Q3 2012 Earnings Call

Company Participants

- Armando d'Almeida Neto, CFO and IRO
- Rodrigo Krause, IR Superintendent

Other Participants

- Greg Nulture, Analyst
- Guilherme Capparelli, Analyst

Presentation

Operator

Good morning. Welcome to Multiplan's Third Quarter 2012 results conference call. Today with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Rodrigo Krause, IR Superintendent; and Mr. Hans Melchers, Planning Manager.

Today's live webcast and presentation may be accessed through Multiplan website at www.multiplan.com.br/ir. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After Multiplan's remarks, there will be a question-and-answer session. And at that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Multiplan Management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and, therefore, depend on circumstances that may or may not occur.

Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Rodrigo Krause on behalf of Mr. Peres. Mr. Rodrigo Krause, you may begin your conference.

Rodrigo Krause

Good morning, everyone or good afternoon actually. Dear ladies and gentlemen. I would like to start by thanking you for your interest and presence here today with us. I want to start the presentation of our results with some thoughts on our main goals for this quarter and some remarks on our outlook for the near future.

In less than 60 days, we will deliver three new shopping center greenfield projects; JundiaiShopping already delivered, ParkShoppingCampoGrande and VillageMall here in Rio this month and the beginning of December, in addition to an expansion in RibeiraoShopping and two office buildings for lease ParkShopping Corporate in Brasilia. The projects represent an investment of about BRL1.1 billion. The result will be the addition of 108,000 square meters in owned GLA, representing a growth of 25% in our portfolio in 2012 alone.

These 600 new leasing areas will increase our revenues in approximately BRL135 million per year, starting on the third year of operation. At the same time, we continue to build another shopping center, Parque Shopping Maceio, new expansions in BarraShopping and in RibeiraoShopping along with the two new towers for lease in Sao Paulo, our big corporate. These projects under construction will be inaugurated in 2013 and altogether will add another 106,000 square meters to our owned GLA. For the second consecutive year, we are growing our portfolio by another 25%.

As forecast, by the end of 2013 our shopping centers will reach the mark of 850,000 square meters of total GLA of which 74.5% are owned by Multiplan. This investment effort was conducted as usual, totally committed to deadlines and time schedules, even when they are overburdened by an overheated civil construction environment, lack of workers, raw materials, suppliers, et cetera.

We value above all the principle of mutual confidence that should exist between companies, tenants and investors and the absolute respect to expectations with regards to investments made. I call your attention to our strict commitment to seek for excellence in our developments.

The new shopping centers are one-of-a-kind assets in their categories whether in the luxury segment such as VillageMall, the only one-of-a-kind in Rio de Janeiro or in the destination mall category, such as JundiaiShopping and ParkShoppingCampoGrande. Each new development represents a qualitative improvement in our Company for they bring new technology conquests where the project is concerned, construction methods, tenant mix and the operational side.

With this we can improve the quality of life of our customers and that of the cities they are located in. We deliver our developments on schedule and with an ever growing standard of quality made possible only because Multiplan was successful in structuring itself with this goal in mind. We are aware of how much we have grown in the last five years since the Company went public, about 300%.

We still have a land bank with more than 619,000 square meters of land with an excellent real estate potential for next year's projects; a strategy we have been following for several years. On the other hand, our current shopping centers have an expansion potential greater than 150,000 square meters. We will make the announcements shortly.

With regards to the financial results delivered by Multiplan, I would like to call your attention to some aspects that seem more relevant to me. In the Third Quarter, net income reached the mark of BRL72 million, 10.3% above the result for the same period last year. In the first nine months this year, the accumulated net income was BRL260 million.

The growth of EBITDA in the quarter was even more significant; 19.4% over the same period last year. We totaled -- in nine months, we ended up with an EBITDA of BRL444.3 million and we would expect to wrap up 2012 by reaching the mark around BRL600 million.

We see market projections saying that Multiplan may end the year 2012 with a gross revenue over a BRL1 billion, an increase of about 40% compared to last year. This is the consensus view. For sales in our shopping center network, according to the same projections, should reach the mark of BRL10 billion for the year.

In short, we are proud to keep in such an important time of concentrated investments, the principles that guide our behavior at the Company; respect to deadlines, commitment to quality, innovation and valuation of returns to investors. I thank you all and I will ask Armando to follow on with the presentation with the results for the quarter.

Armando d'Almeida Neto

Thank you, Rodrigo, for reviewing the message from Mr. Peres. So let's start the presentation (technical difficulty).

We have all these eight projects under construction right now. The only exception is the JundiaiShopping that has already been delivered in the last October.

The highlight was in my opinion to the IRR's of the products that reached the mark of 17.3% per annum, real and unleverage and NOI yields, the third year NOI yields at 14.7% per annum also real.

I also call your attention to the high occupancy or preleasing rate on the greenfield projects as well. On the following three slides, especially in this call in English that most of the participants are far from here, we brought you many pictures. We want to share with you the experience of what we are doing on the quality, on the location, on what we are delivering and preparing to be delivered shortly.

On the slide 5, 6, and 7 you're going to see features of our brand new JundiaiShopping that was inaugurated in this Fourth Quarter almost entire leases. We had 98% of the stores leased. There was just few small stores to be leased. About 90% of the tenants, they open on the same day of the shopping center and our expectations there going through November, few more, about 92% to 93% of tenants will be in operation as well.

The market campaign model for this shopping center, as you can see on slide 5, was all that Jundiai was waiting for and much more, and that's also our perception. I think that reflects our perception of the qualities of the mall that we delivered and also proven by more than a 150,000 visits and 40,000 cars just in the first week of operation of the mall.

On the slides 8, 9 and 10, we show you the progress of the construction of the new products, mainly I mean VillageMall and ParkShoppingCampoGrande. They are scheduled to open on December 3rd and November 28th respectively.

I understand Mr. Peres mentioned December 4, because December 3rd is the cocktail party, open to public on the following day. I reinforce his words on the quality of the product that have been delivered and also the privileged location which, in addition to being already located in densely populated areas, those locations are also the growth factor of the city of Rio de Janeiro, specifically for VillageMall and CampoGrande, but also in Maceio in the north east. On slides 11 and 12, we show you pictures of the expansions that are under way. We're investing BRL279 million in three expansions in RibeiraoShopping and in the seventh expansion in BarraShopping.

The expansion VI in RibeiraoShopping will open now in November with 41 new satellite stores. That space was an anchor store that we moved to another part of the mall site and we created 41 new satellite stores. Basically most of them, over 90% of those stores are leased and we expect that to be opened with the expansion in a couple of weeks ahead.

On the slide 13 and 14, we want to comment and we want to show you the strong, also construction rhythm in the commercial buildings for lease, as can be seen in those slides. And on slide 13, specifically the ParkShopping Corporate is the tallest in Brazil, in the city of Brasilia, in our capital that will be delivered in this month of November, and turning ParkShopping into an even more completed mixed and used product.

We opened expansion of gourmet area for topnotch restaurants in the mall last year. In the years before, we opened two expansions in the mall. So we have many new attractions and a new deck parking, conveniently added with this deck parking and gourmet area and now we transformed the mall into a mix of used product with those towers. Just in short, we have five important projects being delivered in this Fourth Quarter alone, as you can see on the past two slides.

On slides 15, 16 and 17, you will see that besides the products for lease, we also have three towers for sale and they are all under construction and one of them will be delivered this quarter, the one in RibeiraoShopping.

So what I'm trying to say here is that we will increase furthermore the trust in RibeiraoShopping through the expansion that will be delivered and also through the mix and used product, this third tower that we have connected, integrated with RibeiraoShopping.

Moving out of the beautiful pictures but to figures, now financial figures and we're going to slide 18, where we see that as a consequence of the products that will be delivered and those under development, we have invested over BRL1 billion in the first nine months of the current year. This has made our leverage to move out from 1.55 times last 12 months EBITDA in the Second Quarter this year to two times last 12 months EBITDA in the Third Quarter of 2012.

As you realize, we're saying in the past few quarters, we increased the CDI part of our investments significantly and that has helped us with the other indexes to drop our funding costs 50 basis points in one quarter alone. From the Second Quarter this year to the Third Quarter, we were able to reduce 50 basis points, our average funding cost to 9.48% per annum.

On slide number 19, we realized that was a good surprise, positive surprise to many analysts and investors when we presented once again a very solid and consistent operational data, especially with the emphasis on the sales that increased 14.9% in this quarter over quarter, over the same quarter last year.

Same store sales increased even faster than in the Second Quarter both in satellite and anchor stores. So we saw for two quarters in a row, positive reaction, a growth on the anchor stores and satellite stores giving very solid, very steady growth that led to a 9.4 same area sales and 8.5 same store sales. And look at the past four quarters that are highlighted in the presentation, and you see again consistency, you see the quality of our portfolio being represented through those sales figures.

Just some of the highlights on sales, I want to mention Shopping Santa Ursula in the city of Ribeirao Preto represented a growth of 25.9%, BarraShoppingSul of Porto Alegre with a 14.7% and DiamondMall in Belo Horizonte with 13.3% increase.

For the sake of curiosity only, our consolidated shopping centers such as BHShopping with 33 years in operation, RibeiraoShopping and BarraShopping both with 31 years in activity, they presented double-digit sales of 12.6%, 12%, and 11% respectively.

On slide 20 and to chew on the operational figures, occupancy cost basically unchanged, extremely low losses, occupancy rate at a high 98.5%, 7 basis points better than in the last quarter. We have all of our shopping centers with figures above 90%. By the way, Shopping Center Ursula has an occupancy rate now of 96.9%, so almost 97% and Vila Olimpia with 19.1% in occupancy both significant increases for us and showing that not just in this quarter, but throughout the ten years long series we have seen very high occupancy rate of the portfolio.

On the following slide, number 21, gross revenues went up by 23% and rental revenue went up 11.6%. The same store rent increased 7.7% with the real growth rate of 1.8% above the IGP-DI effect for this quarter. Or in different words, it's a 3% real increase above the inflation adjustment effect in the first nine months of this year.

We grow 3% as I just mentioned compared to our inflation adjustment index, but 5.8% above the Brazilian CPI, the consumer inflation measured by the IPCA. So that is the official inflation in Brazil, 5.8% above the CPI.

As it can be seen on the table on the top right side, it's not particularly for the year 2012, we've been seeing since we IPOed the Company in 2007, our same-store rent, we outperforming the consumer, the inflation adjusted index and the consumer inflation.

Just I have taken advantage of bringing the -- after the Portuguese won so where we discussed the same store, just my view on the 7.7%. So we grew 7.7%, above the 16% increase presented on the Third Quarter 2011. So the Third Quarter 2011 was a record high for us in terms of same-store rent, a combination of 9.6% inflation adjustment effect and 5.8% of real increase. So it was a terrific quarter and it's certainly a fantastic one and we are growing in this quarter 7.7% on top of that. So I figure it's a pretty good, really strong achievement that we have.

If you look at the year's figures, we've been growing at 9.8% same-store rent in the first nine months of the year, again on top of the 14.1% increase that we saw for the entire year of 2011. So this is in my opinion pretty strong pictures, but I leave it to you, just to check.

The other point that I would like to comment on the 11.6% of the rental revenue increase is that we have a 50% reduction in merchandise, as you know part of the rental revenue. On rental revenue, we have the fixed rental, the average and the merchandise. Merchandize was reduced by 50% due to a strategical plan of ours. We are leaving more space for brand awareness campaigns and reducing space for retail achieved in the mall with kiosks. So with the kiosks operation, we are trying to reduce, leave a more clean, open area in the shopping centers, and preparing that for one that we believe has a higher return for the same square meter than is using brand awareness campaign in this Fourth Quarter, okay. Those, just comments again, taking advantage of the question-and-answer session of the Portuguese version. Well moving to top line in terms of spot highlight, in terms of rental revenue, was a (leap year) with a 17.9% increase and Shopping Center Ursula with a 16.4% increase.

On the following slides of number 22, we brought this slide to help better understand our business on the long run. We are frequently asked about the growth of rental revenue over sales and vice versa. So this chart, very simple way to show the periodic healthy alternating cycle in the growth of rent in same-store sales.

Moving to the slide number 23 and getting close to the end, our results, taking about results; first starting with the shopping center one through the net operating income, we saw our shopping center expenses decreasing in spite of the increase we had in GLA, and this quarter was a pretty good quarter in terms of reducing shopping center expenses, but what we've seen being consistent on the long run is the shopping center expenses margin. We see a consistent reduction since the Third Quarter of 2009 that was 15% margin, now to 7.2% margin. So the growth of our revenues show in the consolidation of our shopping centers presenting better and better NOI margins, as you can see on the chart on the right.

The combination of growth, we had a combination of reducing shopping center expenses led to a 300 basis points increase of NOI margin to 92.5%. The chart below is our NOI per share. We like to show this chart because it shows our capacity to deliver results to our shareholders. It also shows us the charge of growing and maintaining the same level of quality in results, quality in our portfolio and thus generated value to our shareholders.

On slide 24, I want to talk about headquarter expenses. They had a significant increase of 39.2% from Third Quarter '11 to Third Quarter 2012, mostly due to non-recurring expenses that totaled at BRL8.5 million in this quarter. For analysis purpose only, without non-recurring expenses or in other words just using the recurring expenses, our headquarter expenses increased near 4.2% year on year, or in other words below the inflation accumulated in the same period of time. I think it's worthwhile mentioning that more than half of the non-recurring expenses was related from provisions, the minuses and the pluses of provision. So it is a non-cash event, about 50% of that give or take.

And those non-recurring expenses, beside the provisions, it comes from what? It comes from legal advisory for transactions, deals that we're looking at, also comes from -- just to clarify when I say deals I'm looking at lands for opportunistic land swaps, minority interest opportunities that we can look at and also comes from the management team of the three greenfields that we hosted in the Company for many months, being trained, being prepared to take control of the shopping centers as they open, as we deal with Jundiai in October and shortly we will have VillageMall and ParkShoppingCampoGrande. So we hosted the team here and that's a cost to the Company for that.

On -- chew on the slide 24, the EBITDA this quarter was up BRL133.2 million and margin of 64.9%, even with a strong growth in real estate for sale which represented 60% of the gross revenue in this quarter and thus compressing the EBITDA margin that came at 64.9%, as I just mentioned.

The EBITDA for the year is turning out BRL444 million. On the eve of so many inaugurations, the three operation expenses with products for lease was up BRL7 million and for analysis purpose only again, if you describe those expenses, our EBITDA margin for shopping centers will be of 75.4% in this quarter.

Slide 25, is the last slide we have, back to the service of generating value to our shareholders, we like to see net income and FFO, either the nominal total figure or the per share basis and that grow and despite of the rental growth in the expenses for headquarters and projects and also in spite of the increase in leverage as a consequence of the investments underway.

So we see a significant growth of 36.6% in net income for the year and a continuous increase in our FFO per share with a CAGR for the past five years of 17.3% per annum.

And to wrap up, I will like to call your attention to the increase in the trading volumes of our shares. Whether we look at the average daily trading volume in the financial realm, we have basically doubled from Third Quarter '11 to Third Quarter '12. Or when you look at the number of shares traded, that are also increased 47.5%.

So I want to stop here, I will stop here and it's time for any questions that you might have. Thank you very much.

Questions And Answers

Operator

Excuse me, the floor is now open for questions. (Operator Instructions) Please hold while we poll for questions. Guilherme Capparelli, Citibank.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Congratulations on the result. My question is mostly regarding the CapEx revisions announced in the release. You mentioned that for both projects, CampoGrande and VillageMall, there were public counterpart construction costs being added to the project. If you could please comment on those, that would be nice.

And also on VillageMall, I noticed that lease is currently at 92%, but the mall should inaugurate, should open virtually at the same time as ParkShopping which is at 96%. And I understand there is a difference in tenant mix, but VillageMall is also 40% smaller in size and CapEx is coming at nearly BLR20,000 per square meter. And also your NOI yield for the third year has been revised downward to 10.5%. So if more color can be added on the project and the premises being used here, that would be great. Thanks.

A - Armando d'Almeida Neto

Well the investment that we have to do that are necessary doesn't mean CapEx of the mall that it should be done by the City Hall, and we have been doing most of our projects -- make no mistake, it is our best interest to create access to the shopping center to make sure that consumers will have easy access to the mall there.

By the way, that is in the local newspaper, a real very nice pictures of the street with building on the back of VillageMall, saying private company doing the first street here because it's very important for us to make sure that consumers are getting into the mall, otherwise you have the investment on the shopping center and no one inside doesn't make any sense.

In both malls that you mentioned, that you ask VillageMall and ParkShoppingCampoGrande, there are investments there. We have been doing outside the mall area, mainly creating new access to the shopping center.

In regards to the difference of leverage, no occupancy, I am sorry, you asked, let me try, Guilherme, to say in very simple words. We are absolutely -- I don't want to -- let me be (technical difficulty), I don't want to air that on my answer. So let me try to rephrase what I said.

Of course pre-leased mall is very important issue, but at this stage, where we are weeks away from opening, leased space that we have is not a concern and why it's not a concern, because our main concern is to deliver the mall on time, is to help our tenants with their construction works, to have their stores open together with the shopping center as we did in Jundiai. There is a very, very intense demand for space in both malls.

So to be a 100% leased is not just -- the thing is, as you get just a few spaces left, you want to make sure that you're going to have the best mix possible. So you're saving some space to a specific operations that we want to add to the shopping center mix on the long run. So look at our portfolio average is 98.5%, the operating one. So occupancy is not a concern right now. And by the way, look at the low turnover that we have, the high occupancy rate that we have, the pre-operational or the pre-leased status and you see that what we've been seeing, we deem is a strong demand for space in shopping centers and in our shopping centers particularly.

In regards to the CapEx that you also asked, when you look at VillageMall and you say that it is near BRL20,000 per GLA, it's one way to see and we respect that, but in our opinion it's not the best way to look at. Why not? Because VillageMall is a 25,000 square meter mall but is a 120,000 square meters of built area. So when you do the math the other way around and you compare the built area of both malls and even see that they are not so far off, but make no mistake, they've got to have a difference because they have two very different strategies; VillageMall and ParkShopCompoGrande. So a difference will be there for sure.

Also when you consider that CompoGrande, we have this land in our portfolio for so many years and just to refresh a historical cost, right, because that's the way in the CompoGrande in Brazil for land and land for VillageMall was bought in early 2008. So you got to consider that the land cost makes a lot of difference also in the CapEx. So just I hope that I answered your question, Guilherme.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Yes, definitely. Is there a CapEx per square meter that you guys consider healthy for future projects?

A - Armando d'Almeida Neto

The lower possible will be the best one, but it is what it is, right. So you got to make sure the returns at the end is what we pursue. We want to make sure, sometimes you have to upgrade a project but can we pass through that, are we generating returns enough to compensate this increase in cost. Yes, I know. So what we look a lot, we look at returns. We don't look at just growth for the sake of growth. We look at what the mileage we can get out of that, what returns we can get out of that. That's our main target. And make no mistake, to deliver the malls on time even cost us a little bit more money but we want to be very conscious about the commitment with our tenants, with expectations from consumers with our malls.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Great. Thanks a lot.

Operator

(Operator Instructions) (Greg Nulture), LMP Investments.

Q - Greg Nulture

I had a question on the merchandizing revenue being down 15% in the quarter. Can you talk about that a little bit more and discuss the brand awareness campaign? Is this something that's going to be depressing same-store rent just in the Third Quarter or is this going to be more of a lasting impact?

A - Armando d'Almeida Neto

Greg, hi. Thanks for your question. About the merchandize, it gets incorporated in the same-store rent if I understood you right. What I was trying to explain on the rental revenue during the presentation is that, we shift our strategy a little bit. We always -- and if you get, from years before we have been saying that we are privileging brand awareness campaign more than kiosks in the mall, because we like to have to more open areas, green areas. We build lounges in the middle of the mall just to please our consumers. And the kiosks somehow compete with the stores there, right. So that has a long-term commitment.

What we did in these past quarters was just to reduce even more, the kiosk's operations, open space for future, (inaudible) our risks, our takes, brand awareness campaign, especially coming on the Fourth Quarter, right, because of the Christmas season. If you look at the performance point of view, the same square meter for the brand awareness campaigns, you normally have a high return than when you have kiosks, okay.

But particularly in this Third Quarter as we were reduce in this operation, we have a lower income coming from merchandise. If that is going to be absorbed in the Fourth Quarter as we expect with this shift, we have to wait to see the Fourth Quarter. We have to wait to see the demand for brand awareness space. But that is the strategy the Company decided to implement. Did I fully answer your question, Greg?

Q - Greg Nulture

Yes. So do you think kiosks revenue will be down in the Fourth Quarter from a year ago as well?

A - Armando d'Almeida Neto

Well as I was trying to say, I don't know how the demand for space coming from brand awareness campaign will be, right, but what I was tracking was to have more free space, to have space prepared for the eventual demand coming from brand awareness campaign.

And as you know in this alternative media, there are different studies, how we influenced our consumer. There is some research indicating that consumers come to the mall, not necessarily they know what they want to buy. They will make up their mind 10, 15 minutes before they buy goods. So those brand awareness product campaigns in the malls is a very important alternative media way and we have seen that grow in Brazil. But that also flows as the GDP, or at least the GDP expectation flows, right. So when you see the GDP growing, the economy growing strongly, you see more demand for alternative media or through merchandise. Then when you see where things are slowing down.

So hard for me to answer how Fourth Quarter is going to be, but our strategy was to have more free space in the mall, especially preparing not just for the brand awareness space, but for the higher traffic that we get during the Christmas season. If you haven't come here in the Fourth Quarter time, I encourage you to come and see the number of visitors, the consumers that we have with bags, by the way, in our malls.

Q - Greg Nulture

Okay. Thank you.

A - Armando d'Almeida Neto

Thank you.

Operator

(Operator Instructions) I'll now turn over to Mr. Armando d'Almeida Neto for final consideration. Please Mr. Armando d'Almeida Neto, you may proceed with your final consideration.

A - Armando d'Almeida Neto

Well I want to thank you all not just for participating in the call, for your interest in our Company, for your trust on your Company, analysts, shareholders presented in this conference call. I wish you very good day and thank you very much for your attention.

Operator

This concludes today's Multiplan Third Quarter 2012 earnings conference call. Thank you for your participation and have a good day.