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BACHOCOB.MX - Q1 2018 Industrias Bachoco SAB de CV Earnings Call

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Miguel Angel Tortolero Casarrubias

Thiago Albuquerque

PRESENTATION

Operator

Welcome to the First Quarter 2018 Industrias Bachoco Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions)

And it is now my pleasure to turn the call over to your host, Maria Jaquez.

Maria Guadalupe Jáquez Martínez

Thank you. Good morning, and welcome to Bachoco's First Quarter 2018 Conference Call. We released our financials yesterday after market closed. If you need a copy of the release, please visit our website or request it from our Investor Relations department.

This morning's call contains certain information that could be considered forward-looking statements regarding anticipated future events and performance. These statements reflect management's current beliefs and are based on information currently available and are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties, including those described in our annual report, Form 20-F, which would make our current results differ materially from the forward-looking statements discussed in this call.

Except as required by applicable law, Industrias Bachoco undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Lastly, unless otherwise indicated, the amounts mentioned in this conference will be figures of 2018 with comparative figures of the same period of 2017 in Mexican pesos. As a reference, the exchange rate as of March 31, 2018, was MXN 18.3 per U.S. dollar.

Here with me are our CEO, Mr. Rodolfo Ramos; and our CFO, Mr. Daniel Salazar. Now I will give the call to Mr. Ramos.

Rodolfo Ramos Arvizu - Industrias Bachoco, S.A.B. de C.V. - CEO

Thank you, Maria, and good morning to everyone. In the first quarter, the conditions are very different when we compare them to the first quarter of 2017. In 2017, we mentioned that we were facing high volatility in macro economic conditions and high inflation rates in Mexico. This year, the volatility was much more moderate. The Mexican peso after (inaudible) at about 8% on the average compared with the first quarter of '17. Inflation rate is trailing down and the economy continues growing. Regarding the poultry industry in Mexico, we believe that after the natural events that really affected the economic side in some regions of the country. In the last part of 2017, demand of poultry products resumed to peak normal levels. We observed a strong demand mainly in live and whole process chicken, [about] the many products sold in the region affected by the events



I mentioned before. On the other side, we observed a limited supply increase. Supply is normally affected by the whole rate which occurred this year in March. Past year, it records in April. According to the USDA, imports of chicken from the U.S. into Mexico really increased during the first couple of months this year. In addition, we were seeing, across products, participation of Brazilian imports. The conditions above allow us a balance of supply and demand in the market. Also, our production was absorbed by our market and we were able to recover prices levels.

In the table egg industry, after continuous oversupply conditions we observed for several months with some slight reduction in the supply and we were able to improve prices and our result in that business line. Regarding the U.S. industry, according to the USDA information, chicken production was expected to grow to around 1.6% during the first quarter of '18, due mainly to a limited increase in chick sales with slightly better prices than those that went a year ago. In our U.S. operation, we continue with the process of fully integrating our Albertville Quality Foods acquisition. We think there are still synergies to capture there. La Perla, our latest acquisition in Mexico, is already operating. Even [indiscernible] represents a small part of our total sales. Our pet food volumes are growing more than 50% for the quarter.

About our main raw materials, we saw a small reduction in cost in terms of Mexican pesos, mainly due to the Mexican peso appreciation. However, we've seen increase in volatility in soybean that will affect our cost next quarter. As a result of the conditions above, we increased our total sales by 11.8% for the first quarter of '18 when comparing the same quarter of '17. Our EBITDA increased by 74.5% as our EBITDA margin also improved. And our earnings per basic and diluted shares were MXN 2.09 for the quarter. The company remained in a healthy financial condition as we reach a net cash level of MXN 12,993.4 million, which will allow us to continue to support our growth plans.

Now Daniel will join us for a discussion on the financial results.

Daniel Salazar Ferrer - *Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller*

Thank you, Rodolfo, and good morning, everyone. As a result of the condition Rodolfo mentioned before, our company's first quarter '18 net sales totaled MXN 15,303 million, MXN 1,618.1 million or 11.8% more the MXN 13,684.9 million recorded in the first quarter of '17. This increase is a result of more volume sold during the quarter. And many deals saw a price recovery in our main product line, with the prices improvement mainly in chicken and table eggs. For this quarter, sales in our U.S. operation represented nearly 28% of our net sales as well as a 27% recorded in the same quarter of '17. The cost of sale was MXN 12,085.8 million in the quarter, representing an increase of the 5.2% for the quarter. The increase in cost of the quarter was partially due to higher volume sold that was mainly attributed to an increase in unit cost in our U.S. operations. This [imbued] for higher mix of the total cost of product.

Net profit for the quarter was MXN 3,217.2 million with a gross margin of 21%, a higher margin when compared with the 16% recorded in the same period of 2017. The total SG&A for the quarter was MXN 1,385.2 million, representing 9.1% of our total sales, a reduction when compared with the 9.2% in the first quarter of '17, was an increase of 9.8% in absolute terms. We believe that we still have an opportunity in this area and we will be working to keep our expenses at the same level as a percentage of our total sales.

Operating margins of the first quarter '18 was 11.9% compared to the 6.8% which -- in the same period of '17. This higher operating margin is mainly attributed to higher product profit and lower SG&A than in the first quarter '17. EBITDA margin rates was 13.7% for the quarter, an improvement when compared with the 8.8% for the same period in 2017. For the quarter, we had net financial expenses of MXN 93.8 million, mainly due to a financial expenses losses as the Mexican peso strengthened at the end of the quarter. With this our very strong discipline in this regard and we will keep our discipline. However, the increasing costs of our raw materials integrated in the financial expenses mentioned here and most of the (inaudible). Our total taxes were MXN 476.8 million for the quarter -- sorry, MXN 467.8 million for the quarter, higher than the MXN 207.2 million recorded in the same quarter of '17. This equates -- this is mainly due to higher profit before taxes. All of the above lead us to a net income of MXN 1,260.9 for the quarter, presenting an 8.2% net margin. This profit is much higher than the MXN 652.8 million recorded in the first quarter of '17. Net income per share was MXN 2.09 for the quarter.

Now going into our balance sheet. With a healthy financial structure with a net cash level of MXN 12,993.4 million compared with the net cash of MXN 11,984.2 million recorded at the end of the year 2017. Our CapEx was MXN 304 million, and this is mainly to support our organic growth and maintain our facilities at high levels of productivity. In our 2018 annual shareholder's meeting we had this week, the company announced a paying of cash dividends in the amount of MXN 1.42 per share or MXN 17.04 per ADR. I want to say thank you.



And I will now turn the call back to Rodolfo for final comments.

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

Thanks, Daniel. We're entering into the second quarter, which is historically a good quarter for the year given that second quarter of '17 results were extraordinary and it may be hard for an improvement when we look to meet those results that we -- results for this quarter. This affects -- these increases in our main raw material effect -- costs to affect our production cost during the quarter. We will be following closely to make the proper decisions. You may see more economically [elasticity] in Mexico as the presidential election approaches towards the end of the quarter and the election of NAFTA negotiations. We still have opportunity to grow our (inaudible) and productivity as well, as well as in our SG&A. And we will continue working hard to capitalize this opportunity. Please check to ensure that our CapEx about (inaudible) for the next quarter. We will continue focusing on costing we can control and managing the other one as best as we can, depending on the market conditions in our industry.

With that, we will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Miguel Tortolero with GBM.

Miguel Angel Tortolero Casarrubias

My first question is regarding seasonality. You normally see the second quarter as the strongest within the year. But I think this time, this first quarter, the profit will result [ties]. My question is given the results of this quarter, we should expect a deterioration in the second quarter compared to 2Q '17? And the second question is if you could give us any color on the growth we would've seen in the U.S. if you were to exclude the Albertville operations.

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

Daniel, are you there?

Daniel Salazar Ferrer - *Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller*

Yes, Rodolfo. Obviously, as we mentioned before the second quarter used to be the best quarter for the year but not necessarily this year. We kind of expect the same comparison with the first quarter. Actually, the first quarter was unusually better than we used to have. But we expect a very good second quarter but not as well if you -- in comparison terms (inaudible) the year.

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

And for the second quarter, we started the second quarter in good shape in terms of supply and demand but when we were having a net increase in our cost of raw material, and this affect us at the end of the result. But -- and the other thing that we don't always able to see for this period in the Mexican economy with the presidential election and the NAFTA negotiations. So we are doing our best in order to match the same results and the last year (inaudible). And the second question was about?

Miguel Angel Tortolero Casarrubias

Yes. The second question is just related to the U.S., if you could give us any color on what the growth would have been if you exclude the Albertville operations and also, if you could share your view on the how things are going with the acquisition.

(technical difficulty)

Operator

Pardon me. It looks like we need to connect our speaker line. Please, stand by. Daniel, you are the only line connected at this time.

Daniel Salazar Ferrer - Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller

Okay. Well, looking at our U.S. operation, (inaudible) our -- particularly our Albertville Quality Foods operation. We can tell you that this operation is doing very well. (inaudible) of our expectations. I also mentioned before there are still a very -- many opportunities of getting some (inaudible) with respect to (inaudible) in the next 1 or 2 years at the most but this is doing very well right now.

Operator

We have our next question from Thiago Albuquerque with Onyx.

Thiago Albuquerque

The first question would be regarding prices. We have seen very strong average prices in the first quarter. Just want to understand if it actually is inflation on chicken products or is there a mix effect? And also, some color on the trend for the remaining of the year. And the second question would be about volumes in poultry. The volumes were mostly flat year-over-year, even that you have added some volume from the acquisition of Albertville. So also, I'd like to have some color on volumes for the remaining of the year.

Daniel Salazar Ferrer - Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller

Okay. Thank you, Thiago. When talking about the prices, the most important effect in the quarter was due to a change of mix in our juice operations due to the inclusion of our Albertville Quality Foods operation due to the -- this operation is more oriented to high value of food process products. The mix is -- the price has increased mainly due to a change of mix then a change basically in unitary prices. Even that the mix have a -- in just terms, we have an increase of around more than -- around 15% in dollar terms due to the appreciation of the Mexican pesos we'll have only an increase of 6 -- around 6% in our U.S. operations. And in the case of our Mexican operations, there is an effect of around 2%.

Thiago Albuquerque

What about the volumes? Should we see some growth for the remaining of the year or they should stay at the same level of (inaudible) for the full year?

Daniel Salazar Ferrer - Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller

We -- if it includes the [projects] right now because we're entering into the seasonal (inaudible) of the year but we (inaudible) that we are predicting we think we can have around -- above 10%, 10% to 11% during the year -- for the whole year.



Operator

And just confirming, we have our line reconnected for our speakers. Our next question comes from Jorge Huerta with GBM.

Jorge Huerta

My question is regarding the others categories. We see during the quarter an increase in volumes of about 14.4% but revenues in this segment only increased 9.2%. Is this a mix effect or what is the reason about this?

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

So we saw increases on the mix (inaudible).

Daniel Salazar Ferrer - *Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller*

(inaudible) it's important to mention, as Rodolfo mentioned before, our -- the foods production is increasing the La Perla operation. It is also affecting the growth of the other lines.

Operator

We have our next question from Martin Lara with Interacciones Securities.

Martin Lara - *Interacciones Casa de Bolsa, S.A. de C.V., Research Division - Senior Equity Analyst*

Could you please give us an updated guidance for this year in terms of sales and EBITDA and volumes also given that you have a very strong quarter?

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

Go ahead, Daniel.

Daniel Salazar Ferrer - *Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller*

Okay. In terms of sales, as I mentioned, it worked with (inaudible). We expect to have a growth around 10% for the year, the total year. In terms of volume, we expect to be around 2% to 3%. And in terms of EBITDA, we have this -- expect to be at the highest level of the ranks of (inaudible). Let's say we have our normal life ranges (inaudible) 9% to 11%. We expected to be here to be a little bit above of the -- higher of the ranks. Probably 12% -- 11%, 12% for the year.

Operator

(Operator Instructions) We do have one more question from [Hiro Negawa] with [Daiwa Assets].

Unidentified Analyst

Just want to hear again about price effect in the U.S. and Mexico. Did you have like double digit price increase in the U.S. during the quarter?

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

Daniel, go ahead.

Daniel Salazar Ferrer - *Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller*

Yes. As I mentioned before, in our particular case, our U.S. operation has an important increase in our U.S. operation but it's mainly due to the change of mix because the incorporation of our other quality goods that is more oriented to our high-value products for the process part of that. Of course, I have more but it's higher prices than our core needs. Recently we see in our U.S. operations, it was around 14 -- 15% in dollar terms but on the fixed percent in Mexican peso terms. In the case of our Mexican operation (inaudible) it is also around 2%, something like that.

Unidentified Analyst

Okay, great. So that means that improvement in -- of the price in U.S. was -- is more driven by the mix. So that means the better pricing and better profitability more of a structural issue than the cyclical effect?

Daniel Salazar Ferrer - *Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller*

Yes, that's right.

Unidentified Analyst

Right. And just another question about the seasonality. You expect the second quarter to be strong but I think that is normal seasonality for your Mexican operation, right? And what's your view for the U.S. operation in the second quarter?

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

You got some comments on that?

Daniel Salazar Ferrer - *Industrias Bachoco, S.A.B. de C.V. - CFO and Comptroller*

The second quarter (inaudible) good balance between supply and demand. The expansions at the industry in the States has been a little bit higher than the normalized levels because of the baby chicks. But the market is absorbing that amount and I expect a good balance towards the end of this quarter, which is normally the normal trend in prices. So we're looking at the balance and good prices for this quarter. It's just it's more like the same levels of the last year.

Operator

And speakers, I see no further questions at this time.

Rodolfo Ramos Arvizu - *Industrias Bachoco, S.A.B. de C.V. - CEO*

Okay. Thank you all for joining us this morning. If you have any further questions, please contact our Investor Relations area, who will be glad to assist you. Thank you very much.



Operator

And thank you, ladies and gentlemen. This concludes today's conference. We thank you for participating. You may now disconnect.

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