Q2 2012 Earnings Call

Company Participants

- Antonio Guedes, General Director
- Elie Horn, CEO
- Jose Florencio Rodrigues Neto, CFO & IRO
- Unidentified Speaker, Unknown

Other Participants

- Adrian Huerta, Analyst
- David Lawant, Analyst
- Eduardo Silveira, Analyst
- Guilherme Rocha, Analyst
- Luiz Garcia, Analyst

Presentation

Operator

(interpreted) Good morning, ladies and gentlemen and thank you for waiting. Welcome to the Cyrela Brasil Realty conference call with the results of the Second Quarter 2012 will be presented. All participants are connected only as listeners and later on there will be a Q&A session for which instructions will be given. (Operator Instructions)

Finally, remind you that this conference is being recorded and the audio will be available on the Company website upon completion at www.cyrela.com.cr/ri. This call will be translated into English and is being transmitted by internet simultaneously. Overseas participants connected to the internet can ask questions using the web cast platform.

The results that we published yesterday August 13th after the closing of the BM&FBOVESPA stock exchange is available at the Company website www.cyrela.com.cr/ri.

Before we proceed, we'd like to clarify that any statements made during this call regarding the Company's business prospects as well as projections operational and financial goals concerning its potential for growth are forecast based on the expectations of the management for the future of Cyrela.

These expectations are highly dependent on domestic market conditions on the general economic performance of Brazil and international markets and are therefore subject to change. We have with us today Mr. Elie Horn, CEO, Mr. Antonio Guedes, general director of living and Mr. Jose Florencio Rodrigues Neto, financial vice president and investor relations director with us today.

Now, I hand over to Mr. Elie Horn. Please Mr. Horn, you have the floor.

Elie Horn {BIO 1823000 <GO>}

(interpreted) Good morning, everyone. Speaking of the past quarter of our decision of simplifying the Company, this quarter and the upcoming quarters we will continue with this work of making the Company simpler. The simplest of these should be reflected in the way we operate. Therefore, we've reviewed the Company's structure seeking to improve the actions and decrease expenses seeing -- in order to increase our productivity.

We've centralized some of the support areas and that's in living and we've consolidated the management structure that supports selling. We've brought the executive position closer to operation and removing one of the operation layers and this should be -- should continue. We'll always be aware of the initiatives so that we can operate in a more effective and simple manner.

In regards to the margin, we still see a healthy demand overall. The prices continue to increase but in a slower manner than possible has been in the past and we still have a strong appeal and selling very well. Obviously, the demand changes according to the region. Some places are more -- are heated up with good performance and others are more affected and part of our strategy is to understand the dynamic and diversities of each market and to focus our efforts on each one of them and within this context, concept we're to increase the margin and continue to focus on sales.

Some good news, the banks are reducing their interest rates and increasing returns. Therefore, we increase the buyers buying capacity and benefits the sector overall. We believed in the potential of generating value in the market we plan on continuing to prove to capture that in the long term therefore, we continue to invest in the quality of our products and our team so, we can have financial solidity.

With the support of our employees and all stakeholders we will continue to take this path to improve our performance and strengthen our company with the consolidated position always ready to improve. Now, I'm going to pass the floor to Mr. Guedes who will talk about the consolidated results.

Antonio Guedes {BIO 17964221 <GO>}

(interpreted) Good morning, everybody. On slide five we'll come in on Cyrela's consolidated results including the living category. In the Second Quarter of 2012 we've launched 14 projects which total the BRL1.1 billion is sale speed a 22% growth compared to the 1st quarter of this year. The average price of a square meter was BRL4,700 and this was down 24% on the previous quarter mainly owing to the greater share of the living product in launches coming to nearly 50% in the quarter.

The average price of units was BRL346,000 in 2Q12, 15% down compared to the First Quarter, once again, showing the impact of the greater share of living. Cyrela's share in the launches came to 84% in the quarter compared to 77% in 1Q12. Geographically speaking, Rio de Janeiro was the highlight of the launches with 46% of the total followed by the Midwest 21%. And North -- and the state of Sao Paulo 16% each.

Going to slide six, we'll discuss the sales performance. In this quarter, presales came to BRL1.3 billion including partners up 8% over the First Quarter of 2012. Cyrela's share came to BRL1.1 billion. In units, we sold 4,200 units in this quarter as opposed to 3,500 in the previous quarter.

This number means in annual sales over supply of 51.6% which we believe is a healthy level. Of total sales 77% were sales inventory units and 23% were products launched in the quarter. This shows the healthy situation of the market today. The states of Sao Paulo, Rio de Janeiro and South together account for 73% of our sales.

Slide seven is about the living segment, launches and sales. In the Second Quarter living launched eight projects with total sale speed of BRL543 million which represented 2,500 units launched in the quarter, 23% of which are eligible for the My Home, My Life program, MCMV.

Regarding sales in this quarter, living sold BRL489 million in the quarter, 27% up on the previous quarter. Sales were segmented as following, 17% of sales in the super affordable segment for the MCMV, 76% of sales in the economy segment in other words BRL170,000 to BRL250,000 per unit, 7% of sales in the mid market segment whose price ranges from BRL250,000 to BRL400,000 per unit.

The highlight is Way Bandeirantes in Rio with 100% of units sold and Vista Park in Jungayaie [ph] and another project with 90% of sales units sold to date.

Slide eight has to do with Cyrela's total inventory including the living category. At the end of 2Q12 inventory at market value came to BRL6.2 billion down by BRL150 million over the preceding quarter. This volume means 11.8 months of current sales annually. 14.8% of this total was finished units, this finished inventory is up on the preceding quarter.

Above all owing to the delivery of some major projects. For example, we -- in this quarter we began deliveries for La Tache [ph] in Salvador. We're working hard to sell our inventory. Commercial strategies are always constructed by analyzing the specific situation of each project. We normally increase our investments specifically, for example, in marketing we relaunched products.

We enhanced the training of our brokers and above all we used seller, our in house salesforce to sell our stock products, it's a guerilla marketing strategy per product. The result of this effort is that we sold more than BRL1 billion in inventory this quarter.

Slide nine is about units delivered. In the Second Quarter Cyrela and living together developed 21 projects totaling 5,700 units. Living delivered 3,700 of these units. For 2012 we intend to deliver from 25,000 to 30,000 units. The sales speed represented by these units was BRL1.4 billion.

Now Jose Florencio will talk about the financial results.

Jose Florencio Rodrigues Neto {BIO 17498585 <GO>}

(interpreted) Good morning, everybody. We will now look at slide 11. Net revenue came to BRL1.5 billion in the Second Quarter of 2012, 2% up on the First Quarter and 7% up year-on-year. Income in the quarter reflects our low volume of launches. Growth profits came to BRL448 million in the quarter, 5% up on the First Quarter of 2012, 17% up on the Second Quarter of 2011. The growth margin advanced 0.8percentage points over the previous quarter coming to 30.3%.

We are gradually increasing our margins as previous projects are delivered rather and launches coming with higher margins. Our accumulated margin for the year stands at 29.9%. We're comfortable that we will attain our guidance of a growth margin for 2012 which is between 30% and 34% for the year.

EBITDA in the quarter was BRL233 million, 24% higher than in the First Quarter of 2012. The EBITDA margin was 15.8% in the Second Quarter this year, up 2.8percentage points over the previous quarter. The adjusted EBITDA margin was 19.4%. Net income came to BRL143 million in the Second Quarter of 2012, 21% up on the First Quarter of 2012, 49% up year-on-year. Net margin was 9.7% for the quarter which is 1.5percentage points up on the previous quarter and 2.7percentage points up on the Second Quarter of 2011.

Going to slide 12 we'll be talking about transfers and full payments. In the Second Quarter of 2012, the transferred amount was BRL804 million which is 20% higher than in the First Quarter this year, BRL595 million, nearly BRL600 million or 74% of this total were transferred, 21% were full payments.

In terms of units, we transferred or released 4,800 units up 21% over the previous quarter. This is a record for Cyrela for this quarter both in terms of volume and of value. We hope to increase cash generation for the year as a result of this.

Slide 13 will address, in fact the next two slides will address debt and cash generation. Growth debt by the end of March came to BRL4.4 billion as against BRL4.6 billion in the previous quarter. The cash and cash equivalent position was BRL1.6 billion at the end of last quarter, BRL223 million higher than in the preceding quarter.

This quarter we paid BRL118 million -- nearly BRL120 million in dividends. This gives a net debt of BRL2.8 billion leaving aside [ph] the debt of the housing funding system, SFH, which comes to BRL2.7 billion. The Company's net debt was BRL117 million. Net debt of a net equity fell in comparison to the previous quarter. Leverage went from 54.2% of net equity to 53.5% and we are sure that if we continue in this line, this trend will continue until the end of the year.

Of or total debt, 61% is for SFH financing or building and 71% is long term. The average duration of the total debt is approximately 2.5 years and the Company's debt is approximately two years. The average rate is 109% of CDI. With the recent fall in the Selic rates, we find ourselves in an unprecedented scenario where corporate debt is cheaper than SFH. In this scenario we are prepaying some SFH debt, especially those that are in the amortization phase.

This is in order to lengthen our debt profile and make it cheaper. In this quarter, we raised BRL300 million in capital with a duration of 4.5 years and a 108% CDI interest rate fast [ph].

Slide 14 is data on cash burn. For this quarter, operational cash burn was BRL42 million, ex-dividend compared to BRL6 million cash burn in the First Quarter 2012. For the first half, operational cash generation was BRL36 million compared with BRL198 million cash burn in the first half of 2011. We did not perform any securitization this quarter. We expect to present cash generation in 2012.

And now, we'll answer any questions you may have. Thank you very much.

Questions And Answers

Operator

(interpreted) Excuse me, ladies and gentlemen. we will now start the Q&A session. (Operator Instructions) Our first question is from Mr. Luiz Garcia from Bradesco.

Q - Luiz Garcia {BIO 17432519 <GO>}

(interpreted) Good morning, everyone. Basically I have three questions. The first one is in regards to the launch. We saw in the release you even highlighted that some projects that were expected to be launched in the second half this year, could be postponed to the beginning of the next year. I'd like to understand those the -- what's behind that and if that changes anything in the sales guide and for 2012?

The other point is about cash generation based on the receivables scheduled. There's a huge expectation of units being delivered this year and consequently, there would be a conversion to that into cash since the receivables would be passed on or transferred next year.

I know you don't have a guidance for that but I'd like to know if we can see if this was in your expectations that this number will grow substantially for 2013 and considering that question for the third one about the repurchase that sometimes the Company said that repurchasing shares would be a way to generate value and I'd like to know if that repurchase would be carried out based on the new initiatives being taken based on the lower level when we were saw -- looking at the three -- the BRL13, BRL14?

A - Jose Florencio Rodrigues Neto {BIO 17498585 <GO>}

(interpreted) Luiz, this is Florencio. Good morning. Thank you for your questions. In regards to the first question, the about launches and the impact that is well, what is happening is the approval process is becoming slower. So just so you have an idea today at Cyrela we have approximately BRL8 billion in sales speed and under stations of approval and public bodies and other and half of that is in Sao Paulo.

So the launches will highly depend on how these approvals will take place in the second half of the year. Said that we think that the sales guidance is, in fact, doable but it will -- that will depend on how the approvals will unfold since that has a very relevant impact to sales -- on sales and today we do believe it's doable that we can attain -- achieve our sales guidance.

In regards to cash generation, we have been delivering a lot and part of the effect in the First Quarter we're going to feel that around the Third Quarter of -- sorry the Fourth Quarter of the year and we do expect to have cash generation.

I'd rather not mention any figures because that, in fact, that does vary on what we're going to consider for the land bank for buying plots. So we have a very calm expectations for generating cash and also we do expect to have cash generation in 2013.

And about -- in regards to the repurchase program, we already talked a bit about that, it creates value and I'd like to pass the floor to Mr. Elie Horn who would talk about that now.

A - Elie Horn {BIO 1823000 <GO>}

(interpreted) The repurchase has to be opportunistic. We can't say that we're going to -- not going to revive. We do we will. It's a matter of time and opportunity. In addition to that I'd like to add that we always look at the companies liquidity value as a benchmark for us and you know how to do that math better than we do.

So when shares are low, liquidation values usually have a good price but that's an action that we take when it's an opportunity and the cash generation of the shares [ph] have a good price.

Q - Luiz Garcia {BIO 17432519 <GO>}

(interpreted) Okay. Thank you.

Operator

(interpreted) Next question comes from Guilherme Rocha, Credit Suisse.

Q - Guilherme Rocha {BIO 17303509 <GO>}

(interpreted) Good morning, Elie, Florencio and Guedes. I have two questions especially to Guedes. How do you see the demand around Brazil, not just in Sao Paulo but other places? In the South you have relevant presence, up in the northeast, Salvador. So, how are the other places beside Sao Paulo and Rio de Janeiro?

And another question is looking to these sales expenses amount that you have in the first half and excluding the bonus in the First Quarter and I'd like to know if that's a sustainable figure for the Company for the upcoming year. So how are you sizing the Company given the expenses and SG&A and service expenses [ph] a bit are higher than a BRL100 million for the quarter?

A - Antonio Guedes {BIO 17964221 <GO>}

(interpreted) Hi Guilherme, this is Guedes. Good morning. In regards to the demand, like you mention, Sao Paulo and Rio, we see a lot of consistency here. This is a demand and we are calm in relation to that.

In regards the other places like the South, we also have a good demand. We launched in development in Curitiba 15 days ago which we saw well a good living price and in the market overall, it is more selective and that is happening. And our sales expectation overall is to as 50% to 55% of the sales of the launch and so, that's what we've seen and if we take the track record for a year of sales that moves up to 75% when we're doing well with that.

In regards to the other markets that you mentioned, in the north we had launches in some cities Sonweis and Belling [ph] and we're comfortable with what we're selling. We were doing well in (inaudible) we have a good position of plots, land bank and brands so, that makes it easy in the sales market and we're also very comfortable about that. We don't have any major issues.

In Salvador, we see a recovery in this quarter recovering sales, the campaigns that we launched for selling inventories are showing the results now and we're recovering those inventory sales. And what we've seen in these states is the position that we have for the land bank launches, launching when we have a comfortable margin and not putting in products into the market just for the heck of it.

So we're balancing that out and it's more -- trying to make it right and it's a daily work and we see have to postpone a launch for a month to work better to see to feel the climate, we're doing that. And so, we're very comfortable with what we're doing.

Q - Guilherme Rocha {BIO 17303509 <GO>}

(interpreted) Okay, Guedes. So, for the inventory that you have this 15%, how much of that is Le Parc which is an emblematic development and what is the rest? And if there's any other concentration in any specific regions or the inventories that you have?

A - Jose Florencio Rodrigues Neto {BIO 17498585 <GO>}

(interpreted) Roche, this is Florencio. I think the increment that we have this quarter was mainly a result of Le Parc. I had mentioned that in the first [ph] quarter of last year because would happen, Le Parc doing the delivery part, the inventory was recorded but it wasn't classified as ready, as done. Now, it's done. Now, it's concluded so, the difference is pretty much Le Parc, some 12.5% and 14.5% [ph].

In regards to inventory concentration yes, there is a concentration in some projects, six of them represent 50% of this of the inventory. So there is a concentration and Le Parc is an important part of it and the important thing is we already see recovery of the sales level of Le Parc in the past week and as we deliver the work. So we are very confident that that will improve with time. Just to add, another piece of information, this quarter we sold, compared to the same quarter in the previous year 150% [ph] of inventory with more than one year.

So our sales were very strong in older inventories. So that shows that there is a market and that we are focused on selling our inventory. Now, onto Guedes.

A - Antonio Guedes {BIO 17964221 <GO>}

(interpreted) Just to add, we closed the year with BRL770 million of inventory -- ready -- of inventory and we sold BRL620 million so, that 30% is very relevant and important. So that's inventory that's concluded. So that's an important figure and for the inventory, after moving into 2012 considering it entirely BRL6.5 billion, we sold BRL1.7 billion. So that figure is very relevant. 30% of sales when we moved onto 2012 so, that selling the inventory we're accompanying that -- those sales and the sales are good and we have to do the product (inaudible) as we mentioned.

Q - Guilherme Rocha {BIO 17303509 <GO>}

(interpreted) And could you answer me about the G&A levels, the expenses?

A - Antonio Guedes {BIO 17964221 <GO>}

(interpreted) Yes. Your second question about SG&A, right? When we look into our SG&A levels compared to the Second Quarter 2011 there was a substantial reduction. Commercial expenses from BRL143 million to BRL112 million and SG&A -- and G&A from BRL247 million to BRL221 million.

So and observing a difference of BRL18 million that you know of variable compensation and increasing the provision this year which we did, strengthening the engineering team, that was about BRL10 million and observing some (inaudible) that we purchased. So there was in fact, a reduction and recently we promoted another reduction but the whole issue -- are we satisfied with this number? No, not yet.

I think there's still things that we can do, we are doing and as Mr. Elie mentioned, we just have to find the Company centralizing things that can be centralized and will see that affect in the upcoming quarters. I have to say that any steps that we may take in regards to reducing personnel that type of reduction, that takes a while because there's always the cost. So this quarter that reduction -- the cost of that reduction impacted BRL4 million the G&A. So it takes a while but we're taking the right path.

Q - Guilherme Rocha {BIO 17303509 <GO>}

(interpreted) Thank you.

A - Antonio Guedes {BIO 17964221 <GO>}

(interpreted) Thanks very much.

Operator

(interpreted) Excuse me. The next question is Adrian Huerta of JPMorgan.

Q - Adrian Huerta {BIO 1749060 <GO>}

Hi. Good morning, everyone. I've just got a few questions. One is just the number of transfers that you had in the -- from the presentation of BRL800 million include as well the transfer or perform receivables?

A - Unidentified Speaker

(interpreted) Good morning, Adrian. I don't know if I understood your question but I'll you -- were you asking about securitization? There's no securitization this quarter.

Q - Adrian Huerta {BIO 1749060 <GO>}

Okay, perfect and then the reduction of long term accounts receivables of around BRL379 million [ph]? Are these from units that you were financing yourself that you sold twice?

A - Unidentified Speaker

(interpreted) Well I'll try and explain. I'm not sure I understood your question. We have total receivables of 12.42% and units under construction is 12.48%. We have set up an intermediate line. I don't have a number for that in our release but these are units that are being delivered. So part of that the number of units delivered that's units delivered this has grown but not much from 1,749 to 1,800.

What grew greater was units being delivered and we've set up this line to make it clear in our reports. So what is a unit that is being delivered? It is in the so called abeats [ph] stage, that that line has not yet received it. So that was -- went from BRL115 million to BRL146 million units under construction, there was a drop or a fall because of the operational flow of launches versus deliveries.

There were -- there's a lower number of launches and there is less recording registering and therefore, this fell from BRL10.900 million to BRL10.5 million. So to sum up, the whole situation here in the First Quarter of 2012 we had 12.6. We came down to 12.4. The reduction was units in construction owing to the dynamic of launches. And with regard to delivered units we are more or less on the same level of BRL1.749 billion, BRL1.785 billion and there was an increase in the units being delivered. I'm not sure if I understood --.

Q - Adrian Huerta {BIO 1749060 <GO>}

Thank you.

A - Unidentified Speaker

(interpreted) -- your question but I answered what I thought you asked.

Operator

(interpreted) Excuse me, our next question is Eduardo Silveira of Banco Espirito Santo.

Q - Eduardo Silveira {BIO 16201252 <GO>}

(interpreted) Good morning, I have two questions. The first is more details about the other operating expenses which was BRL13 million, was there any expense for le Parc? Then what's the Company's policy with regard to performed receivables, in the future whether these are going to be securitized?

A - Unidentified Speaker

(interpreted) Eduardo, thank you. These other or foundry [ph] this expenses, a large part of this is donations, donations to institutions. BRL6 million in this case, the second part of that has to do with labor and civil contingencies, something like BRL4.5 million.

With regards and to the receivables, whether we're going to securitize them or not, we haven't done much securitization. The quality of the credit is extremely good. For us it makes very little sense in the short term. We will probably securitize a little bit more but don't expect a high volume of securitization of these receivables.

Q - Eduardo Silveira {BIO 16201252 <GO>}

(interpreted) Thank you.

Operator

(interpreted) (Operator Instructions) Excuse me, the next question is David Lawant of Itau BBA.

Q - David Lawant {BIO 16370172 <GO>}

(interpreted) Good morning, everyone. Thank you for your presentation. A very quick question, it has to do with something that Florencio was talking about in the presentation where you said you are selling or finding more interesting ways of finding apart from SFH, is at a low level. And I'd like to know about interest rates. How much is this exchange? I want to understand whether this is very important?

With regard to SFH you can only withdraw the funds when you need it and so, with regard to flows and transfers how is the tradeoff between let's say a lower rate with other modalities as opposed to the SFH which perhaps has a more favorable structure in terms of cash. How do you see these modalities?

A - Unidentified Speaker

(interpreted) David, thank you very much. SFH is a very important funding source for us. In fact, it is a flexible source. As you said, you can make a withdrawal when you need it. You pay when you are able to, not much bureaucracies. There's a lot of flexibility long term. So we will maintain a reasonable volume with SFH.

In the short term, we will pay off debts which are at the amortization phase. In other words, the debt has been taken, we're amortizing them and they're very short term in the duration. If you compare that with corporate debt, it makes a great deal of sense. To give you some figures -- to give you a flavor of this we have one -- some projects which are BRL300 million to BRL400 million. The cost in CDI is something like 135%.

Today I can raise at BRL108 million with a 4.5 year duration with this size of debt. With -- to do amortization makes sense but we're not going to abandon or give up the SFH source. What we're doing is talking to banks to reduce these financing rates. We've been successful with that as well.

So that's the way we're thinking about this. Also, we're looking into other alternatives for funding, for example, purchase of plots of land for land bank and this will affect cash. I hope I answered your question.

Q - David Lawant {BIO 16370172 <GO>}

(interpreted) Thank you very much.

Operator

(interpreted) Excuse me, there being no further questions I would like to hand it over to Mr. Elie Horn for his final remarks. Please proceed, Mr. Horn.

A - Elie Horn {BIO 1823000 <GO>}

(interpreted) No news is good news. With that I'd like to say goodbye and to the next quarter and with the strength to proceed.

The Cyrela conference call is closed. We'd like to thank you all for participating and we wish you a good morning, thank you.