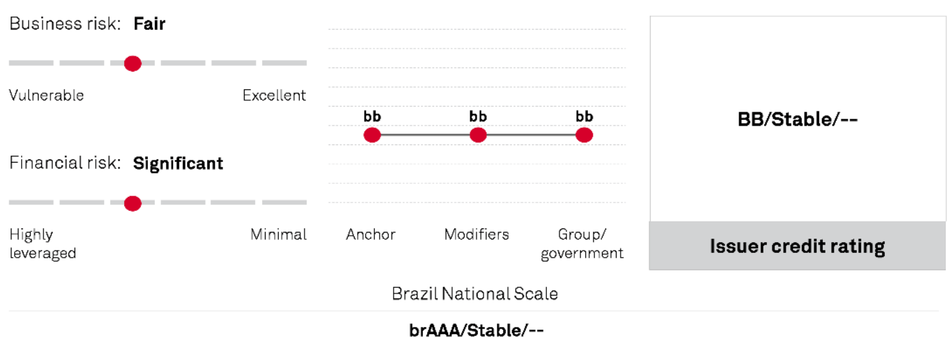
Jalles Machado S.A.

March 7, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Low cash costs, boosted by above-average agricultural yields and irrigation capacity.	Exposure to the inherent volatility of the sugar and ethanol industry, including commodity prices, weather conditions, the foreign exchange (FX) rate, and Petrobras' fuel pricing policy, to which ethanol prices in Brazil are closely linked.
Diversified portfolio, including higher value-added products such as organic sugar--a niche market product that warrants a significant premium over the NY#11 contract.	Smaller scale, currently operating only two mills in the state of Goiás.
Low leverage and high free operating cash flows (FOCF) after leasing expenses.	
Adequate liquidity boosted by the IPO, even after the expected acquisition of a third mill.	

Operations are at full capacity, while still high sugar and ethanol prices support cash generation. Jalles Machado S.A. (Jalles) has been benefiting from very high ethanol prices during the current harvest season that ends on March 31, 2022. Overall, the company's operations were unscathed by drought in the Center-South region of Brazil mainly due to its irrigation systems, resulting in very low crop losses. As a result, Jalles continues to operate at full capacity. Despite ongoing and expected cost pressures due to higher inflation and more limited supply of fertilizers, Jalles should continue to post sound operating efficiency, with unitary revenue minus cash cost among the best in the sector. The conflict in Ukraine could pressure fertilizer prices for the 2022-2023 harvest, although that could be somewhat mitigated by the increase of biological fertilizers used as substitutes and the company's organic plantations where it produces organic sugar.

Maintenance of low leverage even amid the acquisition of a new mill and higher expansion investments. Following its IPO in February 2021, Jalles now expects to acquire a new sugarcane mill in the early 2022-2023 harvest, as part of the company's plan to increase its geographic footprint, which it fully disclosed in the IPO prospect. The acquisition should increase crushing levels by about 2 million tons per year and cost about R$600 million. Jalles is also expanding the capacity of its mills in Goiás, which should reach a combined capacity of 6.5 million tons in three years. In this sense, consolidated crushing levels would reach about 8.5 million tons after the acquisition and expansion projects. Despite the higher capex and cash outflow from the acquisition, we expect Jalles to maintain adjusted net debt to EBITDA at 1.0x-1.5x and generate FOCF more than enough to cover lease expenses.

Resilient liquidity. The company's liquidity was bolstered by the IPO and the favorable market conditions, as well as the new debenture issuance that was disbursed in January, totaling R$451 million. Even with the acquisition, we expect sources of liquidity to continue exceeding uses by more than 20%, while Jalles will continue contracting long-term debt to further extend maturities.

Outlook

The stable outlook reflects our view that Jalles will continue to post low leverage even amid higher expansion capex and the acquisition of a new mill in the next 12 months. The company should continue operating close to full capacity, increasing crushing levels and benefiting from healthy sugar and ethanol prices, leading to positive FOCF. Therefore, we expect net debt to EBITDA at 1.0x-1.5x and funds from operations (FFO) to debt above 60%, while the company maintains sources over uses of cash of more than 1.2x for the next 12 months.

Downside scenario

We could take a negative rating action in the next 12-18 months if the company's efficiency plummets, stemming from low sugar and ethanol prices, adverse climate conditions, and increasing idle capacity amid high capital expenditures (capex) at the new mill. In this scenario, we should expect net debt to EBITDA above 2.5x and FFO to debt below 30%, coupled with a liquidity deterioration.

Upside scenario

An upgrade is unlikely in the next 18-24 months due to the company's smaller scale than those of larger domestic peers. An upgrade would stem from the completion of the expansion projects and integration of the new mill, combined with greater asset diversification, while Jalles maintains low cash costs by operating close to full capacity amid high sugar and ethanol prices and increases FOCF. In this scenario, adjusted debt to EBITDA would remain below 1.5x and FFO to debt above 60% consistently, with FOCF to debt above 45%. The company would also keep sources over uses of cash comfortably above 1.2x for the next 12 months.

Our Base-Case Scenario

Assumptions

- Brazil's average inflation of about 8.2% in fiscal 2022, 7.7% in fiscal 2023, and 4.0% in fiscal 2024, impacting labor-related costs (transportation, harvest, and industrial costs).
- Average exchange rate of R$5.37 per $1 in fiscal 2022, R$5.48 per $1 in fiscal 2023, and R$5.53 per $1 in fiscal 2024.
- Average international oil prices (Brent) of about $75 per barrel in fiscal 2022, considering realized prices, $73 per barrel in fiscal 2023, and $63 per barrel afterwards.
- Average VHP sugar net prices of R$1,675 per ton in fiscal 2022, R$1,800 per ton in fiscal 2023, and R$2,040 per ton in fiscal 2024, increasing according to the forward curve for the NY#11 contract and foreign exchange rate.

- Average white sugar net prices of R$1,850 per ton in fiscal 2022, R$2,000 per ton in fiscal 2023, and R$2,255 per ton in fiscal 2024.
- Average anhydrous and hydrated ethanol prices of R$3.75 per liter in fiscal 2022, R$3.70 per liter in fiscal 2023, and R$3.25 per liter in fiscal 2024, according to international oil prices and average foreign exchange rates.
- Consolidated crushing levels of 5.36 million tons in fiscal 2022, according to the harvest yield, 7.4 million in fiscal 2023, and 7.9 million in fiscal 2024.
- We are factoring an increase of 2 million tons of crushing capacity after the acquisition of the new mill, which we believe would be incorporated during fiscal 2023.
- Capex of R$640 million in fiscal 2022, R$760 million in fiscal 2023, and R$625 million in fiscal 2024, reflecting maintenance capex for the newly acquired mill.
- Cash outflows of about R$600 million due to acquisition of the mill.
- Dividend distribution of 25% of previous year's net income.

Key metrics

Jalles Machado S.A.--Key Metrics*

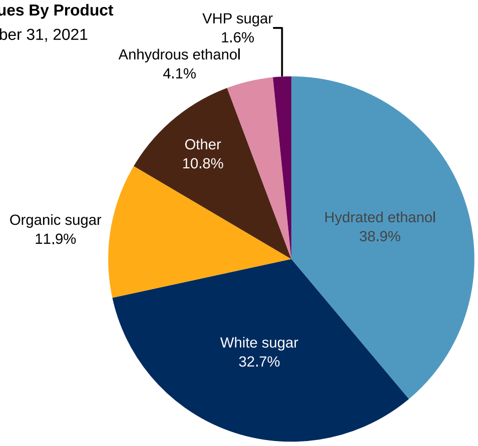
Mil. $	2020a	2021a	2022e	2023f	2024f
Consolidated crushing levels (thousand tons)	5,109	5,296	5,357	7,300-7,400	7,800-7,900
Revenue	891	1,085	1,400-1,450	1,900-2,000	2,100-2,200
EBITDA	611	712	1,050-1,100	1,250-1,300	1,300-1,350
EBITDA margin (%)	68.6	65.6	74-76	63-65	62-64
Funds from operations (FFO)	495	626	880-900	1,020-1,040	1,070-1,090
Capital expenditure	391	403	640	758	625
Free operating cash flow (FOCF)	201	250	280-290	280-300	390-410
Dividends	3.3	16	42-44	94-96	144-146
Debt	1,313	734	720-730	1,510-1,520	1,370-1,380
Debt to EBITDA (x)	2.1	1.0	0.5-1.0	1.0-1.5	1.0-1.5
FFO to debt (%)	37.7	85.3	120-125	65-70	75-80
FOCF to debt (%)	15.3	34	35-40	15-20	25-30

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. Total adjusted debt for fiscal 2021 includes reported debt of R$1.4 billion, plus reported lease liabilities of R$507 million, less accessible cash of R$1.2 billion.

Company Description

Jalles is a Brazilian sugarcane processor operating in the state of Goiás through two crushing units, Jalles Machado and Otavio Lage. With a total crushing capacity of nearly 5.5 million tons, the company produces sugar (organic, white, and VHP), hydrated and anhydrous ethanol, and other non-commoditized products such as sanitizers. Both processing mills are located about 60 kilometers from each other, which enables the company to benefit from synergies in logistics and sugarcane availability. For the fiscal year that ends on March 31, 2022, Jalles has collected its harvest yield and crushed 5.36 tons of sugarcane, posting net revenue of R$1.4 billion in the 12 months ended on Dec. 31, 2021. The company has been publicly traded on the Brazilian Stock Exchange since the beginning of 2021, but is controlled by Otávio Lage Group and other shareholders.

Gross Revenues By Product
As of December 31, 2021



Source: S&P Global Ratings.

Peer Comparison

Jalles Machado S.A.--Peer Comparisons

	Jalles Machado S.A.	Adecoagro S.A.	Sao Martinho S.A.	S.A. Usina Coruripe Acucar e Alcool
Foreign currency issuer credit rating	BB/Stable/--	BB/Stable/--	BBB-/Stable/--	B/Negative/--
Local currency issuer credit rating	BB/Stable/--	BB/Stable/--	BBB-/Stable/--	B/Negative/--
Period	Annual	Annual	Annual	Annual
Period ending	2021-03-31	2020-12-31	2021-03-31	2021-03-31
Mil.	R$	R$	R$	R$
Revenue	1,085	4,135	4,305	3,036

Jalles Machado S.A.--Peer Comparisons

EBITDA	712	2,221	2,261	1,325
Funds from operations (FFO)	626	1,898	2,018	1,095
Interest	140	303	186	356
Cash interest paid	83	312	213	228
Operating cash flow (OCF)	653	1,476	1,787	984
Capital expenditure	403	1,234	1,508	414
Free operating cash flow (FOCF)	250	242	279	571
Discretionary cash flow (DCF)	234	207	82	571
Cash and short-term investments	1,194	1,746	1,351	479
Gross available cash	1,194	1,746	1,364	479
Debt	734	4,313	3,344	4,080
Equity	1,136	5,005	3,987	1,719
EBITDA margin (%)	65.6	53.7	52.5	43.6
Return on capital (%)	20.2	13.4	13.2	8.7
EBITDA interest coverage (x)	5.1	7.3	12.1	3.7
FFO cash interest coverage (x)	8.6	7.1	10.5	5.8
Debt/EBITDA (x)	1.0	1.9	1.5	3.1
FFO/debt (%)	85.3	44.0	60.4	26.8
OCF/debt (%)	89.0	34.2	53.4	24.1
FOCF/debt (%)	34.0	5.6	8.3	14.0
DCF/debt (%)	31.8	4.8	2.5	14.0

Business Risk

Jalles has a smaller scale than those of its domestic sugarcane peers, with only two mills crushing almost 5.5 million tons per year. Nevertheless, its portfolio is composed by higher value-added products such as sanitizers, other non-commoditized products and organic sugar, which has historically high price premium over the VHP sugar. Moreover, the company benefits from a relatively short distance between its two mills, which reinforces synergies in logistics and cane availability. Given the location of its operations in the state of Goiás, Jalles operates in a less productive region, in terms of weather and soil quality, than traditional sugarcane regions such as São Paulo. However, it has been posting sound agricultural productivity levels in the past few years, given that its irrigation system mitigates the effect of climate volatility. The company's location is also challenging for exporting its products, because it's farther from the country's main ports, but most of its production is sold at premium in the domestic market (except for organic sugar that's mostly exported). Jalles is planning to acquire a new mill in the next few months, increasing scale and geographic diversification, and is expanding output of its two existing mills—both factors will enable the company's capacity to cross the 8 million threshold in the next two to three years.

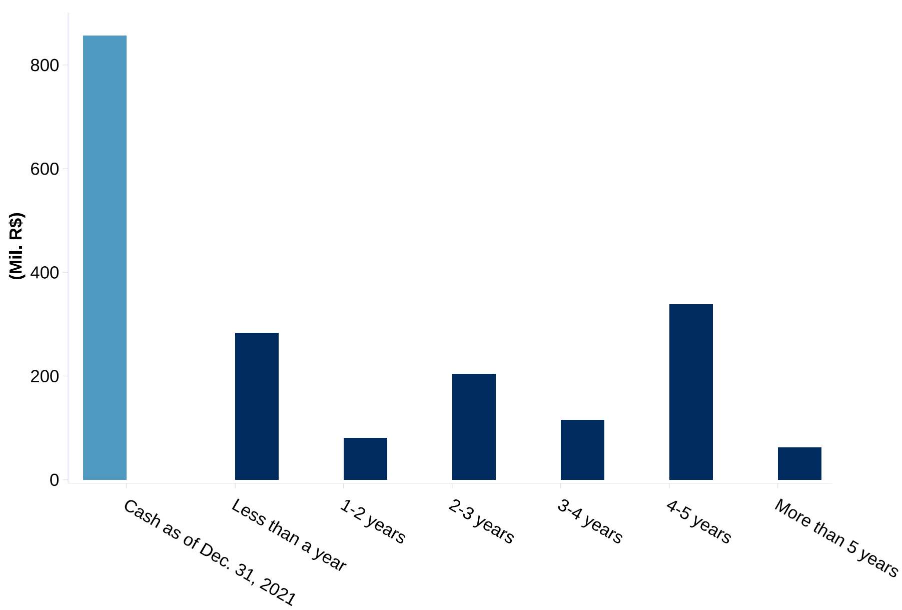
Financial Risk

Jalles has maintained sound credit metrics and consistently low leverage in the past few years, boosted by the IPO proceeds in 2021 and favorable prices. Despite the expected increase in costs for fertilizers, labor, and other inputs, cash flows should remain robust in the following years due to very high sugar and ethanol prices and the maintenance of crushing levels close to full capacity. We also expect leverage ratios to remain low in the next few years, even after the sizable cash outflows for the mill's acquisition. We expect adjusted debt to EBITDA to remain below 1.5x, FFO above 60% and FOCF to debt to decrease to 15%-20% in the next two years, as Jalles raises expansion capex at its two existing mills.

Debt maturities

Jalles' debt is mostly consists of working capital lines, development bank loans, and issuances in capital markets. As of Dec. 31, 2021, about 22% of the company's total debt was in dollars, while its outstanding cash will be enough to cover short-term and other maturities for the next three years.

Debt Maturity Profile



Source: S&P Global Ratings.

Jalles Machado S.A.--Financial Summary

Period ending	Mar-31-2016	Mar-31-2017	Mar-31-2018	Mar-31-2019	Mar-31-2020	Mar-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	R$	R$	R$	R$	R$	R$
Revenues	716	708	737	762	891	1,085
EBITDA	519	531	543	550	611	712
Funds from operations (FFO)	398	384	413	429	495	626
Interest expense	125	151	174	147	131	140
Cash interest paid	114	139	125	119	114	83

Jalles Machado S.A.--Financial Summary

Operating cash flow (OCF)	507	385	390	394	592	653
Capital expenditure	272	393	361	404	391	403
Free operating cash flow (FOCF)	235	(8)	30	(10)	201	250
Discretionary cash flow (DCF)	235	(8)	30	(10)	198	234
Cash and short-term investments	271	334	441	343	419	1,194
Gross available cash	271	334	441	343	419	1,194
Debt	1,006	1,069	1,097	1,152	1,313	734
Common equity	302	408	454	527	601	1,136
Adjusted ratios						
EBITDA margin (%)	72.4	74.9	73.7	72.2	68.6	65.6
Return on capital (%)	15.7	14.7	13.0	13.8	16.7	20.2
EBITDA interest coverage (x)	4.1	3.5	3.1	3.8	4.7	5.1
FFO cash interest coverage (x)	4.5	3.8	4.3	4.6	5.4	8.6
Debt/EBITDA (x)	1.9	2.0	2.0	2.1	2.1	1.0
FFO/debt (%)	39.6	36.0	37.6	37.2	37.7	85.3
OCF/debt (%)	50.4	36.1	35.6	34.2	45.1	89.0
FOCF/debt (%)	23.4	(0.7)	2.7	(0.9)	15.3	34.0
DCF/debt (%)	23.3	(0.8)	2.7	(0.9)	15.1	31.8

Reconciliation Of Jalles Machado S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Mar-31-2021									
Company reported amounts	1,421	1,136	1,085	887	509	140	712	493	16	243
Cash taxes paid	-	-	-	-	-	-	(3)	-	-	-
Cash interest paid	-	-	-	-	-	-	(83)	-	-	-
Lease liabilities	507	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(1,194)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	49	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	2	2	-	-	-	-	-

Reconciliation Of Jalles Machado S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
EBITDA: other	-	-	-	(177)	(177)	-	-	-	-	-
Working capital: other	-	-	-	-	-	-	-	160	-	-
Capex: other	-	-	-	-	-	-	-	-	-	160
Total adjustments	(687)	0	0	(175)	(126)	0	(86)	160	0	160
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	734	1,136	1,085	712	383	140	626	653	16	403

Liquidity

We view Jalles' liquidity profile as adequate. Sources of cash will continue to exceed uses by more than 20% for the next 12 months, despite the acquisition of the new sugarcane mill. Aside from the outstanding cash position and expected FFO, we consider the funds from the debentures issued in January 2022 totaling R$451 million. We expect the company to continue strengthening its liquidity by raising additional debt throughout the year while covering additional capex for the expansion of its two existing mills. We don't consider seasonal working capital requirements because the company's December figures are currently close to the peak of working capital needs.

Principal liquidity sources

- Cash and cash equivalents of R$856 as of Dec. 31, 2021;
- Cash FFO of about R$968 million in the next 12 months after Dec. 31, 2021; and
- New debenture issuance of R$451 million.

Principal liquidity uses

- Short-term debt of R$283 million as of Dec. 31, 2021;
- Working capital outflows of R$18 million in the next 12 months after Dec. 31, 2021;
- Capex of about R$728 million in the next 12 months after Dec. 31, 2021;
- Cash outflows related to the acquisition of about R$600 million; and
- Dividend distribution of R$43 million.

Covenant Analysis

Compliance expectations

The company complied with all of its covenants as of March 31, 2021. We expect Jalles to continue doing so in the next 12-24 months, with a cushion of more than 80%.

Requirements

Jalles has debt payment acceleration covenants that require net debt to EBITDA below 3.0x and interest coverage ratio of minimum of 2.5x.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

Environmental	Social	Governance
- Physical risk	- N/A	- N/A

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Jalles. Adverse climate events, particularly droughts, can hurt crop yields, given that the current harvest yield that will likely drop 10%-15% in Brazil's Center-South region. Jalles mitigates weather risks through irrigation of about one-third of its crop fields, and its output wasn't impacted by the drought. The sugarcane sector is key to transitioning to a low-carbon economy, because it produces renewable energy through ethanol and energy cogeneration, substituting the use of fossil fuels, such as gasoline, and significantly reducing GHG emissions. The sector benefits from the government program, Renovabio, in which the mills can issue CBIOS according to the amount of ethanol produced.

Group Influence

Jalles is ultimately owned and controlled by Planagri S.A. (not rated), which operates in the sugarcane processing sector through Vera Cruz Agropecuária Ltda., a holding company that controls Jalles directly. Planagri is part of Grupo Otávio Lage, which operates businesses in other segments such as latex and real estate. In our view, Jalles and Planagri bear a single default risk, because we consider the first as core to the group, representing over 95% of EBITDA, cash flows, and debt.

Rating Above The Sovereign

We have tested Jalles' ability to withstand a sovereign stress scenario in Brazil and to support its ratings one notch above the 'BB-' foreign currency sovereign rating. All of Jalles' assets are in Brazil, but the concentration risks are mitigated by the export nature of sugar, which represents more than 45% of the company's output. In this sense, Jalles comfortably passes the test, because a large portion of the company's revenue is generated in foreign currency. Therefore, the Brazilian real's sharp depreciation in a sovereign default would end up boosting Jalles' cash flows. We assume the following factors:

- Overall decline of 35% in the company's FFO for the stressed 12 months starting in December 2021, reflecting doubling of inflation, pressuring costs, and deterioration of sugar and ethanol prices.
- A 10% haircut in bank deposits and 70% in short-term investments in domestic currency, reflecting inability to access those funds.
- Doubling of short-term debt denominated in foreign currency, but capex reduced to maintenance levels.
- We're not considering the acquisition of the new mill, because it could be postponed in a default scenario.

Rating Component Scores

Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Fair**
Country risk	Moderately High
Industry risk	Intermediate
Competitive position	Fair
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of March 07, 2022)*

Jalles Machado S.A.	
Issuer Credit Rating	BB/Stable/--
Brazil National Scale	brAAA/Stable/--
Senior Unsecured	
Brazil National Scale	brAAA

Ratings Detail (as of March 07, 2022)*

Issuer Credit Ratings History

08-Feb-2021		BB/Stable/--
19-Nov-2020		BB-/Stable/--
03-Apr-2020		BB-/Negative/--
28-Aug-2017		BB-/Stable/--
08-Feb-2021	*Brazil National Scale*	brAAA/Stable/--
19-Nov-2020		brAA+/Stable/--
03-Apr-2020		brAA+/Negative/--
11-Jul-2018		brAA+/Stable/--
28-Aug-2017		brA+/Stable/--
16-Aug-2017		brA+/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.