Y 2016 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial and Investor Relations Officer
- Franco Carrion, Investor Relations Manager

Presentation

Operator

Good morning. Welcome, everyone, to Multiplan Fourth Quarter 2016 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Hans Melchers, IR and Planning Director; and Mr. Franco Carrion, IR Manager.

Today's live webcast and presentation may be accessed through Multiplan website at ir.multiplan.com.br. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After Multiplan remarks, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Multiplan management and on information currently available to the Company. They involve risks and uncertainties, because they relates to future events and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Franco, who will read a message in the name of Mr. Peres. Mr. Franco, you may begin the conference, sir.

Franco Carrion {BIO 16449361 <GO>}

Good morning to all and thank you for listening to our conference call, especially greet the women for yesterday's celebration of Women's Day, they really deserve it. I will use the slide to make brief comments about our results and the outlook, and then Armando will talk a little bit about our numbers.

First, about 2016 results. The Company grew its gross revenue in 2016 by 4.3%. We had an EBITDA increase of 3.7% in the year and net income reached BRL312 million, lower than 2015, mainly due to the increase in indebtedness and lower distribution of interest on equity.

At the end of 2016, our indebtedness raised to 3.04 times the EBITDA value, in light of the new acquisitions made by the Company. With the completion of a capital increase operation structured last year and completed now in 2017, our capital increased BRL600 million through our product subscription, 100% exercise by our own shareholders. As a consequence, we should return to a more comfortable debt position, close to 2.5 times the EBITDA value.

We invested approximately BRL1 billion during 2016, the third largest amount deployed by the Company in its 42-year history. There were four major acquisitions totaling BRL731 million, also considering the acquisition of a stake in ParkShoppingBarigui in January this year. At the end of 2016, we made two acquisitions at BarraShopping and one at MorumbiShopping. These four acquisitions generated BRL59 million, considering the 12-month period prior to the acquisitions. These assets correspond to our main malls and all had expansions consolidated or to be launched in the near future.

This year, our GLA is expected to grow around 6,000 square meters, including ParkShoppingCanoas inauguration with 48,000 square meters and three other expansions. With this, we have our GLA growing approximately 7% of our total GLA. The Company also has a land bank of 820,000 square meters, which will allow us to sustain a long-term growth. These properties have not yet reflected the true value since the historical book value is estimated at only BRL480 million, much lower than the current market value.

Considering the future expansions of existing shopping malls added to the deliveries schedule this year and the ParkShopping Jacarepagua, another project that we should launch ahead in the year, the Company can add 250,000 square meters of GLA to the existing portfolio, an increase of around 30% without the need to purchase any new land plots.

Conversely to what is happening in the world today, when there is an atmosphere of great insecurity, Brazil is moving towards the restoration of its economic normality. Important advances are being structured with the ongoing reforms, especially regarding social security and labor, as well as the limitation of spending in Brazilian states and municipalities.

The fight against corruption associated with the economic growth represents, in fact, the consolidation of Brazilian democratic institutions, which have demonstrated their strength and representativeness for our society.

Finally, I'd like to thank our team, our tenants, and all those who participate in this continuous process of growing and improving our malls, as well as our Company. I also thank the shareholders for believing in our projects and the analysts and journalists who joined us today.

I'll now pass the floor to Armando d'Almeida, who will get into more details about our results. Thank you.

Armando d'Almeida Neto

Good morning, everyone. Thank you, Franco. Thank you, Mr. Peres. We're looking forward to have more time during the Q&A. I will comment some of the highlights, not directly following the presentation order.

In regard to shopping center operation, nominal sales, as mentioned by Mr. Peres, grew 3% in the fourth quarter of 2016 and 2.9% in the year. The fact of growing by itself is already a success, especially when considering the high base of comparison of the previous year and the negative performance of the national retailer.

Same area sales of 3.3% in 2016 surpassing the same-store sales of 1.9%, resulting from the mix change of 36,491 square meters of GLA, close to 400,000 square foot. Here, it's not feasible, the -- that the exchange of one store for another, but the strategy of how to redistribute the area of the various segment and bring the best-in-class tenant, looking forward to tenants, to consumer demands, how consumers' habits, behavior is going to be and trying to innovate and bring the best segments or the change in the balance of the segments in the mall and inside the segments bringing the best-in-class operations.

The gross revenue grew 3.8% in the quarter and 4.3% in the year. We increased revenue, even without the contribution of real estate for sale projects that we normally have. Rental revenue increased 11.7%, boosted by the 8.1% same-store rent and leveraged by acquisitions of minority interest during the fourth quarter 2016. In the full year, rental revenue growth was 7.9% and same-store sales -- same-store rent was 7.1%.

We should point out the contribution of Morumbi Corporate towers in Sao Paulo in the rental revenue, which showed a 27.6% increase in rent over the previous year and a 96.2% occupancy rate at the end of December, way better than the average of three premium towers in Sao Paulo. We've once again overcame the challenges and presented growth of tenant sales and rental revenue, while keeping the occupancy at elevated levels with an average of 97.5% in 2016.

About results, NOI grew 2.8% in the quarter and 3.2% in the year, totaling BRL964.6 million. Consolidated EBITDA increased by 5.5% in the quarter and 3.7% in the year to BRL818.3 million.

FFO and net income were impacted by the increase in leverage and lower distribution of interest on equity, all to fund acquisition of --trying to create the fund to acquisitions of minority interests in our shopping centers and also to keep indebtedness at a level we consider appropriate. We returned to shareholders BRL95 million in 2016 against BRL225 million in 2015. FFO was BRL484.2 million, 8.8% lower than 2015, and net income was BRL349 million, down 13.9%.

About the capital structure, these acquisitions let us to close the year with a net debt-to-EBITDA of 3.04 times. The weighted average cost of gross debt was below the SELIC rate for three consecutive years at 13.18% per annum. And we increased the total debt exposed to CDI from 51.5% in the year of -- in the end of the year 2015, we increased exposure to 62.7% at the end of 2016.

Basically, in years before, we had a higher exposure on the saving accounts funding, the TR, and we now are shifting to health, because of the lower funding cost, of course. And we're now increasing the exposure to CDI to allow us to reduce the cost of debt even faster with the recent and with the expected decreases in the basic interest rates.

In the fourth quarter last year, we issued a six-year valid real estate securitization in the amount of BRL300 million. And we could have a rate of 95% of the CDI rate below the CDI course. We also raised another BRL80 million in a 12-month bank transaction at 106% of the CDI rate. At the beginning of 2017, we announced a private capital increase of BRL600 million that was fully subscribed and concluded on March 8, 2017, this past Wednesday.

Of all investments in new projects, we invested last year BRL952.1 million, the second largest investment in a single year, we need to compensate the (inaudible), I believe Mr. Peres mentioned, the third largest since the Company foundation 43 years ago. We had BRL239.8 million invested in new malls and mall expansions that will result in 56,500 square meters of total GLA to be delivered in 2017, an increase of approximately 7% in the total GLA of the Company.

We are also working in another mall expansion and that maybe -- we might be able to deliver in 2017 as well and will be an asset shortly. Further BRL655.7 million were invested last year in acquisitions of minority interest and BRL91 million were invested in January of this year. We increased our interest in our two properties with the highest sales and rent per square meter, that was MorumbiShopping and BarraShopping. We also increased our stake in ParkShoppingBarigui in Curitiba of South Brazil, where today we have a 93.3% interest in that shopping center.

The three fully occupied shopping centers, the average of the three together are 99.4% occupancy rate in the fourth quarter of this year, very consolidated one, and that will contribute to NOI growth in 2017. Just if you consider the last 12 months' NOI on the date of this acquisition happened, it represented an increase of BRL59 million, well above 6% on top of the Company 2016 NOI.

I will stop it here, just looking forward to have more time for Q&A session, and I want to thank you all. Operator, back to you.

Questions And Answers

Operator

Thank you. The floor is now opened for questions. (Operator Instructions) As there are no questions, I'd like to turn the call over to Mr. Armando d'Almeida Neto for his final considerations. Mr. Armando, you may give your final considerations now.

A - Armando d'Almeida Neto

Thank you. Well, since we do not have any questions, so let me just try to consolidate some of the questions. We had many questions on the Portuguese call, so let me try to consolidate some of the questions we had.

So, first, I think that it was an interesting question on the mall that we're going to open in 2017, that is ParkShoppingCanoas about our expectations in terms of leasing space, and we explained that we have an increase in the pre-lease of the mall and as the mall is going to be ready to open stall operations in November 2017, November of this year, we invested a lot on the surrounding areas of the shopping center with infrastructure, access to the shopping center.

We invested in a public area, public park, that is across the street from the mall, so the whole neighborhood, the place being more visited, being already adopted by the future consumers of the shopping center as a neighborhood to enjoy time, to spend time. And what we're doing there is a very modern excitement, especially when you think of about entertainment and services that we have in the mall, that we are very confident that the timing is good, so we've spent last year with an average of 97.5% occupancy rate in challenging days, challenging year for property companies and retail market.

So, we believe that the timing is very, very interesting, because we've seen economy growing, we've seen the economy recovering and certainly having space available will be future tenants that we look forward to expand.

And when you see the mall ready, it's a very different story. So, said that, we have over three-quarters of the mall pre-leased nine months in advance. So, we are very confident with that.

But putting the questions together, looking forward for 2017, 2016, some questions were -- was fantastic year in terms of acquisitions, how we look for 2017 on replicating the opportunities. We pretty much don't plan, as you know, for acquisitions in our budget, in our forecast for the year and the years ahead, we base our growth on greenfields and brownfield investments, looking to use the land that we have, the opportunity to build that we have, but we certainly look as through the last year, an opportunistic acquisition.

It's not about growing area or growing revenues, we're looking to deploy capital in opportunities to create good return, and we will always have competition from the products we have, the greenfields and brownfields for the money allocation, okay. But we believe M&A activities will remain, I wouldn't say, stronger, more active as we saw in the past few years, we believe that will continue, so we believe there will be opportunities there, let's see how it's going to present.

In terms of capital structure, we have a balance sheet, a capital structure that allows us to grow further. Some questions were related to leverage and with the lower interest rates, we could leverage more? Yes, we can. We want to see a sustainable level of interest rates on the long run, but of course with the lower cost of debt, we feel more encouraged to lever the Company further, when we see -- of course, when and if there are good opportunities to take advantage of.

And with a recent new debt issuance and capital increase, we had a balance sheet that allow us to grow further or to support our investments achieved. I think we're -- most of the questions, but there were some questions also regarding real estate for sale products, so already we are in that. We explained that we have many very good products in terms of real estate for sale, residential and commercial, but we don't feel encouraged already due to the current level of economy recovery, but more than that due to the lack of clarification in terms of the cancellation agreements that were so popular last year. We want to see that, we clarify before we move ahead with new launches.

And I think that's pretty much it. I just want to finish by thanking you all for your trust, your support, and looking forward to see you in future calls. Thank you so much, and have a good day.

Operator

Thank you. This concludes today's Multiplan Fourth Quarter 2016 Earnings Conference Call. Thank you very much for your participation, and have a good weekend.