

Q3 2016 Earnings Call

Company Participants

- Derek Schwietzer Tang, Manager-Investor Relations & Head-Finance
- Frederico da Cunha Villa, CFO & Director-Investor Relations

Other Participants

- Bruno Mendonça, Analyst
- Ivan Enriquez, Analyst

MANAGEMENT DISCUSSION SECTION

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. Frederico Villa and Derek Tang.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After that, there will be a question-and-answer session for analysts and shareholders, followed immediately by another session for journalists. At that time, further instructions will be given.

Today, we have a simultaneous webcast that may be accessed through the website, www.brmalls.com.br/ri. The slide (00:50) presentation may be downloaded from the website as well. There will be a replay facility for this call on the website for a week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of BR MALLS' 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 general economic conditions, industry conditions and other operating factors could also affect the future results of BR MALLS and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Frederico Villa, who will begin the presentation. Mr. Frederico, you may begin your conference.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Good morning. Thank you for participating in our third quarter of 2016 conference call. As we have done in previous call, we will go over a brief summary of the quarter results, and then we'll be available to answer any questions you have.

Highlights of Q2 2016 (sic) [Q3 2016] (02:03). In the third quarter of 2016, net revenue reached BRL 328.5 million, represent a 4.3% decrease in comparison to the prior year [ph] period (02:18), excludes the effect of the assets divested in the last 12 months.

Our net revenue is still impacted back by the selective concession of temporary discounts that target the financial recovery of our tenants and reduction of delinquency rates. Net revenues increased by 2.1% over Q2.

G&A expense recovered by 23.8% over Q3 2015 (02:50), down to BRL 28.2 million. We also highlight the 25.9% improvement in sales expenses over the last quarter due to reduction in provisions for doubtful accounts (03:08).

Adjusted EBITDA was BRL 243.4 million on third quarter 2016, increased 5.8% over 2Q16. Our adjusted EBITDA margin rose by 260 bps over last quarter, reaching 74.1%.

We had another successful quarter of our deleveraging strategy. At the end of third quarter 2016, our net debt stood at BRL 4.5 billion, down to the lowest level in two years with a 8.1%, year-to-date decrease. Excluding our perpetual debt, our net debt reduced by 3.8% since the end of 2015.

In Q3 2016, we recorded the best cash financial result this year totaling BRL 125 million, a 5.1% reduction over third quarter 2015. Our net income improved by BRL 255 million over Q3 2015, totaling BRL 35.5 million.

Our adjusted EBITDA (sic) [adjusted FFO] (04:49) totaled a year best of the BRL 79.9 million, growing by 16.5% with 300 bps margin expansion over Q2 2016. The total sales was BRL 5 million in third quarter 2016. Our same-store sales was 0.6% negative, but improvement of 110 bps over 2016.

Our occupancy rate was 95.5%. Our top 10 malls in terms of NOI, which accounts for 54.7% of our total NOI, ended the quarter with a 97.5% occupancy rate, maintaining a stable level over the last quarter.

On Q3 2016, we leased 245 new stores in existing assets or 15,200 (06:01) square meters of GLA, the largest number of contracts signed in the third quarter for existing assets since 2012, attracting different stores that strengthen our tenant mix.

Now, we are available to answer any questions you have.

Q&A

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Operator

Ladies and gentleman, we will now initiate the question-and-answer session. Our first question is coming from Mr. Ivan Enriquez of HSBC. Please, sir, (07:09) you may proceed.

Q - Ivan Enriquez {BIO 17654188 <GO>}

(07:13) Hello, guys. Thanks for the call. I'm not sure if it's Frederico or Derek (07:18) In any case, can you help me get an insight above the retail environment in Brazil, of course, I think, it continue to be challenging. But if you are looking - if you are starting to see any signs of recovery down there in Brazil?

And also, I continue to see that occupancy continue to decline. Of course, this is basically a situation that is related to unemployment and the dynamics in Brazil. But as well, I would like to see if you'd see any improvement for 2017. Those are basically the questions, the retail environment and any improvement that you expect in your efficiency ratio going forward (08:09). Thanks, guys.

A - Derek Schwietzer Tang {BIO 20490146 <GO>}

Hi, Ivan. Thank you for your question. First, with regards to the insight on the retail environment, and you might be following Brazil. We're coming out from our recession, one of the worst recessions in a long time. And as it happens, we're starting to see some metrics which could lead to better retail environment in the country. So, one of the first signs of this is on the consumer confidence, which has been picking up over the past couple of months.

And as we start to get more visibility towards the macro outlook and more positive environment, this has also contributed towards tenants thinking about making more expansion plans and talking about opening new stores. We did highlight this quarter that we had the highest number of contracts signed with new tenants since 2012. So, we're starting to see retailers begin to be more optimistic with this outlook brand (09:24). There's still a lot of uncertainty in the short term, but we're starting to see better times coming ahead of us.

With regards to your second question on the occupancy, it has decreased marginally compared to the prior quarter, so about 30 basis points. It's something that we're constantly monitoring. And we're putting a lot of effort towards rebalancing (09:49) and strengthening the tenant mix of our malls.

We did give some highlights in our earnings release, specifically on page 3, where we announced some of the tenants that we've been attracting to our malls, even the likes of Forever 21 and Shopping Tijuca, which is one of our top-performing assets. So we believe that this will contribute towards increasing the footfall (10:15) in our malls. As a consequence from this, this should lead to positive contribution towards sales and benefit this (10:24) dynamic.

Q - Ivan Enriquez {BIO 17654188 <GO>}

Okay. Thanks. Thanks so much, guys.

Operator

Our next question is coming from Mr. Bruno Mendonça of Santander. Mr. Bruno, you may proceed.

Q - Bruno Mendonça

Hey, guys. Good morning. Thanks for the question. Can you talk a little bit about the M&A environment? Because recently we saw some deals happening in the sector. So, do you see the building (10:54) gap narrowing, or what kind of GAAP rates do you see the market trading at? And specifically on your malls, do you believe your malls could be more active on this front, both on the buy side and/or on the sell side, to accelerate leverage with (11:15) reduction, for example? Thank you.

A - Derek Schwietzer Tang {BIO 20490146 <GO>}

Bruno, thank you for your question. As we've done in prior calls, when we talk about M&A, be it on the buy side, or buying opportunities or selling opportunities, and (11:33) we don't talk on specifics or we don't give any guidance with regard to that matter. So I apologize if we're not answering your question, but this is just a standard practice here for us.

Q - Bruno Mendonça

Okay. But overall, not specific to BR MALLS, do you see that the market heating up (11:54) like more dealers or more sellers, whatever?

A - Derek Schwietzer Tang {BIO 20490146 <GO>}

We did see some transactions being made over the past couple of months, and there's public information on these transactions that were made. In some cases, there were increasing stakes that other companies made. Now, what this will translate with regards to our strategy is something that we don't provide comment on.

Q - Bruno Mendonça

Okay. Great. Thank you.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the call back to Mr. Frederico Villa for any closing remarks.

A - Frederico da Cunha Villa {BIO 18677215 <GO>}

Thank you for participating in our third quarter of 2016 conference call. If you have further (13:02) questions, please contact us here at BR MALLS. Have a nice day. Bye.

Operator

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

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