Q1 2015 Earnings Call

Company Participants

- Carlos Medeiros Neto, Chief Executive Officer

Other Participants

- Fred Mendes, Analyst
- Karen Cole, Analyst

Presentation

Operator

Good afternoon ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to BR Malls' Conference Call. Today with us we have Mr. Carlos Medeiros and Mr. Frederico Villa. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After that, there will be a question-and-answer session for analysts and shareholders followed immediately by another session for journalists. At that time, further instructions will be given.

(Operator Instructions). Today we have a simultaneous webcast that may be accessed through the web www.brmalls.com.br/ir. The slide presentation may be downloaded from that website as well. There will be a replay facility for this call on the website for a week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of BR Malls' management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of BR Malls and could cause results to differ materially from those expressed in forward-looking statements.

Now, I would turn the conference over to Mr. Carlos Medeiros, who will begin the presentation. Mr. Carlos, you may begin your conference.

Carlos Medeiros Neto {BIO 3714300 <GO>}

Hi, good afternoon. Thank you for participating in our first quarter 2015 results call. As we have made in previous calls, we'll go through a brief summary of the first quarter results and then we'll be available for any questions you may have.

Starting with the highlights of the first quarter, our net revenue was BRL340 million increasing 5.4%. If we exclude the malls divested net revenue reached 8.6% in the first quarter. Our NOI was BRL311 million, increasing 5.7% in the first quarter and our NOI margin was 91.2%, 0.6% above the margin in the same period of last year and the highest first quarter margin in our history. Our Same Mall NOI reached 8.6% rose over the same period of last year.

Our adjusted EBITDA grew by 3.5% compared with the same period of last year reaching 263 million, our adjusted EBITDA margin in the quarter was 77.4%. If we exclude the effects of asset sales our EBITDA grew 6.5%. Our adjusted FFO grew by 43% reaching a 114 million and our adjusted FFO margin reached 33.7% almost 9% above the same period of last year.

Our adjusted net income was up by 45% reaching 112 million. The total sales for our malls reached 5 billion in the first quarter, up 0.5% from the same period of the year. If we exclude malls, our total sales grew by 7.6%. Same-store rent was 7.6% in the quarter, while same-store sales grew by 5.9%.

Our leasing spreads for contract renewals reached 12.3% in the quarter, while our leasing spread for new contracts reached 12.9% in the quarter. We ended the quarter with an average occupancy rate of 97.2%, while our 10 largest malls had an occupancy of 98.2%.

After the end of the first quarter we opened the expansion of Shopping Campinas, which should add about 5,000 square meters of total and owned GLA to our malls and we estimate this project to reach BRL4 million in stabilized NOI.

With that I conclude the highlights for the first quarter and we are available here for any questions you may have. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions). We have our first question coming from Karen Cole from Westwood. You may proceed.

Q - Karen Cole {BIO 18800259 <GO>}

Karen Cole here from Westwood. Thank you for the call. I have two questions, if you may. The first one is, if you could elaborate a little bit on your financial results, especially the financial expenses for this quarter. And that the second question has to deal with your late payments.

So from your disclosure, you installed a new system in this quarter that partially explains the late payments. If you could provide a bit more colors on that. Are you changing the definition of late payments. And if you sort of put it on apple-to-apple basis, if the old system were still in place, what would that figure has been, and you could also comment on the trend on delinquency, that would be appreciated. Thank you.

A - Carlos Medeiros Neto {BIO 3714300 <GO>}

Hi, Karen. I didn't hear your first question. But I'll deal with the second one and then I'll ask you to repeat your first question. But regarding the late payments, we change the system paying in the first quarter of this year. The impact was that we had several clients that did not receive their invoices and until that -- until recently we didn't know for sure, who had paid us and who didn't. In the last two weeks we have been able to fix that problem.

In terms of what would be the number be without that effect (Technical Difficulty) has a higher number, its normally around 4.5%, the number that we had for (Technical Difficulty) the first quarter was 6 [ph] -- around 2.4%. We think that the difference between the historical average was about 4.5 and the number that we had in the quarter comes mainly from this process. I mean, you may ask but, I mean, where is there a certain percentage of these repayments or the repricing [ph] that come from the deterioration of the economic scenario in Brazil, it could be -- it is very difficult to quantify now, but we think the vast majority of the problems we had comes from the change in system.

We should be standardizing the system in May, so by June we shouldn't have this problem anymore. So we have a better view during the second quarter of what part of this repayment comes from the economic scenario and what came from the change in systems. We did not change any of the way we manage those indicators. So, in terms of apple-to-apple indicators. we haven't changed anything relating to that. And what's your first question, sorry.

Q - Karen Cole {BIO 18800259 <GO>}

Thanks. The first question have to deal with your financial expenses, so that increased significantly year-over-year and if you could provide some detail as to what caused that deviation?

A - Carlos Medeiros Neto {BIO 3714300 <GO>}

Yeah, I mean our financial expenses, it has cash and non-cash variations. The majority of the non-cash variations comes from the devaluation of the exchange rate that -- I mean, just to give you an idea. I mean the non-cash variation of the exchange rate was responsible for around BRL200 million of the variation on a quarter-over-quarter period, which was the main part of that variation.

Actually and when you look at the cash financial results, it was actually a decrease of 25% on a quarter-over-quarter basis, but when you look at that number on accounting basis, there was an increase of about BRL150 million mainly coming from the effect of the devaluation of the real in the devaluation of the real in the quarter on our perpetual bonds. There is a bit description on that in our release and if you want more detailed accounting, we can give you a call and spend some time with you because then only I can just -- I just give you an overview, but if you want to get into details, it's a bit more complex.

Q - Karen Cole {BIO 18800259 <GO>}

Sure. So, why don't we get offline something from this. Thank you.

A - Carlos Medeiros Neto {BIO 3714300 <GO>}

Okay. We will be available. Thank you.

Operator

Our next question is coming from Fred Mendes from HSBC. You may continue.

Q - Fred Mendes {BIO 17221617 <GO>}

Hi, good afternoon everyone. I just wanted to go back a little bit more on the same-store sales, especially the dynamics because when you look at your anchor stores, it was slightly below while you are seeing the best and I think that the main point here is that one particular retailer that has been applied and has been reporting very strong results. All those maybe not have only the store in your malls but if you could highlight a little bit more on the dynamics and also how the satellites are performing better than the anchors which, I think its particularly build.

And then the second point, find in the same line, when we look at your same-store sales again, the breakdown through the class, you said the upper class business is performing worse than the mid and the low-mid income class with the current economic environment. And we assume probably the opposite to be happen. So if you could comment a little bit on this one as well that would be great. Thank you.

A - Carlos Medeiros Neto {BIO 3714300 <GO>}

Hi, Fred. In terms of same-store sales we -- as I've said, before in other calls the breakdown in same-store sales (inaudible) it is very different, and these are among the satellite and among the anchor stores. So it's very difficult to compare the two numbers.

When you talk about the performance of same-store sales of the different segments. What we saw in the first quarter was slowdown in sales of appliances and what (inaudible) that could differ for different reasons you think also as far as there is a explanation is because we had strong sales of compliance and (inaudible) revisions in the first quarter of last year and therefore the comparison base is much more difficult one.

In terms of anchor stores as you said correctly, there were some anchor stores that sold very well in the first quarter or that didn't do as well. We -- it always depend on the basis, because if I'm trying to go back to three years some of the anchor stores that did very well, now didn't do as well two or three years ago in vice versa. So, it has always to do with the base and this is -- has also do with fashion and in fashion it is volatile.

In terms of satellite stores, the element that we saw which is about 7% its more or less in line with what we've been seeing. So we didn't see much volatility there. We saw a lot of volatility in leisure, we had a strong first quarter in terms of movies and what we understand from the movie operator that we thought too, this should be a very good year for movies as oppose to last year, which was not as good.

So, well in terms of breakdown, I mean the middle class performed well in the first quarter, there is an in-depth that the middle class performed well across the board in Brazil, it means that performed well in our malls, as opposed to a more high-end malls. But again the representation of high-end malls, enough low-end malls as well, base is very small. So when you look at our consumer base, 50% is upper middle class and almost 40% is middle class.

So almost 90% of our NOI comes from malls debt, operate in the middle class. So again when we look at our high-end, I mean the malls are operating high-end represents around 5%. So I mean, I don't think its represented. But when you look back, I mean we saw that effect on April 9, as well that's the high-end malls in Janeiro Brazil performed worst than the middle class malls and now understanding the time and we did some analysis on there at that time was that the shoppers in high-end malls were more important than the shoppers in the middle class malls (inaudible) happening in terms of the potential economic crisis and et cetera and therefore there were -- the first ones to reduce this earnings. But we don't know the reason this time.

Q - Fred Mendes {BIO 17221617 <GO>}

Thank you, Carlos.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Carlos Medeiros, for any closing remarks. Mr. Carlos, the floor is back to you.

A - Carlos Medeiros Neto {BIO 3714300 <GO>}

Thank you for participating in our conference call for the first quarter of 2015, if you need any additional follow-up. We remain available for your questions you may have after this call. Thank you, very much and good afternoon. Bye.

Operator

Thank you. This thus concludes today's presentation. You may disconnect your lines at this time and have a nice day.