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Dreyfus sees commods consolidation, sugar next

By Inae Riveras 3 MIN READ

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SAO PAULO, Oct 27 (Reuters) - Volatility in commodity markets tends to boost consolidation in the agriculture sector as firms require more capital and improved risk management, the executive officer of French giant Louis Dreyfus said Tuesday.

Companies in the sector also tend to diversify their portfolio in volatile times as a way to reduce dependence on a single product and limit the impact price fluctuations could have on the company as a whole, said Serge Schoen, also Dreyfus' chairman of the board.

"Volatility of commodities have doubled in 20 years ... which means more risk and more capital (are needed) to afford this," Schoen said in an interview with international news agencies in Sao Paulo, after announcing the group's takeover of Brazilian sugar and ethanol firm Santelisa Vale. [ID:nN27234685].

The deal makes the French group, already a big global sugar trader, the world's second-largest cane processor.

"In agricultural commodities, in one day you can lose or gain your year profit," he added.

Schoen said that after consolidation in the soybean and cotton sectors, the sugar sector is the next to see a wave of mergers and acquisitions worldwide.

"This is what we were seeing in 2000 when we started investing in sugar in Brazil. Sugar should eventually consolidate, there's no reason to be different from other commodities," he said.

Schoen said the Louis Dreyfus in the future may reduce its stake in the newly created company, called LDC-SEV, to as low as 50 percent from 60 percent currently, depending on the interest of investors.

Investments in Brazil, where two-thirds of the group's plants are located, reached $2 billion over the last three years, while annual revenue from Brazilian operations totaled $4.5 billion.

One of the company's focus now is on land. The company has created a private equity fund, called Calyx Agro, to invest in farming in Brazil, Argentina, Uruguay and Paraguay.

With an initial capital of $200 million, it now plans to raise a similar amount from investors in the next 12 months to expand the operation. Around 75 percent of the land is in Brazil, mainly in Goias, Mato Grosso and Bahia states.

The company said it is also boosting investments in citrus in Brazil. It has 30,000 hectares of planted area, two-thirds planted in the last three years. This should be enough for the company to guarantee 40 percent of its local demand in three to five years.

Its orange crushing capacity in Brazil is at 60 million boxes. Around 10 million boxes come from its own production and this will likely be increased to 35 million boxes within five years. (Editing by Steve Orlofsky)

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