

Q3 2012 Earnings Call

Company Participants

- Jose Auriemo Neto, CEO

Other Participants

- Das Lavit, Analyst
- Sheila Bukwelsa, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the JHSF Third Quarter 2012 results. Today we have Mr. Jose Auriemo Neto, CEO of JHSF; Mr. Eduardo Camara, Executive Vice President and Investor Relations Officer; Director Andre Rodrigues, Financial Director. And Mr. Marcio Fenelon, the Investor Relations Manager.

(Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on beliefs and assumptions of JHSF 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 the general economic conditions, industry conditions and other operating factors can affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements. I would like to turn the call to Mr. Jose Auriemo Neto. Please Mr. Jose, you may proceed.

Jose Auriemo Neto {BIO 15324354 <GO>}

Good afternoon, to everyone. Thank you, very much for being with us in our earnings conference call of the Third Quarter of JHSF. I believe that in our presentation we have decided to make a more qualitative comment regarding our strategy, the implementation of our strategy. And step by step we will show you the earnings results of our quarter and we will try to associate the execution of our strategy and the results that the Company has attained.

Therefore, on page three, we would like to remind you about the Company's strategy trend of recurring sales growth. We inaugurated the Bela Vista shopping this semester.

FINAL

Bloomberg Transcript

We shall inaugurate Tucuvi shopping as well and also the second station of Cidade Jardim shopping mall.

So I believe that within our current portfolio, we may review the increase of the portfolio that is being inaugurated and we can also see the grade investment of BRL230 million and BRL430 million for 2013. Now, the challenge is implementing a portfolio of this is all very major but I believe that the Company has been able to make progress in a coherent fashion according to the process pipelines and also according to all the investments of the investment and construction works and infrastructure.

Now, on page 4, you can see the evolution where we have each one of the projects that had been announced. And on page five a sequence of our pipeline where we can show you Cidade Jardim shopping, Bela Vista shopping, Metro Ponta Negra, Metro Outlet, Cidade Jardim shopping and the different stations of new areas of Cidade Jardim in a sequence that is a portfolio that has already been scheduled for our guidance 2015.

Now regarding Cidade Jardim, we also carried out a number of important events this quarter. Here we have the inauguration with one global store, 1,200 square meter store was inaugurated in Cidade Jardim. It was 300 meters and they decided for 1,200 meter. We have Cartier, Dior. Dior hasn't been inaugurated yet. Valentino has also been inaugurated.

Therefore, during the Fourth Quarter and the upcoming -- in the First Quarter, we will have important inaugurations that are a result of the second expansion that was carried out in the shopping mall. We will also inaugurate new restaurants until the end of the year and at the beginning of next year. Cidade Jardim, we also observed a growth agreement chain, the growth in the Third Quarter, we had a sales growth and also an earnings growth and we also are very reassured with the performance of this undertaking.

Now, on page seven and 8, we can show or we can demonstrate how we have been following up the Company regarding the assessment of their asset. This is an internal metric that we use in order to determine the value of our projects that are being developed. Therefore we have -- there was a change in that criteria within the area of cost. From construction we started including expenses and taxes to be (inaudible) project already in progress.

That was observation number three on page eight where there was a growth in expenses. We consider all the commitments as the result of these undertakings that are in progress, now leaving the criteria that we use in the market that I believe is a more conservative criteria and we had an evolution regarding net accounts receivable in areas of shopping malls.

There was also an evolution, very, very important, now observing an appraisal potential. That is very significant and an internal account of projects values that have already launched. We would have in action that will be around BRL14.14. It is important to mention that in this criteria, we only include the projects that have already been launched and the undertakings that occurred of 2015 guide.

FINAL

As on page 9, we would like to show you the progress of the Catarina project wherein the first semester we had. The first project being launched, development that would be Catarina with a partnership with a real estate with JHFS in the plot of land and the financial front is also financing offices. And we believe that these offices will have great synergy with the entire project.

And regarding the airport, we also made very important progress regarding the projects in this quarter. Here we have a turn on commitment making progress in this project and initiating the construction as fast as possible. So that the operational part of this airport is close as possible and it is implemented quickly. Our expectation here is to continue to develop the Catarina with upcoming steps.

After the commercial buildings that were launched, we want to launch residential buildings for the next year. At the beginning of next year we will launch the residential buildings and then we have a number of partnership in hotels and hospitals and convention centers. These projects will not be developed by JHSF and part of these projects have already been dealt with. Now talking about Catarina, as I said, I believe it's more and more consolidated project, reminding you that we will inaugurate the shopping the First Quarter of the upcoming year.

On page 10, we are highlighting the evolution of revenue added and net profit from the last four years where we were able with the implementation of our strategy we increased our revenue, we increased our EBITDA, we increased the net profit and we also increased in terms of dividends. Therefore, in the past years we were able to develop a great part of our dividend. History is very important to us.

I believe the growth trend is highly visible this year. There's a growth trend when we compare nine months of 2012 and 2011. We can see that there is an increase of revenue, 2.5%. There is a growth of EBITDA by 9%, a slight reduction of profit of last year to this year, just slight reduction. And our view, our future view is that the Company shall continue with its pursuit to grow in a very sustainable fashion, in a profitable fashion in terms of its results.

Now we are undergoing a portfolio stage for 2015. We are developing area (inaudible) reducing our property. Area must grow. We would like to highlight the following in this growth. We can see this on page 11 where shopping centers and property; we grew 44.4%, in development 2.2%. We see the development must be an activity that is stable in our portfolio while all the growth is more geared towards the Company and its wants, quality and its portfolio.

I believe that this can be reflected in our margin of our EBITDA and net profit where we have maintained good quality and good margin in our portfolio this year. Another thing that I would like to highlight is the financial area, the capital structure. The capital is ready to finance the growth, mainly the investments in these new projects that will take us to a recurring income for 2014.

FINAL

We have established positively a view of increasing our net debt of the Company. I believe that the decision is according to the macro-economical scenario and I believe this is a scenario that we are undergoing today where the drop of interest rate encourages you to invest more. And on the other hand, that the Company has received strong support, BRL1.1 billion with BRL365 million foreign receivables where we have already assessed in a very dynamic fashion the portfolio of performed receivables, how much should we sell, how much should we not sell according to the opportunities and the interest rates.

We have been able to attain interest raise in a performed receivables portfolio much better than our financial cost. So I believe they had been natural to maintain this in portfolio and our net debt if we considered a deduction of the receivable pro forma, I believe, we're around BRL580 million that we consider a comfortable level before our annual investments that are upcoming investments.

Also on page 12, where we would like to highlight the pipeline of our receivables in 2013-2014. We accept this receivable. Schedule is in part -- is really state developments 2014, 2017. We don't consider the selling real estate so that they have cash that will support the investment of recurring debts that we have.

Now, when we go to the highlights of real estate development, just a brief history, we launched BRL4.8 million from 2007. So as we mentioned, we tried to maintain the level of launchings and developments that are compatible to the past events that around BRL1 million a year, we come back to highlight on page 15 of Catarina corporate and it was an operation carried out by an investment fund, a real estate investment fund where we are starting to develop this development.

And when we talk about pipeline in this quarter, we have no major novelties regarding new development projects in our pipeline. Nevertheless, I believe it's important to highlight a sequence that would be the new stages of Shopping Bela Vista for the Fourth Quarter, how the Cidade Jardim is a new project in the region of Cidade Jardim with lots of lands bought in Cidade Jardim, they should also be approved between the end of this year and the beginning of next year.

The beginning of next year we would like to highlight Catarina residential and we will give continuity to corporate between the Fourth Quarter and the First Quarter of next year, we have a new stage. So I would like to remind you that our development pipeline should be increased by the second, third phases of the launch development and mixed with smaller projects that embark in a pipeline little by little and in an individual basis throughout the years.

The Company's priority is to implement our growth strategy of recurring income. We have organized financial expenses, maintaining all the levels that are desired of capitals. And I would like to highlight in this quarter a number of awards that show the good job that the Company has done. Here you can see that we received award of Epoca magazine First place in Real Estate area. We were considered developer number one Vitra; that is one of our residential projects was amongst the 10 best residential projects.

Bloomberg Transcript

Cidade Jardim corporate sector was recognized as one of the most modern corporate center in Brazil. You got (inaudible) also received an award as the best sports project. So I believe that this reflects all the work from our team, all the team that is developing projects the best way possible with quality, delivering high quality differentiated projects. And together with financial discipline and results that is part of the Company's DNA. And I also believe that you have to be excellent. There is no use in being excellent if you don't have financial discipline and maybe you curtail your cost. I would like to thank everybody and we're at your disposal to answer your questions.

Questions And Answers

Operator

(Operator Instructions) Das Lavit, Itau Brazil.

Q - Das Lavit

I have two questions in reality. The first one is the contract obligations of BRL10 million of the guarantee release. I would like to know how you believe this expense will evolve in the upcoming quarter if you are considering negotiations for space in this project? And my second is, I would like to better understand Cidade Jardim's performance after the inaugurations of the JK that is very close to the shopping mall. I believe that you gave us a number of indicators of nine months. I don't know the comparison between leases of the story. But at least regarding this quarter.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

I am going to give you an explanation of our contract obligations. We have two contract obligations. The first obligation is with VALIA that will be regarding -- (technical difficulty) -- as of the seventh month, we will reduce one floor per month and in the 12th month after the initiation of this reduction, the 18th month, a total of -- just to guarantee a total demand for sales. And adding one aspect to work was mentioned regarding the sixth floor of the VALIA two of the floors we will occupy.

Therefore we will not have lease expenses in the floors that we occupy today and we will have lease expenses and rent expenses and the others. So a guarantee effectively, we would only be having a fourth floor. It is important to highlight that we have a good perspective of rent. We practically have closed a good rented number of floors. We still cannot disclose this information. But we believe that we have very positive prospects and that we will have better evolution in our rent.

Therefore our prospect is that we will not have to play this contract obligation, neither the total value and the leases take place. Now, these accounts to four floors in a VALIA and the total of the six months fund and a reduction of this grace period in the worst case scenario. So anything regarding rental or we can change to say the figures that are reflected on the Third Quarter are with zero rentals. This means that the worst case scenario within everything we have.

FINAL

Now regarding this quarter, this quarter was affected by expenses of this nature and non-recurring obligations. Now regarding the shopping malls, the evolution has been very positive. We have same store sale and we had a growth in August of 11%, for instance, September 9%, for instance, October 10% growth. Therefore the growth pace that we continue having is very close to the level that we had realized before the inauguration of the shopping mall.

And what is important to highlight, the same sales stores growth when you walk and you can see that everything is based on a big basis. We are very happy with the performance of our shopping mall because we have had or carried out three expansions. And when we see the cost of our occupation over sales, we have around 9%-10%. And regarding default that is another factor that we must have to consider, I believe the default rate is very low. We are very comfortable with our results regarding the entire development project.

Operator

(Operator Instructions) Sheila Bukwelsler, Santander.

Q - Sheila Bukwelsler

I would like to know Salvador development project, if you can talk about your development project yourself.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

This project started very positive. All the inaugurations have been very fast because of all the operations. I believe that the bottleneck of construction work has been strong although in Salvador we are 98% lease, I believe. There are a couple of stores that are in an area of the shopping mall that haven't and they haven't been rented yet.

The fact is that we inaugurated together with the shopping mall around 60% or 70%. So I believe this was a major effort of inauguration until the end of this year. But I believe that the performance has been among what is expected. We have a very good flow of weekends. During the weekdays it's not so much flow due to the evolution of the habit of the people. But in terms of revenue, in terms of lease, in terms of sales, I believe that everything is according to our expectations.

Operator

(Operator Instructions) Now we are closing our Q&A session. I would like to give the floor to Mr. Jose Auriemo Neto for his final consideration.

A - Jose Auriemo Neto {BIO 15324354 <GO>}

So I would like to thank everybody -- (technical difficulty) -- putting myself at your disposal, putting our team at your disposal if by any chance you have further questions. Thank you, very much.

Bloomberg Transcript

Operator

JHSF conference call is coming to an end. We would like to thank everybody for their participation and have a good afternoon.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript