Q1 2015 Earnings Call

Company Participants

- Eduardo Silveira Camara, Chief Executive Officer and Investor Relations Officer
- Thiago Alonso de Oliveira, Chief Financial Officer

Other Participants

- Unidentified Participant

Presentation

Operator

Good afternoon, and welcome to JHSF Participacoes Conference Call on 1Q15 Results. Today we have with us Jose Auriemo Neto, JHSF Board's Chairman; Eduardo Camara, CEO and IR Officer; Thiago Alonso de Oliveira, CFO; and Marc Grossmann, Director. This presentation is being recorded, and all participants will be in a listen-only mode during the Company's presentation. Next, we will start a Q&A session, when further instructions will be provided. (Operator Instructions).

Before moving on, we would like to clarify that any statements made during this teleconference regarding business perspectives, projections, and operating and financial targets are based on the Board's beliefs and other assumptions, as well as information currently available. They do involve risks and uncertainties referring to future events and this will depend on circumstances that may or may not occur. Changes in the macroeconomic policy and the legislation and other operating factors may impact JHSF future performance leading to results to differ materially from those expressed in such future consideration.

We would like now to turn over to Mr. Eduardo Camara, who will start the presentation. Mr. Camara, you have the floor.

Eduardo Silveira Camara {BIO 2074637 <GO>}

Good afternoon. I thank everybody for attending our conference call. Let's start with the highlights of the first quarter 2015. It's important to note the growth of consolidated net revenue, which is a result of our strategy to focus on our strategy on shopping malls and hotels and restaurants. Especially in the shopping mall indicators, an excellent results, very high, vis-a-vis market assessments and in particular same-store sales and same area sales, we have posted the highest results in the markets above operating averages, which makes it very comfortable in terms of the strategy and our management in this area.

As we had said in the previous call, we had lot of reductions in the recurring operating expenses of almost 21%. We're looking for a lighter, more efficient structure and this is a process that requires constant attention on our part. It's important to highlight that these figures are not entirely captured in the quarter's results due to the fact that during this quarter, we are not fully developed. And in some cases they required initial investments for the rolling out. Also something which is not recurring, we had to make payments with bonuses and other payments in the first quarter. In spite of all this, we managed a very relevant reduction which will be more significantly felt in the next quarters.

Our operating activities have led to a very positive results. In terms of cash flow, this has impacted the CapEx for the period and we had a success of capital increase of R$192 million. It's practically finished because this is the last week of residual interrogation.

We are talking about shopping malls and shopping centers [ph]. We've had an important event with the opening of new operations, the opening of the only Ralph Lauren store in Brazil and the opening of Parigi Bistrot, a successful enterprise which will improve even more the shopping malls development.

We also received the permit to construct the Company's sixth mall on (inaudible) and we should start these construction works by the end of the next quarter.

On page number four, we have to say that some four or five years ago we started focusing on the recurring activities decreasing our participation in real estate development. And what we have today is an activity that 65% comes from shopping malls and 70% from non-RE development activities. This is what accounts for the positive results.

On page number five, we have already said about Cidade Jardim shopping or shopping malls. We would see a very positive growth in terms of revenue and total sales. And we also have some results which are the results of our strategy, namely the sophistication of Ponta Negra shopping malls, as it happened in previous quarters Bela Vista mall had been growing at relevant rate and it was improving all the performance measures. And in 2015 we have dedicated similar efforts to reposition our shopping mall in Manaus. We expect to reap the result of these efforts and we have already started some (inaudible) and we expect that, throughout 2015 we are going to see the end result of these efforts.

Talking about RE development, we have an adverse macroeconomic scenario. We have better figures than the average performance in the industry in high-end sectors, the demand is much more resilient, the exchange rate tends to increase the sales in this segment because people go for real assets and they make comparison vis-a-vis international prices. And so, we have been ahead of our marketing levels in Mena Barreto and Bosque. We are working to finish the embargo. We have all the licenses, all the permits, so we are expecting a decision from the court. However, sales and physical development has been quite advanced that we are seeing within the time schedule and both of these had some translations. But it is a project which is resilient [ph] and very well recognized in its market position. And all these negative aspects were offset by a relevant reduction in operating expense expected in this segment of real estate development.

In terms of hotels and restaurants, we -- the sales showed a relevant revenue coming from restaurant, 63% and all the metrics in this activity; revenue, revenue per room available, hotels, average hotel prices, average couvert and they've been developed materially quite positively, so we are confident that we are on the right track. We also had the opening of Parigi Bistrot (inaudible) and it is a success of Cidade Jardim and we had a termination of two other operations.

To talk about consolidated financial figures, I'd like to give the floor to Thiago, our CFO. Mr. Oliveira?

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Well, in addition to all the assets mentioned by Eduardo, what we see is net revenues had 5% growth vis-a-vis last year. Adjusted EBITDA, we are working strongly to reduce expenditures, therefore boosting figures for the next quarters. Likely to have a little bit more on the financial results. Financial results had an important variation vis-a-vis the first quarter of 2015, or rather 2014. So here we have to take into consideration reals exchange fluctuation. We have debts which are dollar denominated, this led to a financial result which was really impacted by that very different from the first quarter of 2014. But what we don't show in the financial results, but we do show in the net income is the resulting of exchange rate variations on assets and liabilities abroad, this generated positive results of 20 million. If it were not for this aspect, which is still accounting, it would have posted much better financial results better than last year, actually. And this would actually be translated into more favorable net results for the company than just R$1 million.

Having said that, let's go to the next slide, when we talk about -- where we talk about indebtedness and receivables. We have a gross debt of 2.5 billion, which is by the cash position on March 30 of 283, plus the funds which entered our cash as a result of our capital increase. We also have R$505 million in performed accounts receivable and interest of the gross debt, we have 553 million, which is associated investments which are being made in the US.

It's important to highlight these figures in a (inaudible) American market and we obtained well worked footprint metrics, footprint from what we have here in publicly held companies. So it teaches to look towards potential dealers which follows a different rationale and with that we see our adjusted net debt at a little over R$1 billion. When we look at the (inaudible) generated in the fourth quarter, we have R$280 million, which leaves us at a very good leverage level of around four times.

At the lower part of the slide, we have the debt payments and receivables schedule between 2015 and 2017, we have some maturities. Right now we want to rollover these segments and also starting other possibilities in order to monetize future receivables for the company. On debt profile, it's rather comfortable, 18% in current and 82% non-current.

So this is what we had to tell you, gentlemen. And Eduardo and myself are here to answer any questions you may have now.

Questions And Answers

Operator

We will now start our Q&A session. (Operator Instructions) First question from Itau BBA, Mr. Carlos.

Q - Unidentified Participant

Good afternoon, Eduardo and Thiago. I have two questions. The first one goes back to the debt. In terms of rolling the debt, rolling over the debt, what the bank's appetite and what would be the impact to the debt cost? And the second one is about Cidade Jardim performance, 3.6% in the quarter. Do you see anything special with this and what happened?

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Carlos, thank you very much for your question. I'm going to answer the one regarding the debt and Eduardo is going to talk about the Cidade Jardim shopping mall. We do have some agreements which are quite advanced in terms of rolling over. We're basically talking to two commercial banks. Right now, we don't see anything that is cause for concern.

Regarding costs, our debt is now CDI backed, so as long as CDI remains at the same level, it makes for more expensive debt, but it's nothing outside what we expected in terms of spread over CDI. So what we are trying to do is to set up a structure that is adequate and it's not too much of a burden on the spread over CDI.

A - Eduardo Silveira Camara {BIO 2074637 <GO>}

This is Eduardo Camara. Regarding the Cidade Jardim figures, let me draw your attention to our sales growth which was around 9.5% for the period. So the comparisons for same stores and same areas in terms of mix reallocation and some stores which moved and that have lead to some terrific figures. But what we have is an occupancy cost which dropped, total sales increasing a lot, we had increase in relevant revenues. So these performance figures make us very confident.

The metric may be a little bit of assorted [ph] due to the reasons I just said, and now that all these movements have been consolidated, I expect that this is going to impact all the figures. So it's more about the metrics than the performances itself, because of revenues are quite positive. Thank you.

Operator

(Operator Instructions) We now bring the Q&A session to an end. Let me turn the floor to Mr. Camara for any final remarks.

A - Eduardo Silveira Camara {BIO 2074637 <GO>}

Thank you very much all of you for attending the call. I hope I made clear the results for these quarters, which are results that show us that we are on the right strategy, on the right path, growing operating figures, robust figures for our shopping malls, which is the strategy, the return for our future. And let me say that our team is currently available for any questions you may have. Thank you very much, and have a good afternoon.

Operator

JHSF conference call now comes to an end. I'd like to thank everybody for attending. Have a good afternoon.