Q2 2017 Earnings Call

Company Participants

- Armando d'Almeida Neto, CFO and IR Officer
- Franco Carrion, IR manager

Presentation

Operator

Good morning, welcome to Multiplan Second Quarter 2017 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 Director; and Mr. Franco Carrion, IR manager.

Today's live webcast and presentation may be accessed through Multiplan's website at ir.multiplan.com.br. We'd like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After the initial 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's management and on information currently available to the Company. They involve risks and 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 scenarios, 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 the message in the name of Mr. Peres. Mr. Franco, you may begin the conference.

Franco Carrion {BIO 16449361 <GO>}

Good morning, ladies and gentlemen, thank you for being with us today. At the last conference call we had, we drew attention to the signs that indicated the beginning of a recovery for the Brazilian economy. We saw sales growing in March by 12% and in April by 14%. In May, however, we were centralized by a formal complaint made by the Federal Public Attorney's office targeting the President and having an extraordinary impact on nation.

Sales growth in the following month grew 6% and quarter closed with a growth of almost 9%, a very good result. Despite this unstable political context, I would like to inform you that we are seeing a favorable scenario ahead. Sales growth in July is nearing double digits. Our latest sales preview for July was already showing a growth of around 9.5%.

We concluded the second quarter with results that show strong growth in several regions. For example, sales at ParkShoppingCampoGrande in Rio de Janeiro grew by 26.3%. In BarraShopping also in Rio 16.3%. In ParkShopping Barigui, we could achieve 11.7%. In JundiaiShopping in Sao Paulo and at Shopping Analia Franco also in Sao Paulo both were close to 11%.

And finally in ParkShopping in Brazil, sales grew by 10.8%. We are optimistic about the next half of the year, especially because in November, we will deliver a ParkShoppingCanoas in Rio Grande do Sul, which at this time already has close to 90% of the area leased. We know that the recovery will continue to be challenging, but we maintain a positive outlook as our entire portfolio presents excellent performance and due to the favorable drivers for the upcoming inauguration of our mall in the city of Canoas which will have innovative architecture and an unseen fashion concept in Brazil.

Talking about results, we ended the quarter with an increase in our net income of 5.9% to BRL105 million and EBITDA up by 8.7% to BRL212 million. In July, we have completed 10 years since our IPO and we have strong reasons to celebrate. We invested around BRL7 billion over these years and brought the company to a market value of around BRL40 billion with the stock recently returning to the BRL70 level.

During this period, Multiplan distributed BRL1.3 billion to investors through dividends and interest on cash flow. We added eight new shopping centers, 17 expansions, eight minority stake acquisitions in our malls and two own corporate complexes increasing our own GLA by 418,000 square meters, an increase of about 160%.

I also want to highlight VillageMall's first expansion, which will add 34 new operations that complement the mall's mix of stores. The first phase will be inaugurated next November and the second phase in May 2018. Also, this month we are delivering the ninth expansion of RibeiraoShopping following our strategy of improving the mix of services in our malls. This expansion will add a medical center to RibeiraoShopping with 32 clinics, which inauguration will take place on August 9. The mall will then have GLA of about 74,800 square meters, becoming the second largest shopping center in Multiplan's portfolio.

The other ongoing expansion project at Patio Savassi in Belo Horizonte, we will also inaugurate in November 2017. Finally, I would like to point out that the reforms carried out by the current government are in line with what we desire or those still missing in our view the conclusion of the pension reform to ensure the country's sustainable growth for the next few years.

Other measures aimed at reducing the bureaucracy are being implemented and also bring us the assurance that the country is moving towards a market economy while recovering its importance in the global stage. I thank the confidence of our shareholders, the work of our team at Multiplan and your time and interest in this conference call.

I turn over to Armando d'Almeida who will give you more details on this quarter's results. Thank you.

Armando d'Almeida Neto

Thank you, Franco. Thank you, Mr. Peres. Good morning, everyone. It's a pleasure to be here with you in this tenth anniversary of Multiplan as listed company. Let us start with comments on the growth and improvements of key operational indicators. Shopping Center Sales growth reaching 8.7% in the second quarter of 2017 exceeding the year 2016, increase of 2.9% and accelerating in an already strong growth of 6.1% in the first quarter of this year.

For those who like to compare with inflation, the sales growth is more than double of the inflation this year represented by the IPCA Index of 3%. As a result, the same-store sales increase was up 6.7%, the highest quarterly growth since 2014, and the same area sales were even higher to 7.8% as a result of a daily effort to make the store mix even better. In the last 12 months, we operated almost 34,000 square meter of stores, pursuing to adapt the shopping center to new trends and consumers' desires.

All store segments showed same store sales growth with Home and Office growing 22.3% followed by Services with 14.5% and Food with 10.8%. It was no different with the shopping centers' occupancy rate, up 28 basis points over the first quarter of this year to 97.7% and 8 basis points over the same period of the previous year.

The Morumbi Corporate Towers had an occupancy rate of 98.1%. The occupancy cost fell to 12.8% because of higher sales and the beneficial effect of low inflation and common charges. The delinquency and rent loss also showed strong improvement. Gross delinquency fell from 4% to 3% this quarter, while the net delinquency was almost half of the one presented in the second quarter of 2016, from 2.4% to 1.3%.

Gross revenue was BRL315 million, higher by 4.4% and driven by the increase in rental revenue which added BRL27.9 million. Rental revenue grew by 13.2% not only in fixed rent, but also in merchandising and in the (inaudible) rent, the latter reflecting the increase in sales. The same store rent higher by 8.6%, a strong growth which exceeds the inflation adjustment effect.

In other words we are back to a real same store rent above inflation. The number becomes even more active in lease rent when we consider the IGP-DI for the last 12 months considering was negative at 1.5%, just to clarify the IGP-DI is the name of the index, the many index we use to address our rental arena.

Headquarter expenses were 7.9% lower in the quarter, while the shopping center expenses increased just 1%, even with a 3.5% growth in leasable area increase, own GLA increased in this quarter. Moving back to results, because of increase in brands and the dilution of shopping center expenses, the net operating income increased 13.9% with a strong margin improvement of a 156 basis points, now at 88.6%.

The last 12 months NOI already exceeds BRL1 billion mark. EBITDA increased by 8.7% due to higher rental revenue and lower headquarters and properties expenses reaching BRL212.3 million in this quarter with a margin of 74.9%, higher by 246 basis points. In the last 12 months, EBITDA reached BRL823.8 million. The FFO grew 14.2% in the quarter to BRL160.4 million benefitting from strong operating results and the approval of interest on shareholders' capital.

Net income also increased to BRL104.5 million in this year, 5.9% higher. Comments in terms of -- in regard to capital structure, our indebtedness remains broadly unchanged compared to the first quarter of this year with net debt representing 2.4 times EBITDA with both the changes in terms of tenure and cost.

The weighted average cost of gross debt fell from -- fell to 10.61% per annum coming from 13.25% per annum benefitting from the high exposure to the CDI, the Brazilian LIBOR, which at the end of the quarter represented 63.7% of the total debt compared to 51.1% in the second quarter of 2016.

In this second quarter, we issued a new 300 million new bond backed by real estate receivables. It's a six-year bullet at rate of 95% of the CDI. We also prepaid a debt of the same amount that was scheduled to mature in 2019 at the rate of 108% of the CDI. As a result, we have a balance debt repayment scheduled over the years with a weighted average maturity of 47 months and a high exposure to the CDI, which relates to a faster cost of the equities as basically this rate is reducing.

Our strategy here was basically to have a longer duration to extend duration of portfolio keeping more liquidity, keeping a significant amount of cash and also taking advantage of any market opportunity in M&A that might pop up. Finally, on CapEx, we invested BRL77.4 million each quarter accumulating 252 million in the first six months of the year, BRL0.25 billion.

We will deliver four projects in the second semester as Mr. Peres just mentioned through Franco where we will add 57,600 square meters to our total GLA including the first of two phases of the VillageMall expansion just announced last Wednesday. We are going to be pretty busy with opening new malls and mall expansions and the key delivery to tenants in Canoas now in August. We grew through minority acquisitions, we grew with expansions and new malls and we also grew operationally to increasing productivity of sales and rental. We are confident that little by little the economy is improving and the positive operating effects that inflation at historically low levels can bring in addition to the already mentioned positive impact of lower interest rates. In past conference calls, we mentioned the concept of creative disruption. It is one of the reasons for the strong operating results throughout the year. These are the good signs of the economy and thus bring opportunities to generate value for a long period of time. The difference between the same area sales and the same-store sales is a result of seeking the best operations and the best mix for our malls. I will stop here to start the Q&A session and before that I wanted to thank you very much for your attention. Operator, back to you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions)

Thank you. I will turn over to Mr. Armando d'Almeida Neto for final consideration, Mr. Armando you may give your final considerations now.

A - Armando d'Almeida Neto

Well, look like we have a very shy audience here today. But anyway we had many questions on the Portuguese call, I would like to share some of the questions just for the benefit of the translation. We have questions regarding same-store sales, questions if it was higher than expected and the prospects for the second half.

Our answer was pretty much that the same-store sales reflect the changes in the economy -- the reforms that are being approved, lower inflation and lower interest rates, that we expect a gradual improvement, so as you know the second half historically being stronger in terms of sales performance and hopefully the same-store sales will reflect that.

Last but not least it is important to highlight that the change in the mix as you noted our turnover being higher in the past years, so as I mentioned the theory of the construction disruption -- creative disruption, we've been able to, with weakness in the economy to attract the best in class players, the best operation, adjusted our mix looking forward to consumer desires and those are just already showing results.

And one other question pretty much in the same in line with that was in regard to key money, what is our expectation about key money, and Mr. Peres explained that our view is not about how much we can charge in terms of key money, not on the short term, but on the long term, who are we bringing into the mall, what best operation as I just mentioned. The focus on the rental revenue, that if we not want to earn once that the key money, but we are going to have it every month, especially when you bring the best operations.

And also we are asked about same-store rent, with this higher than expected same-store rent, higher than the market expectations, was the rent rates being unwind and our answer to that is no. What we saw in terms of rental rates was pretty similar to what we saw in the same period last year, perhaps it is more so regarding to the step-ups, the lease agreements step-ups, contractual rental increases that's been taking effect.

There was also question regarding parking, showing that our parking was not growing strongly, so exclusive it's a question of traffic, what are the reasons for that? We explained that we've been in this especially this year but especially in the last quarter we've been seeing traffic increasing gradually, it's not a lot, but be increasing gradually and we talked about especially traffic owned parking measured by the number of cars parking on the malls, not the owners coming in walking to the shopping center or using cabs or other alternative ways of transportation.

But our strategy this year was not to readjust the rates of the parking for any of our malls, we keep in the same rates we have last year, as a way to attract higher consumer flow to the shopping centers and our focus has been there on being more efficient reducing costs related to parking like those terminals to the auto paying instead of having people handling a manual payment system. So reducing and mainly what -- those paying as you can pay a charge to your car on street instead of having, anyway, reducing the cost and increasing the efficiency of the parking activities.

And other questions were related to specialty income, and we call merchandising here. So we just highlighted that this quarter were 3.2 million higher than the second quarter last year or in other words 21.6% and when you add that to the fact that the percentage on sales rent also increased. Those are two good indicators that the economy is gradually picking up.

Last but not the least, I want to explain loan growth question in regard to M&A. We show that there are many opportunities in the market at this moment especially due to long recession we had in Brazil and at the same time we had very high interest rates. One of the reasons why we are prepared to, we would like to keep a higher cash position. So we can ask when and if we see an opportunity that is our interest, but nevertheless we produce our malls from scratch, right, so we have a list of products that we always consider at M&A acquisition opportunities with the alternative of growing in just to add in new areas organically, that's the word obviously. Thank you.

It's not just we have to buy what we can add to organically grow having through expansions or new malls, that has been our focus and that I think that's a short version of the questions, I want to keep myself and the IR Team at your disposal. So if you have any questions later, please do not hesitate to call us. Thank you so much for your attention, trust, and looking forward to see you on the next conference call. Thank you. Bye-Bye.

Operator

Thank you. This concludes today's Multiplan second quarter 2017 earnings conference call. You may disconnect your lines at this time. Thank you for your participation.