Y 2015 Earnings Call

Company Participants

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

Other Participants

- Andre Mazini, Analyst
- Daniel Cobucci, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the conference call to discuss the results of Q4 and the year 2015 of JHSF Participacoes. Today with us are Mr. Eduardo Camara, CEO; and Mr. Thiago Oliveira, IRO and CFO. We inform you that the presentation will be recorded and that all participants will be connected in listen-only mode during the company's presentation. Later we will begin a Q&A session when further instructions will be given. (Operator Instructions).

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call relating to the company's business prospects, projection financial and operating targets of JHSF are based on the assumptions and beliefs of the company's management and on information currently available. They involve risks and uncertainties as they have to do with future events, which depend on circumstances that may or may not occur. Changes in macroeconomic policies or in legislation and other operational factors may affect the future performance of JHSF thus conducting to results which differ materially from those expressed in such forward-looking statements.

I would now like to turn the floor over to Mr. Camara, who will begin the presentation.

Eduardo S. Camara {BIO 2074637 <GO>}

Good afternoon. Thank you all so much for attending this conference call, and I would like to start on page three of our presentation by making some comments about the highlights. The first point is that gross revenue grew by 8%, which is very substantial, especially in this special moment. We are transitioning from a company that used to be a real estate developer. And as you know, we gradually reduced that as the share of our business and we managed to increase revenue that is the strategy proved to be right.

The Shopping Mall and Hotel & Restaurant divisions are providing us with recurring revenue thus supporting the transition.

Then something also that I think we should celebrate is the company's efforts to reduce expenses. We reduced our expenses by 40 million in the year; that was way above target. I would like to acknowledge also the efforts made by the team who has identified opportunities for improvement and has actively sought to reduce the expenses whilst allowing us to increase the revenue. This also had a positive impact on the net income. Our margin grew in a very substantial way. In terms of our asset base and shareholders' equity, we had a growth by 187 million and 85 million.

We also had very positive results in the Shopping Mall division. Sales in all of our shopping malls grew by 25% and this reflects the effort of the managers and the team that for more than 18 months now has been heading this division. They have been pursuing results and delivering very substantial results. The Cidade Jardim shopping and the Catarina Fashion shopping mall are success cases. We opened the expansion of the Catarina Fashion Outlet and this also allowed us to have very good results which are very exciting to us. We opened the Catarina expansion and this took place in its first anniversary. And all the areas have been already leased.

In 2016, there was some subsequent events. We have almost completed the sale of international properties and this sale will allow us to reduce debt, to reduce CapEx, to have a better cash position and these are things that we very much care for. So these are the three elements we have been focusing on and this negotiation will allow us further improve these three items. We signed loan agreements with BNDES, 145 million we have received 80 million already, 60 million are going to be released by BNDES and some of it has been released this week.

As for the airport, when it's fully operational, it will have one runway for 2,500 meters and then hangars and we are developing the Executive Airport in stages. We want now to build a shorter runway for less than 2,000 meters than just half the amount of yard meterage and this of course has an impact on the investment. This year we should invest 90 million, 60 million of which will come from BNDES and 30 million will be made with the company's money. These are approximate figures. It should be more like 25 million and between 25 and 30 million.

And then in terms of real estate development and still thinking about the transition to recurring revenue. We now have obtained the occupancy permits for three major projects and now we have inventory and we have a portfolio that has a value and that will generate substantial cash, hundreds of millions of reais maybe; the Boa Vista piece of land will generate 700 million.

And the Salvador -- and in Salvador, where we have inventory worth 10 million, has been selling very well, has been exceeding our expectations, and this has to do with the growth of the shopping mall. The shopping mall is located in an area that we will have an additional 1,200 families and also a subway station, and Poupatempo like facilities. Some commercial companies have been coming to us as they are interested in occupying our land. So this shows the impact that we've had in the region, and this is allowing the shopping mall to perform better and also the real estate division too performed well in that area. Then we also opened Gero Trattoria in Rio, which was also a highlight for last year.

I now turn the floor over to Thiago, who's going to comment on the financial results of the period.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

On the page four, I would like to start my comments by talking about the gross revenue, which grew 8% in 2015. When we divide this growth in our three segments. The Shopping Mall segment, our main focus now grew 16%, Hotel & Restaurants, this division grew a 144% and real estate development had dropped by 35% and since 2013, as you know, we haven't launched anything new. So it's just natural to expect that you will be seeing a smaller and smaller share of real estate when we think about the gross revenue of the company.

Looking at adjusted EBITDA, the increase in recurring income development, the Shopping Mall was in line with the growth of revenue, so we maintained the margin in terms of hotels and restaurants. Adjusted EBITDA grew 52% and in real estate the drop was by 42%. On a consolidated basis, we grew 4% year-on-year.

As regards the financial result, it was negative, and it was further negative by 61%. One-third of that comes from the accounting of exchange rate variation on loans taken from BNDES and these loans were invested in building the shopping malls in Manaus and Salvador. And now with the drop of the dollar against the real, some of this exchange rate variation should be recovered. The other two-thirds come from the increase in the CDI interest rate relative to 2014. The interest rate accounts for 63% of the indexing of our debt. As regards to net income I would like to thank the team for their hard work. The year was very challenging in many regards, despite that we delivered growth by 154% to our shareholders.

We now move to page five and I'm going to tell you a little bit about the performance of the Shopping Mall division. The retailer's sales and the gross revenue both grew. Cidade Jardim shopping mall and Bela Vista grew, and we excluded the effects of the Catarina shopping mall which was not there in 2014. So we excluded that for better comparison.

The shopping Jardim, we have seen an increase in luxury-good consumption. Some of these goods were bought abroad and now people are buying them in Brazil, and this has driven sales upwards in the shopping Cidade Jardim mall. The Bela Vista mall is a mall, where the mix has been redefined. This happened in 2014 and in 2015 they saw goods result relative to the new mix.

In terms of occupancy cost year-on-year, we were able to further decrease cost by 0.7 percentage points and this is one of our main concerns. When we look at the growth in retailers sales and the drop in occupancy costs, we see that this boosts our portfolio and our operations team has been pursuing these targets and we have achieved a lot. And in terms of leased area, the rate was practically stable relative to 2014. So although this was a busy year, we were able to maintain the same level of occupancy as in 2014.

Let's move on to page six, where I'll give you summary of the projects where we saw sales in 2014 and 2015, and I draw your attention to the 30% -- 35% drop in this division, which has to do with the shrinking of inventories and the shrinking of this division relative to the whole company. We also did not launch any new enterprises. We looked at our receivables and we were very careful in making provisions for bad debts relative to the maturity. But we are also sure that our assets will not be impaired or in jeopardy. Our provisions have to do with the timing for the accounting.

Having said that, and just to give you some more numbers; as regards real estate development, the company has BRL1.6 billion in investments, of these 300 million are in our landbank and 1.3 is our estimated amount for inventories and receivables. The objective of this division, in the next few quarters is to monetize this BRL1.6 billion thus bringing the money back in.

On page seven, you see the Hotels & Restaurant division and this was a very busy division in 2015. The team has been making our guests and the restaurant customers very happy. In our Hotels, we had a base for comparison in 2014 that was very high.

In 2014 there was a World Cup in Brazil, so all the hotels are very busy during that period. Also the average rates are very high and despite that we delivered average daily rates, which was marginally above the rates in 2014, the occupancy rate dropped slightly. But in 2016 with the Olympics, we should see the hotel in Rio performing really well and the hotel in San Paolo should benefit also from the effect of the Olympics. Fazenda Boa Vista also has rising occupancy rates, not only at weekends but also during the week. So we are very optimistic about the Hotel performance in 2016.

As regards the Restaurants, the result was practically flat, we lost some 10% in the Couverts, but the average Couvert grew by almost 13%, and with that the result was practically in line with what we saw in 2014.

Moving on to page eight, you see that cash equivalents and indebtedness, and here we have pro-forma data considering the sale of assets abroad as a completed sale. There was a significant reduction in net debt. We are talking about BRL590 million between September to December 2015. The adjusted debt then has dropped by almost that. So we moved from 1.600 billion to 1 billion in terms of that; and because of this adjusted net debt over EBITDA are less than half the indicators we saw in the previous quarter. So we have been seeking lower levels of leverage, this is one of our objectives and we are going to continue to pursue that throughout 2016. It's our commitment to our shareholders.

From the point of view of the amortization schedule for 2016 this number excludes some actions that we are gearing to lengthen the profile of the debt.

We have a dealing with BNDES. We had been taking BNDES money for the airport, but as a bridge loan, so that was always a short term loan. We are now contracting that for 12 years and this will allow us to reclassify the amortization schedule for the long term. Also, the company has been talking with its creditors to lengthen the debt profile, and we have been also working on long-term operations backed by receivables to continue to lengthen the debt profile. We also have funds from the sale of assets abroad and this will allow us to pay our debts in 2016.

With this, I finish the presentation and we will now open for the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will begin the Q&A session. (Operator Instructions) Mr. Cobucci from Banco do Brasil has a question.

Q - Daniel Cobucci {BIO 19076093 <GO>}

Good afternoon. And thank you very much for the presentation. My question has to do with the airport. You said that something between BRL80 million and BRL90 million would be invested in this zero phase. So how much or do you expect to invest in CapEx until the end of the project. And what is the expected EBITDA for this project in this phase zero and in the later phases?

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

This is Thiago speaking. Thank you for your question. The airport project once it is completed and it is fully operational could give us BRL1.2 billion. As regards the time frame it has to do with the maturing of the first infrastructure, the first part of the infrastructure that we expect to deliver at the end of 2016. And then the project will be further developed. I cannot tell you, may be, today when it's going to be completed but as we have demand and as the areas of yard and hangar occupied, we will then see (technical difficulty) how to go about in the expansions, how to resume the expansion and then complete the project in a modular way according to the demand.

Q - Daniel Cobucci {BIO 19076093 <GO>}

So how much cash would be generated in this initial phase?

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

Our objective at this point is to make the airport self-sufficient in terms of covering its financial and operational costs in the short term. This is what we are looking at.

Operator

Mr. Mazini from Bradesco has a question.

Q - Andre Mazini {BIO 20377100 <GO>}

Good afternoon. Can you give us a little bit more color about the provisions for a shopping mall, 10 million, if it on some specific asset? And also thinking about discount, are there more discounts? What is the scenario for Shopping Malls?

A - Eduardo S. Camara {BIO 2074637 <GO>}

This is Eduardo speaking. The provisions don't have to do with issues or problems with any asset. It doesn't have to do with discounts or with lease agreements. In the past, we made investments to support marketing and promotion funds. We have a schedule that has been fulfilled, but with the increase in the interest rate there was an imbalance in the amortization flow. We were not able to pass through the interest rates in terms of the cash flow. We are going to receive this money in the future, but to be conservative we made a provision for that. So this has to do with the impact of the interest rate in the money that we gave the promotion funds. They haven't been able to pay up all the interests that they owe us at once.

Operator

(Operator Instructions) Ladies and gentlemen, the Q&A session is now ended. I'll now turn the floor over to Mr. Camara for his final remarks.

A - Eduardo S. Camara {BIO 2074637 <GO>}

I would like to thank you all so much for participating. I would like to thank the dedication of the team in 2015 and this could be seen in the results. And I wish, I can count on you on the next conference calls and also that the team can continue to pursue the good results we had in 2015.

Operator

JHSF's conference call has now ended. We would like to thank you for participating, and wish you a great afternoon.