Q1 2012 Earnings Call

Company Participants

- Carlos Medeiros, CEO
- Leandro Bousquet, CFO

Other Participants

- Eduardo Silveira, Analyst
- Fanny Oreng, Analyst
- Jason Morney, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. and thank you for waiting. At this time, we would like to welcome everybody to BR Malls conference call. Today with us we have Mr. Carlos Medeiros and Leandro Bousquet.

We would like to inform you all participants will be in listen-only mode during the Company's presentation. After that, there will be a question-and-answer session. At that time, further instruction will be given.

(Operator Instructions)

Now I would like to turn the conference over to Mr. Carlos Medeiros who will begin the presentation. Mr. Carlos Medeiros, you may begin your conference.

Carlos Medeiros {BIO 15324538 <GO>}

Hi. Good morning. Thank you for participating in our First Quarter 2012 results conference call. We'll go through a brief presentation during this call, which is available on our website and then we will venture questions and answers.

So starting on page two of our presentation, our net revenues grew 36% in the First Quarter, reaching BRL244 million. Our net operating income totaled BRL218 million with an NOI margin of 90.5%, with our NOI on a same-mall basis grew 14.8% in nominal terms and 10.7% in real terms. Our adjusted EBITDA grew 44.5% in the quarter, reaching BRL203 million and our adjusted FFO grew 60%, reaching BRL90 million. Our same-store sales in the quarter reached 9.1% which is above the First Quarter of last year and also the First Quarter of 2011.

Our same-store rent grew 11.3% in the quarter, which is above 9.7% that we had in the First Quarter of 2011 and lower than the 15.2% that we had in the Fourth Quarter of 2011. Our renewal leasing spread surpassed 20% for the eight consecutive quarter, reaching 25%. In terms of acquisitions, we invested BRL88.3 million in the quarter.

And when we look at the net operating income of the acquisitions that we had done in the past and we compared the actual NOI of those acquisition in the First Quarter of 2012 with a projected NOI at the time of the acquisition, we are 28% above of what we expected.

After the quarter ended, we completed in April the acquisition of Rio Anil Shopping in the northeast of Brazil in the city of Sao Luis, the state of Maranhao. This is our second mall in the state in our six mall in the northeast region of the country. We acquire 50% stake in the mall and also 50% stake in the future expansion of that mall. We also during the quarter sold a 10% stake that we held at Pantanal Shopping in the center west of Itau. And a very significant gain through what we invested in that asset with a 5.2 times cash-on-cash on what we invested.

After the quarter ended, we also announced the expansion of Shopping Recife, one of our largest assets. We completed that expansion on time, on budget and 100% leased. In terms of our greenfield projects, we have three projects that we plan to open this year. The first one is Shopping Estacao BH, Belo Horizonte -- in the city of Belo Horizonte in the state of Minas Gerais. We expect that mall to open in the end of May. The leasing status is above 97% and the construction is almost 100% completed. We also expect to open Sao Bernardo Plaza Shopping in the city of Sao Bernardo, outside of the Metropolitan Sao Paulo. We expect to open that mall in November.

We also expect to open Londrina Norte Shopping this year in October. That mall is 83% leased and the construction is already above 82%. For next year, we have Catuai Shopping Cascavel and Shopping Contagem and that we expect to open both in the First Quarter of 2013 and for 2014, we have Shopping Vila Velha.

And we have announced in this quarter a new development which is Shopping Guaruja, which we are working to open in the Second Quarter of 2014 but there's still a chance that we may be able to anticipate it to the Fourth Quarter 2013. This is a mall again in the city of Guaruja in the state of Sao Paulo.

So when we add up all of development, all of our projects will allow us to reach over a million square meters of own GLA by 2014 that will allow us to be the first Brazilian shopping mall company, actually the first mall company in Latin America to have more than a million square meters.

We ended the quarter with cash position of BRL619 million with a net debt of BRL2.75 million. The debt continues to be very long term with an average duration of 12 years with a very diversified profile. In terms of the capital market, our stock was up 31% in the First Quarter of the year closing at BRL23.79, significantly above the Bovespa Index, which was up 14% in the same period.

With that, we conclude this brief presentation and we open to any questions you may have. Thank you.

Questions And Answers

Operator

(Operator Instructions)

(Jason Morney), Goldman Sachs.

Q - Jason Morney

I just have a question on the delinquencies. I know that you mentioned in the Portuguese call that you talked about the increase in delinquency was related to recent acquisitions or new malls. Can you just give us some color on the highest level of delinquency you think that we could see or you've seen in some of these acquisitions? And how long you think we should -- should we start to see these improving from this level going forward or not? Thanks.

A - Carlos Medeiros {BIO 15324538 <GO>}

Hi, Jason. Good morning. In terms of -- I mean, as I said and you mention as we said in the Portuguese call, I mean, if we exclude the malls -- and just to repeat for the English speakers that were not in the Portuguese call -- if we exclude the malls that we opened or acquired in the last 12 months, our late payments or delinquencies are more or less in line.

So we're not seeing any increase in delinquency or late payments in our current portfolio. We'll -- but when you look at the malls, especially the malls that we have opened, there a normal process especially in the first 12 months of turnover tenants that are first-time tenants, many first-time franchisees, which are not used to the working capital necessities of a retail franchisee and et cetera. So there is a normal in a higher than average delinquency or a late payment than the average mall which is a mature and have matured tenants and et cetera. So that's a normal process.

I mean, so when you look forward, what you see is that we'll continue to open new malls and, therefore, we'll continue to add this natural churn. It's just that our base is getting bigger. So I think as a percentage, those numbers should not rise. And in addition to that, the First Quarter of the year is normally a more sensible quarter in the sense that you have normally a pick-up in late payments because of the double rent of Christmas. So -- and that's specially tougher for first-time retailers. So that's normally, there is a rise in the First Quarter, but we expect that number during the year to decrease in the end and then we should have again an uptick in the First Quarter of next year.

So overall, we think -- I mean, it's very difficult for that number to rise from where it is significantly. We think that but that -- and at the same time we think there's a trend for that number on the next quarters to come down especially because of seasonality.

Q - Jason Morney

Is -- just as a quick follow-up, are there mature assets when you look at the delinquencies? Is that closer to 1% or even lower than that based on -- because we saw the percentage increase in about 1% to 2% and if you always have, if you are going to continue to obviously have acquisitions and open new malls, then is it below 1% excluding these, let's say, newer assets? Is it closer to 1% or below 1%?

A - Carlos Medeiros {BIO 15324538 <GO>}

Yes, I mean if you look historically, when you look at our net delinquency, at that number -- I mean, we've had numbers and if you look at the first slide of 2010 for example when we had -- we didn't have any new malls, that number was 1.6%.

Q - Jason Morney

1.6%, okay.

A - Carlos Medeiros {BIO 15324538 <GO>}

Yes. So this -- and normally there is an uptick in the First Quarter. (There it) went out to 0.6%, it stayed below 1% for many quarters and then was up again in the First Quarter of 2011 to 1.3%. Then it went down again and then now is up to 2.1%, again because of the significant number of malls that we've opened and the size of those malls in the last year. So if you just (analyze) its portfolio, 1% delinquency is a good average, but again because we had those new malls went up to 2%, but we think it's a decline trend going forward.

Q - Jason Morney

Great, thank you very much.

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you.

Operator

Eduardo Silveira, Banco Esperito Santo.

Q - Eduardo Silveira {BIO 16201252 <GO>}

I have two questions. I don't know if the one already answered in Portuguese. The first is regarding same-mall NOI. We saw deceleration to 15%. Company was posting a level above 20%. So is something now recurrent regarding First Quarter and what average can we expect going forward? I believe Carlos mentioned in the last question in Portuguese that you expect the same-store range to be closed to same-store sales. So what level we can expect in terms of real increase over ranks? This is the first question.

And the second one is a follow-up question on occupancy cost. We saw the figure increasing a little bit even year over year. What level do you think it's -- we can raise a red flag and be concerned in terms of occupation costs? Thank you.

A - Carlos Medeiros {BIO 15324538 <GO>}

Hi. Good morning. In terms of your first question, I mean the nominal numbers are a bit misleading because, as you may remember, the inflation that we had last year was very high in IGP-M, I mean because that's what just sold off our contract. So it's not the IGP-M.

So at the same time last year, I mean, the IGP-M inflation was running close to 10%. So when you look at the real numbers, the real growth that we had in the First Quarter of this year was 11.2%. When you take out the inflation from the First Quarter of last year, it was 13.2%. So the difference in real terms is 2%, not the high number, the 5% or 6%, I mean when you look at the year over year. So we -- not at all, we don't give guidance going forward, but we feel comfortable that we will be able to maintain a real -- this year a real growth close to 10%.

Q - Eduardo Silveira {BIO 16201252 <GO>}

Okay. Thanks. And could you please comment a little more on occupancy cost, what level do you think it -- you starts to be uncomfortable with and dealing with the negotiating range with tenants?

A - Carlos Medeiros {BIO 15324538 <GO>}

Yes. We -- when you look at some of our competitors, they have occupancy cost between 12% and 13%, and tenants are not that different. So our tenants are comfortable with 12% and 13%, that's seen in all the cases. And when you look at also international benchmarks, you see that the numbers are even higher, 14%, 15%. So we think -- I mean, we could reach 12% and 13% than local occupancy cost, and I think tenants would still be a comfortable on average.

Having said that, and as I said on the Portuguese call, we think that -- I mean, if you look at rest 12 months, there has been big spread between same-store rent and same-store sales which going forward, we don't think the spread will be so big. We think there will be an acceleration in GDP growth in Brazil. There will be an acceleration in retail sales in Brazil and there will be, we think, an acceleration in same store sales growth. So I think there is spread between same-store rent and same-store sales will be smaller and therefore we won't see any big jumps in occupancy costs.

Q - Eduardo Silveira {BIO 16201252 <GO>}

Okay. Thank you. Understood.

A - Carlos Medeiros {BIO 15324538 <GO>}

Yes, sure.

Operator

Fanny Oreng, Merrill Lynch.

Q - Fanny Oreng {BIO 15372489 <GO>}

I have two questions. Just sorry for this again, but this remains on the occupancy cost issue. I just wondered when we look at the breakdown of occupancy cost, we see that the increase on condominium promotion fund was higher than the increase, the percentage increase on the rent side. So do you attribute this to the new greenfield project and also to the acquisitions that's due in the last 12 months.

And my second question is related to the demand from local tenant for the outlet segment, so at most of them descent from the US do not have the local production to source this kind of segment. So I would like to listen a bit your views on this. So thank you very much.

A - Carlos Medeiros {BIO 15324538 <GO>}

Hi, Fanny. Regarding your first question, we have been increasing condominium costs more recently because of the new malls that we've opened and that -- I mean we (inaudible) last year and also because of some of the assets that we've acquired including (inaudible) have a high condominium cost. We've had an increase in the condominium cost when you look on a quarter over quarter from 4% -- year over year from 4% to 4.6%. So but we don't expect that number to go up. I mean we think in the First Quarter of 2012 as a percentage of the pie between -- as percentage of condominium cost, a percentage of total sales, we don't expect that number to go up in any meaningful way from where it is in the First Quarter of 2012.

Actually I mean when you look -- I mean, this is one of those -- this is another seasonality issue. I mean, normally the condominium costs are higher in the First Quarter of the year as a percentage of total sales. So as a percentage of total sale, the condominium costs should go down going forward. And normally also the First Quarter of the year has the highest occupancy cost as a percentage of total sales in the year.

So again, I mean still having adjusted that number should come down both as a percentage of the condominium but also the percentage of rent, but when you look at a year-over-year basis, there has been an increase up from 4% to 4.6% which is mainly because we've opened new malls, which has higher condominium expense in the beginning and because we bought malls which have higher condominium costs, but we expect the number to slowly come down during the year.

Regarding your second question, which is the outlet, we had not given a lot information out because we're still working on finalizing the acquisition of the first project and also because we have a partner and again everything that we make public needs to be in line with what they make public and then they are a relevant publicly traded company. So we -- everything should be careful.

What -- I mean, what our view is that -- which is mainly analysis regarding the outlet industry, when you look at top, down, bottom, up and right, on a top down analysis in a very (inaudible) -- I mean, you can get more detail later, but when you look at a top down analysis we think there could be around 30 malls -- 30 outlet malls in Brazil. When you do a bottom up based on the number of retail chains in Brazil which have more than a 70 stores, and et cetera, we think that there could be at least 15 outlets based on the production, the percentage of the inventory which is leftover and et cetera.

So we're comfortable with a potential for outlets in Brazil between 15 and 30, and when you look at the bottom up, I mean we think there enough production, there is enough leftovers for you to have at least 15 outlets in Brazil. It doesn't mean that it could be done soon but we think in the next five years, there should be at least 15 outlets in Brazil. We've spoken to many tenants regarding these assumptions and we feel very comfortable that that's the case.

We think also that as this -- the outlet business grows and the tenants become more comfortable and more optimistic about this sales channel, we think -- like it happened in the US, we think some tenants may produce two outlets, like in a more mature market which is the US market.

Q - Fanny Oreng {BIO 15372489 <GO>}

Okay. Great. Thank you very much, Carlos.

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you.

Operator

This concludes the question and answer session. At this time, I would like to turn the floor back to Mr. Carlos Medeiros and Leandro Bousquet for any closing remarks.

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you for participating this call and wish you all a very good afternoon.

A - Leandro Bousquet {BIO 15324554 <GO>}

Bye.

Operator

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