

Q3 2019 Earnings Call

Company Participants

- Thiago Alonso de Oliveira, CFO and IRD

Other Participants

- Kamila Oliveira, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon. Welcome to the JHSF Conference Call to announce the results of Q3 2019. Today, we have with us Mr. Thiago Alonso de Oliveira, Executive Director and IR Director; and Mara Boaventura Dias, IR Manager. This conference call will be recorded and all participants will be in a listen-only mode during the company's presentation. After the presentation, we will have a Q&A session, when further instructions will be given. (Operator Instructions) This call is being broadcast via webcast and can be accessed on the JHSF IR webpage at ri.jhsf.com.br, and on the Mdeck [ph] platform, where the slide presentation will also be available for download.

Before we start, please be advised that any forward-looking statements in this conference call relative to the company's business perspectives, projections and operational and financial targets are based on beliefs and premises of the management and on information currently available. They involve risks and uncertainties, since they refer to future events and therefore are dependent on circumstances that may or may not occur.

Changes in macroeconomic policies for the legislation and other operational factors may affect JHFS' future performance and lead to results that materially differ from those expressed in these forward-looking statements.

Now I turn over to Mr. Thiago Oliveira to start the presentation. Mr. Oliveira, please proceed.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon everyone, thank you for participating in our conference call. We will start this quarter's conference call a little different from what we usually do. We will start with a disclaimer that is related with the fact that the company made an announcement of a relevant fact to the market on October 16, informing that there is a possibility for a

possible public offering of shares. So, during the call today, we may have some questions and we will have to abstain from answering them due to this confidential characteristic.

On Slide Number 3, we have a summary of the numbers of the third quarter of 2019. We are very happy with the results presented by all our business units; all of them show an increase in the respective indicators and this is a trend that we have been observing for some quarters now. So this is yet another acceleration of a trend that we have been seen for a while. Before we go into details about the company's performance, on behalf of the company's management, we would like to thank the 2,200 employees of JHFS, who wake up early in the morning come to work every day, so that we can provide our customers with the best experience possible with our products and services.

Our team's attitude is very much based on the company's long-term vision, which is an important part of our culture. We have the belief that this long-term vision is what allows for this sustainable value generation over time. On Slide Number 5, we also mention some of the aspects of this culture of the team that supports this on a daily basis, which is surprising, inspiring, transforming, realizing, always aiming to deliver quality and excellence.

So on behalf of the administrative board and our Board of Directors, thank you very much for helping and supporting us every day and helping us deliver what we value the most according to our culture as described on Slide Number 6 of our presentation; the client. Clients are the reason for our business; commitment to results, and I think this quarter is a great example of how much this team has been doing for the company's business in an environment with innovation and creativity that allows us to continuously develop our products associated with our appreciation for tradition and modernity and this is closely related with our brands and the way each of them have their own identity; and finally a culture that puts diversity into practice along with sustainability. And we are certain that this is what makes our company a great company. So thank you very much.

On Slide Number 7, here we have the performance of our malls. The first highlight is that despite a somewhat discrete economic growth in Brazil, our malls had a growth of 14.2% in sales. And part of this is related with JHFS positioning [ph] focusing on high-income public, which has been shown to be a more resilient niche -- market niche during rough times. And they even started the resumption of the buying habit sooner due to this higher resilience. Also the operating indicators practically 8% of SSS and both indicators at about 6% this quarter. So with this growth in sales, at levels even higher than the indicators, we had an improvement in our occupancy cost, which dropped to 9.6%. And in parallel, our occupancy rate went from 94.6% to 98.1%.

Chart Number 8 is about real estate development. Here, we see a very significant evolution of Fazenda Boa Vista, which went from BRL50 million in quarter three 2018 to nearly BRL69 million in quarter three 2019. This is a result of the -- and the result of the launch of Fasano Cidade Jardim. We were able to bring about BRL71 million in sales, which were completed in a period of less than 30 days. This is a very fast pace, and it was very relevant for us.

FINAL

Finally, contracted sales in quarter three 2019, the sale of the last apartment that we had in inventory here in the city of Sao Paulo and we closed the quarter with about 170% growth over the same period last year. As for the gross revenue, we see very similar effects of what we saw in contracted sales, but the difference here comes from the gross revenue, that due to the accounting method used, we have not yet accounted for BRL42 million of the BRL61 million sold for Fasano Cidade Jardim, which should take place over the course of the next quarter as we see advances in the construction work.

The next chart is about hotels and restaurants. We saw that the average daily rate of our hotels grew by 9.4%; the RevPAR nearly 17% and the occupancy rate is very healthy at about 60%. Number of couverts, there was an increase of 3.4% and the average couvert also grew by 3%. So for hotels and restaurants, we have also seen some very healthy results for the company.

Slide Number 10. Very briefly, this slide shows the status of the Executive Airport construction project. The works on the runway, hangars and patios were 100% completed. In one of the hangars, we will have a passenger terminal that is -- right now is in the final stages of construction. So we are very optimistic about the inauguration of our airport in December 2019. And some of the permits required are already available to us, so that we can meet this deadline.

Slide Number 11 shows the evolution of the company's indebtedness. We had a reduction of 39% in our net debt when compared to that of quarter three 2018. The average cost evolution was about 12.1% and the debt schedule is now much more extended, much more prolonged than we had one year ago. It's virtually 50% expansion in terms of the average maturity than what we had in quarter three last year.

So this said, let's move on to Slide Number 12 before we open for questions. Here we have the highlights of the quarter. We had 32.7% increase in our consolidated gross profit, 198.3% in operating income. And after adjusting for the sales of shares, our net income was BRL93.9 million this quarter. For malls, all our indicators were positive and very robust. For real estate development, we had the resumption of the launches of the company, which reinforced these positive results this quarter. Hotels and restaurants is [ph] very significant evolution in our results and we have strong launches in our pipeline. The Executive Airport is practically completed. We are just waiting for the final permits, so that we can fulfill the plan of inaugurating it still in 2019 and meet the deadline that was established and we also did an extensive work to reduce our net debt and extend the maturity of our debt.

Now, we can open for questions.

Operator

Thank you. We will now start our question-and-answer session. (Operator Instructions) This is Kamila Oliveira from Banco do Brasil. Do you have the question?

Kamila Oliveira {BIO 20040533 <GO>}

Good afternoon, everyone. Congratulations for the results. I would like to ask about about two points. We saw the rental indicators show some slow down when compared to the same period last year. Could you share with us how much of this impact is due to inflation or adjustments in the rental price. And also considering all the initiatives that are being launched, what can we expect in terms of CapEx investments? Can you give us an update of the plans and the ongoing projects? Thank you.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Hello Kamila, thank you for your questions -- for your two questions. Let me start by the last question. I don't know if we can really call it CapEx. I think we have to call it project investments. But with the launch of Fasano Cidade Jardim, we have investments to make of about BRL300 million. These investments will be made simultaneously with the sale between BRL800 million and BRL900 million, which is the VGV for this project. So we estimate that the flow of sales itself will be the perfect offset for the investments required during the construction of the project. The sales numbers that we presented for September, which was when the project was launched, they support what I just told you, so what we sold only in September is already equivalent to 20% of the total investments to be made in that project specifically.

And your other question was about the rental indicators that showed some slowdown when compared to the sales indicators. In the mall that we have in Manaus, only there, we worked with some discount throughout the third quarter of 2019. And this is related to our strategy of how to accelerate the increase in occupancy, occupancy or free capacity that we had in this mall. And that's why we went to 98% of occupancy rate. So it was a trade-off that was required, which led to a rental indicator, which is actually superior, even if that indicator that you ask about shows a lower performance when compared to sales.

Operator

(Operator Instructions)

Unidentified Participant

While you post the questions -- actually, we just received some questions through the webcast. So let me start with Christian. Christian's question is if we could say more about the pace of sales for the the Fasano project.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Christian, we expected to have a realized VGV within 36 months for this project, a VGV of about between -- it's between BRL800 million and BRL900 million. And what we can say at this moment is that in the first month [ph] of the 36 months, we sold practically BRL61 million. So what I can tell you is that actually the speed of sales is slightly above what we were planning when we launched the project.

Unidentified Participant

We have another question here. About the airport, I'd like to know about the sales strategy. For example, why would individuals and companies use this airport and not others?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

We are very confident about the business model of our airport. It's the only airport in Brazil that was designed to be an airport exclusively for executive aviation. It is very close to the city center of Sao Paulo and in the state -- Sao Paulo is a state and a city that concentrates most executive flights. So for our customer profile, we understand that having a world-class infrastructure to be used for traveling either for domestic or international traveling is something that the country was in need of and we saw a business opportunity in this gap. Convenience for executive passengers will be the differentiator of our Executive Airport.

Unidentified Participant

We have another question here from Morrison [ph]. If the primary offering is not successful, what are the alternatives for -- to reduce the debt?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Mauro [ph], we are not going to comment on the public offering. That's why we had that disclaimer in the start of our presentation, but we don't really have any pressure related with the maturity of our debt, which with or without the public offering, would be effected. Today, we are in a very comfortable situation and we are confident that all our business units have a good flow of operational cash at levels even higher than what is required.

So on the chart that -- during our call, on the chart that talks about the company's indebtedness, we know that the situation is much better today than it ever was. And in this scenario that we have of low interest rates and long maturity terms, it is not our greatest priority or greatest concern and it has not been for one year now after we implemented many changes in our capital and debt structure.

Operator

(Operator Instructions) (inaudible) from Santander has a question.

Unidentified Participant

Hello Thiago. Thank you for the call. Actually I have three questions. The first one is about - well, I've noticed that in third [ph] quarter even in 2018, there was an increase in SG&A justified by the cost method used after your meeting. So what is the prospect in terms of new EBITDA levels and profitability levels for this segment?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

We are not allowed to give guidance, so I'm not going to answer your question about that specific item, but in our malls division, in our malls business unit, it is associated mainly with the e-commerce activities, which is something that we did not have until September last year. So last year we saw -- we didn't have any contribution of numbers related with our e-commerce business last year. You said you had three questions.

Unidentified Participant

I'd like to know more about accounts receivable. You're talking about BRL229 million. Is this part of the net debt? And what is included in this value?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

(inaudible), in our initial note, we talk about these numbers, these values, but our accounts receivable is composed of a portfolio that results from the sales of real estate unit. Our corporate profile and also our customer profile implies a different dynamic where the developer will finance the customer during the construction works.

We have some other types of operation, where the first payment and the flow of installments during the construction work are relatively small. And the developer borrows money to conduct the works and after the work is completed, that's when he passes on the customer base or the customer portfolio to the bank.

In our case, we work with a much shorter cycle, which includes down-payments of about 25% to 35% of the total, which is a standard value -- standard percentage that we work with in the company, and the financing in about 36 months. And this operational model that I just described to you is what leads to that higher volume for accounts receivable that you see in our balance, but please take a look at our notes because we have a more complete explanation there.

Unidentified Participant

You talked about the increase in sales of Fazenda. So in number of lots, what is the difference?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

You mean the number of lots or square meters?

Unidentified Participant

No, the number of lots.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

I don't know the numbers by heart, so you can send an email to our IR team and we can send you the numbers, but from what I know, the number of lots that we had sold in the

first half of this year was already higher than the number last year. And since we had a quarter, which was better than the average of the first half, I think that this was probably accelerated, but I don't have the exact numbers to give you now. Thank you very much.

Unidentified Participant

Thank you for the question.

Operator

This question-and-answer session is now closed. Now I turn over to Mr. Thiago Oliveira for his final remarks.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

I'd like to thank you all for participating in this conference call. And since this is being recorded, we would like to offer you the possibility of submitting your questions at the later moment. If you ask the question via webcast and we did not have a chance to answer it, please send us an email to our IR team or call us at 011-3702-5473 and we will be very happy to talk directly to you and answer your questions. And finally, I would like once again to say that we are very thankful to our entire team, who have been working hard to help us achieve our goals. Thank you very much, and we are at your service.

Operator

This call is now closed. Thank you very much for participating, and have a great afternoon.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.