

Opportunities in the Sugar and Ethanol Mills

Background

Brazil is today by far the largest producer and exporter of sugar in the world. Despite a fall of a little less than 1 million tons, Brazil with its 23.9 million tons of exports will far surpass the second largest, Thailand, which will export a record 9 million tons. India comes in third with its 2.1 million tons of exports. Brazil has the natural advantages of a warm sunny climate, large arable tracts of fertile land suitable for mechanized farming and plenty of water. The Brazilian government's decision of stimulating the use of flex (utilizes both ethanol and gasoline) vehicles ensured the continued interest of farmers to invest in the sugar cane crops.

This is a long term growth sector as the natural advantages give Brazil a competitive edge superior to any other nation. In the next ten years, Brazil will reach production of 49 million tons of sugar and 43 billion liters of ethanol. In this projected 10 year scenario, Brazil will export 37 million tons of sugar equivalent to 18% of worldwide demand. The Southeast region of the country will continue its dominant role with over 60% of the production. The state of São Paulo is the major producer in the SE region.

Recent Events

However, Brazil is right now passing through a major crisis in the sugar and ethanol industry. Many inefficient and undercapitalized sugar mills have closed in the last few years. This crisis was brought about by various factors.

- 1) The government utilized the gasoline price as an instrument to fight inflation. The ethanol price at the gas stations is always quoted at a percentage discount to the gasoline price reflecting the lower efficiency of ethanol for car mileage efficiency as compared to gasoline. As the government continuously fixed gasoline prices below costs (in fact, creating major losses for Petrobras- the state owned petroleum company) ethanol producers were also selling at a loss. This changed late last year as Petrobras could no longer handle this burden and consequently, the sugar mills are finally starting to make some money.
- 2) Various years of dry weather in the country reducing the availability of sugarcane
- 3) Most Brazilian sugar mills are undercapitalized and not managed professionally but by owner families and thus unable to withstand any crisis of long duration
- 4) Worldwide demand for sugar has been below production

2015 Onwards

2015 should see the start of a new cycle as the worldwide demand begins to surpass production. International Sugar Organization (ISO) projects equilibrium between supply and demand for 2014/2015 but for the following year, demand will be higher by 2 to 2.5 million tons than production. Chinese consumption of sugar reflecting the rapid growth of the middle class is expected to almost double from 2013 till 2020.

Ethanol is projected to have healthy growth as more governments issue blend mandates for ethanol and gasoline. Demand is projected by ISO to hit 167 billion liters in 2020 up 90% from today's level.

Brazil will continue to dominate the sugar industry. At the same time, the Brazilian government has readjusted gasoline prices and thus ethanol prices resulting in profitability again for the ethanol production. Brazil will be the second largest producer after the USA with ISO projected 2020 production of 35 billion liters. Today it stands at 25 billion liters.

Investment Moment

For those interested in investing in the sugar and ethanol business, this is an excellent moment to start looking at sugar mills opportunities in Brazil. Brazil will always be the major player in this field. With the present crisis, owners are more reasonable in their price expectations while good, efficient, well run mills are now available in the market. It is highly recommended to pay for well managed mills in Brazil as opposed to cheap options which very often comes with hidden liabilities in labor, taxes and environmental issues.

Attached are three opportunities that are very good candidates for acquisition with two of them in the state of São Paulo and one in the Northeast. All of them are family owned and are located close to good transport infrastructure with easy access to ports.

Sugar Mill #1

Location: State of São Paulo, approximately 500 km from the major port of Santos

Crushing Capacity: 3 million tons of sugar cane per harvest

Cutting/loading/transport: Own fleet and personnel

% of sugar cane from own or leased land: 95%

Productivity/ hectare: 95 tons of sugar cane per hectare

Last Harvest:

- 230,000 tons of sugar VHP (very high polarization)
- 70,000 m3 of hydrated alcohol
- 20,000 m3 of anhydrous alcohol (ethanol – for mixing with gasoline)

Ethanol storage Capacity: 97,000 m3

Co Energy Generation:

- 55MW (from Biomass)
- 10MW is for own consumption
- Remaining sold back to the grid to generate additional income

Employees: 2,050

- 450 in Head Office and mill
- 1,600 in sugar cane fields

Sugar Mill #2

Location: State of São Paulo, less than 500 km from the major port of Santos

Crushing Capacity: 4 million tons of sugar cane per harvest

Cutting/loading/transport: Own fleet and personnel

% of sugar cane from own or leased land: 82%

Productivity/ hectare: 93 tons of sugar cane per hectare

Last Harvest:

- 252,000 tons of sugar VHP (very high polarization)
- 84,000 m3 of hydrated alcohol
- 32,000 m3 of anhydrous alcohol (ethanol – for mixing with gasoline)

Ethanol storage Capacity: 85,000 m3

Co Energy Generation:

- 87MW (from Biomass)
- 17MW is for own consumption
- Remaining sold back to the grid to generate additional income

Employees: 2,580

- 580 in Head Office and mill
- 2,000 in sugar cane fields

Sugar Mill #3

Location: State of Pernambuco, less than 100 km from the major ports of Suape and Recife

Crushing Capacity: 2 million tons of sugar cane per harvest

Cutting/loading/transport: Own fleet and personnel

% of sugar cane from own or leased land: 80%

Productivity/ hectare: 72 tons of sugar cane per hectare

Last Harvest:

- 117,000 tons of sugar VHP (very high polarization)
- 51,000 m3 of hydrated alcohol
- 18,000 m3 of anhydrous alcohol (ethanol – for mixing with gasoline)

Ethanol storage Capacity: 30,000 m3

Co Energy Generation:

- 68MW (from Biomass)
- 12MW is for own consumption
- Remaining sold back to the grid to generate additional income

Employees: 1,450

- 250 in Head Office and mill
- 1,200 in sugar cane fields