Q1 2015 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial officer
- Franco Carrion, Investor Relations

Presentation

Operator

Good morning. Welcome to Multiplan's First Quarter 2015 Earnings Conference Call. Today with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando d'Almeida Neto, CFO and IRO; Mr. Marcello Barnes, CIO; Mr. Hans Melchers, IR and Planning Manager; and Mr. Franco Carrion, IR Manager.

Today's live webcast and presentation may be accessed through Multiplan's website at www.multiplan.com.br/ir. 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's 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's management and on information currently available to the company. They involve risks and uncertainties, because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry, and other factors could also cause the results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Armando, in the name of Mr. Peres. Mr. Armando, you may begin.

Armando d'Almeida Neto

Good morning, everyone. Thank you so much for being part of the conference -- first quarter conference call. Actually, we'll turn to Mr. Franco Carrion to read the message on behalf of Jose Isaac Peres. Franco, please?

Franco Carrion {BIO 16449361 <GO>}

Dear shareholders, good morning. Once again, thank you for listening to our results conference call. I'd like to start by highlighting some relevant figures we achieved in the first quarter. Sales in shopping centers increased by 7.1%, reaching BRL2.9 billion in the first three months of 2015. It is a significant number considering Brazil's macroeconomic scenario at the moment.

The company has been working hard and diligently to reduce costs, both for retailers and for Multiplan. We also recorded a 15.7% rental revenue growth and maintained an average shopping center occupancy rate at 98.6% at the first quarter.

Due to non-recurring events in 2014, which generated an additional result of BRL21.4 million which distorts the comparison with 2015, we had a 1.5% decrease in EBITDA. Excluding these events, we see that operationally, the company did very well. EBITDA increased 10.6% and net income 14.2%. It is a result that best reflects the company's reality and that leaves us confident to continue working and investing in our malls and ongoing projects.

Our hard work over the last 40 years is what leads the market to recognize our projects as true safe-havens. It comes from our intense mix management, the dedication and the pursuit of transforming our malls in two areas, full of entertainment and culture established marketplaces.

It demonstrates that our business strategy remains efficient, even in adverse economic times. A good example of this efficiency is the result presented by Shopping Vila Olimpia. This quarter, the mall recorded sales growth of 16.9%, the effect of a series of changes we made to its tenants mix, such as the arrival of the net live theater, Forever 21 and other new operations.

We are constantly seeking innovations in the national and international market, which could surprise our customers and increase their satisfaction. One example comes from the opening of the Apple Store at MorumbiShopping, which is a highly consolidated shopping center that's always bringing new attractions to its customers.

Just to give you a sense of proportion, only in the opening day 10,000 people were in the Apple Store at MorumbiShopping. It makes its happy to highlight Apple's choice for Multiplan when making their first investments in our country, in Rio at Village Mall and now in Sao Paulo at MorumbiShopping.

I also had very positive comments for our newest shopping centers. The four younger malls continue to show very strong results. Village Mall achieved sales growth of 17.4%, JundiaiShopping up 12.7%, ParkShoppingCampoGrande up 10.5%, and Parque Shopping Maceio up 59.7%.

The company continues to develop mixed-use project, integrating business centers, hotels and residential towers adding more value to our project, producing strong synergies, which translate into a consumer flow increase in our malls.

I'd like to highlight the success of our office towers at Morumbi Corporate. We remain in negotiations to lease the remaining floors of the two towers, yet rental revenue has already reached BRL14.5 million in the first quarter. An increase of 8.2% over the fourth quarter with currently 76% occupancy rate.

As for the real estate for sale projects, we celebrate the fact that we have 98% of its units sold at the various final stage of construction. Multiplan is a company that for over 40-years faced deeper macro adversities. Times like these are good for investment; they are in the fact, a season for opportunities. We continue with our projects, focusing in the long-term by investing in new shopping centers, expansions and mixed-use projects.

We disposed our land bank with 874,000 square meters that associated with our immense growth possibilities should support the development of new projects in the coming years. We are building our 19th shopping center ParkShoppingCanoas with 48,000 square meters of GLA, located in Canoas, Rio Grande do Sul, and working hard on another project, which is ParkShopping Jacarepagua in Rio de Janeiro with 42,000 square meters of GLA, where the preleasing phase should begin in the first half of this year.

The expansion works at Patio Savassi in Belo Horizonte are underway and we are also working on an expansion project for Village Mall as well as the development of an office complex in the same land plot. We do not see a worsening trend in the current macro scenario. It is a cyclical process by which we have passed many times without losing focus on development. We have a solid portfolio that over the last many years have shown excellent results.

Before I finish my comments, I would like to thank stockholders and investors for your interest in our company. I also want to thank our officers and Multiplan employees for their daily dedication. And finally, I also thank the analyst and the journalist for your interest in Multiplan.

I'll now pass the floor to Armando, so he can bring you more details of our results. Thank you very much.

Armando d'Almeida Neto

Thank you, Franco. Thank you, Mr. Peres. Ladies and gentlemen, once again, good morning. As expected, the Brazilian economy reflected the adjustments that have been in place. It was not just an addition of a 100 basis points in interest rates, but also a weaker currency and its effect and we are here, specifically focused, especially focused on the effects of consumer confidence.

For a while, we will be dealing with a more cautious consumer that continue to coming to the mall regularly, every single day to movie theaters, to dinners, and to services as well as the retail. In light of the economic picture and the seasonality of the first marks [ph], we believe to have presented a strong operational and financial result that will be explained in the slides to follow.

Let's start our presentation with the slide four, talking about sales. In this first quarter, our shopping center tenants presented a 7.1% nominal sales increase, on top of a 12.1% increase during the first quarter last year. same-area sales went up by 5.7% and the same-store sales by 4.3%, on top of the strong first quarter -- a strong first quarter last year, comparable growth of 9.3% and 8.3% in same-area sales and Same Store Sales, respectively.

I'd like to highlight here that that very often we see the focus and attention be entirely on the percentage variations, the percentage increase on the figure, on same-store sales. And this is just one of the aspects, one of the sizes to be looked at, it seems to me the normal figure in real, the total amount of same-store sales or sales per square meter is very important.

In this past quarter, the monthly average per square meter of same-store sales was up close to BRL13, BRL1,295 per month per square meter, even if also with the effects of the young shopping centers we have in our portfolio. So, when you talk about growth on top of such a high normal base, this is very important in my opinion. That's why we look a lot in the company.

Still on the same base comparison, anchor store led the growth with strong 7% same-store sales, even after the 10.1% decrease coming from Home & Office segment. Home & Office segment helped the results of a weaker economy and a currency that lost value, as well as the end of subsidies on selected products. If the second one is excluded and for an analysis purpose only, anchor store's same-store sales would have been of an 11%, while the same-area sales for the whole portfolio would have increased over 7%, actually 7.3%.

There is much good news to highlight. Mr. Peres highlighted some and you have more details in the earnings release. I would just mention two, so we can move faster through the presentation. First, the four malls opened since 2012, JundiaiShopping, Campo Grande, Village Mall, and Maceio, they represented a combined 21% sales increase.

Second, our portfolio metrics as the same as employee [ph] gave on the same-store sales are now for the satellite stores. They continue to be on the top of the branch even with international comparables, delivering a BRL25,817 of sales per square meter in the past 12 months period.

Let's now move to slide five, still on operations. Even after the increase in rental revenues, our occupancy cost was reduced by 20 basis points as a result of higher sales and our effort to reduce condominium costs, as you can see on the top left figure.

Rent delays and losses remained in line with the first quarter 2014 figures, while occupancy rate added another 10 basis points with the stronger quarter average of 98.6%, as you can see on the picture on the bottom part of the page. Occupancy has steadily improved throughout the years, despite the significant GLA delivery.

Moving to the slide six on gross revenues and I'll start with the picture on the bottom part. Gross revenue reached BRL293 million in this first quarter 2015, led by increase in rental revenue of 15.7% and that added equivalent to BRL26.3 million. And Parking with a 20% increase and the figures were partially compensated by the 56.3% reduction on the real estate for sale activities that we anticipated in the last call, in the fourth quarter. As we haven't announced any new projects for sale and we are coming to the end, to a conclusion, delivering the projects in the south of Brazil. The 12 month gross revenue figure presented at 12.7% increase over the comparable period.

Moving to the next slide, numbers seven, with more details on the rental revenue. We have many positive points to highlight, (inaudible) say a few. In terms of the rental revenue, the 15.7% increase on rental revenue will call attention for the combined at 22.7% rental increase coming from the four malls, as I just mentioned that opened since 2012. And to keep the list short, the performance of our BarraShopping in Rio with the rental rise of 16% ParkShopping in Brasilia with the rental increase of 14.6% and BarraShoppingSul in Porto Alegre with 13.7% liquidity.

Also very important and you can see the picture on the top center, BRL14.5 million contribution from Morumbi Corporate complex, the twin tower caused the split from MorumbiShopping in Sao Paulo. If we move to slide, the first quarter rental of BRL14.5 million, you will find something, like BRL58 million figure for the year, if the occupancy started remains unchanged at the current level of 76%. The 58 million would represent a 43%, 44% increase on top of last year revenues of 40.3 million coming from Morumbi Corporate. We are confident that we can continue to improve Morumbi Corporate's occupancy throughout 2015.

Resiliency is the word to describe, when we look at the shopping center's same-store rent, a 9.5% increase with a 4.1% real increase, being not just one of the highest increases recorded on the period shown, but also 8 basis point above the average of 3.3% that we presented since 2011, or 40 basis points over the 3.7% average since the IPO of the company in 2007.

This first quarter figure was better than the first and the fourth quarter last year, when both presented a higher inflation adjustment effect. Also a comment here, I often see the comparison of the same-store rents with the inflation recorded in the case we use the IDPDI [ph] index, that it was 3.5% in the comparable period, if you look at the 12 months, the past -- the last 12 months of the first quarter.

So if you compare with the inflation, the increase will be even higher, to the north of 6%, but we think that the right comparison would be to wait the 12 month past -- 12 month inflation to the GLA that come due in every month of the quarter. So that's why the adjustments effect is not as exactly the past 12 months inflation.

On the slide eight, we will talk about expenses. Starting with G&A, there was an increase of less than 5%, 4.8%. But more importantly, keeping the single digit margin on net revenues of 9.7%. It is not in this presentation, but you can find in the earnings release that the BRL27.6 million services revenue was fully funded the G&A expenses of BRL25.7 million.

Shopping center expenses were reduced by 10.1%, also keeping the single-digit margin of 9.3%. Both expenses reflect not only the company control on recurring costs, but also the scale effects on GLA growth. On the new project expenses, and I mean, both new products for lease and new products for sales, they presented a reduction on 72.3% and 82.4%, respectively.

It's important to highlight as a heads up that the company is engaged on the development of two new malls and expansions. So we expect to see the new product for lease expenses increasing during 2015.

Now on slide nine, with results and starting with the NOI results. NOI plus key money was up by 15.9% this quarter, or 20% in the last 12 months figure, reaching BRL914.1 million. Margin also improved for the quarter, or for the last 12-months figure, 89.7% and 88.5%, respectively. NOI per share continue to grow presenting a five-year CAGR of 15.7%.

Before we start the comments on EBITDA, FFO and net income, you might well remember, we had some one-off revenues during the first quarter of last year that distorted the comparison to this quarter and was briefly mentioned by Mr. Peres. Anyway, just to remember, we presented revenue coming from the sale of (inaudible)potential in Sao Paulo and the segment of the legal case on our real estate for sales project. That summed up to BRL21.4 million.

In order to be transparent and also facilitate comparison, we are showing you both figures, with and without the one-off effects. Starting with shopping center EBITDA, on the bottom left part of the page that presented a 1.4% growth or a 7.5% increase when discounted at 10.4 million one-off revenue. For the 12-months figure, an 19.8% improvement with margin at 75.5%, almost 600 basis points better and an increase of 21.8% when not considered the last year's one-offs.

The consolidated EBITDA came down by 1.5%, or improved 10.6% depend on how you compare. For the 12 months number, strong 21 -- 22.1% increase to BRL700.9 [ph] million, a margin of 69.5%, 547 basis points better. The EBITDA at five-year CAGR is at 19.2%, as you can see in our earnings release, it's not in this slide here. A 26.2% increase will be the consolidated EBITDA, if discounted 21.4 million non-recurring from last year.

On page 10, we'll show you similar comparison to FFO and net income. So let me go straight to the 12-month figure of 539 million to FFO, a 19.1% higher or better than the comparable periods and a five-year CAGR of 11.7%. Net income is at 355.4 million, a 19.9% higher and 16.5% five-year CAGR.

Let's change subject now, moving to indebtedness on page 11, where a further delivery to 2.23 times net debt-to-EBITDA coming from 2.36 times on December '14, was mainly driven by the strong cash generation. As a reminder, the company will be paying this second quarter, the last year announced interest on capital and dividend, summing up to BRL93 million.

Our capital stock and debt will have an impact on leverage, where we increased leverage little bit. Our capital structure allows us to take advantage on growth opportunities, so keeping leveraging on a range that we believe to be appropriate.

As an answer to a frequently asked question in this quarter, we have no funding dollars. Our indebtedness is in local currency and mainly through the reference rate or TR or the CDI debt instruments. The combined gross debt at the end of the quarter was at 11 point -- sorry, the combined gross debt cost at the end of the quarter was at 11.53% per annum, being discounted of being a discount of 122 basis points to the 12.75 per annum Brazilian base rate and as of the end of the first quarter. As of today, after the announcement from the fair leading in Brazil, so we had another 50 basis points on that interest base, interest rate is at 13.25% [ph].

The net debt represented only 10.7% of the property's fair value or 16.5% of the market gap by the end of the quarter. Talking about fair value and now please move to page 12, we update our charts to reflect the company growth and impact on fair value and the discount to market and enterprise value.

There is a chart on the top right, there we show the spread between the fair value and enterprise value coming down from 32% in 2014, December '14 into 24% of the end of this first quarter, mainly as a consequence of the market value recovery, resulting from the 18% share price increase.

On the final page, number 13, with the update on the new projects. As we speak, we are building our new mall in Canoas, in the state of Rio Grande do Sul, preparing to launch the project in Jacarepagua in Rio de Janeiro, (inaudible) extra room to accommodate demand for space in some of our malls like Patio Savassi, BarraShopping Sul, a magical expansion in BarraShopping in Rio and a few others.

Pretty much as recently deliver expansion in MorumbiShopping, there you see on the picture on the right side, to accommodate the first Apple Store in San Paulo. We believe that similar mall, smaller area expansions in the interventions associated with the continued change in mix, innovation will be some of -- and innovation will be some of the key drivers to overcome the challenging days.

We see season companies that have been through many economic cycles and economic plants. Although, it has been hard to anticipate consumer patterns, we believe that the moment we have been through has been pretty similar to what we saw a few times in Brazil. We remain confident that as far as the location and intensive daily mall management will be rewarded.

Before we start the Q&A session, this morning, the company was included on the top 50 most liquid names in the stock exchange, called the IBRX-50. So, we are very pleased to be part of such a selected group of stocks, followed by the inclusion on in BOVESPA that we had early this year. So, we are very pleased with these achievements.

So, thank you. I want to thank you very much for your time, for your interest and trust on Multiplan. Operator, back to you to start the Q&A. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Now, I'll turn over to Mr. Armando d'Almeida Neto for final considerations. Mr. Armando, you may proceed.

A - Armando d'Almeida Neto

Thank you. Well, since we have a shy audience, I'm going to share some of the questions I had in the first part of the conference call of the Portuguese version. There were a few questions on the occupancy cost and the shopping center expenses to see if there is sustainable. And our view is that, yes, we were looking -- actually it's something we started on the second half last year, a problem that we can't reduce that common cost from tenant to tenant. But never something that can interfere on the quality of the shopping center what we present our consumers. We want them to have what is called the shopping experience, but we see the effects will remain for longer.

A question also in terms of EBITDA margin, just raising the increase and asking if this is also sustainable. We believe it is, yes, it is as well. On the recurring expenses, we don't see any needs to further increase. We never know how recurring is that, how it works, but although we can plan, we don't expect to see any further increase both in G&A or shopping center expenses.

We also highlighted that we will always look for the long-term picture. If we see that we have to help some of our shopping centers specifically with promotion being more attractive, we will do so if necessary, but that's not what we have planned for the year. So, and also because of the growth coming from Morumbi Corporate in Sao Paulo, as you saw the occupancy increases to 76% and we are confident there as, all the names that we can add on throughout the year. So we expect to see that effect being positive on the margin.

I was also asked the question in sales during the month of April. They asked about the first quarter and they ask about April as well. The answer was that our expectations, if you move down back in time, back in December '14 our expectation there we'll have at tough first quarter, not just for the seasonality reasons, but also because of the hangover effect of the shallow created by such a strong fourth quarter.

And what we saw to surprise us was a very strong January, the month of January, there was a 11% increase. but then a weakness coming in February and March and continued in April. But this weakness is not -- it's absolutely connected to the headline, the economic headline. During this period, we also saw the currency growth in value, we saw an employment worsening, we saw some negative headlines that created impact in my opinion on the consumer confidence, on the consumer rules to go shopping.

In a different question, we also meet the various answer about being a seasonal company. So we saw few situations like this and especially with a weaker currency, what we see, we see a short-term impact. So, we'd have a restarting in terms of what is the new level for the local currency and people resuming again shopping. And on the contrary, a weaker currency will somehow is useful to the competition of international travelers and here we have many international stores in Brazil that can provide the same service.

Well, last but not least, a few questions occupancy cost again and losses and rental losses and delays and delinquencies. On the occupancy cost, the question was related to the satellite stores and asking if we break up the anchors and satellite occupancy cost, because the cost we provide, I understand can be different on the international standards is for both, not for satellites only. And on the satellite, we don't break up satellite and anchors occupancy cost, but we highlighted that when you compare, now we are going to have the last year figure, sales per square meter of our portfolio for satellites in our portfolio close to $900 per square foot.

So it's absolutely competitive with international peers and when you compare the occupancy cost with properties that will present the similar output, that the occupancy cost in Brazil in our properties are not that high on a relative basis. Also in terms of delinquency, the question was if we have concerns of further deterioration that our company didn't show so far any worsening, it remain slightly better or flat to what we saw in the first quarter 2015.

And our answer was that; one, the cost of mall is getting more and more consolidated should be above or reduce the delinquency that do with, we do not make any guidance or forecast on that, it's very hard to predict how, what will happen in terms of the tenants itself. But the quality of, the higher quality of our shopping centers that has a direct reflect on the price of key money per square meter also avoid delinquencies, since delinquency can be represent in quiet losing the key money rights. So we feel protected on this sense.

That was I think that some of the questions that I want to share in this English conference call as well. I want to thank you once again, I want to tell you, share with you that our company is very confident and we are well prepared, well with liquid, with a great balance sheet to facing these challenging days. And -- but we're also confident that Brazil will be better, will get better throughout the malls [ph].

So, I want to thank you again for your time and remain available for any questions that you have later on. Thank you so much.

Operator

Thank you. This concludes today's Multiplan first quarter 2015 earnings conference call. You may disconnect your lines at this time.