, 19 November 2019
Conference Time: 16:00 (UTC+03:00)

Operator: Hello, ladies and gentlemen, and welcome to Ros Agro PLC financial results for the 3Q 2019 and the first 9 months. Throughout this all participants will be listening the report, and after that there will be questions and answers session. I just remind you that this is being recorded. So, today I'm pleased to present Maxim Basov, CEO. Please, begin.

M. Basov: Thank you. Good day, ladies and gentlemen. Yesterday we reported our results for the 3Q 2019. We issued the presentation and the press release. I'll go quickly over the presentation and then I will answer the questions.

In general, our revenue was much higher than in the 3Q 2018. We had a record revenue result. Mostly this is the result of consolidation of Solnechnye Produkty assets. Our revenue in 3Q increased 74% compared to 3Q 2018. On the other hand, EBITDA was not higher. It was actually lower. We had EBITDA of RR 4.4 bn compared to RR 4.5 bn in the 3rd quarter last year. Agriculture and Oil & Fat units showed better financial result, while Sugar and Meat units had weaker results. Group's net income for 3Q fall down compared to last year by one half, in the 3Q 2019 it was RR 3.8 bn compared to RR 7.6 bn in the 3Q 2018. Net debt of the company went down compared to net debt at the beginning of the year. Net debt was around RR 50 bn at the end of the 3Q. We improved our net debt to EBITDA ratio to RR 2.6.

Now I would like to comment on the performance of various business lines. Meat continues to be the largest segment in terms of EBITDA contribution. The Company significantly increased the production of pork in the 3Q 2019 compared to 3Q 2018. This is primarily the result of expansion in Tambov region where all but one farm are already producing commercial pigs. The last farm will start producing pigs for the market in December, and then we will only have to finalize stocking of the Belgorod farm and, finally, Far Eastern farms which we will start to stock next year. The volumes went up, but the prices went down. The price for the processed meat went down from RR 165 to 145 per kg. And the price for the live stock, live animal, went down from RR 95 to 81 per kg. In addition, Meat segment had more expensive feed due to higher grain prices in the new season which started this summer. So, increase in costs and decrease in prices had a bigger effect on our EBITDA than an increase in volumes. Segment's EBITDA in 3Q went down from RR 2.4 to 1.7 bn. And EBITDA margin went down from 39 to 24%.

In Sugar we had similar dynamics to the Meat division. The volumes of sales were higher in the 3Q 2019, but the prices were lower. Moreover, the cost was higher as a result of higher than now or higher than it was in the 3rd quarter prices in autumn, when the cost of sugar beet and therefore the cost of sugar were formulated. As the result, we had probably the weakest quarter in the history of Sugar in our company. We managed to have a positive EBITDA. But the EBITDA margin went down from 19% last year to 2%.

Meanwhile, Agriculture had a good quarter. There we have higher revenue, higher EBITDA and higher EBITDA margin. With exception of sugar beet, all products, all crops gave us good return. Primarily, because of relatively good prices for the crops and higher sale volumes.

In Oil & Fat segment we had higher revenue and higher EBITDA. EBITDA margin went down as a result of product mix. We had good result in oil extraction, industrial fats and in consumer products. Even though we had weak performance in our Far Eastern factory where the soybean price is quite high because of Chinese demand, and the soybean meal had fallen significantly in Russia as a result of increased supply especially from Central Russia region.

Now this ends my short presentation and opens the floor to the questions. Please, go ahead.

A. Kravchuk: Good afternoon, everybody. Thank you for your time. I just would like to understand, what happened actually with costs of sugar business in Q3. Because for what I can see, you actually paid lower price to sugar beet, which I guess is your biggest own cost, and the price did not decline so much. So, there seems to be something else going on in the actual cost of sales in the sugar business in Q3. Can you elaborate, please?

M. Basov: In the 3Q 2019 we sold to the market 274 ths tonnes of sugar, some of which came from the new season, but most of which came from the previous season. So, with the cost of this season it's clear. The price of the sugar beet is normally around 8% as a result of sugar, but this year actually the sugar price formula changed a little bit. So, now probably it's not 8%, but 8.5%. So, if talking of this season, the only factor which doesn't coincide with this formula is that actually the prices for sugar were declining. Our plants started to work in early September. But we were selling sugar also in October. In October the price of sugar was below prices of September, meaning that if the sugar business bought sugar beet in September on the formula price, and sold sugar products in October, so the margin is very small, because the price was declining. But the production and sales of this season production are not as large as or maybe seen as that compared to the sugar that we had from the previous season, and of course at the previous season the cost of sugar was higher. In addition to that, we had some volume of third-party sugar, which we had on our books at the beginning of August and which was sold in August which had also high cost, because this sugar was bought from the market at the end of last year. So, the cost of the sugar that you can see in the accounts is combination of 3 different sugars: sugar produced this season from September on, sugar which was produced last year, and sugar which was bought from the market and sold during the 3rd quarter.

A. Kravchuk: What percentage roughly of this 270 ths tonnes is third-party sales? So, sort of position, which you formulated as a sugar speculation.

M. Basov: Around 80 ths tonnes of the third-party sugar it was.

N. Kovalev: I have two questions. The first one is on sugar segment. Can you share with us your estimates, how much of sugar do you plan to produce in a current season? And how do you want to structure sales between the quarters as last year, in the last season, they were quite volatile? And the second question is on meat. You disclosed the position price for 22.5% stake in Agro-Belogorye. And basically we can arrive today valuation of the company. But can you share with us what real valuation multiple for the transaction, or

maybe share financial metrics of the company and of rollup? What is your plan for this stake?

M. Basov: This year we have a crisis situation in the sugar industry, because of the weather and improvement in technology. Russia will be producing a lot of sugar beet, which also contains a lot of sugar in this sugar beet. So, at the moment it's hard to say what will be the overall production, but it looks like the sugar production this season will reach 7 mln tonnes. And this will be an absolute record in the history of Russia. As a result, the prices for sugar now reached the very low level, which is in fact even below cost, I think, even, vertically integrated cost of sugar companies. And probably Russia is now the place with the lowest price for sugar in the world. We believe that at the moment the sugar price already is at the level where we can export sugar long distance, because the sugar price in the global market in fact is increasing. And the global sugar market expects the first deficit of sugar in the past 5 years in the coming season. So, export from Russia now has started to increase, and we estimate the monthly volume of sugar export from Russia at the level of 82 ths tonnes per month. However again, the expectation for the supply is very big, at the moment we have seasonal oversupply. Factories in Russia will probably work until end of January, which means that the pressure on the market continues, since the factories have limited storage, especially for such big volumes. So, we expect that price continues to be weak for the coming several months. We have some increase in price for the past 3 days, but from very low level. In this situation the Company is interested to sell in the 4th quarter this season only sugar for which it doesn't have enough storage area. And for the sugar for which we have free storage area, we plan to roll over for the remaining of the season. All factories at the moment are working. And most of the factories will work until the end of January. The conditions for storage sugar beet on the fields now are good. And also we expect, in fact we already have our second molasse desugarization plant, operating in a testing mode. So, this year we will have sugar produced from sugar beet through the normal process, and also we'll have 2 sugar molasse desugarization plants operating and desugarizing 100% of molasse that we produce in our company. So probably, again we cannot be certain, as always, but we expect that this year our company will produce close to 1 mln tonnes of sugar in this season. We'll have probably, I think together with sugar produced after the New Year, we'll have around half a million tonnes to be sold after the New Year. So, I would expect that around 450 to 500 ths tonnes of sugar will be sold by the end of this year, including part of sugar which already was sold in the 3Q 2019 from the new harvest. And then we'll have around half a million tonnes which will be produced after the New Year or will be produced this year but kept as inventory for the rest of the year. OK, this is sugar.

Now, the meat. OK, we disclosed actually yet the price which we paid for 22.5% in Agro-Belogorye which is RR 8.5 bn. Agro-Belogorye is not a public company. It does not have consolidated IFRS accounts. But I can just say that we paid for this company the price which equals less than 5 times EBITDA for the last year results. Our strategy is to facilitate a dialog with this company which we already did, to work, to look for the synergies which we might have in agriculture and pork production. And also we have a long-term wish to consolidate this company either through merger or through acquisition. At the moment we cannot be sure at the timing of this process, but we already started to work in a very productive manner with other owners of the company.

S. Beiden: Good afternoon, thank you for the presentation. I actually have several questions. First one is related to the first asked question. Could we expect, given your composition of three different kind of sugar being sold in Q3, could we expect that Q4 margin of the sugar business could be a kind of better, because that carry on sugar basically the volume of carry on sugar and third-party sugar disappeared? This is the first one. The second one: Given what we heard of the sugar business, could you maybe disclose what are your expectations for the sugar beet harvest in a year? What kind of ... are you going to change at all you basically having a flat amount of sugar beet being expected to be

produced in the next season? And the third one is that: When approximately can we expect some disclosure on your possible Chinese project? Thank you.

M. Basov: The sugar business is a business which is a processing business. And in normal circumstances, when the price of sugar does not change much throughout the season, the margin in the Sugar division should be from 15 to 25%. So, it is, I think, we also expect that the margin of the sugar business will be turned to this level, and we'll see it already in the 4Q. In fact, I think the margin in sugar business should be slightly better going ahead, because of effect from the desugarization plant which we now have. And this is a higher margin business than normal processing of sugar beet. Meanwhile, we can only speculate on what will happen next as the sugar industry is a globalistic industry in terms of production with a lot of farmers, who produce sugar beet and supply the plants in addition to our own production. And it's not always easy to predict the farmers' behavior, as the farmers normally have an approach not to maximize profit, but looking on average through the cycle and also maximizing profit over their crop rotation. The sugar beet at the moment is a loss-making product. In fact, it's the only loss-making product among the big crops in Russia. All other crops, as we know, are doing very well. We experienced a big drop in prices of soybean this year. We also experience the drop in the price of sunflower seeds. However, all these crops are profitable in comparison with the sugar beet. It is rational to assume that at least some sugar beet producers, independent farmers, will stop producing sugar beet. At the moment there are different views on the market. Some people believe that 15% of third-party farmers will stop producing. And some people believe that there will be even higher number, of 30 to 40%. What we cannot at the moment to know, is what will be the response of the big players on the market, because, you know, understanding the way how the game really works, we can unfortunately expect that some people will think that the farmers will stop producing sugar beet, the price will significantly go up, so they will decide to increase the production of sugar beet. So, we need to wait and see until May next year, trying to understand what happening. In addition to that, the fertilizers which are quite expensive, we already put in the soil in autumn in preparation for the sugar beet planting. So, in my view, we'll have decrease in sugar beet area next year of 10 to 15%. The biggest uncertainty is in the yield, because this factor is also very dependent upon the value condition. But in general I expect, and we all expect, the whole industry expects, that the sugar production will go down, and the question is, will the decrease in sugar production for the next season coupled with export of sugar from Russia will be enough to decrease the stocks in Russia to the normal level? Because in addition to more than a million tonnes surplus sugar produced this season, we also have around half million tonnes of sugar which is in the inventory of Russian companies at the end of the last sugar which also is excessive compared to the normal level. So again, we need to see. I am sure that the production of sugar beet next season will be lower. But at the moment we cannot be sure what will be the situation, what will be the balance of sugar at the end of the season. So, there are many things we need to monitor, also the sugar price in the world, which started to increase. Some banks now estimate that the price of sugar will go up to 14 cents per pound, which is a fairly high number, which of course will make export even more interesting for Russian companies. And we'll provide even more incentives to the large Russian sugar companies to keep sugar on the inventory, on the books and we'll not sell the sugar. So, many uncertainties. No doubt, now we have the crisis moment, the low price. And then we'll need to see what will be an influence, effect on the structure of the industry.

OK, now your last question about China. We do not have a decision by the Board on this project. We are debating this issue. And at the moment we expect that the Board will probably have an extraordinary Board meeting in December. And maybe in December the Board will decide on the fate of this project or projects, because we have several, and as soon as it happens, we will inform the market about the situation.

M. Bugaev: Hello, thank you for presentation. I have several questions about Meat segment. So, could you share some information about China, I mean. Do you interact with your partners, and do you see the desire to export pork meat to China from Russia? And the second one is about Agro-Belogorye. I've heard about your desire to consolidate this company, but could you say that the Agro-Belogorye management has desire to be consolidated?

M. Basov: OK. Let me start with the second question. There is no transaction. So, I do not know. I cannot comment and I don't know the desires of the owners of Agro-Belogorye. I can only repeat again that we are interested to increase our stake in this company. And when our desire will coincide with the desire to sell, and the price will be the same, then the transaction will happen. At the moment we do not expect any transaction with the shares of Agro-Belogorye to happen in the nearest future. So, we'll continue to be minority shareholder.

As far as China, as you may know in China there was a very big loss of the sows. And it is expected that production of pork in China will dramatically fall from 40 mln tonnes to slightly more than 20 mln tonnes. The whole world is not enough to supply China with the pork. Unfortunately, Russian pork is not allowed at the moment to China. We can only export to Hong Kong. The problem is that until very, very recently also Canadian pork, and US pork was also restricted to access the Chinese market. As a result, the Hong Kong market was flooded with pork from US, Canada, partly Russia, so the price there was quite low, below the price of meat in Russian market. We do work with Hong Kong. We sell subproducts. We also sell subproducts to Vietnam, because not only we had a loss of pork live in China. There is also death of many sows in Vietnam. African flu disease is now also in other Asian countries. The situation on the Russian market in pork in some way is similar to the sugar. As we see the overall, that supply is growing, because of improvement of productivity, because of technology, and also because of increase in production of pork from the farms that we started to build several years ago. We see the supply of pork growing in Russia every year of more than 5%. And this will be happening for the coming 3 years. The consumption of meat by Russian population is not growing. Pork is winning market share again from beef of course, and also even from chicken. But the supply is growing faster. Prices are going down. And more and more pork will be leaving for the export market. We of course are looking forward to have increase in pork price all over the world. We see it already in Europe. We see it in US. We are starting to see it in Canada. And we only hope that China will open the market. The Chinese market is already opened for chicken. We expect that the market will be open for beef relatively soon. And we, of course, hope that we will start supplying to Chinese market next year. But we have no guarantee for that. The price in the Chinese market reached USD 6 per kg of pork. There is some import duty, of course, which is 15%. But in Russia the price at the moment for pork is at the low level. And at the moment it reached the level of 1.3 USD. So, there is a huge difference. And of course, if this happens, then a lot of Russian pork will go to China and we'll make a lot of money. But again, we can not be sure that this happens at all. We can not be sure, especially that it will happen very soon.

A. Galimov: Good afternoon, thanks so much for the call. Maxim, just a follow up question on potential opening of China market for pork. Should it happen, let's say, next year or whenever. I guess, your current design of the Far East project is not enough to channel significant amount of export volumes to China, so how you will redirect some of your pork production volumes from Tambov and key regions to China? Or rather you would change the current capacity of your Far East project?

M. Basov: Well, if China opens, then I think all Russian pork will go to China, because there is a big price difference. Of course not all, but all from the big slaughterhouses will be certified for China. It's of course, not all. Then in terms of capacity, our strategy: as we understand

the situation in China and the position of the Chinese industry and Chinese Government, we believe that China will be in deficit for pork at least 5 years. But the intention of the Chinese Government, of the Communist Party of China, is to build the farms inside China. So, I believe that this will happen, and eventually the market will be closed, and all additional capacities which will be built during this time, will have nowhere to go. Of course again, if Chinese market opens, not only we'll direct our exporter there, but we'll built new capacities, which will have the payback period of less then 4 years. We have an opportunity to build additional capacity very quickly in Far East, and its around I would say, but not more than 40 thousand tons, and we have additional capacity to be quickly built in Tambov area, also around 40 thousand tons of pork capacity. We will only be building the pork capacity larger than this in case if we have the partnership with Chinese companies, and especially in Far East. We do have some negotiations with big Chinese companies to increase the production of pork in Far East up to 1 million tonnes, which is very significant. But this can only happen after China opens the market, and again, the Chinese companies will decide to invest in Russia. Without the long-term Chinese partner who will take most of the risk, we are not going to invest a lot of money in this industry. Outside of China at least.

A. Galimov: OK, right. Thanks for this. And maybe final one, again. Hypothetically, if China market is opened, would you expect the Russian government maybe to step at a some point to avoid significant price growth in Russia for domestic prices, maybe imposing some export quotas or taking another steps?

M. Basov: Well, I don't think it will happen, because the Russian Government in general is trying to have liberal policy in terms of prices. There will be of course some discussion, but if the market is open, the prices will go up for some products and pork. I think that the quick response to that will be increase in production, consumption of chicken, because there is a spare capacity in chicken, which can be quite quickly put in line unlike pork. But in general, of course, there is a better, much better way to manage the situation. I am sure that, because also the quality issue and because of regionalization. If Russia is open as an exporter to China, this will not be in all regions, and by far this will not be all companies. Chinese certification agencies are very strict, and we expect that only limited number of regions and limited number of big slaughterhouses in these regions will be certified for the Chinese market by Chinese authorities. So, in general I think that there will be not ... an effect on the prices will be limited. And a right response by the market will be very quick. Especially from the poultry.

N. Kovalev: Hello, I just wanted to clarify a couple of points on capital expenditures. We already saw in 9 months record higher figures, RR 21 bn for CAPEX. So, can you update us, what is your total plan for 2019 and 2020? And also a bit more on strategical side, given how challenged the situation is in sugar and how low prices are. Do you see that some players in the industry could be financially distressed this season, and if that happens, could they become potentially interesting to you in terms of consolidation further in sugar segment? Thanks.

M. Basov: In fact, we are decreasing our capital expenditures. This is our response to the current situation. Yes, you saw in our cashflow the number of RR 21 bn, but it includes RR 8.5 bn in shares acquisition. Our regional plan for this year in terms of CAPEX was more than RR 20 bn. At the moment, I believe that we'll invest in CAPEX less than RR 18 bn. We almost finished our CAPEX program on our sugar industry. I think that there will be no more major projects that we are going to do. And we are just going to make the money and using as a cash cow. Also, in pork, as I said, we will finish this year our Tambov construction, and only small money is left to be paid in the 1Q, I think, next year. We are finishing all our reconstruction of the farms in Belgorod region. We already finished the increasing of capacity in our slaughterhouse in Tambov. We do plan some very well paid projects of small amount in Tambov for the export market and also for increase of the production of consumer products. And now you know, given such situation in with a pork, actually the slaughtery and the meat packing or the processing part of our business started to generate good margins. And we expect bigger decrease in price of the live

animal going forward then for the price of processed meat. So, I believe that in general the investment phase in the industry is coming to an end. The only thing that we have just discussed is the question of the opening up of the Chinese market. If China again is open, maybe we'll invest in some very quickly paid projects. The biggest industry, the biggest segment in our company which will take some investments will be Oil and Fat with some investments which have a very good payback period. But they are much smaller, this investments, than we had in other business units. So we are now in the budgeting period, we are rethinking some our strategical functions. And we expect that, I would say that probably the CAPEX for next year will be smaller than I thought a couple of months ago. So, our response for this situation will be to limit our CAPEX in order to keep our dividends and dividend policy. We will limit our CAPEX. We may improve our working capital position in order to decrease our net debt level, and also to be able to buy the companies which will fall in distress situation. No doubt, there will be companies which will fall in distress situation. In all the segments we operate at. But we should be very careful and only buy the companies at a very cheap price with a new assumptions on the pricing in all our segments.

M. Basov: Yes, again and I forgot to say also that we are waiting for decision by the Board on our Chinese strategy. And this may change our general approach to the investments in Russia and on our strategy on the capital markets.

OK, ladies and gentlemen, thank you very much for listening. We are looking forward to 4Q, we expect that 4Q should be better than the 3Q. And the company will go through the period of weak and decreasing prices in sugar and pork stronger, using this opportunity to increase its market share. Thank you very much, bye.

Disclaimer: This transcript is prepared in accordance with the audio record of the conference call on Financial Results of 3Q and 9M 2019 held on 19 November, 2019 by Maxim Basov, member of the Board of Directors of ROS AGRO PLC and CEO of Rusagro Group. The audio record is available [on the Company's website](#). The wording and content of this transcript represent an edited version of the audio record to improve the clarity and brevity of the original presentation, correct possible grammar or lexical mistakes and avoid confusion in interpretation of the said. Thus this transcript might not fully correspond to the actual words and sentences used in the presentation. In case of discrepancy, the transcript should prevail. In question of doubt or if you need clarifications please contact Svetlana Kuznetsova (ir@rusagrogroupp.ru) for further inquiries.