

*Analysts*

**C. de QUINSONAS**

+1-215-966-6226

charles.dequinsonas@spreadresearch.com

**C. RIMAUD, CFA**

+33 4 78 95 36 14

cedric.rimaud@spreadresearch.com

**F. BRANCO**

frederic.branco@spreadresearch.com

**December 1, 2010**

# Quarterly Results Review: 3Q10 Latin America



## About this report

*We have finished the review of the 3Q10 results of close to 35 Latin American corporates. This report includes highlights of the results for each of the company we cover, mostly in Brazil and Mexico, with management guidance, our comments, and financial statements.*

*In addition, this reports includes the main findings of our one-to-one meetings with the 10 companies we met at the 12th LATIBEX Forum in Madrid in November 2010.*

## Overview of 3Q10 Results

*Overall results were positive for the credit. In general, companies reported better revenues and margins in the 3Q10 than a year earlier at the same period. When compared to the previous quarter, companies delivered more lukewarm results, but rarely negative. The weakness of the US Dollar against the Real and, to a lesser extent, the Mexican Peso in the 3Q10 helped companies to reduce USD denominated debt.*

*The Cable sector (Cablemas, Net Servicios) continues to benefit from higher demand for bundled products and high-speed internet, while the Telecom sector (Brasil Telecom, Axtel, Alestra...) is still affected by the declining mature fixed-line markets in both Mexico and Brazil. In the Capital goods sector, KCSM posted strong results despite hurricane Alex in the summer and worldwide producer of cement Cemex showed volumes strongly hit by the slow recovery in the US and Europe. Housing developers, such as Corp Geo, Homex and Urbi posted positive results, mainly due to the growth in the "affordable-entry" housing. The Chemical sector (DASA, KUO and Mexichem) continues its recovery, in both terms of sales and margins. In the Metals & Mining sector, higher price of iron-ore contributed to increase revenue of CSN and Vale. However, Gerdau and Magnesita's margins were very affected by rising raw materials prices. In the Paper sector, Arauco reported solid results despite lower Asian demand for pulp in 3Q10, which affected Fibria's volumes. In the Meat sector, companies faced rising price of cattle during the quarter. Marfrig posted low EBITDA margin, while direct competitors such as Brasil Foods and JBS were able to further improve margins. The Transportation sector benefited from the positive results of the Brazilian airlines companies (GOL and TAM), with good demand in Brazil from a continuously growing emerging middle class in the country.*



## Contents

- **CABLE**

Cablemas.....	p.3
Net Servicos.....	p.5

- **CAPITAL GOODS**

Cemex*.....	p.7
Corp Geo*.....	p.10
Homex.....	p.14
Javer.....	p.16
KCSM.....	p.18
Urbi.....	p.20

- **CHEMICALS**

DASA.....	p.22
Grupo KUO*.....	p.24
Mexichem.....	p.27

- **METALS & MINING**

CSN.....	p.29
Gerdau*.....	p.31
Magnesita.....	p.35
Usiminas*.....	p.37
Vale*.....	p.39

- **OIL & GAS**

Braskem*.....	p.43
Petrobras*.....	p.46

- **PAPER**

Celulosa Arauco.....	p.51
Fibria.....	p.53

- **RETAIL**

BRF - Brasil Foods.....	p.56
Cosan.....	p.58
Gruma*.....	p.60
JBS.....	p.62
Marfrig.....	p.64

- **TELECOM**

Alestra.....	p.66
Axtel.....	p.68
Brasil telecom.....	p.70
Maxcom.....	p.72

- **TRANSPORTATION**

GOL.....	p.74
Grupo Senda.....	p.77
TAM.....	p.79

- **UTILITIES**

CESP.....	p.81
Energisa.....	p.83
SABESP*.....	p.85

\* highlights of our one-to-one meeting with this company, met at the 12th Latibex Forum in Madrid in Nov-10, are included in this report.



## CORP GEO 3Q10 Results at a glance



Date:

October 29, 2010

Period:

3Q10

Ticker:

CORGEO

\* **Revenues totaled MX\$ 4,586m in the third quarter, growing by +6.6%** from MX\$ 4,303m in 3Q09. **Housing revenue increased by +5.5% YoY** to MX\$ 4,525m, with improvements in both units sold (+1.5%) and average selling prices (+3.9%). Retail property housing (1% of total revenue) posted a significant increase of +338% to MX\$ 60.9m, which represents the sale of commercial property and land.

\* Despite **gross margin was down from 27.4% in 3Q09 to 25.9% in 3Q10, EBITDA margin improved to 23.5% from 23.1%**, mainly due to limited SG&A expenses as a percentage of revenues. EBITDA in value reached MX\$ 1,080m in 3Q10, an increase of +8.4% YoY.

\* **Cash and equivalents decreased by -59.2%** to MX\$ 1,937m as of September 2010, as a result of the refinancing of short term debt with the proceeds of the US\$250m senior unsecured notes due 2020 issued in June 2010. Thus, total debt reduced simultaneously by MX\$ 2.5bn, leading to a net debt of MX\$ 7.6bn as of 3Q10 (7.3bn as of 2Q10). Therefore, **net leverage slightly increased from 1.7x as of 2Q10 to 1.8x as of 3Q10**, mainly due to higher net debt and despite higher LTM EBITDA.

\* **GEO generated free cash flow of MX\$ 555m** during the quarter with **noticeable lower capex than in 1H10**, and **liquidity totaled MX\$ 8,890m as of 3Q10**. Liquidity includes cash plus unused available lines of credit: MX\$ 5.1bn from bridge loans and MX\$ 1.9bn from various credits for land purchase, direct credits, commercial paper, leasing, etc.

### Spread Research Comment:

*During the conference call, management indicated Corp GEO has maintained its leadership position in the low income home-building market (9% market share) and continued to improve its levels of mortgage origination.*

*Results in the third quarter were in line with management guidance for FY 2010: revenues to deliver 8-11% growth YoY and EBITDA margins between 21-23%. Guidance is supported by demand in the lower-income segments and consistent supply of mortgages from Mexico's key housing institutions, INFONAVIT and FOVISSSTE. The company expects 100,000 units sold by 2015. GEO confirmed it will focus on free cash flow generation by reducing costs, improving working capital cycle (management mentioned there was space for improvements in terms with suppliers, following recent renegotiations) and reducing its capex and land investment. As a result, management expects FCF to be close to neutral for the year as a whole, as a result of the strong free cash flow in 3Q10 (MX\$ 555m) and the expected very strong fourth quarter. 4Q10 receivables to remain stable vs. 3Q10.*

*With regard to 2011 guidance, management said it expected an excellent year. Details will be provided to investors and analysts in December, after 2011 budget is voted.*

*No acquisitions are in the pipeline and managers highlighted that revenues from land sale were part of a long term strategy, not an opportunistic approach.*



## Financial Statements



### Income Statement

	MX\$ million	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	H1 2010
<b>INCOME STATEMENT</b>							
Revenues		10,500	13,011	14,976	17,234	19,211	8,971
Cost of Sales		(7,634)	(9,443)	(10,925)	(12,650)	(14,228)	(6,643)
Operating Costs		(1,031)	(1,265)	(1,458)	(1,641)	(1,676)	(901)
Other income and expenses		(11)	(156)	(104)	(131)	(250)	(132)
Total interest expense		(295)	(371)	(472)	(728)	(741)	(305)
Financial income		83	106	102	100	124	40
Income tax		(428)	(331)	(670)	(712)	(912)	(332)
Net Income		1,185	1,551	1,448	1,474	1,528	698
<b>MARGIN</b>							
Gross margin		2,866	3,568	4,051	4,584	4,983	2,328
EBITDA reported		2,051	2,547	2,908	3,201	3,597	1,648
EBITDA adjusted		2,051	2,547	2,908	3,201	3,597	1,648
EBITDAR reported		2,051	2,547	2,908	3,201	3,597	1,648
EBITDAR adjusted		2,051	2,547	2,593	3,201	3,597	1,648
EBIT reported		1,835	2,303	2,593	2,944	3,307	1,427
EBIT adjusted		1,835	2,303	2,593	2,944	3,307	1,427
Depreciation and amortization		216	244	315	258	290	220

### Balance Sheet

		FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	H1 2010
<b>BALANCE SHEET</b>	<b>assets</b>						
	Total asset	13,754	16,111	19,619	25,141	30,227	32,693
	Intangible Assets	171	226	196	351	730	
	Property & equipment	928	1,001	1,410	1,695	2,010	2,021
	Receivable	3,789	4,794	6,159	8,280	9,877	828
	Inventories	4,009	4,067	5,743	7,267	8,905	17,711
	Cash in hand	2,896	2,993	2,130	2,560	3,393	4,743
	Financial assets						
	Other asset	1,961	3,030	3,981	4,987	5,311	7,390
	<b>s/h equity</b>						
	Payable	1,416	1,558	1,898	1,996	2,562	3,363
	Shareholder equity	5,271	7,539	8,685	10,320	11,618	9,628
	<b>liabilities</b>						
	Total reported debt	3,865	4,063	5,283	7,397	8,247	12,023
	Other liabilities	3,202	2,951	3,753	5,428	7,800	7,678
Net reported debt	969	1,070	3,154	4,837	4,853	7,280	
Operating lease & other adjustments				12			
Total adjusted debt	3,865	4,063	5,283	7,408	8,247	12,023	
Net adjusted debt	969	1,070	3,154	4,848	4,853	7,280	

### Credit Ratios

		FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	H1 2010
<b>RATIOS</b>	<b>credit</b>						
	Free Cash Flow	56	(723)	(2,412)	(1,263)	(293)	
	EBITDA / gross interests	7	7	6	4	5	5
	Total reported debt / EBITDA	1.9x	1.6x	1.8x	2.3x	2.3x	3.3x
	Net reported debt / EBITDA	0.5x	0.4x	1.1x	1.5x	1.3x	2.0x
	FCF/ Net adjusted debt	6%	(68%)		(26%)	(6%)	
	<b>operation</b>						
	Revenue growth		24%	15%	15%	11%	2%
	Gross margin	27%	27%	27%	27%	26%	26%
	EBITDA margin	20%	20%	19%	19%	19%	18%
	ROE	(8%)	21%	17%	14%	13%	7%
	Debt interests costs	(2%)	9%	9%	10%	9%	3%
Working capital days	(53)	(61)	(90)	(80)	(36)		
Inventories days	139	114	140	154	169	721	
Receivable days	132	134	150	175	188	34	
Payable days	68	60	63	58	66	185	



## Company visit: CORP GEO



**Are revenues from land sale a short-term or a long-term approach?** The company is looking for territorial expansion: from 19 states / 44 municipalities to 29 states / 84 municipalities. As Geo is embarking on an expansion strategy, land purchase is likely to go up.

The company buys 'common' land (*hijo*) under cover from farmers, and then applies for building permit which typically takes 6 months. Thereupon, Geo develops housing and sells to individuals who got their mortgage from Mexican housing institutions, such as INFONAVIT. From the purchase to the sale of the land, financial reporting practice is as follows: the land goes into inventory at cost of purchase, then goes into work-in-progress while the company builds, in the end, the sale is recorded at title transfer. INFONAVIT typically pays GEO a week later, others pay a bit later (average receivables: 17 days). This is a long term strategy, as the company must find the land that will be attractive within 2 years for building new developments. The potential revenue of land bank was approximately MX\$ 100bn (4 to 5 years of construction). 84% of land bank appropriate for low-income housing.

**What is the company's strategy?** We focus on affordable entry level and economic segments. During the third quarter, 83% of total GEO homes were sold through INFONAVIT mortgages, compared to 66% in 3Q09. Together, INFONAVIT and FOVISSSTE mortgages accounted for 93% of GEO's total sales in 3Q10. Housing institutions (Infonavit, Fovisste, Conavi, Fonhapo) represent 77% of total demand, 23% from private sector (higher-end homes).

Geo's mix in 2010 was Infonavit 75% / Fovisste 20% / unaffiliated 5%. The target by 2015= Infonavit 67% / Fovisste 13% / unaffiliated 20%.

**What role plays the Mexican government in your business?** Housing is a strategic sector for the Mexican government which aims to provide 6 million houses to Mexican families in 2010 and supports permits and licenses. Housing deficit represents about 8.9 million homes + 1 million incremental per year.

Geo is planning a 20% growth to 2015 in the Economic and Lower affordable segments. Low entry level (eco & lower affordable + affordable) should reach 85.5% in 2015, from 75.7% in 2010.

**How do you see your revenue breakdown evolving?** The current breakdown of revenue is 60% from lower end housing and 40% from higher end housing in 9M10. The target is 70% lower end and 30% higher end for 2010. The objective is to increase market share from the current 9% of Infonavit and 13.1% of Fovisste. The 10 largest competitors represent less than 30% of Infonavit's market share. Large competitors are behind with Urbi (3.5% of Infonavit and 5.5% of Fovisste), Homex (5.61% of Infonavit and 9.7% of Fovisste). There are no external competitors.

**Is there room for improvements regarding working capital?** 3Q10 working capital indicators in the industry: GEO 541 days (148% of revenues), Urbi 762 days (209%), Homex 634 days (174%). We expect gains to come from the Alpha factory which is a fully-operational large scale factory: 4500 homes built in 2010 after 900 in 2009, working capital improvement by 35% with lower needs and reduction in the time to build house: from 12 down to 7 weeks (pre-fabricated homes).

Our working capital target: 450 days, 90 days improvement.



## Company visit: CORP GEO (continued)



**Do you have any outlook regarding the price/volume mix?** Prices at the low end are constrained by the Infonavit approval process, measured as a multiple of minimum wage salary, but are adjusted for inflation. Volumes are to reach 100,000 units in 2015 from current 51,000.

**Do you expect positive free cash flow in 2011?** The company reported negative free cash flow of MX\$ 887m in 9M10 but positive FCF of MX\$ 555m in 3Q10. Seasonal cash pattern means FCF negative over 1H, positive over 2H, 2010 and 2011 should be neutral.

**Management indicated the following additional guidance and outlook:**

- 40 to 50% of Total Production to be delivered through Alpha factories by 2015.
- Gross margin improvement of 200 to 400bps through Alpha factory. Current margin is 26%.
- Guidance to come when the Infonavit releases next year's number in late November, which will allow Geo to release guidance in the second week of December.
- Debt: GEO wants to reduce exposure to short term financing to reach 30% ST / 70% LT.



## FIBRIA 3Q10 Results at a glance



Date:  
November 11, 2010

Period:  
3Q10

Ticker:  
FIBRIA

\* **Net revenues totaled R\$ 1,797m in the third quarter, an increase of +28% YoY**, but down -1% QoQ.

Pulp business (83% of net revenues in 3Q10)

**Net revenues from the Pulp business grew +37% YoY to R\$ 1.5bn** as a result of higher average net price in Reais (+46%) partially offset by a drop in sales volume (-6%) mainly due to reduced Asian demand at the beginning of 3Q10. When compared to the previous quarter, net revenues from pulp decreased by -4% due to lower sales volume. During 3Q10, Pulp production reached 1.3 million tons, a rise of +10% QoQ but a -7% decline YoY mainly explained by the Guaíba Unit sale.

Paper business (16% of net revenues in 3Q10)

**Net revenues from the Paper business declined by -3% in 3Q10** when compared to the same period last year, mainly as a result of lower supply. When compared to 2Q10, net revenues soared by +20% due to greater sales volume (+20%) which benefited from the seasonality effect in all product lines, in particular in the demand from the publishing and notebook segments.

\* **COGS were up +9% YoY** and COGS/ton up +17% YoY due to higher cash cost of pulp production of R\$ 465/t in 3Q10, from R\$ 433/t in 3Q09 and R\$ 499/t in 2Q10.

\* **Adjusted EBITDA totaled R\$ 717m in 3Q10, up +68% YoY** largely due to higher average net pulp price. When compared to 2Q10, EBITDA fell -2% as a result of lower pulp sales volume and the depreciation of the US Dollar against the Real.

**3Q10 adjusted EBITDA margin was 40%**, flat sequentially, and up from 30% in 3Q09. YTD margin reached 39%. EBITDA per ton of R\$ 552/t grew by 80% when compared to 3Q09.

\* **Cash flow from operations of R\$ 599m** benefited from an improved working capital requirement (from R\$ 228m in 3Q09 to 94m in 3Q10) primarily due to a positive shift in accounts receivable. Negative cash flow from investing activities of R\$ 653m included **Capex of R\$ 299m in the third quarter**, of which R\$ 256m for maintenance capex, mainly silviculture and modernization. **YTD capex totaled R\$ 710m**. In addition to negative financing cash flow of R\$ 56m in the quarter, cash totaled R\$ 480m as of September 30, 2010. **Total cash, cash equivalents and derivatives fair value amounted to R\$ 2,184m.**

\* **Gross debt reduced from R\$ 13.2bn as of 2Q10 to R\$ 12.3bn as of 3Q10**, as a result R\$ 2.3bn raised during the period, debt amortization of R\$ 2.9bn and foreign exchange variation of -R\$ 0.5bn (74% of financial debt is denominated in foreign currencies). Of the total debt, R\$ 1.4bn is related to the remaining balance of the debt with former Aracruz shareholders.

\* **Net debt to LTM adjusted EBITDA ratio was 3.9x as of 3Q10**, strongly down from 4.7x as of 2Q10, due to higher EBITDA and reduced gross debt.

### Spread Research Comment:

*During the conference call, management seemed fairly concerned about the reduced Asian demand seen in the last quarter, which led to an increase in inventories. Asian sales, indeed, plunged to 20% of sales in 3Q10, from 37% in 3Q09. The company indicated that its strategy in China was, despite lower demand, to maintain price levels. According to Fibria's management, volumes are already coming back in the region and this strategy will pay for the next months. However, the company expects Asian sales to reach 21-23% of total sales in the fourth quarter of this year (European sales to be 39-41%) and inventories days to range between 45 to 46 days.*



## FIBRIA 3Q10 Results at a glance (continued)



*Management did not provide guidance for EBITDA margin at year-end, but mentioned a cash cost guidance of R\$ 455/t for FY10. Fibria revised downwards its former capex guidance of R\$ 1.2bn for FY10 by saying this number would be a cap of the actual capex for the year as a whole. Guidance for next year will be given after budget is voted.*

*Regarding the paper business sale rumor, management said nothing will occur before the end of this year, and that it was unlikely before the second half of 2011.*

*We expected net leverage to come down further, as it is far from the 2.5x area guidance of management at the beginning of this year. We maintain our expectation of de-leveraging to 3.1x at year-end, though. The company has R\$ 380m debt payment due in 4Q10 and is said to meet these obligations with cash or new bond sale.*



## Financial Statements



### Income Statement

R\$ million		2005	FY 2006	FY 2007	FY 2008	Pro forma 2008	FY 2009	FY 2010 e	FY 2011 e	FY 2012 e
INCOME STATEMENT	Revenues	1,130	1,317	3,211	2,991	5,953	6,000	7,764	7,880	8,077
	Cost of Sales	(654)	(813)	(2,223)	(2,155)	(4,353)	(5,061)	(5,357)	(5,595)	(5,816)
	Operating Costs	(229)	(219)	(203)	(331)	(805)	(716)	(776)	(757)	(808)
	Other income and expenses	49	73	130	(1,539)	3,703	(660)			
	Depreciation and amortization	(117)	(193)	(449)	(464)	(904)	(1,248)	(1,350)	(1,400)	(1,500)
	Total interest expense			466	180	(7,286)	761	(1,281)	(1,275)	(1,275)
	Financial income	(40)	18	(361)	(1,043)		1,009			
	Income tax	8	(4)	(183)	586	1,477	(774)	128	128	128
Net Income	264	372	837	(1,310)	(1,311)	558	478	382	307	
MARGIN	Gross margin	476	504	988	836	1,600	939	2,407	2,285	2,262
	EBITDA reported	364	478	1,234	969	1,699	1,471	2,980	2,929	2,954
	EBITDA adjusted	364	478	1,234	969	1,699	1,471	2,980	2,929	2,954
	EBITDAR reported	364	478	1,234	969	1,699	1,504	3,013	2,962	2,987
	EBITDAR adjusted	364	478	1,234	969	1,699	1,504	3,013	2,962	2,987
	EBIT reported	247	285	785	505	795	223	1,630	1,529	1,454

### Balance Sheet

		FY 2005	FY 2006	FY 2007	FY 2008	Pro forma 2008	FY 2009	FY 2010 e	FY 2011 e	FY 2012 e	
BALANCE SHEET	assets	Total asset	3,731	4,404	11,748	12,802	23,174	31,914	31,329	31,268	31,260
		Intangible Assets	-	-	1,481	632	681	5,443	5,417	5,417	5,417
		Property & equipment	1,758	1,945	7,879	8,977	15,694	14,037	13,887	13,687	13,587
		Receivable	212	201	274	304	866	842	1,191	1,101	1,084
		Inventories	157	198	424	535	1,105	834	1,085	1,101	1,084
		Cash in hand	261	405	1,436	886	1,765	3,897	3,058	3,379	3,539
		Financial assets						65	30	30	30
		Other asset	1,343	1,655	253	1,468	3,063	6,795	6,661	6,553	6,519
	s/h equity	Payable	64	111		192	423	384	411	429	446
		Shareholder equity	1,737	2,275	5,633	4,133	4,973	15,075	15,075	15,075	15,075
	& liabilities	Total reported debt	1,496	1,541	3,257	5,938	14,433	10,977	10,392	10,331	10,323
		Other liabilities	434	477	2,858	2,539	3,345	5,478	5,451	5,433	5,416
		Net reported debt	1,235	1,136	1,821	5,052	12,668	7,080	7,334	6,952	6,785
		Operating lease & other adjustments						267	280	290	300
Total adjusted debt		1,235	1,541	3,257	5,938	14,433	11,244	10,672	10,621	10,623	
Net adjusted debt	974	1,136	1,821	5,052	12,668	7,347	7,614	7,242	7,085		

### Credit Ratios

		FY 2005	FY 2006	FY 2007	FY 2008	Pro forma 2008	FY 2009	FY 2010 e	FY 2011 e	FY 2012 e	
RATIOS	credit	Free Cash Flow	(101)	23	(648)	(1,304)	(2,098)	(874)	(254)	382	168
		EBITDA / gross interests			(2.6)	(5.4)	0.2	(1.9)	2.3	2.3	2.3
		Total reported debt / EBITDA	4.1x	3.2x	2.6x	6.1x	8.5x	7.5x	3.5x	3.5x	3.5x
		Net reported debt / EBITDA	3.4x	2.4x	1.5x	5.2x	7.5x	4.8x	2.5x	2.4x	2.3x
		Net adjusted debt / EBITDA		2.4x	1.5x	5.2x	7.5x	5.0x	2.6x	2.5x	2.4x
	FCF/ Net adjusted debt	(10%)	2%	(36%)	(26%)	(17%)	(12%)	(3%)	5%	2%	
	Revenue growth		16.5%	143.8%	(6.9%)	n/a	100.6%	29.4%	1.5%	2.5%	
	operation	Gross margin	42.1%	38.3%	30.8%	28.0%	26.9%	15.7%	31.0%	29.0%	28.0%
		EBITDA margin	32.2%	36.3%	38.4%	32.4%	28.5%	24.5%	38.4%	37.2%	36.6%
		ROE	15.2%	16.4%	14.9%	(31.7%)	(26.4%)	3.7%	3.2%	2.5%	2.0%
Debt interests costs		2.7%	(1.2%)	11.1%	17.6%	-	(9.2%)	12.0%	12.0%	12.0%	
Working capital days		(25)	(24)	19	(19)	(20)	(25)	(29)	3	1	
Inventories days	51	55	48	65	68	51	51	51	49		
Receivable days	68	56	31	37	53	51	56	51	49		
Payable days	36	50	-	33	35	28	28	28	28		



## MARFRIG 3Q10 Results at a glance



Date:  
November 17, 2010

Period:  
3Q10

Ticker:  
MARFRI

\* **Gross revenue grew +10.3% to R\$ 4.1bn** when compared to 2Q10 (R\$ 2.5bn in 3Q09), driven by an increase of +18.4% in the domestic market. However, export revenue fell -0.2% against 2Q10. Net revenues increased to R\$ 3.8bn in 3Q10, +8.3% QoQ and +60.5% YoY.

\* **Gross margin fell to 17.1% from 17.8% in 2Q10**, mainly as a result of rising prices of raw material (animal + grains) which represented 69% of COGS during the period.

\* EBITDA totaled R\$ 283m during the period and **EBITDA margin strongly fell to 7.0% from 11.3% in 3Q09 and 8.0% in 2Q10**, due to higher cattle costs in Argentina, Uruguay and Brazil, startup costs for O'Kane Poultry and marketing expenses in the Marfrig brands.

\* YTD **Capex, excluding breeding stocks, totaled R\$ 350m**. R\$ 143m was invested in building, maintenance, modernization and expansion of industrial business during the last quarter.

\* **Cash increased to R\$ 5.3bn** from R\$ 2.0bn as of 2Q10 mainly due to the issuance of R\$ 2.5bn mandatory debentures convertible into shares within 5 years, in relation to the Keystone acquisition officially announced on October 1, 2010. Total debt stood at R\$ 8.1bn, excluding the convertible debentures treated as equity, which led to a **net debt to EBITDA ratio of 2.4x as of 3Q10 against 4.0x as of 2Q10**. On a pro forma basis with the Keystone payment, net reported leverage was 3.2x.

### Spread Research Comment: We affirm our B rating and stable outlook

*Marfrig's margin of 7.0% in 3Q10 was below our expectations, mainly as a result of margin pressure from rising prices of cattle. At the same time, competitors such as JBS and Brasil Foods reported improving EBITDA margin during the same period, confirming product portfolio diversification does make sense in the meat protein industry.*

*During the conference call, management indicated overall capacity utilization of beef plants in South America was >60% (>65% in Brazil), while the rate was lower in Uruguay. The company expects the overall utilization rate of beef plants to increase to 70% next year.*

*In the poultry business, Marfrig was able to increase prices in the domestic market and management felt concerned about pricing pressure in the international market. The New Seara division (Seara acquisition + ex DASI) delivered R\$ 26.4m of synergies so far and should reach R\$ 60m for FY10 and R\$ 140m in FY11.*

*Working capital imbalances should continue in 4Q10 and negative cash flow is expected in this quarter. However, the scenario in 2011 is an improvement of WC and breakeven cash flow during the same year as a target, with the help of positive cash flow from Keystone Foods. The acquisition of the US poultry producer should also enable Marfrig to reach its sales guidance of R\$ 16.5-18.0bn in 2010 as a whole. Indeed, Keystone will be consolidated in the 4Q10 and Marfrig is likely to deliver stronger sales in the same quarter, due to the historical seasonality of the business. Management indicated Keystone's sales are very stable during the year, leading to additional revenue of approximately US\$ 1,625m in 4Q10 (US\$ 6.5bn/year).*

*Management kept unchanged its net leverage guidance of 3.0x for year-end and mentioned a net leverage of 2.0 to 2.2x in 2011 mainly as a result of the growth in EBITDA.*

*As expected, credit ratios have improved with the Keystone acquisition but the liquidity profile of the company is weak with a short maturity profile and continuous negative cash flow in the next quarter. **We affirm our B rating and stable outlook.***



## Financial Statements & Forecasts



### Income Statement

	BRL Million	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 e	Pro forma	FY 2011 e	FY 2012 e
<b>INCOME STATEMENT</b>									
Revenues		2,131	3,340	6,204	9,616	15,866		28,559	31,557
Cost of Sales		(1,710)	(2,673)	(4,877)	(8,234)	(13,042)		(24,218)	(26,761)
Operating Costs		(191)	(334)	(602)	(836)	(1,745)		(2,856)	(2,840)
Other income and expenses		11	31	57	145				
Total interest expense		(274)	(543)	(1,674)	(877)	(1,003)		(1,294)	(1,474)
Financial income		113	286	713	901				
Income tax		(15)	(23)	144	(34)	50		(48)	(121)
Net Income		64	85	(36)	679	126		144	362
<b>MARGIN</b>									
Gross margin		420	667	1,327	1,381	2,824		4,341	4,797
EBITDA reported		248	380	884	820	1,499		1,915	2,417
EBITDA adjusted		248	390	921	820	1,499	1,754	1,915	2,417
EBITDAR reported		248	380	884	820	1,499		1,915	2,417
EBITDAR adjusted		248	390	921	820	1,499		1,915	2,417
EBIT reported		229	333	725	545	1,079		1,485	1,957
EBIT adjusted		229	343	762	545	1,079		1,485	1,957

### Balance Sheet

		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 e	Pro forma	FY 2011 e	FY 2012 e	
<b>BALANCE SHEET</b>	<b>assets</b>									
	Total asset	1,718	4,331	9,155	11,452	16,625		n/a	n/a	
	Intangible Assets			2,144	1,870	2,556		n/a	n/a	
	Property & equipment	429	948	2,236	2,415	2,815		n/a	n/a	
	Receivable	364	737	1,002	988	1,304		2,504	3,026	
	Inventories	347	595	1,582	1,726	2,608		5,164	5,620	
	Cash in hand	292	1,050	1,072	3,033	1,216		478	770	
	Financial assets							n/a	n/a	
	Other asset	285	1,001	1,120	1,419	6,125		n/a	n/a	
	<b>s/h equity &amp; liabilities</b>									
	Payable	213	335	748	833	1,322		3,716	3,812	
	Shareholder equity	246	1,306	2,748	4,198	6,836		n/a	n/a	
	Total senior debt	1,047	2,074	4,518	5,312	6,687		7,187	8,187	
	Total reported debt	1,047	2,074	4,518	5,312	6,687		7,187	8,187	
	Other liabilities	212	616	1,141	1,108	1,780		n/a	n/a	
Net reported debt	755	1,024	3,447	2,279	5,471	5,896	6,708	7,416		
Operating lease & other adjustments			11	136	140		145	150		
Total adjusted debt	1,047	2,074	4,530	5,448	6,827		7,332	8,337		
Net adjusted debt	755	1,024	3,458	2,415	5,611		6,853	7,566		

### Credit Ratios

		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 e	Pro forma	FY 2011 e	FY 2012 e
<b>RATIOS</b>	<b>credit</b>								
	Free Cash Flow		(767)	(2,131)	(419)	(579)		(1,204)	(674)
	EBITDA / gross interests	0.9	0.7	0.6	0.9	1.5		1.5	1.6
	Total reported debt / EBITDA	4.2x	5.3x	4.9x	6.5x	4.5x		3.8x	3.4x
	Net reported debt / EBITDA	3.1x	2.6x	3.7x	2.8x	3.7x	3.4x	3.5x	3.1x
	FCF/ Net adjusted debt		(75%)	(62%)	(17%)	(10%)		(18%)	(9%)
	Revenue growth		57%	86%	55%	65%		80%	11%
	<b>operation</b>								
	Gross margin	20%	20%	21%	14%	18%		15%	15%
	EBITDA margin	12%	11%	14%	9%	9%		7%	8%
	ROE	26%	7%	(1%)	16%	2%			
	Debt interests costs	26%	26%	37%	17%	15%		18%	18%
	Working capital days		(54)	(48)	(2)	(16)		(17)	(10)
	Inventories days	60	65	93	66	60		66	65
	Receivable days	62	81	59	37	30		32	35
Payable days	45	46	56	37	37		56	52	



**Spread Research**

Www.spreadresearch.com

Tel : +33 4 78 95 34 04  
info@spreadresearch.com

You can also  
find us on  
**BLOOMBERG**  
**SPRR <GO>**

## **SPREAD RESEARCH's latest reports on Latin America**

December 1, 2010	Credit Analysis	GRUPO KUO SAB de CV
November 22, 2010	Company Visits	CEMEX, CORP GEO, GRUPO KUO, GERDAU, USIMINAS, VALE, BRASKEM, PETROBRAS, GRUMA and SABESP.
November 16, 2010	Credit Analysis	BRASIL TELECOM SA
November 5, 2010	Credit Analysis	MARFRIG ALIMENTOS SA

## **Disclaimer**

ALL INFORMATION CONTAINED IN THIS MESSAGE IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED, REPACKAGED, TRANSFERRED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, BY ANY PERSON WITHOUT SPREAD RESEARCH'S PRIOR WRITTEN CONSENT.

THIS INFORMATION IS DESTINED TO PRIVILEGED PERSONS ONLY, WHO ARE SPREAD RESEARCH'S CLIENTS AND, AS SUCH, HAVE ACCEPTED AND SIGNED A CONFIDENTIALITY AGREEMENT PRIOR TO RECEIVING SPREAD RESEARCH'S SERVICES. ANY UNAUTHORIZED PERSON RECEIVING THIS INFORMATION SHOULD PROMPTLY DELETE IT AND SHALL NOT, UNDER ANY CIRCUMSTANCES, MAKE ANY USE WHATSOEVER OF THIS COMMUNICATION, NOR TRANSFER IT TO ANY THIRD PERSON.

All information contained in this communication has been obtained by SPREAD RESEARCH from generally accepted public sources and is believed to be accurate and reliable. SPREAD RESEARCH makes no representation or warranty as to the accuracy and completeness of any such information. Under no circumstances shall SPREAD RESEARCH have any liability to any person or entity for any loss or damage in whole or in part due to any error (negligent or otherwise) within or outside the control of SPREAD RESEARCH or any of its directors, officers, employees or agents in connection with any such information. The credit analysis, if any, constituting part of the information contained herein, must be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each analysis or other opinion must be considered as one factor in any investment decision made by or on behalf of any recipient of the information contained in this communication, and each user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH ANALYSIS OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY SPREAD RESEARCH IN ANY FORM WHATSOEVER.