Q1 2012 Earnings Call

Company Participants

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

Presentation

Operator

Good afternoon, welcome everyone to Multiplan First Quarter 2012 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO, Mr. Armando d'Almeida Neto, CFO and IRO, Mr. Marcello Barnes, CIO, Mr. Rodrigo Krause, IR Superintendant and Mr. Hans Melchers, Planning Manager.

Today's live webcast and presentation may be accessed through Multiplan's 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, 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 macro economic 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. Jose Isaac Peres. Mr. Krause, you may begin your conference.

Rodrigo Krause

Thank you. Good morning everyone. Ladies, and gentlemen. good morning. Once more, I want to thank you for your attention and interest in attending this meeting to present the significant results for our 2012 First Quarter.

Before I hand it over to Armando d'Almeida, I would like to highlight some points I deem relevant for your evaluation of our strategy which has once more brought results that we will discuss. Investment grade.

Last March, Multiplan got investment grade rating from Standard & Poor's. We now are among the 37 Brazilian companies to have this grade, and the only one in the real estate sector in the country.

Dividend distribution, we continue to pursue our quality whenever possible to pay dividends beyond what it is required by the law. We distributed BRL100 million in interest on shareholders equity this quarter based on the 2011 results.

We also distributed an additional BRL49 million in dividends which added to the BRL100 million already mentioned, totals BRL149 million representing approximately 50% of the Company's net income. The results for 2012 also seem quite promising this quarter.

The Company's net income grew 95% while consolidated EBITDA increased 85% this quarter alone. At this pace, I can say that our gross revenue may well reach the BRL1 billion mark into 2012.

I would like also to highlight our strategy. We continue to privilege mixed used projects combining in the same areas, shopping centers, commercial and residential buildings, hotels, medical centers and services in line with the potential of each location. This produces synergies among the components and produces significant foot traffic and business which add value to the assets.

This quarter, we are celebrating yet another confirmation of the success of our strategy. I mean the selling of a corporate tower to Oracle we built right by Morumbi shopping in Sao Paulo. In addition to the immediate benefit, this sale contributed with to the Company, we enhanced permanently a benefit to the shopping center, the privilege focus of our company, by strengthening its primary area, adding value for our shareholders.

Although our focus is on the development of shopping centers, we continue to pursue our policy of real estate projects which is still quite profitable.

Funding, I would like to address our project funding policy. We used our own equity, our cash generation, turning away from excessive indebtedness which as we all know has become a dead weight for corporations and countries especially in the developed world. Our goal is to maintain significant and sustainable broadways, managing our indebtedness without compromising our stability, our liquidity and the profitability of our company.

At present our gross debt is of about BRL1.2 billion, considering that our cash position is BRL655 million. Our net debt doesn't exceed BRL563 million. Our investments for the years' 2012-2013 should be of about BRL1 billion in projects such as the construction of village mall, Park Shopping Campo Grande, Park Shopping Jundiai, Park Shopping Sao Caetano already delivered and commercial and residential towers in Sao Paulo, Brasilia, and Porto Alegre.

All of these projects are I must say well within their original schedules. In our own evaluation, they can add up to BRL3.5 billion in added market value to the Company. And the by the end of 2013, it will let us add nothing less than BRL157 million in net operating income. Other projects are being developed and should be announced shortly.

Commitment to growth. I would like to mention another topic for consideration and pondering. It concerns the commitment during Multiplan's IPO. We then said that our goal would be to double the size of the Company in five years. This coming July, we will complete the five-year term and I will have the satisfaction of announcing on behalf of our team that Multiplan has doubled its size in five years without diluting proportionately the Company's equity.

This outcome, believe me, is a matter of great pride. As usual, I want to thank the unraveling effort put in by our colleagues, the most valuable assets in this company. We have the privilege of counting on highly professional and motivated team. Thanks to them, we have been able to combine the important volume of construction sites with a portfolio of new developments including shopping center green fields, expansions in existing shopping centers and real estate projects attached to them.

Our team allows us to sustain permanently our vision of the future.

Finally, I must remind you that a great deal of these results is due to the managerial model we were able to build in Multiplan. Here, we are aligned with the interest of our controlling shareholders, executives and you all who believe in investing in the Company.

Multiplan's management fields as if they were the owners in a long-term perspective and the Company with owners and investors shows a competitive differential. Once more, I would like to thank you all, ladies and gentlemen. shareholders and investors.

And we'll ask Armando d'Almeida to continue the presentation with more details on our results. Thank you.

Armando d'Almeida Neto

Thank you, Rodrigo. Good morning, ladies and gentlemen. Not wanting to repeat myself as in previous meetings, previous calls, but doing it nonetheless, this was another quarter with a strong operating performance of our shopping centers, but leveraged by a significant risk that for same results which is part of our mix and use strategy.

Moving into slide number three please in which we see the sales data, they are in line with our view, with our positive outlook for retail growth in Brazil. Multiplan's shopping center sold almost two times more than the national retail sector, increasing our stake in the shopping center segment which, as you know, is too quite low, about 20% of the national retail sales are in shopping centers in Brazil.

The chart, to the top right of the slide, shows a long series. The total sales of our malls in the last 12 First Quarters which should give us some notion of the growth dimension in the long term consistent with our process in changing the mix.

We grew -- at the component average we grew sales at the component added growth rate of 17.2% per annum. Sales, they were BRL356 million in the First Quarter of 2011, jumped into BRL2.1 billion by the end of -- by the First Quarter of 2012.

On our same basis growth comparison and I'll referred to the chart on the bottom part, we see that the First Quarter is pretty much in line with growth presented in -- throughout 2011. We continue to maximize existing space with a changing mix. Here, we presented by the same area of sales of 9.7% quarter-over-quarter.

Satellite stores continue to increase sales more rapidly than those of anchor stores which stimulate us to go out the opportunities in expansions. Those opportunities lead us to buy back space causing a natural temporary and a small decrease in occupancy rates that move from 98.4% in the last quarter down to the 97.2% by the end of the First Quarter.

Another relevant issue in regards to occupancy rates is Park Shopping in Sao Caetano, our newest shopping that was inaugurated recently. The shopping center that ended 2011 with an occupancy rate of 90% already presented an occupancy of 95% at the end of this quarter. Today -- yesterday, this occupancy rate was over -- slightly over 96% although it's still below our portfolio average in that --.

Moving to the next slide of number four, our gross revenues doubled in this First Quarter boasted by the sale of Morumbi business center also by the revenue from parking areas which increased 20.8%. And the increase in parking was due to the increasing number of parking lots and also to the increasing traffic. And last but not the least, completed by the rental revenue that went up by 15.6% this quarter.

When we're comparing the -- same-base comparison once again, we see more -- I'm sorry -- when we compare it -- I'm so sorry for that -- when we compare the same base, we see our same store ramping increasing strongly by 11.1% with a real growth of almost 4% above the IGP-DI inflation adjustment, the index that we use to adjust our lease agreements. The same area rent went up by 11.5% in this same quarter

Among the highlights, we can call (Shopping de Lolete) in Sao Paulo, the one that we recently doubled our interest on the mall which has just entered in this third-year in operation and presented a growth in same area rent of 29.6%.

And an example of a consolidated mall, we have a (Baha) Shop in Rio which will buy 12.6% in terms of same area rent. Those are two examples of young and consolidated Malls both growing strongly.

Park Shopping Sao Caetano inaugurated last November contribute with BRL8.1 million in rental revenue in this First Quarter of 2012.

Let's talk about results and moving to slide five where we see an increase in NOI plus key money of 13.1% where once more we highlight Shopping de Lolete in which in addition to the growth in rent saw also an increasing park revenue by 50% or 52%.

The opening of a new mall always leads to increase in expenses and this was the case for Sao Caetano. This couldn't be different. This was one of the reasons that led to an increase of 19% in shopping center expenses in this quarter.

With NOI -- at the end all in, NOI margin -- NOI plus key money margin remained unchanged. By the way, the increase in shopping center expenses was already planned, mentioned in past conference calls and envisages the investment in promotion and future growth of not just Park Shopping Sao Caetano and some other malls that we invested.

To end this slide, the chart on NOI per share shows the strong and continued growth throughout the last several years that we'll be presenting.

One on the following slide, the Q1 results on page number six, here, just being a little bit prerogative, so there's a conflict, a moment for a thought, what would you prefer, margins or results money, right? Our consolidated EBITDA margin decreased to 59% this quarter as a result of the mixed use strategy which led to an increase in EBITDA of 85% reaching BRL191 million in this First Quarter alone.

It is worth mentioning that shopping center EBITDA margin remain in line and excluding the real estate activity from the consolidated EBITDA, it remained in line with that in the First Quarter of last year at 71.7%.

To conclude my comments and results and moving to slide number seven, we showed that we have started the year with a net income of BRL124.5 million or about 40% of the entire net income of 2011, 95.4% greater than last year.

We present growth from gross revenue and all the way to net income while keeping a low level of indebtedness that allowed us to continue to grow whether by new projects for acquisition opportunity. This strategy is also reflected on the (SSO) per share on the value creation to our shareholders.

Let's move to slide number eight and before I speak about indebtedness, I would like to stress the importance of the recent change in our rating by Standard & Poor's taking the Company's rating to the highest level in the domestic scale with the Brazilian triple way and making us investment grade on its global scale with a stable outlook.

Certainly, the rating rent make us very proud of what we could achieve and bring us a positive impact on our funding cost. Our net debt today is of BRL554 million, representing 1.04 times EBITDA on the last 12 months EBITDA. We have fully signed in (inaudible) of BRL229 million.

You might recall we mentioned the other few times that in order to benefit from a more frequently from the decrease in interest rates in Brazil, we have increased our exposures to the CDI, the inter-bank rates that went from 21% in the First Quarter of 2011 to 40% in the First Quarter of this year.

Moving to other centers of development that show in the next page of number nine, the four new malls are very well leased. The demand for space is very strong still. And we see that the three malls that we opened this year during the Fourth Quarter 2012 Jundiai Shopping, Village Mall and Park Shopping Campo Grande, they all have more than 90% of their space already leased.

They lever of this shopping centers will also start up the accrual of key money currently onto the deferred income line with BRL180 million. Two main reasons to see this reduction in the past few quarters in terms of defer the income, first one, the accrual that started after the opening of Park Shopping Sao Caetano and second one already mentioned by buy back of space in malls, preparing some of our properties for future expenses.

The table that we have below show the main or the main data in terms of new shopping center indications, they are up to date and third-year NOI return remain practically unchanged.

The following slides is that number 11-12 must show a sequence of pictures that helps to visualize the status of the construction works. Pictures always help a lot, better than words.

Moving to slide number 12, where we also update the commercial towers for lease, the next slide of number 13 -- I'm sorry on the 12 still, again updating CapEx and NOI basically we saw unchanged NOI use in this case over the (inaudible).

On page 13, we have the real estate for sales. We have two projects going on, one in integrated with the (inaudible) shopping in which is a tower that will be delivered by the end of this year. And the most recent one, the picture on the left is a true solid progress. So one residential, and one commercial integrated with a mall in Porte Alegre Baha shopping (Sul) in which sales are moving very well. And we will start construction of these new two towers this month due.

To conclude on slide 14, we brought a case study just mixed and use strategy and shareholders' value creation in which we present Morumbi Shopping Complex. Morumbi just completed 30 years in operation the last month. And in this period, we added five new expansions in addition to the mix and used products that we're developing.

We developed several products and started construction in -- they started with in 1993 with Morumbi Office Tower is the number two in the picture that you have. And next year, we will meet another milestone through the delivery of Morumbi Corporate, the number five on the picture, a complex with two commercial towers and over 74,000 square meters (fallings).

And as usual we constantly evaluate opportunities to bring a new shopping centers, to expand existing operations and at the right time to develop real estate projects integrated to the malls whether for lease or for sale. This is why we have a solid land bank with over 600 square meters of land.

I will stop here and we'll open for any questions that you might have. Thank you very much and back to you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions)

I'll turn over to Mr. Armando d'Almeida Neto for final considerations. Mr. Armando, you may give your final considerations now. Please go ahead.

A - Armando d'Almeida Neto

Well I understand we have a very shy audience, so we have so many questions during the Portuguese call, but I want to tell you it's a pleasure. I want to thank you for your support, for your interest in our company, for being a shareholder of our company. And we remain available after this call for any questions that you might have.

Thank you very much and I wish you all a great day. Thank you.

Operator

Thank you. This concludes today's Multiplan First Quarter 2012 Earnings Conference Call. Have a good day and thank you very much.