

Q2 2018 Earnings Call

Company Participants

- Eduardo Fischer Teixeira de Souza, Chief Executive Officer Region II
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive Officer Region I

Other Participants

- Alex Ferraz, Analyst
- Guilherme Mendes, Analyst
- Gustavo Cambauva, Analyst
- Renan Kato Manda, Analyst
- Unidentified Participant
- Victor Tapia Migliorin, Analyst

Presentation

Operator

Ladies and gentlemen, good morning. Thank you for waiting and welcome to the conference call by MRV Engenharia. We would like to inform you that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question- and-answer section, and further instructions will be given. (Operator Instructions)

Now, I would like to turn the floor over to Mr. Rafael Menin.

Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Good morning to everyone. First of all, I would like to thank the participants in this call. We are going to have a very quick opening. Then, we'll have more time to discuss the indicators.

A short summary. We will say that the launching have been much better and things have improved and the company has had a record of profits. The company has generated cash. So the most important indicators were good. As we have seen in the past years, the company keeps on growing, and we finished the first quarter of '18 compared to the one of the last quarter of '17, we have sold more. We have had greater profits. We were able to dilute the commercial and administrative costs. It was greater profit. So I would say that the company is quite satisfied with the results presented.

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The important points are the objectives that we have with the first quarter, that was a little less strong. We tried to recuperate the losses in the second quarter, and we're thinking of having a positive and strong result. We will reach 50,000 units, which is quite important for our company that we've really been doing for the past years. In 2018, we will hand over indicators of 50,000 units indicated of construction and handover.

Important points that we would like to demonstrate. We have been speaking with the principal candidates, and not only candidates but participants and professionals that have been helping us in the elaboration of a future government. And it's interesting to notice that all of them see with great positivity the program My House, My Life.

What we see is that this program will give positive results and it's fundamental for this country that will be more secure and more organized. And a dwelling home is the most important for all families, and you cannot live well without a good home. And we see this good eyes and we are convinced that the program has to be maintained and improved and grow more to give a comfort that will be for a long duration.

Something else that is very important. Our company has been very important and it is the greatest building company of Latin America. And since it has been able to show great results, the company has had relevant importance in technology, new technology and to hand over a better product, more technological, and also increase the experience of our clients. We are adding and we are working in regards to services. And from the second quarter next year, we have spectacular projects. And undoubtedly, we will do something that has never been done worldwide in the economic sense.

We are de-commercializing and giving products that are more durable, they're more technological, and more service to our clients to give greater comfort and keep us leaders in this segment and to see as an innovative company that has a better product for our clients.

I will give the floor over to speak of other aspects.

Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Good morning, everyone. I would like to begin speaking about specifics. I will speak about the line of equivalents. We have subsidiaries that have for some time improved their operation. They are companies that have debt, so their financial operations are weak, but the performance of these companies is improving and we are seeing the results going through a positive position.

I would like to speak about LOG, and LOG has handed over results and delivered[ph]. It has been a company that have the information and they give 20,000 square meters of buildings and has about 100,000 square meters to hand over again in the year. The 100,000 square meters that will be -- they are already 75% allocated, and this will be a greater contribution in terms of results of LOG. And consequently, it's a positive reflection on MRV at their equivalent. At the end of the year, we'll have about 800,000 square meters of rented buildings. We see this line moving positively.

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In regards to cash generation, a positive position. I would like to underline that this generation of cash could have got into BRL125 million, and it was a specific duration. (inaudible) is our partner for some time, and they have a business view of dedicating themselves to high renting profits. And we see here a specific situation that will have a generation of cash in a comfortable position.

We have paid two dividends in the quarter, and we have a loss in the cash and the financial profits. And consequently, we do not have such a great result in regards to the financial result, but we are going to continue generating cash and paying dividends.

Our history of some years already, we have been distributing positive dividends to stock, as dividends and refi and 30% of the result. We will continue doing it from the results to -- the profits to 2017. We have distributed 25%.

The last point that I would like to underline, to speak about return on equity, the ROIC and constant growth with an increase of our operation with the growth of our launching of 50,000, and, consequently, the sales. And we will see the increase of ROE, which will be profitable for our stockholders.

And I will now go on to questions and answers. Thank you.

Questions And Answers

Operator

We will now begin the session of question-and-answer. (Operator Instructions) Mr. Victor from Bradesco would like to ask a question.

Q - Victor Tapia Migliorin

Good morning everyone. First point that I would like to approach, if you could give us more details in regards to what is written on page four. These small adjustments that the program -- that the housing program may have in My House, My Life, Minha Casa, Minha Vida. If you could explain to us. And the other issue in regards to gross margin. It is specifically high and significant (inaudible). But do you think that up ahead, this margin, this gross margin, could it be in a higher threshold since you have done a lot of acquisition of land at a competitive price during the crisis of the country? Thank you.

A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Mr. Fischer. First question in regards to Minha Casa, Minha Vida. This program will be 10 years next year. It has three governments, going to the fourth government. If we go back and speak in retrospect of all of the changes that we have had in these past 10 years, all of them were positive. And as I also spoke in the opening, we have interacted with associations of classes with the candidates. And our perception is that everybody understands the building sector, especially the low-income construction sector, and having a very high impact and giving jobs and solutions for the big cities. As we see, these modifications are all very positive. And there is a debate in regards to guarantees. An old

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talk that we've had, a lot of circumstances that have happened has not impacted the funding and the conversations that we have, with no alteration.

A more serious one will happen. And I see no rupture happening in a social program of the future. So the gross margin in this quarter, how do I see it? As you have said, we were very aggressive during the past three years in the acquisition of land, of real estate, wanting to attain the objective of growth. We do see a lot of positives of good businesses with great margins for the future. We see that our profits are on a good position and the condition of prices is already a little bit heavier than the ones in the past three years. So these real estate, these pieces of land will go into our balance sheet. We're going to have high margins in regards to what we have been doing.

In regards to production, I see that we still have a possibility of improving in productivity and cost. As we mature the concrete position in the production, we still have great space for growth. And this may mean an increase of price of materials, but this will be compensated by the gain of efficiencies. So looking at margin, I see nothing different than when we have handed over, and it will be more or less on the same threshold or level.

Q - Victor Tapia Migliorin

Thank you. I appreciate it. Could you do a follow-up on the first question? Is there any detail -- a specific detail of quantity that you can give us about these adjustments, top price in regards to this line? Could you give us some information about this?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

We are not discussing the top prices. This is not necessary right now. But we will speak of this in the future, as it has in the past. And what I see, the future two, three years of Brazil, we have an election before us. And when I try to see in a long cycle a macroeconomic stability repeat[ph] analysis of stability in the future. Well, the commitments that we had in the past is to have a program of low-income housing that will generate jobs and lots of jobs. And I have nothing in the horizon that really worries me in regards to what this program has been doing in the past or will be doing in the future. Thank you.

Operator

Mr. Gustavo from BTG Pactual would like to ask a question.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning. I have two questions. The first question is in regards to the issue of funding of the program. Last year -- the end of last year, we had a problem of reallocation of the budget to this kind, and now in the second semester, you are expecting great growth and everybody has expectations for growing a lot in the second semester. My question is, are you seeing some kind of a bottleneck as we had last year, may it be in funding or reallocation amongst the cities or with the banks in regards to fulfill many projects and the call on the Caixa?

And maybe it could frustrate this great expectation of growth. And how do you see this preparation of greatest volume of launching that you are expecting?

And my second question is, and Fischer commented on this, in regard to land, to real estate. You do not think that you are not going to grow so much on land banking. Could you give us an idea of how much of cash do you expect to spend with the acquisition of real estate in the following months? And the generation of cash, which was a little bit lower in the past three years because of this great growth of land banking that you had, we had have to expect perhaps for the next 12-months converging to the profit of the company. Or how do you see the generation of cash in regards to putting the real estate in the account?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Good morning. The issue with funding. First of all, in regards to Caixa Economica. What has been announced in regards to treasury and in regards to the Basel issues of the Caixa and what we saw yesterday, the government commenting again that there is a space of new possibilities. So the second question in regards to the budget. We speak constantly with the Caixa and the curating council, and we see a need of possible re-management because of geographic allocation amongst the states. But this will be a normal process, which is very difficult to define beforehand how much each state will receive as an allocation.

And as the year progresses, we will be adjusting until the end of the year. We do not see any difficult situation. And what we have done, we have obtained the location and addressing the funding, which will be specific. Changing to our generation of cash for this real estate, we will spend about BRL500 million this year with a position or new acquisitions, new purchases or exchanges of land that has already been launched. We see a similar result for next year and then a drop of this value looking ahead. In regards to generation of specific cash, we see an increase of generation along the next quarters. The Generation will grow. We are signing up for a great volume of contracts and the volume of signatures are growing. And the evolution of these constructions, which are following very quickly or being constructed very quickly, we will see an increase of this generation of cash along the next quarters or semesters.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you. Good morning.

Operator

Mr. Alex from Itau BBA would like to ask a question.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning everyone. I have a question. I would like to understand how do you see the resolution approved by the monetary fund? I know it's more linked to savings of -- and the company is saying that they're going to increase the share and make some products of Minha Casa, Minha Vida. I would like to understand how do you see this modifier that

you impulse -- give you impulse to launch a greater volume and accelerate this kind of launching?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Good morning, Alex. The principal points, every critics are welcome. Our government see the importance of this for the country, and undoubtedly, this positive adjustment will launch products again, and we've done 30% of our portfolio in (inaudible), and we have had healthy funding. Now we have 95% of the FGTS, which is the severance and employment compensation, and we have bought land in a very opportune moment. And we will accelerate from the second semester on. And we'll be launching and we have positive means and things will have more interest in financing the product above the market Minha Vida. And we have been speaking to private banks, and the dialogue is more positive still and we will not be surprised if in a short time, we will be able to do with private banks signing in for these new constructions. We see with good eyes the funding - new funding, and it's always a positive position and we're very positive to our economic sector and are hoping to increase these markets.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you, Rafael.

Operator

Mr. Guilherme of JP Morgan would like to ask a question.

Q - Guilherme Mendes {BIO 20011867 <GO>}

We have -- first question. We have a good increase when compared to other years. We are speaking of 7%, 8% of the profit. Or will you have changes when the company will be having more launches? In regards to the Caixa and in regards to the strategy of next year of the acceleration of the purchases of real estate, do you hope to have greater dividend really? Thank you.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

The first place, in regards to expenses, we have already seen the dilution. And our intention is that as we launch more construction and enterprises. This will increase our profits, and we'll see the possibility of launching our project and sell more. It is better in regards to last year, but what we want to see is no losses, obviously. In regards to cash generation, what do we have to see? We must pay more dividends, and we are already paying a lot of dividends. Our dividend is quite high. In regards to the past years, over 50% of what we have been showing. So we have a greater generation cash to have more dividends than we have had so far and in regards to -- or compared to what we have been seeing in the past.

Q - Guilherme Mendes {BIO 20011867 <GO>}

Thank you very much. Good morning to every one.

Operator

(inaudible) from Credit Suisse would like to ask a question.

Q - Unidentified Participant

Good morning to everyone and thank you for the presentation. I have two questions. First of all, I would like to have the comment about the volume of launching, the 50,000 units. How is the gain of shares in regards to the FGTS, in regards to the calendar? And also the increased OPEC[ph], the payment of PLR[ph]. What is the percentage of this value do you think will be recurring? And how much do you expect it will drop in next month?

A - Eduardo Fischer Teixeira de Souza {BIO 17580321 <GO>}

Mr. Fischer. We will have a second semester that will be better than the first one. The first quarter was already better than what we expected. The third quarter -- and we're already in the middle of the third quarter and we have more than what we imagined. And we're having launches that are very strong and the positions are high. In regards to value, within this context of funding and guaranteed funds, the movements are always done to be adequate to the necessities.

And last week and last month, we have seen re-allocations and adjustments. To be able to give an answer to the market and movements that we have been doing that are related to what I have been saying in the past months, we need new building, new construction. And the greatest focus on companies that are large and well established and give space of funding so that we cannot run in the risk -- any risk. So we have to work really with cash -- with a guaranteed fund. And we see no greater problem. It is inside our radar scope, and we have allocated resources in banks for funding. And therefore, on the short term, we do not see any problem of this kind.

And our search for growth obviously comes with a great margin. We're not going to grow without having our profitability. So we will continue to be doing this, and expenses will grow. But in the short term or medium term, we will see a gain in productivity, consequently, dilution of these expenses, may it be commercial or administrative.

Q - Unidentified Participant

Thank you.

Operator

(Operator Instructions) Mr. Renan from Santander would like to ask a question.

Q - Renan Kato Manda {BIO 16845063 <GO>}

Good morning to everyone. I would like to mention the conditions of approval of the projects, the 50,000 launching at this year. I would like to know the margin of safety of these participations that guarantee this number. And which are the potential bottlenecks

that may happen in the second semester which possibly will have an effect on this objective?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Hello Renan, in regard to approval of projects, we already have 70% of the approvals of what we're launching until the end of the year. Our level of safety is high and the risk is low. I cannot give you absolute certainty, but I would say that if I will compare it to last year, the approvals, our pipeline is much more mature. And we have been emphasizing once more our commitment to arrive at the 50,000 units launched. And of course, we have the approval of banks.

But I see no evident risk. And we are comfortable, and the company will be prepared to reach this because we have bought a lot of land. And these real estate are being launched. And we already have almost 40,000 units with the approval for construction, and when these terms will arrive at a lower level. I would say that the strategy that we have been speaking for a long time has worked very well. And obviously, we have a great effort of cash. We spent a lot. We have spent about BRL2 billion in the past few years. A lot of money to buy the land, but this land was bought at a good moment, and we already see the benefits of this and hope to have more in the future.

This geographic network that we have created in over 50 cities, it's not easy to manage. It's so many corridors, a great network. And we have been efficient and rigorous. It's not easy to be able to have great success in this, but we have been working hard. And the next step is to launch more and more. And the great investment on the land has been done. And we will have results, which will give us the possibility of arriving at the 50,000 units, and maybe 60,000 units if approval comes. And when we get there, the country will have demand and over 1 million families have created every year. And we will give possible funding. And we hope to have a covering that is positive in regards to the housing program. And we see more positive factors and very low risk, and we work a lot with a lot of success. And we have a strategy of arriving at so many more units, okay?

Q - Renan Kato Manda {BIO 16845063 <GO>}

Thank you.

Operator

(Operator Instructions) We close now the session of questions-and-answers. I would like to give the floor over to Mr. President for his final considerations.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

I would like to speak about what we have discussed or not discussed. We have a turbulent moment in May with the strike of the truck drivers. And the end of was last semester was a little bit problematic. But I am very happy with the second semester. Our pipeline is very healthy. I can see with a great degree of positivity that we'll have a better second semester, which is an important pillar for the growth of the company. And I am very optimistic for the second semester, and we'll have a better one -- a better semester than

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the first one. In our radar, as I see, we are going towards the implementation of the concrete position of the company. This brings benefits for the company. I see great efficiency of what is happening and what will happen, but there's something very important to it. We are going to -- we are cutting the cycle, and I can see a potential of increased rentability, also especially coming from possibility of shorter construction times. And this is in our radar. And we can see that we're continuing our growth in this next semester. We are (inaudible) we would like to thank all of you for the approval -- for the participation, and we will see you next semester. Thank you.

Operator

The conference call from MRV Engenharia is closed, and we wish all of you a great day. Thank you.

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