Q1 2021 Earnings Call

Company Participants

- Antonio Emilio Clemente Fugazzar, Chief Financial Officer and Investor Relations Officer
- Hugo Grassi Benevides Soares, Investor Relations Coordinator

Other Participants

- Nicole Inui, Analyst

Presentation

Hugo Grassi Benevides Soares {BIO 19772261 <GO>}

Good morning, one and all and welcome to EZTEC's result presentation for the First Quarter of 2021. Please note that this call is being recorded and that all participants are in a listening only-mode. At the end of the presentation, we will begin a Q&A session when further instructions will be given.

(Operator Instructions)

Before we start, we'd like to mention that any statements during this call pertain to EZTEC's business projections, operational and financial targets are based on management's beliefs and premises as well as some currently available information. Future considerations do not constitute an assurance of performance. They involve risks, uncertainties and premises.

Investors may take into account that general economic conditions, industry or operational circumstances may ultimately affect EZTEC's future performance that may cause the Company's results to differ materially from those expressed in those forward statements.

Now I'm accompanied by Emilio Fugazza, our Chief Financial Officer and Investor Relations Officer. I'll get the presentation started and pass it to Emilio as soon as we get to the financial portion.

Now moving on to the first line. Just very briefly introducing the main figures, new numbers that we'll try to address more thoroughly during the course of the presentation. Operationally, the quarter was marked by net sales of BRL236 million. Launches significantly lower at BRL28 million single project. Landbank of BRL14.1 billion with many acquisitions through the year. Financially, we had gross profit of BRL83 million, accounting by a gross margin of 42.5%. Our net income was BRL73 million with a net margin of 37% assisted by financial revenues.

Net cash of BRL1.060 billion, alongside BRL529 million of performed receivables, much of that financed directly through -- by EZTEC in the portfolio of direct receivables of BRL482 million. Here, we're talking about financing declines made through statutory lien agreements directly from EZTEC to the final consumer.

Briefly mentioned subsequent events that have happened already by the second quarter. We have yet another launch of BRL253 million. (inaudible) sales stands were reopened. In our shareholders' meeting of -- at the end of April, we have also approved the payment of dividends of about BRL96.2 million, about BRL0.42 per share.

And as an increment to the Company's governance standard, we had appointed -- we had an election of our Board of Directors with four independent members out of a whole total of nine members altogether.

Now getting started in each specific theme, addressing the EZTEC's landbank, it's important to mention that despite the quarter itself do not have very many acquisitions, you noticed BRL340 million of new acquisitions in the quarter, we have been coming from a full year of 2020, in which we had several acquisitions, basically fulfilling the full mandate that was given to EZTEC by our follow-on, at which time we had approximately BRL940 million of cash injected in the Company. And basically, about BRL1 billion was already earmarked for acquisitions. Much of that was already deployed. Some of it is still pending installments, but that money has been directed to landbank that it's already within EZTEC's landbank.

In the first quarter, specifically, we noticed that there was a significant contribution coming from price revisions. We're talking about something -- an average of 14% growth in price levels in our landbank, alongside basically aligned with actual price growth for practiced sales to the quarter. As you consider that we also have BRL2.3 billion in option acquisitions, you reached a combined landbank of BRL14.1 billion by -- as we speak.

Just to keep that in proportion, out of that BRL14.1 billion, have approximately BRL3.4 billion, which is within EZ Inc, our commercial development company subsidiary, while the remaining BRL10.7 billion is within EZTEC's residential operation that basically represents something like 4.3 times sustained launch in volume of BRL2.5 billion, which implies that there's plenty landbank available at this time already, somewhat signaling to a cycle a few years from which we do not need -- we do not have the imperative need to buy additional landbank. And we may keep on acquiring just the extent that we actually push forward new launches.

Now moving on to the operational slide, here's where we feel the direct effect of the toll, the pandemic has taken on EZTEC's performance for the past quarters. Especially when you look at the fact that approvals for new launches coming from the City Hall, they have been lagging relative to what we wish for, which means that launches have been significantly lower over the course of the year thus far.

Naturally, that has its own implications as far as the sales that were derived from those launches. But the sales themselves were also harmed in the first quarter by the fact that about 45 days out of the full quarter were marked by the red phase of the pandemic here in state of Sao Paolo. The red phase of the pandemic means that all sales banks were forced to shut over the course of 45 days. That had a particular effect on renting different units [ph] considering that a client very naturally would prefer to visit the visit -- the unit that you live in prior to making the investment decision actually had a lot of friends that chose to postpone the investment decision and like the revenue deferred units about 30% lower than previous quarter and actually, that in itself has its implications in terms of revenue recognition.

Regardless, as you -- as soon as the sales pantry reopen, what we have seen thus already in approximately three weeks is that sales speed at this time is 26% faster than the average weekly sales speed for the fourth quarter of 2020. We're basically talking about a level of BRL31 million sales per week -- growth per week.

And just quickly mentioning about cancellations, here we have a move convergence to a BRL20 million standard of cancellations closed formally and it's very important to remind that out of those BRL23 million cancellation in the quarter, 44% actually refers to transfers or upgrades and downgrades where our credit recovery team try to redirect a client to another unit as a way to prevent cancellation than usually engages way for both the company and the clients. That takes us to a net sales of BRL236 million in the first quarter of 2020 [ph].

Now moving on to the next slide, we will talk about the outstanding inventory for EZTEC. What you notice is that altogether, we're standing at BRL1.66 billion of available inventory at this time. You notice that we had some 300 commercial units, but mostly, we're talking about residential units within the state of Sao Paolo. There has been a marginal decrease in the inventory silo in comparison to the fourth quarter as a consequence of the fact that we do not have enough launches to replenish the volume of net sales we've had. That takes us to a point in which we have the lowest inventory level for the past seven years, especially when you looked at -- and within that inventory you used to notice that the ready inventory in itself is shrinking, the largest concentration we have is still in Cidade Maia in the city of Guarulhos where we had BRL435 million available inventory. Cidade Maia always a good reminder, is still selling in this quarter a gross margin of 49%. So that's a very strong contribution here for EZTEC operation, and it's been so for the past three quarters already.

And actually we do not have very many deliveries over the course of the past two years as we constitute the fact that we also did not have very many launches over the course of 2015, all the way to 2018. But those deliveries should pick up back again by the second half of 2021 and on. We're talking about some BRL500 million of PSV to be delivered in the second half of 2021. So that should contribute with a larger portfolio of units available for EZTEC's commercial assets.

Now moving on to Slide number 7, where we talk about launches. Like we said, launches for the first quarter in itself, we're only the single power launch in ID Paraiso that's BRL28 million in PSV. It's actually combined -- it's a project that is combined with a previous launch called signature by Signature by Ott and Eredita. Altogether, it's -- at this point, it has 60% of its area already sold. The ID Paraiso very much driven towards investors. ID Paraiso was launched at a in which we do not have our sales side open, but given that it is a relatively small project, and investors tend to be a little more nimble in terms of being able to access digitally, that worked out fine for EZTEC. And as soon as sales stands reopened by 18 of April, we also launched the Dream View Vila Prudente project that happens as a subsequent event, adding another BRL253 million of PSV to the quarter.

Now moving on to our next launches in Slide number 8. It's very important to highlight EZ Infinity. EZ Infinity is the main project for the coming months. There's also possibly the highlight for income -- for high projects to be launched in Sao Paulo for the year as a whole. We're talking about something that could reach BRL600 million of PSV by the time it is launched. It is the -- and just for reference, it is a project on -- to be built on top of IBN's current parking lot by the Paraiso region, a region where it's very hard to replenish landbank, very valuable asset and a launch for the coming months.

Other than that, we also had Arkadio, and Altta Vista. They are a smart living and high income project for the Chacara Santo Antonio region of Sao Paulo for -- that's still pending approval to be launched, but also hopefully a launch for the coming months, and that will bring an additional -- if you take those three projects combined, that basically represents BRL1.1 billion of launches already in the coming months out of the guidance of -- the two-year guidance of BRL4 billion to BRL4.5 billion that we had committed to basically where we're still left with an additional BRL2.6 billion to BRL3.1 billion of guidance still pending for the remainder of 2021.

With that said, I'll pass the word to Emilio, our CFO and Investor Relations Officer to comment on financial performance.

Antonio Emilio Clemente Fugazzar

Thanks, Hugo. Let's talk about financial performance, Slide number 9, starting with the net revenues coming at BRL195 million in first Q 2021, coming down from BRL262 million in the fourth quarter 2020. It's important to bear in mind that the pace of the construction nowadays is becoming a little bit slow compared to the third and fourth quarter of 2020, specifically because of the problems regarding the sanitary conditions, the COVID issues here in Brazil, specifically between February and in March.

It's important to understand how can we come up with those revenues. Once we can sell one unit, the whole unit, obviously, we are going to recognize the growth revenues coming from these units. But units under construction are units already launched. We are going to recognize only the stake of the land of the revenues and the construction part is going to take place means of the construction. So we are going to recognize by the percentage of completion method, the revenues of the quarter. The problem is, given the fact that we sold less from the units in the first Q and the pace of the construction sites were lower than in the past, we came up with less revenues than in the past.

From now on, we do expect that the volume of construction can increase a little bit in the second quarter, but mainly in the third quarter of 2020, given the incremental prices we have been facing so far. And obviously, the situation about the pandemic here in, specifically in Sao Paulo.

Talking about gross profit on the chart, at the top right of this slide, you can see BRL83 million of gross profit for -- gross margin of 42%, recovering a little bit from the fourth quarter 2020 from 40%. It's important to say that INCC, the index which is adjusting all the receivables we've got in our balance sheet can so far replace the increment in cost we are facing now. It's important to understand that we have been facing a lot of increment in costs, especially of raw materials like concrete, like specifically copper. So far, those increment in costs or delays in the construction sites are not harming the schedule of delivery, those construction sites. And so far, the cost and the margin are remaining a little bit steady over a little bit more than 40%.

Talking about selling expenses, selling expenses nowadays are coming at a base of 40% of gross sales. That's important to mention. When you see -- when you look deeply at the figures, you can understand that we are coming up with a lot of new sales stands launch the projects as Hugo told you before. Apart from that, you can see an increment, an incremental branch for ready inventory commission and others. Specifically commission because nowadays totally different than the past, all the commissions are recognized over the selling expenses because many of the sales are coming to digital ways. So digital ways means that the brokers are not charging for the commissions directly to the clients, but also trying to do that directly to the company, and that's a way to perform sales a little bit faster in this moment we have been through.

In terms of G&A specifically you can see BRL25 million for first Q 2021 compared to BRL27 million one year ago. That's because we made a lot of adjustments in the second Q of 2020 and third Q. Those adjustments in payroll are even adjusting the whole teams, the whole teams of EZTEC in the headquarters. And we have recovered the number of people we actually shopped before in our Company. That's why we can see a little bit less expense -- G&A expenses than in the past.

Apart from that, it's important to mention that if you are going to look deeply at the expenses of the company, tax expenses were a little bit higher than in the past. That's because of every first quarter, each year, we can pay in advance the whole land and property taxes to the municipality. And this year, only land has impacted something around BRL12 million, counting on the part or the land managed by EZTEC or in partnership with other developers. And that's why we saw an increment on this branch.

Moving on to financial performance two on Page number 10. You can see on top left, BRL45 million coming in the first Q 2021. Let me remind you that it's totally because of the pro forma assets we have here holding on our accounts. Nowadays it's about 1,500 units we have been providing financing to them adjusted by IGP plus 10% nearly. Only to bear in mind, only to understand what happened here in Brazil, IGP was since January 2020 adjusted by something around 35%. And quarter-by-quarter it's impacting our receivables on this branch.

If you look deeply at financial expenses, it's important to understand that since fourth quarter '20, fourth quarter and first quarter 2021, you can see a huge increment in financial expenses. It's not regarding debt because we have no holding debt in our Company. But mainly, given the questions I got from the Q&A in Portuguese, an hour ago, it's important to understand that that's because -- mainly because of three factors. First of all, because many people are paying advance installments that they were going to pay only after the permits of living. So these payments in advance are accounted with some sort of discounts. Secondly, because in the fourth quarter, we have the living [ph] permits for one specific project in advance. This project was Z.Cotovia. And -- but we only deliver the units to our clients between March and April. And we have decided about these specific projects.

Instead of charging IGP plus 12, it was so high for this specifically -- for this specifically project. We had targeted only INCC. So it was a huge difference because INCC on this specific time was something around 3% yearly. And IGP plus 10, IGP plus 12 was more than 6%. So the difference between one and another made an adjustment of financial expense reported in those quarters.

And finally, only to understand so when we sell one unit, after we sell this unit, the client has three to four months to get the mortgages from the banks. But in between, the client has -- it's -- his stats adjusted by IGP plus 12. And in the majority of the cases, because of the units are performed because of the units are in the mid-income segment, it's barely possible to have this amount of adjustments only within two to three to four months. And we provide a discount to them. And this discount, mainly you can see 0.5% of this adjustment of IGP, for instance. And that's why in the last two quarters, we saw -- we went in an incremental financial expenses.

Moving on to equity income. Our equity income is about BRL6 million in the first quarter of 2021, mainly impacted also because of the property tax, something around BRL4 million to BRL5 million over this line. Obviously, we don't expect less than that in the -- less than that month of results in the next coming quarters, specifically because many of the enterprises coming from this branch are starting the constructions and all pattern in the pace of the construction overall.

In terms of net income, net income came at BRL73 million and a net margin of 37%. And obviously, 6% of it impacted by financial results. We do expect that we are going to see a higher increment in revenues recognition in order to boost the volume of net income coming in the coming quarters.

And finally, that, I would say, could be the highlights of these first quarter results -- first quarter 2021 results. It's the backlog margin around 45%. Around 45% means that all the adjustments we got in the budget of the constructions or in the accounts because of the construction have not impacted so far the margins to be recognized in the coming quarters from the sold units so far. That's very important to say. So the main idea, the true mindset behind this can be the fact that all the incremental costs we have been facing can be offset by the adjustments of the INCC so far.

On Page number 11, you can understand a little bit more deeply the portfolio of all the units sold with financing provided by EZTEC. So far first Q, there is something around BRL480 million, meaning something around 1,500 units under management for EZTEC. Important to see the payments in advance we have already received something around BRL66 million this quarter, meaning that 182 units paid that off specifically trying to transferring -- trying to transfer the credits to the banks, taking mortgages from the banks. This is highly possible right now because many clients that took finance from EZTEC five to six years ago, now this have a loan-to-value of 60% or 50% nowadays. Those credits for them are available in a very interesting -- in a very good interest rate, something around 5% to 6% yearly compared to IGP plus 10%.

The highlight of this slide is about the foreclosure. Only 12 units. Let me remind you, that's for the whole assets managed by EZTEC in terms of performed portfolio, only 100 to 110 units are on the fall right now. We have been managing, obviously, you can expect something around 60 to 70 units to be taking back in the next coming quarters. So the foreclosure can reach something around 60 to 70 units in the whole year. So meaning that it's about 4% of the total amount of units, which is not a concern by itself.

On Page number 12, financial performance Fit Casa, our brand for low-income segment. It's important to understand that we haven't reached something around 50% gross margin on Fit Casa, meaning something around BRL8 million of net income in this segment. Let me remind you that BRL8 million is already impacted by the tax property or land taxes we have paid in advance in the pursuit, more than BRL5 million. Even with the huge impact in the first quarter, we could provide something around 10% return on equity. So you can expect a return on equity even higher for the next coming quarters because as Marcelo Zarzur, our Technical Director and current CEO, EZTEC CEO said in the conference call in Portuguese, two projects scheduled to be delivered by the end of this year or half of 2022 be delivered (inaudible) in advance, six months in advance and with some savings in budgets. We can provide an increment in the net profit and also in the gross margin of Fit Casa as well. So saying that, let me bring to the end of this presentation.

In Slide number 13, talking about (inaudible) common equity in this company. First Q ended up with BRL4.1 billion shareholders' equity, which can -- we can break up into cash and equivalents of almost BRL1.1 billion. Finished unit receivables of BRL529 million. And the cost of the landbank, the landbank of BRL11 billion has already booked by BRL1.2 billion, almost BRL1.2 billion, but we have to increase here another BRL3 billion. We are going to do that in the next coming quarters. It's going to add by something around BRL300 million to BRL400 million landbank inventory.

In terms of liabilities only to remind you that the dividends we are going to pay in the next coming quarter or next coming quarters of BRL96 million. And the only carrying something around BRL8 million of construction finance, almost nothing regarding the BRL4.1 billion shareholders' equity.

All in all, that's our earnings for the first Q 2021, and we are open to you for the questions you may have. Thank you very much. Thank you for our audience today.

Questions And Answers

Q - Nicole Inui {BIO 17757166 <GO>}

Hello, can you hear me?

A - Antonio Emilio Clemente Fugazzar

Yes, we can hear you. Who is this? I cannot really see here who exactly speaking.

Q - Nicole Inui {BIO 17757166 <GO>}

Sorry, this is Nicole from Bank of America.

A - Antonio Emilio Clemente Fugazzar

Hi Nicole. Thank you for your question there you go. Sorry, for the disconnection.

Q - Nicole Inui {BIO 17757166 <GO>}

No problem. No problem at all. Thank you, Hugo, thank you, Emilio for the call. Just a couple of questions. First, on launches. How are you thinking about your guidance for this year? You've had a difficult start of the year. We had another shutdown. We're already in reaching the end of May. So how strongly do you feel that you'll be able to meet this guidance for the year? And if not, how do you think it will look in terms of launches for the year given the recent lockdowns that we had. And then the other question is just in terms of your pace of construction, it's been slower this quarter. I saw some specific problems with (inaudible) If you can elaborate a little bit more on that, it'd be great.

A - Antonio Emilio Clemente Fugazzar

Nicole, thank you very much for the questions. Very good morning to you. Regarding launches, specifically, let me say what (inaudible) Zarzur had already mentioned in the Portuguese call right now. In terms of launches, so obviously, we are fully committed to achieve the guidance. But, obviously, we have already need something around 45 days in terms of launching process. So regarding today the permits, simply since the beginning of March, we haven't here -- we haven't saw a huge work coming from specifically the municipalities of Sao Paulo releasing the formats.

Hugo has already mentioned about the three major projects, we are going to see in a couple -- in the months coming, specifically in terms of IBM, Arkadio and Altta Vista. All in all, we are talking about BRL1.2 billion. Adding the two projects, we have already launched, which means something around BRL300 million. It's meaning that up to July, beginning of July, we can reach something around BRL1.5 million launches in the first half 2021.

So there are something around 50-odd projects under the process of taking licenses, taking points, and regarding (inaudible) said, so he is fully committed to get the license for those projects up to the end of this year. So in order to achieve the guidance at the end of this year, but obviously, in terms of getting capacity enough, operational capacity enough to open the sales stands to making the sales of those projects, also in 2020, can be a little bit hard. So it's possible to see the launches coming at 80% of the guidance, something about that up to the end of this year and watching the remaining projects being accomplished by January or February.

All in all, depends on not having another stock, another closing of the sales stands, again in the next couple of months. So let me bring in to making a long story short. We are pretty committed to achieve the guidance. But obviously, we already know that we have already missed something around two months so far.

In terms of pace of construction, it's important to understand that while we have been pacing now, it's not something that is harming the schedule of delivering the project, that's important. All the projects we are going to deliver in 2021 are going to be delivered on the schedule and with all costs are even facing some savings on those costs.

But projects with very large proportions like -- such as Parque da Cidade, we have already mentioned the lease or even though at Brooklin for instance, are project that are set at the beginning. The costs of the construction are higher and higher, specifically on the raw materials. And we are facing, obviously, some delays because hiring people to work on those projects. Saying that, I would like to address that everything about 2021 are not farmers [ph]. But 2022, I will say that we are going to strong enough to achieve the goals. So we don't expect an enhancements in the pace of the construction in the second quarter as we are in the middle of it. We are -- we do expect something coming from the third quarter 2021, Nicole.

Q - Nicole Inui {BIO 17757166 <GO>}

That's very useful. Thank you, Emilio.

A - Antonio Emilio Clemente Fugazzar

Thank you very much Nicole. Have a wonderful day.

A - Hugo Grassi Benevides Soares {BIO 19772261 <GO>}

Thank you very much, Nicole. And with that, our conference call for the results presentation is over. We thank you all for your attention. And we remain available, all the Investor Relations for any further questions at any time. Have a nice day.