Q3 2014 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial Officer
- Unidentified Speaker

FINAL

Presentation

Unidentified Speaker

(Starts abruptly) throughout this period, we have developed a countless number of projects highlighting the company's skill in developing business centers, residential condominiums and corporate buildings.

In addition to building, the country's best shopping centers in major cities at Janeiro, Sao Paulo and Belo Horizonte. Very important in these 40 years was a contribution to our country, Brazil, especially to the real estate and retail sectors. Sectors to reach we brought innovations that have marked our presence and we'll continue to distinguish us over the coming years.

Not less important, it's having survived a period in which we faced many adversities, meteoric inflation, economic and even institutional crisis. The company was also consolidated in its position conducting major international investments with the construction of CascaisShopping in Portugal in the city of Cascais and in the United States in Miami with IL Villaggio on Ocean Drive. The project was considered by them, the best project in Florida. Both were great commercial successes.

We continue our search for new opportunities and at present we are developing three major projects, ParkShoppingCanoas with 48,000 square meters in Rio Grande do Sul, which construction work have already started. The ParkShopping Jacarepagua with 42,000 square meters in Rio de Janeiro and ParkShopping Global with 63,000 square meters in Sao Paulo. We also continue to pursue a high quality standard, constantly seeking innovations that make a difference in our properties.

A company that started with a capital of 30,000 dollars and today as an average market value of more than 4 billion dollars means great satisfaction for our shareholders. To experience the joy and satisfaction of our customers and consumers in every project contributing to make their lives better is certainly the greatest achievement of our company.

We never stop believing in Brazil, investing more and more in our country, creating new jobs and prosperity. I would like to thank our executives, employees, in short the team that is strongly dedicated to the growth of Multiplan and always focused on our most important (Technical Difficulty) which is quality and to do things very well.

I'm also very grateful for our shareholders, investors, analysts and journalists for their confidence and interest in Multiplan. Thank you very much.

Armando d'Almeida Neto

Thank you Franco, thank you Mr. Peres. This is Armando speaking. Ladies and gentlemen, good morning. We are showing the results of a quarter which as expected was challenging. The post-World Cup effect and the Brazilian elections becoming the most important news and the impact in the behavior of the economy and the consumers.

Nevertheless, we are reporting strong and consistent results, both from the operational aspect as well as the financial point of view, as we are going to see on the coming slides. Let us begin our comments with the operational performance on page four. Total sales in third quarter '14 showed growth of 10.8% and an increase over the first nine months of last year of 12.5%.

The five malls that have been in operation for more than 30 years DHShopping, RibeiraoShopping, BajaShopping, MorumbiShopping and ParkShopping represented an 8.4% increase in sales with the highlight being the growth of MorumbiShopping with 16% and RibeiraoShopping with 11.7%. While the malls opened in 2012, the JundiaiShopping, ParkShoppingCampoGrande and VillageMall reported growth of 13%. [ph]

The highlights of VillageMall with the sales increase of 66.6% and JundiaiShopping with 16.1%, this combination of growth have consolidated and new shopping centers reinforces the idea of resilience and the potential for growth.

Using the same basis comparison in the third quarter same-store sales were up by 6.1% and the same-area sales 6.7%. There was strong growth in the areas of food court and restaurants with 10.2%, as well as, in the Apparel satellite stores with 7.5% and those were partially offset by a reduction of 11.5% in Home & Office, Anchor stores.

We also look at the nine months cumulative figures, it's not in the presentation, you can see that in the earnings release. Same-store sales of 8.4% in the first nine months this year a 110 basis points better than the 7.3% presented in the nine months of 2013 and same-area sales of 9.1%, 180 basis points higher than last year, it was same 7.3% for same-area sales.

In my opinion it was better results than what expected at the beginning of the year. Our growth path has shown a continued increase in sales quarter-after-quarter as can be seen on the chart below. It is very hard to say when the interest rates went up or down or GDP accelerated or decelerated with the quarter figures was presented in the slide number four.

Well, now let's move to slide, the next one, slide number five. I like to highlight the increase in the occupancy rate it's 98.8%, 70 basis points higher than the one reported in the third quarter '13 and this is one of the highest occupancy rate reported since the IPO even with the significant increase in area.

Since the fourth quarter of 2009, when the occupancy rate was at 99.1% to the present, we delivered 228,000 square meters of GLA; 228,700 square meters of GLA. If we consider the shopping centers with more than five years in operation, the average occupancy rate is at 9.5%. So there's no room left completely occupied.

Still on the shopping center operations, the occupancy cost remained practically unchanged at 13.1%, while the delinquency indicators remained well-behaved with 1.7% to late payments and 0.8% for losses.

Let's move to the gross revenue shown on slide number six. Gross revenue increased by 13.5% during the third quarter of '14, driven primarily by growth in rental revenue of 19.1%, parking of 16.4% and services with a 15.5% increase. During the nine-month period gross revenue grew 14.1% when compared to the same period last year. Note that the service revenue was greater than the headquarters expenses, both on a quarterly basis as well as for the first nine months.

On the slide number seven, now with more details on the growth in rental revenue. Rental revenue reached BRL184.4 million nearly, BRL30 million more than in the third quarter of 2013. The fixed rent plus overage increased by 20.3%. The five shopping centers with more than 30 years of operation grew their rental revenue by 10.8% just these malls alone added BRL8.3 million in cash, the 8.3 additional compared on top of the third quarter last year.

The high performers were RibeiraoShopping and BajaShopping with increases of 23.1% and 14.6% respectively, driven by the recent expansions delivered. MorumbiShopping reported rental growth of 10.2% as a result of the recent change in mix. For newer malls, the highlight was the VillageMall with increase of 52.7% in rental revenues in the third quarter alone.

The towers at Morumbi Corporate contribute this quarter with BRL11.1 million in rental revenues and before I forget, the occupancy rate is at 67% now. With regard to the same-store rent, the increase was 8.8% over -- on top of the 11.4% of the third quarter 2013. It represents a real growth of 2.7% for this quarter.

The same-store rents for the nine month period increased 8.5% after the growth of 7.5% for the same period last year.

On slide eight, we show that the headquarter expenses in the third quarter of 2014 increased 6.1%, when compared to the third quarter of 2013. And with the improvement in margin for 58 basis points. For the nine month period, the increase was 7.3% with a margin of 10.6%. One of the lowest margins since company's IPO in 2007.

With regard to shopping center expenses, the growth was only 0.2% in the quarter, as you can see on the bottom part of the slide. It was basically unchanged, in contrast to the growth of owned GLA of 5.4%. As a result the margin improved 94 basis points. For nine month period shopping center expenses fell by 10.3% to 152 basis points better than the nine months 2013.

As a consequence and now on slide number nine, the net operating income was key money increased by 16% in the quarter and 15.6% in nine months. The margin recorded a slight improvement through 87.5% in the quarter. While for the rest of the year so far is at 87.8%, 152 points higher. I would add that the cost of new products for lease and for sale dropped 39.2% and 39.1% respectively. It's not in the slide, it's again -- it's in our earnings release.

As a result of everything we have discussed, the shopping center EBITDA increased 10.2% in the quarter with a margin of 73.8%, 63 basis points better and the consolidated EBITDA increased by 13.9% with a margin of 67% and 117 basis points better. For the nine months period growth in shopping center EBITDA was 14.1% with a margin of 63.3%, 300 basis points higher than the nine months 2013.

While the consolidated EBITDA went up by 20.8%, with a margin of 70.5%, 405 basis points better than again nine months of last year.

Now turning to the comments on indebtedness and capital structure of the company on slide number 10. Net debt to EBITDA for the last 12 months was 2.61 times compared to the 2.81 times in June 30 and 2.94 times on March 31 this year. A small deleverage as we had planned. At the end of the third quarter the net debt represented only 11.7% of the fair value of the properties.

The average cost of gross debt was at 10.54% per annum, 46 basis points lower than the selic rate, that is by the end of the third quarter 11% and now present at 11.25%. On an annual comparison while the selic rose by 200 basis points from 9% to 11% per annum Multiplan's cost of debt went up by just 120 basis points from 9.34 to 10.54.

During this -- now fourth quarter of this year we concluded two transaction that will have a posterior impact on the debt structure. We completed the launch of a new local bond a six year BRL400 million debentures due on 2019 and 2020. And at the same time, repaid the debentures issued in 2011 of 300 million that will be paid in 2015 and 2016.

All in, we raised a net of BRL100 million, extended duration and reduced debenture cost, the debenture cost of funding from CDI's plus 181[ph] basis points to CPI plus 87 basis points. We are also completing a new financing in the amount of BRL100 million, ten year term -- 12 month grace periods at TR plus 8.9% per annum. We are also -- considering all these operations we have managed to spend the weighted average maturity of the debt to 55 months compared to the 46 months, if not for these two new transactions and reduced the amortization schedule for the coming years postponing to 2019 and beyond.

Financially speaking, we are very well prepared to continue that thing, adding new areas while respecting our guidelines for indebtedness that the company believes to be appropriate for the moment we are living, that is two to three times net debt to EBITDA.

Back to the service of resource and now comparing the funds from operations and the net income on slide 11. The FFO for the quarter declined by 7% due to the increase in financial expenses that increase 54.8% and the increase in taxes of 43.1%. Just to explain part of the increase in taxes in the third quarter of 2013, we declared interest on shareholders' equity of BRL45 million and nothing was declared in this quarter.

One of the reasons why you saw drop that impacted both FFO and net income for the quarter. But when you look at the year so far, the nine-month figure, FFO increased by 15.5%. The same factors impacted the net income for the quarter, add to that the increase in depreciation and amortization of 33.9% due to a new areas delivered. In the year so far, net income totaled 243.9 million that is a 7.2% figure higher than the same period of last year.

Once again, on page 12. We have brought a chart showing the evolution of margins over the years to demonstrate that the growth of Multiplan is not limited to new areas only. Since the IPO, we have reported growth from the gross revenue to net income and we have shown a sharp increase in efficiency and scale represented by improved margins, as can be seen on slide 12.

Moving on to slide 13 to 15, not make any specific comments on them. During 2014, we have devoted considerable time to the development of new projects, preparing for our new growth cycle. As we mentioned on several occasions, we are working on projects for three new shopping centers, as well as, several expansions in addition to of course mix of used projects..

Before concluding I would like to quickly call your attention to the fair value attributed by the company to our investment properties of BRL15.8 billion and for one of our long-term goals the increase in liquidity of our common stock the MULT3, which is the first -- which in the first nine months of 2014 showed a increase of 19% in the average number of shares traded per day.

I'm grateful for the confidence of our investors and analysts and the interest of all of you who participated in this conference call. Let start the Q&A session. Operator, back to you.

Questions And Answers

Operator

(Operator Instructions) Thank you. I'll turn over to Mr. Armando d'Almeida Neto for his final considerations. Mr. Aramando, you may give your final considerations now.

A - Armando d'Almeida Neto

Thank you. Since there is no questions, I will share some of the questions of the Portuguese call, I think can be help. There were questions about why would the same-store sales in July -- the same-store sales, if we exclude the month of July -- just one second, please. If we exclude the month of July because of the World Cup effect and same-store sales would have -- there was 6.1% would move to 7%. Same-area sales that was 6.7% excluding the month of July came to 7.6%.

There was also questions in regards to the performance of JundiaiShopping and ParkShopping in terms of rental saying that the sales were strong, the rental not that much. And the explanation is because of the turnover that we doing in these malls especially in ParkShopping Campo Grande, we are preparing the mall for new operations, new investments that will be futurely announced and shortly announced. New operations that we bring to the mall. Mr. Peres showed the importance of ParkShopping Campo Grande in the development of the whole neighborhood and for that it can be likely to happen in Baja with BajaShopping 30 years ago.

And that we are lucky to have plenty of space there for future growth and development as we working there right now. So I explained that the turnover in those two shopping centers, just not the rental revenue down a little bit from what we've seen in the past quarters.

There was also questions in terms of tenant mix, just asking what we've done in terms of bringing new operations and the results. There is still room for it, is still doable. We explain that this is daily activity. So we intensively manage our shopping centers that we see plenty of opportunity to work on the turnover even though this quarter was slightly lower than it was in the same period last year. Right. And that we feel we very prepared to the fourth quarter in terms of the operations recently brought in terms of the services and the operations of our shopping centers.

Just to share few more questions in regards to the higher taxes in the third quarter. One was the interest on debt equity, the company did not declared interest on net equity. In this third quarter we declare 70 million in the first -- at the end of June. So our intension is to look for the year, but more than that we have plenty of rooms to use interest on our equity and the reason which did not in the third quarter was to support the deleverage of the company creating and opening room for future investment and new cycle of investments of our company.

And also one of the reasons why we -- taxes were higher was due to the real estate for sale activity. We are one of the largest installments being paid, that was paid in the third quarter for the two buildings we are developing in BajaShopping Sur and that created a specific transaction -- it's a increase in taxes for the real estate knowing that the tax systems for the real estate for sale is on the financial activity not the accounting activity.

More than that we shared our views about the quarter that is remained. So that is fourth quarter, we are again very positive with the operations we have, we prepared our malls to have for the fourth quarter. Our impression is that the third quarter was the one with more challenges quarter for us due to the world cup and the second part of the world cup and due to the elections in Brazil that the news flow and impacting consumers and our shopping centers in general.

We still believe on the figures we have mentioned I think last year through 2014 we expect them to have same-store sales and same-store rent in the neighborhood of 7% to 9% that was our expectation and we get in there and luckily we get on the higher part of it.

Well, I'm not going to stand no further. I want to thank you all very much for participating in this conference call, for your interest in our company and we remain available for any questions that you might have later on.

Thank you very much, operator. Thank you very much.

Operator

Thank you. This concludes today's Multiplan third quarter 2014 earnings conference call. You may disconnect your lines at this time.