Q4 2015 Earnings Call

Company Participants

- Armando d'Almeida Neto, CFO & IRO
- Franco Carrion, IR Manager

Other Participants

- Fred Mendes, Analyst

Presentation

Operator

Good afternoon, everyone. Welcome to Multiplan Fourth Quarter 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. Hans Melchers, IR and Planning Manager; and Mr. Franco Carrion, IR Manager.

Today's live webcast and presentation may be accessed through Multiplan website at www.multiplan.com.br/ir. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode therein the Company's presentation. After Multiplan 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 information currently available to the Company. They involve risks, 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 macroeconomic conditions, 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. Franco, who will read a message in the name of Mr. Peres. Mr. Franco, you may begin the conference call.

Franco Carrion {BIO 16449361 <GO>}

Thank you. Dear ladies and gentlemen. Good morning. We're pleased to announce the results for the Fourth Quarter and share a full picture of the year 2015. Despite the challenges in the country, we're delivering growth and presenting strong set of results, driven by the high quality of our properties and intensive management of our assets. The Company maintained a strong team which allow us to be prepared for adversity.

The net income in 2015 was virtually unchanged from the previous year at BRL362 million, an excellent result in my opinion when we consider our decision of not launching new real estate projects for sale in 2015 due to unfavorable market and also the effects of the sharp rise in the basic interest rate over the past year. However, in 2015, we distributed BRL225 million to our investors, given our cash position on the year-end which reflects our solid financials.

Tenants' sales rose 4.5% in the year, even with the strong growth of 12.1% in the previous year. It is still below inflation, that's a fact but it's worth highlighting that the inflation in our industry retail is currently less than the official index in Brazil, which is strongly influenced by public charges, energy prices and services as well as food in general. We estimate that inflation in retail was around 7% in the year. On the other hand, the rental revenue increased 7.5% and the occupancy rates remained high at 98% while the delinquency rate and rent loss remained in the same levels of the previous years, 1.9% and 0.7% respectively.

To grow over 2014 was an achievement. Our indebtedness remained stable with net debt representing 2.4 times the EBITDA. Important to have a healthy capital structure for the moment we are going through. We worked hard with our tenants. So they could face this moment of adversity, investing in strong marketing campaigns, reaching the unprecedented distribution of 252 vehicles in our malls in December, which positively impacted Christmas sales. In December alone, sales summed BRL2 billion, 4% higher than the previous year.

In January 2016, sales increased 4.5% over the same month of 2015 and the occupancy rate also remained unchanged at 98%. We also work hard to make our malls even more attractive to clients and consumers. In 2015, we brought in 350 new stores, attractive brands that are more in line with the current expectations of our customers. It is worth noting that Barra Shopping was elected for the sixth consecutive year as The Best Shopping Center in Rio De Janeiro according to a survey by the newspaper O Globo.

Currently we continue seeking productivity gains and improving the efficiency of our malls. The Company will continue to make investments targeting to enhance the performances of our malls and retailers. We believe that already in 2017, we might have a better perspective remembering that throughout our 42 years, we have been through much worse economic crisis and still continued to grow a bit slower through crisis, faster in moments of prosperity. But growing.

There were even signs when the Company went for developments outside Brazil with the construction of Shopping Cascais in Portugal and real estate for sale projects in the United States. Nothing prevents us from returning to do so since these markets are kind of familiar to us. We had the ParkShopping Jacarepagua project design ready to launch and only waiting for the appropriate moment. In the same way, major real estate for sale projects are ready to go. But needing a better market momentum. The Canoas project construction works are according to plan and estimated to finish by 2017, with 71% of its area leased.

Finally, I'd like to say to you that Brazil is much larger than the crisis and much larger than governments. Governments pass. But the country stays. Here we have a nation destined to be among the greatest in the world. I'd like to thank all of our tenants who were facing together with us the economic challenges in Brazil. I also want to thank our consumers, who for decades, honor our malls and recognize our work. It is for you, consumers, that we dedicate our days to improve our malls, making them even better. I thank also our investors who believe and trust in our management. And specially, Multiplan's executives and employees who worked hard to achieve these significant results.

I'll now turn the call over to Armando d'Almeida to lead you through this presentation. Thank you very much.

Armando d'Almeida Neto

Thank you, Franco. Thank you, Mr. Peres. Good morning, everyone. And thank you for being with us in the Fourth Quarter 2015 conference call. This presentation is based on our managerial report for CDI that's released and -- the financial statements for more details and information. Represented a set of strong operational and financial results in spite of the very hard economic environment we are going through in Brazil. I will comment on the main topics on the quarter and year results. But not necessarily following the straight order showed on the attached presentation.

Let's start with operations. We were aware of the challenge to grow tenants' sales on top of the very strong performance presented in 2014. Throughout the year, we promoted innumerous marketing campaigns, events, exhibitions and store mix changes that in spite of the weak consumer sentiment, allowed sales to grow 4.1% in the Fourth Quarter and 4.5% in 2015. We nearly doubled the shopping center sales in a five-year period. Segments of services, miscellaneous and the food court were the best performers of the year.

Satellite stores sales were of BRL25,795 per square meter or equivalent to $718 per square foot, using the average dollar for last year. In comparable sales analysis, in the last quarter, same-store sales increased 2.1% while same-area sales went up by 3.9%, one of the highest spread between the same-store sales and same-area sales we ever recorded. In the full year, the difference was of 1.5%, with same-store sales growing 1.8% and same-area sales 3.3%.

Turnover last year was at 4.3% or close to 31,000 square meters, equivalent to 331,000 square foot. The mix change created, as I just mentioned, 1.5% increase in sales in the overall portfolio or in a simple calculation, added around BRL200 million in sales given the mix change effect only.

Occupancy rate in the Fourth Quarter was at 98%, with the year average at 98.3%. By the way, in regard to the expiring lease agreements, we have only 11% of the GLA coming due in 2016. Occupancy costs came down 10 basis points in the (quarter and year) at the 11.6% and 12.6% respectively. Common cost share on our occupancy cost was reduced, while the rent part increased.

Gross revenue decreased 6.2% in the quarter and 3.2% in 2015, due only to our decision of not launching new product for sale as Mr. Peres already commented. As you know, in our real estate products for sale, our focus is in mixed used products in an opportunity-driven approach. Our products target higher than average results and margins. Food trust enhancement is a consequence, nor decision making point. As I mentioned earlier last year, we did not see opportunity to start for our new projects in 2015 and so far, it looks like the case in 2016 as well. And I'm referring specifically to projects for sale, residential and commercial towers for sale.

When comparing shopping center activity only, gross revenue went up by 2.8% and 5.2% respectively in the Fourth Quarter and full year. Rental revenue increased 7.5% and parking 12.2% in 2015. Morumbi Corporate Towers contribute with BRL65.7 million, an increase of 63.1% mainly coming from the increase in occupancies to 90.5% and growing by the way.

Same-store rent increase was 6.2% in the last quarter and 7.4% in the full year, representing 2.4% real increase on top of the IGP-DI effect, the inflation index used in our lease agreements. Expenses were well behaved with G&A increasing below inflation at 6.5%, shopping center expenses came in 5.2% lower. And office tower expenses were 32.3% below last year. These controlled expenses led to an increase in margins.

Let's talk about resource now. All in, NOI plus key money went up by 6% in the quarter and 8.7% in the year with significant increase in NOI margin, reaching 90.1% in the quarter and 89.6% in 2015. NOI per share hit the BRL5 mark at BRL5.09, a five-year CAGR of 13.3%. In the quarter, EBITDA was up by 1.5% with a record margin of 75.9%. In 2015, EBITDA was basically flat, 0.6% lower. And margin at 72.7%, better by 249 basis points as a consequence of this low down real estate for sale activity that was already observed.

Since the IPO in 2007, our EBITDA CAGR was up 17.8%. Net income was up by 10.9% in the last quarter and down 1.6% in 2015, primarily due to the reduction in the real estate for sale activity and the higher financial expenses as a consequence of the basic rate increase along the year. FFO per share in the quarter was of BRL0.93, 7.6% higher and BRL2.83 in the year, 3.8% lower, representing 7.4% as full year basis on the year end closing price.

Moving to balance sheet, net debt-to-EBITDA was stable at 2.4 times, with the lowest net debt-to-EBITDA covenant being at four times. We have a pretty good room here. We have no foreign currency debt, only local currency instruments, mainly indexed to CDI and the TR, the reference rate. Gross debt average costs is now at 13.09%, stood below the base rate by 116 basis points. In the quarter, we increased our cash position, raising six year BRL150 million debt and renegotiated BRL262 million in debt that were already coming due in 2016 and 2017. Just to give an idea, only 10.1% of the total gross debt will mature in 2016 and 10.2% in 2017. Our current debt represents less than half of 2015's FFOs. We think it's critical to have a strong balance sheet either to weather the economic storm or to be prepared for opportunities. The gross debt represented only 12% of the properties fair value.

In 2015, we invested BRL297.2 million and returned BRL225 million to shareholders, representing 64.7% of the net income after reserves. So far it was the highest amount returned to shareholders in a single year.

Development. Finding new GLA delivery is of essence. And fortunately our well-timed and also on-time deliveries in 2012 and 2013 led 2015 to be a relative quite year for us. And so should be 2016 and it would be a specific year in terms of storage space delivery for tenants. Last year, we delivered 7,711 square meters or about 83,000 square foot in mall expansions, in which more than half of it were built to suit arrival of new retailers. We delivered 3,515 square meters or approximately 38,000 square foot in BarraShopping Medical Center expansion. 97% of the area already leased and we will start the operation shortly now in March.

We also sold and delivered 23,760 square meters in residential and offices in a mixed use product in BarraShopping. We are working on the construction of our 19th mall, the 48,000 square meters or equivalent to 515,000 square foot, ParkShoppingCanoas in south of Brazil, which will be delivered next year. If the economy hasn't helped much to launch new projects, it's important to highlight that we are not standing still. We are using this time to study, to prepare and to refine new projects with the focus in consumer demand and the best-in-class tenants. We are preparing the new projects to bear market opportunities.

To finish, at year-end closing price, our enterprise value was at 75% discount to our properties fair value, representing 10.5% NOI catalyst. We are glad to see the 26% increase in the average daily traded number of shares that allowed MULT3, our stock to be added to the Brazilian most important index, the Bovespa and the IBrX50, that happened early last year.

That's all that I have to say. So let's move to Q&A. So operator, it's back to you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions)

Fred Mendes, HSBC.

Q - Fred Mendes {BIO 17221617 <GO>}

My first question is related to the cost of occupation. We observed that Multiplan did a good job keeping costs under control despite the deceleration of sales, which of course was also some work that you did back in 2014. Do you think you can do something similar as what you did in the past and continue to decrease costs or you think that most of the extra costs were already reduced. That's my first question.

My second question relates to vacancy rates. A lot of people are concerned that vacancy rates will probably increase in general, some tenants, especially, of course, the non-profitable ones will probably exit the malls after Christmas. Have you seen anything like that or when you look to January, do you still see a stable levels of vacancy rates?

A - Armando d'Almeida Neto

Fred, I'm so sorry, would you mind repeat the last part of your second question, regards to occupancy rates, please.

Q - Fred Mendes {BIO 17221617 <GO>}

Just related to vacancy rates if we -- I think a lot of investors are concerned that we could probably see an increase in vacancy rate after Christmas as the non-profitable tenants could leave the malls after Christmas, which of course is the most profitable part of the year for them. But have you seen anything like that in January, do you see any change or the levels remain quite stable?

A - Franco Carrion {BIO 16449361 <GO>}

So first, regard to occupancy costs, I think the bulk was done back in 2014 as we all mentioned. But that doesn't mean that we keep not doing what we can in order to reduce -- in order to work together with our tenants to reduce the common costs. So we can be better prepared to face this economic storm we're going through.

I think that, as I mentioned, use the bulk of it. The bulk of it already happened. But we keep in different malls, just doing wide adjustments, shaping a little bit here and there, getting better price with new service providers. But something is very important, we don't want to reduce the niche of the quality of service that we render to consumers in our malls. So all that has been with keeping the same quality of service in mind. We will continue doing what is possible. But reinforcing the bulk-wise what's done in 2014.

In terms of the occupancy rates, we were positively surprised with the maintenance of occupancy that we saw in general this year. We think was a tremendous achievement for the (first month. But just one out of 12 months). We know this is not going to be an easy year at all and we know our job and our management team to continue to do what we've been doing for many years. And we increased the intensity last year, just finding ways to bring consumers to the shopping center, to put them in front of tenant stores, right.

So that is promoting the mall with marketing events and advertising, creating exhibitions in our shopping centers, we're constantly creating exhibitions in our malls, events in our malls like fashion night and things like this. We are changing mix in a daily basis. We're constantly looking for the best operations, constantly looking for the best mix balance.

For instance, last year, (in and out of the shopping center). And we have that in the page five of the presentation, apparel represented 60.8% of the stores that were left but only in terms of GLA. But only 50% of the stores that came in. On the other hand, miscellaneous segments and food court and gourmet areas where the ones that increase in terms of yields in the mall, in terms of our % of GLA. And that's what we have to do, keep managing in a daily basis our shopping centers, creating reasons for consumers continue to come and that's how we think together we're having the right location, the right mix for the consumer to come that we'll be able to weather this business atmosphere that is going through in Brazil.

Q - Fred Mendes {BIO 17221617 <GO>}

If you allow me only one more question related to the change of mix that you just mentioned. Are you observing any kind of fly to quality. So maybe a few players that were in other malls now are seeing the opportunity to move to a dominant mall in multiplex portfolio even if they have to pay a higher cost of occupation. Are you observing something like that or the change in the mix is happening with new tenants that were not in other malls or even some foreign players trying to add exposure to Brazil?

A - Armando d'Almeida Neto

Fred, fly to quality, that' doesn't happen only in the financial markets, I think happens in property markets as well. I think that the top quality properties, the ones with proven track record will continue to outperform. On top of that, just don't forget that the penetration ratio of shopping centers in the retail markets has been increasing for a decade at least and we've seen no reason why this is not going to continue to increase on the country.

So when you have malls in the large cities in Brazil and representing the highest GDPs per capita in Brazil with the extremely well locations. So good locations, I believe this will continue to attract tenants and that's the job of tenants. We just have to manage the portfolio of stores they have and looking for the best locations and I'm sure that we are very qualified to have new tenants. But let's see how it develops throughout the year.

On the long-term, I have absolutely no doubt that the best malls will be even stronger. The thing is on the short-term, you might have gaps here and there. 2015, we were able to fill that gap and presented good results. So we are working hard to make 2016 as well, a good one. We continue to see by the way, demand for space coming from international tenants expanding their areas, going to different cities. And even new names looking forward to not short-term, long-term opportunities. That's why we're carefully optimistic about the future, of course, not on the short-term, looking more on the mid-to long term.

Operator

(Operator Instructions) I'll turn over to Mr. Armando d'Almeida Neto for his final considerations. Mr. Armando, you may proceed.

A - Armando d'Almeida Neto

Thank you. Before we go, I'll just share a few questions of the Portuguese call. There was an interesting question about if the debt extension that we promoted should be able to take advantage of opportunities.

And our answer was, the intention was to have a stronger balance sheet. And years with lots of question marks, our 2016 especially. And even 2017. So our intention is to have a lower level of amortization. So as I mentioned, we have less than half of the 2015's FFO plus cash position coming due in the next year. So give us very, very -- increase our flexibility and that's what we want to have. And this is one of the reasons why we feel prepared to take (advantage when opportunities) that might arise. But the main reason was to have a stronger balance sheet to face this momentum.

Another question was related to payout. We had close to 65% of the net income of the reserves distributed to shareholders. If this is a new pattern, a new standard?

And the answer is, no, we will continue to look at every time by year end or close to year end to make a decision of how much money we want to return to shareholders. This is a business that generates lots of cash with higher margins. So we will always do that. We will figure out that with the investment opportunities that we have in hand, with the financial market supply that we can have, of course. And we're going to balance those things out and come with the amount of money to be returned to shareholders. But it's important that in a year that we've invested less, we have the strong cash position to return more money to shareholders and that's what it is.

So I want to thank you all participants in this call for your interest and trust in our Company and wish you a very successful year. Hope to see you soon. Thanks.

Operator

Thank you. This concludes today's Multiplan Fourth Quarter 2015 earnings conference call. You may disconnect your lines now. Thank you.