Q2 2019 Earnings Call

Company Participants

- Thiago Alonso de Oliveira, Chief Executive Officer, Chief Financial Officer and Investor Relations Officer

Other Participants

- Analyst
- Kamila Oliveira
- Victor Tapia

Presentation

Operator

Good afternoon, welcome to the Conference Call of JHSF Participacoes about the Earnings of the Second Quarter 2019. Today with us our Thiago Alonso de Oliveira, CEO and Investor Relations Officer; and (inaudible) Investor Relations Manager. We inform you that this presentation is being recorded. (Operator Instructions).

This event is also being simultaneously webcast on the company's Investors Relations website ri.jhsf.com.br and also MVIQ platform. In there you'll also find the presentation available for download. Before going on we would like to let you know, that any statements made during this conference call, relative to JHSF business outlook projecting operating and financial goals, are based on the beliefs and assumptions that the company's management, and rely on information currently available. Forward-looking statements involve risks and uncertainties because they refer to future events, and therefore depend on circumstances that may or may not occur. Changes in the macroeconomic policy or in the law, and other operating factors may affect the future to performance of JHSF and lead to results that due to materially differ in the forward-looking statements.

Now, we'll turn the fortune. Mr.Thiago de Oliveira that will start the presentation. Please Mr.Oliveira you may go on.

Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Good afternoon, everyone. On behalf of JHSF's management, I would like to welcome all of you that joined us in our call. And I would like to start by talking about three highlights in the quarter. And I'm going to explain a bit more about each one of them during the presentation. But from now I would like to draw your attention to them.

The first is that during this quarter all the businesses of the company have shown growth, and we continue to have a very positive view for all segments, considering what we have observed in terms of macroeconomic scenario. The second thing is that, in the quarter, more towards the end of the quarter, we had an important operation for the strategic plan of the company to extend its debt. And with that we had substantial reduction of our financial costs. And the third point is that the earnings that we are showing you in the second quarter, has some items that are non-recurring. In fact some have non-cash effect, that we would like to highlight beforehand.

The first has to do with the debt extension. It was an accounting amortization, at the time we had the debt contracted, you're talking about more than four years ago. The second aspect is that we had two company officers and managers considered strategic for the company in our retention program a bonus. And with that, we also had an increase of capital that they made in the company. And third, in the general admin expense, after sales and also in sales results we had the sale of last units in our inventory, basically focusing on cash generation. And finally we had some expenses that we already started to incur, because of the new cycle of launches that we are going to have in our sales units of the company, one of them already announced this morning, but I'm going to address this topic during the presentation.

Well, anyway, with that I'm going to ask you to turn to page 4 of our material. Here basically you have a general picture of the company with growth in net revenues of 21.5%, closing gross income of 35.4%, so in addition to have 21% in revenues, we were quite efficient in cost and therefore we improved our gross margin. Not only our gross margin but also our adjusted EBITDA. And finally, we saw a reduction of 14% in our financial results, which, again I would like to highlight, this still does not encompass the reduction of spread and the reduction of the total debt that was implemented along the second half of '19. And finally, if we were to look in adjusted numbers to our profits without the non-recurring items, we would to have an adjusted net income of approximately BRL50 million, compared to basically zero year-on-year.

Going to page number 5 I would like to talk a bit about the performance of our malls. We are quite pleased with the growth of sales, of our store owners with 23% growth in a time in which the company and the country -- sorry, the economy and the country did not grow as much. And that I think is proof that our malls are quite well positions. So layers of the population that have more resilience, and elasticity in times as we are experiencing. All that to say that when we translate to this into sales and rentals indicators, we see very robust numbers that are being presented right now, which also defines to the health of the business. Because we have shown growth in sales of stores and we capped expenses with occupancy at a stable level that occupancy costs also went down 0.7%, which again we have been highlighting several quarters to everyone, is a sign to store owners that having stores with us means cost efficiency that is different from other mall operators. And also, in this quarter we were able to increase our occupancy rates. We are now at 97.3%, we can say that today virtually there is no vacancy in our malls.

I'd like you to turn to page 6, our next page. And here we show contracted sales in the quarter. We grew 96% compared to the second quarter last year. But that for those of you who haven't seen our for a half year results aggregated numbers, but our sales area, real estate area in the first half of '19 already reached the numbers we had reached in the whole of the year of '18. So you see that it's progressive, consistent and encouraging improvement.

In terms of growth revenue in the same period, we see growth of 52% and adjusted EBITDA at 19.2% growth. What I would like to draw your attention to is that the numbers here we presented do not consider the launch of Fazenda Boa Vista, for those of you who haven't had the opportunity to read, we had a notice to market that was filed this morning in which we are launching the development in the city of Sao Paulo, that brings together three of our main brands JHSF, Fazenda and Cidade Jardim. This is a development that is unique and it will have a combination of permanent homes, temporary homes and a connection to malls and also a club. So we are -- this is a product that we studied a lot of the house, and we are quite confident that it has a promising future.

As we do believe the other launches we have worked with, internally will have, and as they become more mature we are going to bring them to your knowledge. What I would like to emphasize here is that more and more we are looking in that about how to establish synergies and bring synergies among our different brands, creating products that by themselves can add value to each one of these brands.

On page number 7, I would like to talk about the performance of our hotels and restaurants. This is one of our business units, that also shows quite good performance in the quarter. And I think, this performance contributes to the knowledge that we were right in our growth strategy, that was basically focused on organic growth. There was room for us to improve our operational efficiency. And now more and more we have our attention turned to expanding the brands to other markets, and we have been talking to you about that quite frequently, and we are more and more confident that very soon we are going to have news about new markets.

Going to page number 8. We brought to you some pictures, an update to really, of the building of the airport. You can see that the heavy construction work has been completed. Basically, when you're talking about runway paving at the construction of paving and hungers. And more recently we started with the signaling project. So the idea is that we continue with this purpose of opening the airport still in the year of 2019.

Going to the next page, I would like to talk to you a little bit about our indebtedness. The first comment we had a reduction of 22% in the company's gross debt year-on-year. And the same period we grew 319% in terms of cash availability, and we also had growth in our accounts receivable of about 15%. We always talk about accounts receivable, because in terms of the funding structure for the company this is a very important to line, as a support of guarantees despite that debt of BRL1.78 billion. With that, our net debt dropped by 40% in the period, and at the same time we are seeing the average time of that growing from 4.6 years to 6.7 years.

As for average cost incurred, we still have not felt a more significant reduction. But as of the third quarter '19, we will probably see an evolution, because of the contracting of the CRI operation that we did in the closing of the second quarter. That it basically works with a debt of shorter-term, and higher spread. So what were we able to do? I think the bar chart in the bottom of the pages tries to show it to you. So you see lighter color bars are the new debt schedule, and darker color bars show our previous debt amortization schedule. So in bigger numbers we could remove from the financial cash flow of the next five years something close to BRL450 million. And at the same time reduce with spread alone the financial costs of the company by about BRL31 million.

Going to the next page, page 10, this is just a quick outlook about what happened in terms of the evolution of the company in the capital markets. We had a slight growth of the shares outstanding, but this is truth of an increasing capital that was promoted by company executives. Essentially these shares are in the lockup basically, this is us trying to show you confidence about the company's outlook. As for closing price we saw until the 6th of August a variation of 249% in the stock price of the company.

And what I would like to highlight here and again emphasize, basically our door is open to you to all the media, and we are having substantial growth in our shareholders base. We had the bit less than 4,000 shareholders a year ago. And the last measurement that we had, we were close to 13,000 shareholders. So I would like to welcome on behalf of the JHSF all these new shareholders, and leave a communication channel open by means of our IR department. We are here for you to clarify any doubts that you have about the business, about the way we are dealing, and leading the business and whatever is of your interest.

And finally, before we open for your questions, I would like to summarize the main messages that I gave you so far. Basically, this has to do with our healthy businesses, the improvements in our debt profile and this improvement has to do with times and cost. A reduction of our total indebtedness, of our net indebtedness, we redeeming our real estate developments, this for the company is quite substantial in terms of operating a cash generation. I would like to highlight that these launches are going to take place using our current land back, that is we do not need to invest in the buying of land. And they are all lunches that are integrated to projects that the company has already delivered. And that have yielded very good performance indicators.

The completion of the airport construction, I already talked about that, in the coming weeks we are going to start with licensing process together with Anac, the Brazilian agency. And also in the next half of '19 to focus on having Fasano brand International again working with products that add one or more brands of the company.

I'm going to open for the Q&A now and we are open for your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now start the Q&A session. (Operator Instructions). Our first question comes from Victor from Bradesco BBI.

Q - Victor Tapia {BIO 20566083 <GO>}

Good afternoon, everyone. First question I had. Yes, Cidade Jardim [ph] Mall segment. We see that you have two are good periods with solid numbers. You had a comparison based that was slightly weaker. But still you seem to be doing fine. I would like to know how you see that in the case of store owners that are more high-income, if you see that they are focusing their interest back to Brazil now and it's so what do you think that they can see is going to be like, because you're having very high occupancy rates. So how do you see yourselves adding these store owners that can be even adds to your sales?

The second question is about the development segment. We saw the notice that you release this morning. I would like to try to understand from you, what is the outlook from now on if this is going to be a one-off deal, you are already removing something that is inside the JHSF or if you're going to also prospect land and seek opportunities for move launches in development? Thank you.

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Hi, Victor. Thanks for your questions. Well, in fact, I broke them down into three parts. First, about international stores. We have -- it's not very typical of us just to wait and see that we go after things, even in more complicated times in Brazil, we're able to attract new brands to our malls not necessarily a Brazilian ones from this year for an instance. We open the Balmain store last year, (inaudible) Bela, Negra and we have a pipeline of new stores and new brands that we should bring to Brazil. What makes a things easier for us in this process is the fact that we have a mall that has to do with the consumers that they want to trans or cater to. We always have a group that is studying market trends, behavior trends, so whenever we think it makes sense to approach brands, we will. And whenever possible we converts the stock to a new store opening in our malls. So for those that are more in tune with our governance communication, yesterday we filed the minutes of JHSF malls and JHSF participatory talking about the opening of the JHSF malls in USA and it is by means of this arm that we have been capturing brands and market intelligence to continue to have a mall that stands out in terms of mix. If you compared to what you have in the competition. As for sales and development -- when questioned about prospect and the other about land. I'm going to start with land.

In the future that is visible to us we have no plans to continue -- to resume the buying of land and at least not substantially. Given the fact that we have an expressive land bank in terms of the area. In an area that is becoming more mature for us to continue to have the real estate development that we plan for the areas. So the development that we announced today Fasano Cidade Jardim is located in a plot of land that we have had for some time now, and not only the land but the operations so, while we have groom to use the company assets, we are not going to go for acquisitions unless something happens that it's not in our radar right now, but we're not actively going after that but we never know. As for outlook, what we see in Brazil now is a it's a scenario that confidence rates are growing up. We did start to feel a bit of that in 2017. With lasted until it will obligate and then the remainder of the year was not good 2018 was a year that as of the second half of the year. We started to see better conditions. There was a gap between September and November, but still we had a good year for 2018, and we started to 2019 as a whole, with a higher confidence rate amongst our target consumers.

This is one of the reasons for which in the first half of '19, we delivered the same volume of sales that we had in the whole of '18. It was not the only reason, it's -- there was also the launch of new products that we had in a sustainable study [ph]. In the end of last year, we had a -- and this year, we opens the last area of for sale in Fazenda Boa vista. And we recently launch a new family of products that were we're called stone. So all that said, we were able to reactivate our marketing for Fazenda Boa Vista, those that's connected to the call earlier probably noticed that instead of the traditional song that is played before a call. There was a bit of a teaser of our advertising campaign for Fazenda Boa vista. So all those factors together translates into a growing confidence rate and blowing the same direction as the wind we have, nominal and real interest rates that are quite low, which makes resources that were previously invested in financial instruments migrate to the real activity. So it is a combination of a better environment in terms of confidence and lower interest rates that to bring the information to you. The launch of Fasano Cidade Jardim.

Operator

Our next question comes from Kamila from Banco Do Brasil.

Q - Kamila Oliveira {BIO 20040533 <GO>}

Good afternoon, everyone. If it's possible, could you share with us at this the performance of malls outside Sao Paulo and Ponta Negra. And how they contributed to your sales? And a second question if it's possible, in terms of financial leverage, do you believe you are at a suitable level now? Thank you.

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Hi, Kamila. Thanks for your two questions. Well, performance of a and Bela Vista and Ponta Negra shopping malls. I would say that the performance was quite substantial. I would say that our four malls had quite similar performance if you compare them. In the specific case of Bela Vista and Ponta Negra, what we noticed is that because these two malls had some vacancy part of their growth came from a reduction of vacancy. So a bit earlier in the presentation, I brought you the evolution of the malls occupancy rates that growth comes from Ponta Negra and Bela Vista. Because Cidade Jardim and Catarina right now had no vacancy.

And your second question with regard to leverage and leverage levels. I think we are getting close to optimum at least approximately once who have in terms of leverage. And this is an item that we are revisiting daily and I say that because if we have a have an eye on the leverage indicator, but we are not to having an eye on the cost of money or debt profile you make up get last in the movement. So because we now were able to extend our debts in a slight growth for a manner and even the macroeconomics conditions that we have now, the financial cost of debt went down than I would say that the level we have today is quite comfortable.

Leverage is something that talks closely to our strategy of compensation to our shareholders and I think that we are taking important steps towards improving compensation to our shareholders. And at the same time continually growing the company. And deleveraging the company. So, this is our view with regard to leverage.

Q - Kamila Oliveira {BIO 20040533 <GO>}

Okay. Thank you very much.

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Before we go on with the questions, I would just like to use this opportunity to address some questions that we got on our webcast. One of them refers to this topic that I just mentioned that has to do with company leverage. So the company is if we could share the management vision about cash generation. And here I would like to split the explanation in two parts. One, talking about the past, and the other talking about the future. So what we saw in recent past of the company is that the generation of consolidated cash had to do with recurring sales and at the period, we saw a very timid activity in development and sales, which had to do with market conditions. The same market conditions I mentioned have maturely changed positively for our businesses. So in that scenario interest rates were high and spreads were high.

And the scenario took place at a point in time that the company had an advanced investments plan and that we understood that it would be prudent to go on with our investments. So if you will remember, this is the time when we had the two expansions of Catarina Fashion Mall and that we so in a caution way followed with our airport work. The end of the cycle and perhaps the most acute periods of debt cycle close to last year. As of this year and despite all adversities, we paid out good dividends to our shareholders and we worked to reduce company indebtedness, by means of selling minority shares in mature malls [ph]. That's the spike mature is still so good levels of growth as we have just showed you today.

So the future scenario is completely different from what I mentioned, what we are seeing now and this is the scenario we are working with we see growth in operational cash flow that has to be supported by recurring income, growing recurring income because of operating improvements, but also because we have plans for the beginning of next year. This start of operations of the shop the mall and some expansions that we have plans the most important of which extension three of Catarina Fashion Mall.

Differently from what we saw in the recent past, the developer, or the development activity is going in a phase in which we see lots of cash generation. Especially because we no longer need to buy land and because the launches that we are having will happen already anchored by other developments that the company has delivered, developments that have shown good valuation to all of those who brought property with us.

And in this next period the airport will also start up operations. And that means two things. The first that it will start to generate operational cash and it will stop consuming CapEx. So all those scenario in the short term is the beginning of a new cycle of growth and of creation of value and cash for the company. Not only operationally speaking when you cross all this information with the changes that we had in our indebtedness profile. Once again, we removed from our financial cash-flow of the next five years more than BRL450 million. And in addition only with the reduction of spread we are bringing more of BRL30 million of a reduction of financial cost for the company.

So a lower use of cash and financial aspect in a scenario with CapEx, but lower CapEx than what we saw in the last three-four years, will lead us to greater availability in terms of cash-flow to shareholders. So what we want to do is to grow the company compensate shareholders and reduce the weight of that in our balance sheet and in our bottom line.

I would like to go to a next question, that also was placed on the webcast and that is talking about the date for the opening of the airport. I would love to be assertive with you, but because we still have those licensing period, we have to go through certification so I cannot give you a date.

The next question is whether the website -- fashion is show evolution in revenues and it has reached its break-even. The answer is yes. We have been seeing an evolution of revenues, but we haven't reached the break-even of this operation yet, isolatedly, But when we put it in the whole of the concept of malls, it has been a very important tool for us to bring a modern way to have a relationship between for owners and clients that come to the Cidade Jardim Mall to buy their product.

Operator

Our next question comes from (inaudible) from Bradesco.

Q - Analyst

Good afternoon, Thiago. Good afternoon, everyone.

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Hello, Clousi good afternoon. It's a good to hear you.

Q - Analyst

Thiago, I also have two questions, one a bit longer. The first question has to do with Fazenda Boa Vista. What do you still have to sell in Fazenda Boa Vista? And what is the level of cancellations in Fazenda Boa Vista. Second question, is still talking about conversation of shareholders and indebtedness. I would like to understand what do you still need in terms of CapEx for the airport? Today the company is going through different periods. Obviously, you have a growth in revenues, reduction of expenses, renegotiated debt, so I would like to understand, what your dividend policy is going to be like? You said that you already paid out some reasonable dividends before and if you expected to pay out new dividend so still this year because if you have low CapEx or no CapEx at all, no major expenses with the acquisition of land, you're going to use your lansing. So cash generation for the second half of '19 is quite free in terms of there are no commitments with other substantial expenses.

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Okay, Clousi[ph]. So your questions are always very thorough. So I thank you for that. I'm going to start with the second item, which is dividends. I do not to want to advance a decision that has not been made yet. I would like to say something, but this is something that is going on what you said is true and we have to address that internally and make a decision. As for Fazenda Boa vista was I can values in terms of bigger numbers, cancellations we almost have none I think that it's been more than a year now that we haven't had any relevant cancellation, the cancellation we had in further past were very much caused by client flesh investors. So investors that at a point in the market decided to buy greater amounts of batches for development and sale. And because the market was not there, they had difficulties to pay us and in quite a friendly manner we sat down and decided to go on cancellation and bring back the inventory to the company.

At some point, this cancellation operation was substantial but in general it was quite reasonable if not positive to our cash flow. But today, our situation in Fazenda Boa Vista is that we have something close to 25% of the total area of the development is still to be sold. So you are talking about almost 900,000 square meters just for you to have an idea in the first half of this year. We sold a 160,000 square meters. And what we have been observing is that despite increasing the price the flow continues to be positive. I think this is a development today. That is the most desirable development in the whole of Brazil and with all of the crisis it's not only knew how to keep its value but also make more value. So we have owners already inside the Boa Vista and we are working who the next 200 owners are going to be. And with that we are going to close the cycle of inventory for Fazenda Boa vista.

Yes Clousi.

Q - Analyst

If you allow me just a follow-on a question. You said that thing '17, you observed an improvement in the occupancy of malls and then roughly gets started at 2018 of some improvements but then a house in elections and now in 2019, you are noticing an improvement and we can see that seen in your numbers clearly. My question is based on the type of consumer, the types of clients that you have. Do you think this perception of the improvement happens faster than consumer in classes C, D, E socioeconomic classes, so they are you they are just responding faster or do you think that there is a trend of those improvement to continue in the next months and the second half of the year?

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

Well, once again, this is an excellent question. Retail with their much driven by a sale of availability The scenario we are working with is a scenario of still a bit difficult in terms of sales availability, for socioeconomic classes as B, C, D and E. Because of the low growth of the country. And we do not see that as much in a higher socioeconomic classes that have a higher availability. So when we look into the profile of our consumers their businesses are getting better and although they have had income availability for a long time. Those availability has increased. So we believe that in a medium term future the growth of this market niche will be greater than others. So I think one item we have to look into has to do with the unemployment rate, and as a consequence of that the level of leverage of the socioeconomic classes.

Q - Analyst

Okay, Thiago. Thank you very much.

Operator

(Operator Instructions).

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

I'm going to take the last question that we got on the webcast I think that as a whole all the other questions that were asked we already approached during the call. So this is a question that ask us to explain the growth of expenses that we had in the quarter. I'd like to emphasize that in this quarter, we had 45 million expenses that are operating and financial. But do not have a recurring factor and the most important of which, the financial expense was a non-cash items in this period. It was a cash item some years ago. And the savings we are bringing via spreads with this new vest profile pays the bill completely. So overall, we understand that -- of course, they have to go through accounting because that's part of our demand, but all the generating factors, so to speak took place in previous years.

Operator

We are now closing this Q&A session. We are going to turn the floor back to Mr.Oliveira for his final remarks.

A - Thiago Alonso de Oliveira {BIO 6637078 <GO>}

I would like to thank you all for joining us for almost an hour in this call. For those of you who still have additional questions or something that we haven't addressed fully in this call, please contact us. And remember the phone of our IR is 0-113702-5403 or ri@jhsf.com.br regards and thanks for your support.

Operator

The conference call of JHSF Participacoes is now closed. We would like to thank you for joining us and wish you a good afternoon.