

Q1 2021 Earnings Call

Company Participants

- Miguel Maia Mickelberg, Chief Financial and Investor Relations Officer
- Raphael Horn, Chief Executive Officer

Other Participants

- Alex Kolberg Ferraz, Analyst
- Andre Mazini, Analyst
- Daniel Gasparete, Analyst
- Gustavo Cambauva, Analyst
- Marcelo Motta, Analyst

Presentation

Operator

Good morning, and thank you for standing by, and welcome to Cyrela's Conference Call to discuss the First Quarter of 2021 Results. Today with us, we have Raphael Abba Horn, Chief Executive Officer; and Miguel Mickelberg, Chief Financial and Investor Relations Officer.

We would like to inform that during the Company's presentation, all participants will only be able to listen to the call. We will then begin the Q&A session when further instructions will be given. (Operator Instructions) We would also like to inform that the conference call in Portuguese will be presented by the Company's management, and for the English conference, there will be simultaneous translation. This event is also being broadcast simultaneously on the Internet via webcast.

This conference call contains forward-looking statements that are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those in the forward-looking statements. Such statements speak only as of the date they are made, and the company is made -- is under no obligation to update them in light of new information or future developments.

I will now turn the conference over to Mr. Raphael Horn. Please you may proceed.

Raphael Horn {BIO 19714328 <GO>}

Good morning, everyone. This second -- this first half was marked by the acceleration of pandemic in Brazil. With the stand closed -- sales stands closed as of the March we chose

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to accelerate some quarters of the -- on the other hand, the quality of our products contributed to have a good sales performance, which totaled approximately BRL1 billion and 22% higher than the first quarter of 2020 even with the launch volume 60% lower.

Despite the operating results on the -- the operating results last quarter had a positive effect. Pre-sales reached 1 million with an up 22% even that with the high growth when regarding the last quarter we had a positive cash generation of 70 million. Despite this challenging scenario, the prospects for reopening the economy in the next quarter allow us comfortable margins and the company remains optimistic for the next years. We will maintain our commitment to search the best results for our stakeholders. Now let's talk about operating -- operational results.

Miguel Maia Mickelberg {BIO 20023910 <GO>}

Thank you, Rapha. Good morning everyone. On slide five, we have launches of Cyrela. In the first quarter, we launched six new products with a PSV. There was 60% lower than the one considering everything. It was 60% lower, the company's share in the launched volume was 90%.

On slide six, we'll talk about pre-sales performance. In the first quarter, contracted sales reached BRL1 million at 22% when compared to the first quarter of 2020. Excluding swaps, sales reached 820, 24% Cyrela's share and that is higher and Sao Paulo accounted for 46% of our sales.

On slide seven, let's talk about sales speed. The SoS of the company was 52.8%. When in terms of launches and quarters, this quarter is 41% sold. On slide eight, let's talk about the total inventory of Cyrela. At the end of the inventory, market value inventory reached BRL4.8 million, 11% lower than the previous quarter. Change in inventory can be seen in the chart on the left.

On slide nine, we talk about finished units. In this quarter's we sold 19% of the finished units in the period, which dropped 17%, when compared to the fourth quarter '20. Slide 10, we talk about delivered units. In this quarter, Cyrela delivered three projects totaling 408 units and a launch of 400 -- launch PSV, BRL400 million.

Slide 11, financial results. The net revenues of the company reached BRL1 million, which is 90% higher than the same quarter last year. The gross profit amounted to BRL347 million, 3% higher than last quarter and 100% higher than the first quarter of '20. We have a net income of BRL192 million compared to BRL261 million of previous quarter and a profit of BRL28 million in the first quarter of '20.

Slide 13 talks about our profitability. In the first quarter '21 our return on equity amounted to 36.7% in the last 12 months. On slide 14, we'll talk about debt. The gross debt at the end of the quarter added 2.7 million with the 2.4 cash position the net debt amounts to 227 million. Of the total gross debt, 78% is long term. Our net debt over total equity reached 3.8% and 1.3% lower than last quarter. This low debt level rectify this financial solidity of Cyrela and puts us on the right path to maximize return.

On slide 15, let's talk about cash generation. First quarter of '21, we had 70 million cash generation compared to 439 in the previous quarter.

Now Rapha and I will go for the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. We will now start the Q&A session. (Operator Instructions) The first question comes from Alex Ferraz from Itau BBA.

Q - Alex Kolberg Ferraz {BIO 18651758 <GO>}

Good morning, Rapha and Miguel. Thank you for the presentation. I have a question about gross margin. It's a strong margin and improving, when compared to the previous quarter, and the question is more related to this cost scenario because in the high and middle income projects there is some room for maneuver pricing gains, but when we look at low income, you will see that's being more affected and when we look at the results of your peers. So in terms of Vivaz and the other projects that were important last quarter has -- have they undergo any budget review, and even so the margin remains high or do you believe there may be some adjustment in margins in the future, especially when compared to low income segments of the company.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Good morning, Alex. This is Miguel speaking. Actually the scenario is quite challenging and it's harder than navigating at Vivaz rather than in high income where we have some more purchasing power and we can have better prices. We worked with the provision for future inflation in our costs. So this is why the impact for us in this first quarter was milder. But the impact of the future will depend on the performance of INPC inflation index. We have budgets that are very well planned. So we don't see any need for adjustments. We have INPC for the future of 7.5% per year in our construction costs. So if it remains at this level, we won't need any review.

Q - Alex Kolberg Ferraz {BIO 18651758 <GO>}

Okay, Miguel. Thank you.

Operator

The next question comes from Gustavo Cambauva, BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning. First talking about gross margin again, Miguel mentioned the impact of INCC in the high and middle income projects. How do you see the high INCC that can cause contract cancellations in the future. Is there any risk of the debt balance growing and also in the future at delivery time may be having a high interest, higher interest rates

in financing. Are you doing anything to mitigate that or maybe being selecting more the customers in the beginning of the process or are you going to wait until later to see what you're going to do. And the second question is about your expectation for launches this year. You mentioned in the release that this quarter was lower in sales because of lockdown. So I would like to understand your pipeline of launches. Do you expect any growth or will it be organic as compared to last year? Thank you.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Good morning. This is Miguel speaking. I'll answer your first question. As for the risk of cancellations, because of high interest rates, we are well protected against that. First, we work with a very conservative price list. So at the moment of delivery is -- our customers usually pay 30% to 35% up to delivery time and whereas banks have remaining amounts of 80% to 85% and prices are higher than INCC. So the amount to be paid is even lower. So it depends on the assessment that banks make of properties. But we have some room for maneuver when compared to banks. And in terms of interest rates, today we make a credit analysis, supposing that customer will finance in the future at an interest rate of 8.2%, which is 50 basis points above the best rate we have for our customers. So we do project for higher interest rates and we have some room for maneuver. It's not that we believe that interest will go up so much, but we are conservative, so we always work in credit analysis with a higher interest rates than that in force at the moment. Rapha will answer your second question.

A - Raphael Horn {BIO 19714328 <GO>}

How are you Cambauva? Well adding to what Miguel just said, the cancellation of contracts in our minds in addition to everything he said I mean the cancellation law is in force. So we know that a lot of Vivaz that we sold was due to law. It's not a matter of price or interest at the end. It's more of a related to the law. That makes us feel very comfortable. Usually the correlation between the cancellation monster or menace and the cancellation itself is different. We don't see these haunting cancellation figure coming back. I think that this is something of the past. It won't be back so soon. I think in lower income segments, it's a bit more important, but even so. About launches, the figures that Miguel and we already conveyed to you about 2021 are maintained. So we hold up a bit in the end of the first quarter, but the -- the population has been taken the vaccine. So we believe we won't have much more -- many more surprises. Otherwise, the figures are maintained for the year according to forecast.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay. Great. Thank you for your answers, Raphael and Miguel.

Operator

The next question is from Daniel Gasparete from Credit Suisse.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Good morning. Thank you for the call. I have two questions. First, relating to the sales over supply. Do you feel any acceleration now with new launches? And the second question is

about rise in costs in terms of labor costs and construction. How do you see this and other services in the chain -- in the supply chain?

A - Raphael Horn {BIO 19714328 <GO>}

This is Raphael. Your sound was not very clear. I couldn't quite understand your questions.

Q - Daniel Gasparete {BIO 17999254 <GO>}

I am sorry. Can you hear me better now?

A - Raphael Horn {BIO 19714328 <GO>}

I don't know if it's the connection. I can't quite hear you.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Is it better now?

A - Raphael Horn {BIO 19714328 <GO>}

Yes, I think so.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Okay. Two questions. First regarding acceleration in sales over supply. Are you feeling anything at the end some people saying that the prices of properties are affecting the demand somehow and the cost of service. This is the second question is about labor costs. I would like to understand what do you see in that area?

A - Raphael Horn {BIO 19714328 <GO>}

Okay. I think I got it. Well about INCC at the end, having an effect. Well, it's not good, but I wouldn't say that it would impact the macroeconomic fundamentals. We have low interest rates overall, after many years of crisis in construction. So this is stronger than the INCC a bit higher. So one few customers can feel it, but overall I think the moment is good and will continue good. And I'm -- we're quite excited about it actually. Prices have gone down for many years. So some price variance makes sense. I think the customer realizes that the low interest rate is low. I think this, the current trend should prevail. As for services, the second question, in terms of service inflation, well, INCC is under pressure as a whole, much more about materials. We don't believe that labor cost will be much of an issue. We believe that the main villain is material. But of course there will be some transfer prices in some services. But overall this won't be the villain. If there is a villain, it would be the cost of materials, construction materials. I think that labor costs is something we can get by with. It won't -- probably won't change much from what we consider normal. That's it.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Thank you. Can I ask a follow-up question, what is the cash operation? This year there is a very positive view of portfolio origin since for 2021. Has that increased or not? What do you expect from that?

A - Raphael Horn {BIO 19714328 <GO>}

Well it's -- everything is going fine. We remain at the same -- remain steady at the same rhythm we had before. It's a small operation and it's doing fine.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Okay. Thank you, Rapha. Have a good weekend. Thank you for the answers.

Operator

The next question comes from Andre Mazini, Citibank.

Q - Andre Mazini {BIO 20377100 <GO>}

Good morning, Rapha and Miguel. My question is about contingencies of 29 million. Could you give us some color on what were they about exactly and if they are related to the time when you were more spread out geographically like in the Northeast and so. And back then you used to have many more third-party contractors in taking care of construction sites rather than now. So everything now is more in-house and well controlled. So today's operation of the company with fewer geography locations and should generate a much lower contingency level than we see today or 29, 24 is something that should remain stable, considering that this is a business that has some contingencies now and then? Thank you.

A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Good morning, Andre. This is Miguel speaking. The BRL29 million in contingency, 90% have to do with construction sites that are at the end of their guarantee or that -- whose guarantee have ended recently. So these are construction sites of 2016. So it accounts for those periods in which Cyrela used to be much more diversified geographically and other -- many constructions that were carried out by third parties and the contingency level is above what we expect for currency operations -- for our current operations. But it's in the middle-term, we don't expect it to be so high. We expect it to be lower than we have currently.

Q - Andre Mazini {BIO 20377100 <GO>}

Okay, thank you very much. Have a good day.

Operator

(Operator Instructions) Next question comes from Marcelo Motta from JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I have two questions. Could you comment on the increase in the sales price. Have you been able to transfer that to clients. Can we keep it closer to inflation to protect your margins and also the line that had -- this line that was so strong this quarter. Could you comment on that?

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A - Miguel Maia Mickelberg {BIO 20023910 <GO>}

Good morning, Motta. This is Miguel speaking. Well, we are able to transfer INCC -- to all the current projects, especially in middle and high income projects. Whenever I have a chance, we are trying to raise -- increase prices above INCC. Whenever there is room for it and whenever the sales of the supply is high, it's a case-by-case analysis, we were trying to do that. Yes, as for the line, you mentioned this quarter was very strong with the main aspects are the results of two projects that we have in partnership with Hines, Ibirapuera for you. And the other one that had important results for the quarter. So together with these SPES that accounts for the mostly -- most of the results of that line.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you.

Operator

This concludes the Q&A session and I would like to turn the floor over to Mr. Raphael for his final remarks.

A - Raphael Horn {BIO 19714328 <GO>}

Thank you all for attending the call. We hope to have vaccination increasing rapidly, so that the entire population of Brazil can be healthier. Thank you all and have a good day.

Operator

Thank you. This concludes Cyrela's conference call. You may now disconnect and have a good day.

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