

Q1 2016 Earnings Call

Company Participants

- Carlos Medeiros
- Frederico da Cunha Villa

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to BRMALLS' Conference Call. Today with us, we have Mr. Carlos Medeiros and 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. Today, we have a simultaneous webcast that may be accessed through the website, www.brmalls.com.br/ri. 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 BRMALLS' 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 BRMALLS and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Carlos Medeiros and Frederico Villa, who will begin the presentation. Mr. Carlos Medeiros and Frederico Villa, you may begin your conference.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Hi, good morning. Thank you for participating in our first quarter 2016 conference call. As we have done in previous calls, we will go over a brief summary of the quarter results and then Carlos and myself will be available to answer any questions which you have.

On the quarter, net revenue, excluding the effects of assets sold over the last 12 months, was R\$331.5 million, a 0.8% growth over the same period last year. Our NOI was R\$304.9 million, increasing 0.9% from Q1 2015, excluding the effects of assets sold over the last 12 months, with a margin of 90.5% in the quarter, the highest in the sector. Our NOI per

square meter reached R\$109 per square meter on Q1 2016, the highest first quarter level in the history of the company.

Our adjusted EBITDA was R\$246.2 million in the quarter. Through an organizational restructuring, we were able to reduce our G&A expenses by 42.4% or R\$15.1 million over Q1 2015. Our reduced (sic) [recurring] (03:52) adjusted EBITDA margin was 76.7%, a 10 bps increase over the first quarter 2015 comparable margin. Our FFO was R\$136.1 million in Q1 2016, R\$266.3 million higher than the prior year period. Our adjusted FFO totaled R\$33.3 million in first quarter 2016, mainly impacted by the FX variation effect on the hedge of our perpetual bond.

Our net income ended the quarter at R\$130.7 million, a significant increase of R\$263.4 million when compared to the net loss of R\$132.7 million recorded on first quarter 2015. Despite the challenging scenario of the retail sector, we grew our same-store sales by 1.2%, and our same-store rent by 7.4%, representing an improvement compared to the previous quarter. Due to the quality of our assets combined with the leasing and tenant replacement efforts throughout the quarter, we ended first quarter 2016 with a 96.8% occupancy rate in line with previous quarters.

In January 2016, we issued a two year term R\$200 million loan 4131. The loan is fully hedged, principal and interest, at 107.4% CDI rate. In spite of the loan announced in general, we were able to decrease our net debt by R\$193.6 million or 3.9% over Q4 2015.

After the end of Q1 2016, Fitch Ratings reaffirmed BRMALLS' rating at BB+ (global scale) and AA (national scale). Therefore, BRMALLS is currently rated one notch above the sovereign rating in the global scale. In line with the company deleverage strategy, after the first quarter, we fully amortized our fourth debenture. The total amount outstanding for this debt was over R\$400 million.

After the end of the first quarter of 2016, BRMALLS approved an increase in favor of all shareholders through the issuance of 140.1 million new shares distributed to its shareholders in form of a 30% of stock dividend. The value of our shares increased by 32.9% over the quarter, while the Ibovespa index increased by 15.5% over the same period. Our average daily traded volume increased by 23.2% over Q1 2015 ending the quarter at R\$48.5 million, and our average daily number of trades increased 36.7% (sic) [36.5%] (08:03).

Now, we finish our presentation, and Carlos and myself will be available any answers, any questions you have.

Q&A

Operator

Ladies and gentlemen, we will now initiate the question-and-answer section Our first question comes from Mr. Nicholas Lambert from Kelby (09:01). You may proceed.

FINAL

Hi. Good morning. Thank you for the conference call. I have a couple of questions. The first one is, I can see that your own GLA had a decrease of 3% year-over-year, and under investment property in terms of fair value increased 7.7% this year - year-over-year, I'm sorry. So my question is, while you had an increase in your - or you had (09:30) your investment property and you had a decrease of further GLA? And my second question is, well, you had a large amount of cash with respect of your debt, so what do you plan to do with that cash? Are you thinking about some M&A or something like that? Thank you very much.

A - Frederico da Cunha Villa {BIO 18677215 <GO>}

Hi, Nicholas (10:02). Thank you for your question. First with regards to our changes in our portfolio, you're correct so our own GLA did decrease by 3% year-over-year, and this increase in investment property that you observed was partly related to the investments that we made on our properties over these last 12 months, and the fair value gains that we accounted for in our properties over these past 12 months.

And with regards to your second question, such as the use of proceeds to our cash position, this cash position that you observed in the end of the first quarter of R\$732 million, this was prior to the amortization that we had in April of about R\$405 million of our fourth debenture, which was now fully amortized, so the current cash position is now at a lower level.

Q - Operator

So, how do you compute the fair market value of your investment properties?

A - Frederico da Cunha Villa {BIO 18677215 <GO>}

It depends - so every half year, so we appraise all of our properties and our properties are accounted for at fair market value, not on a cost basis.

Q - Operator

Okay. My last question is with regard the delinquency rates that had an increase this quarter. Late payments was 7.9%, 1 percentage point higher than 1Q 2015. How do you see this figure? Are you worried about that? Do you think this is like - will decrease in the following quarters?

A - Frederico da Cunha Villa {BIO 18677215 <GO>}

So, yeah, there is some seasonality usually to the late payments rate as well. Given the fact that the 13th rent, so the double rent from December, is due in January. So typically, your highest point will be in the first quarter of each year, granted if there has been a level of increase year-over-year, and this is reflective of the current macro environment that we face in the country, but we should expect as things normalize and finally stabilize that this level should return to the average of past quarters.

Q - Operator

Great. Thank you very much.

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

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you for participating in our first quarter 2016 conference call. If you have further questions, please contact us here at BRMALLS. Thank you. Have a nice day.

Operator

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

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