Q1 2018 Earnings Call

Company Participants

- Ruy Kameyama, Chief Executive Officer

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to BRMALLS' First Semester -- First Quarter 2018 Conference Call. Today with us we have Mr. Ruy Kameyama, 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 this company's presentation. After that there will be a question-and-answer session for analyst and shareholders. 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 BRMALLS' 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 BRMALLS and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Ruy Kameyama, who will begin the presentation. Mr. Ruy Kameyama, you may begin your conference.

Ruy Kameyama {BIO 16672412 <GO>}

Good morning, and thank you for joining our first quarter 2018 conference call. We will go over a brief summary of the quarter results making reference to the presentation available on our website, and then we will be available to answer any questions.

The first quarter of 2018 reflected a gradual economic recovery, but in a slower pace than what we expected. Even in this scenario, we are now beginning to reap the rewards of the efforts we initiated last year. We started 2018 with a more consistent portfolio of malls. A strong increase in AFFO generation, lower volatility in results through the elimination of foreign exchange exposure and a stronger balance sheet.

Starting on slide number two. During the quarter our same-store sales grew by 2.7% that was affected by the Easter holiday seasonal effect. When we disregard the seasonal effect, we see reported growth of 1.7%. Sales per square meter increased by 4.9%, a sign of improvement in our tenant mix.

The occupancy rate increased by 0.4% reaching 96.5%, what we see here is a good commercial or leasing activity along with better pacing, which the tenant leave our malls this year. We can see positive trend here and we remain confident that we have the strengthening that we made in our leasing team in the past 12 months.

We will be able to increase our occupancy rate in the upcoming quarters. However, our same mall NOI decreased by 2.5% when compared to first quarter '17 mainly due to lower rents and lower key money. Looking forward, we see a greater balance in GLA supply and demand with little new GLA being made available in the market and with more interested retailers for additional demand.

This would -- the equation will naturally depend on political factors, but assuming that the current economic policy remain in place. The upcoming years will have a more favorable relation between supply and demand of GLA. On slide number three, we'll go through the net late payments and provision of doubtful accounts. We have been intensifying our efforts in daily management, accounts receivable, settlements and eviction and consequently we had a large recovery in the past few months.

Net late payment during first quarter '18 was 4.8%. Our debt ratio since 2015. And if you look at the trailing 12 months considering second quarter '17 at 1.6%, third quarter '17, 1.7%, fourth quarter '17, 1.3% and first quarter '18 at 4.8% those were the best trailing 12 months since 2014 for the net late payment.

We will be acting on three major prongs to improve our cash generation. First, is to deal with the delinquent tenants through agreement with those who presented the possibility of recovery or replacing the others and releasing the spaces. Second, through enforcement actions to recover actual [ph] receivables. And third the changing criteria in which we adopted the IFRS 9 provisioning range that provided greater incentives for the whole team on recovery efforts.

During this quarter we have fully adopted IFRS 9 or CPC 48 standards and further details can be found in appendixes five and six of our earnings release. Provision for doubtful accounts in this quarter shows a 82% reduction compared with first quarter '17 and as a percentage of net revenue. It is very closer to pre-recession levels.

On slide number four, adjusted EBITDA reached BRL233 million, a growth of 4.8%, even considering the asset divestment and our EBITDA margin was 78% in the quarter. The best margin of the last four years for a first quarter. Adjusted AFFO grew 35% to BRL155 million in the quarter. A record for the first quarter and almost equaling the best quarter in the company's history of BRL155 million in the fourth quarter of 2014.

We reaffirm our commitment to pursue improvements in AFFO per share, which we consider the best indicator for creating long-term value for our shareholders. Moving onto slide number five, we have a very strong balance sheet with a leverage level of 1.6 times net debt to EBITDA. We find absent capacity and relative strive for more adverse scenarios. After the sale of five asset in December 2017, we reached this leverage level and given our level of leverage and liquidity in order to optimize capital allocation we started in March 2018 a stock buyback program.

Regarding the changes in our portfolio on slide number six, we can see an update on our Greenfield on Estacao Cuiaba that has its opening confirmed for the end of this year. The construction is on schedule and at the advanced stage with 78% of construction completed. In terms of leasing, in March, end of March this year, the project had 83% of the GLA already leased and we received news of last contract signed last week that took signed GLA to almost 90% last week. We also decided to invest more in our retrofits of our top malls.

So, we are informing here the market and the investment of approximately BRL400 million to be executed over the next five years to retrofit our top 10 main malls. In addition, in order to improve our knowledge about our asset, the knowledge of our assets, we have provided in this quarter a breakdown of NOI. Sales and occupancy rate of our top 25 malls, which together account for 91% of the company's consolidated NOI.

Moving onto the next slide in terms of corporate governance. In April this year we had our general shareholders meeting in which we had a quorum of 72%. All the management initiatives were approved, including the improvement of statute clause regarding the point of view reinforcing the company's commitment to maintaining the highest levels of corporate governance with the market and investors.

The ISS fixed score, where we hold rating number one, indicates the best possible level of corporate governance and lower risk for our investors. The Board of Directors include the General Meeting of 2020, we have two new Directors Luiz Antonio Campos and Joao Roberto Teixeira.

Luiz Antonio Campos has extensive experience in corporate law and publically traded companies and has also been a Director of CVM or the Brazilian SEC and Joao Teixeira has a long history in Corporate Investment Banking, having been the CEO of Banco Votorantim and Vice President of Banco Santander.

Here we thank Board Members, Jose Affonso Alves and (inaudible) for their important contribution and welcome Joao Teixeira and Luiz Antonio. Finally, on slide number, nine. Last night, we released a statement to the market regarding the partnership and our investment in the start-up company, Delivery Center, to develop the Ship from Mall model, business model. We know that one of the biggest obstacles for the growth of e-commerce in Brazil is the lack of infrastructure, which increases the transportation or delivery costs and make the delivery times very long.

The standard of delivery time in Brazil for e-commerce is almost five business days. So, we've been working on this solution for -- of a pilot in mall of our Sao Paulo, for the past two years, and last year we have joined the effort together with Delivery Center to create a solution to deploy in all malls of our portfolio in Brazil.

Delivery Center is a company independently managed and led by Mr. Andreas Blazoudakis, a specialist in mobile solutions and start-up company who has been also the co-founder of Movile and shareholder of start-up such as iFood, Apontador and Ingresso Rapido. The concept is illustrated in this slide. We have the order picking as an open platform to take orders from different sites or marketplaces. It is not exclusive and we want to maximize the possible number of orders.

Then will have to then dispatch all the expeditions when the malls receive the orders. And, I think, it's worth mentioning that the malls have great last-mile locations in Brazil, hundreds of tenants and a very loyal customer base.

And as we have the expeditions, we have technology solutions to help with the inventory control for the tenants, and then we have the last leg, which is the delivery, where we provide solutions for routing, we have natural economies of scale, we have solutions for individual packaged tracking and payment method. And here the goal is to be a leading player on the same-day and same-hour delivery solutions in Brazil.

We believe that Ship from Mall can be the evolution from the Ship from Store business model, which target or Best Buy in the US have been doing very strong effort. But with this scale that the mall can bring especially for small tenants who could not develop a Ship from Store model by their own.

The open platform concept will also allow malls from other groups to partner with Delivery Center. This concept has already been on a pilot stage in Porto Alegre, and a mall in Porto Alegre and will be rolled out in Rio de Janeiro this year and next series will be rolled out starting next year.

We believe that this solution will help retailers increase the attractiveness of shopping malls in the long-term and bring us closer to retailers in the search of new solutions and better long-term relationship.

Here we close our presentation and we are available to answer any questions.

Questions And Answers

Operator

We will now initiate the question-and-answer session. (Operator Instructions) We have no questions. At this time, I would like to turn the floor back to Mr. Ruy Kameyama for any closing remarks.

A - Ruy Kameyama {BIO 16672412 <GO>}

Thank you all for joining in our conference call. Fred, Derek and I will be available for any questions you may need. Good day.

Operator

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