

Y 2016 Earnings Call

Company Participants

- Hudson Gonçalves De Andrade, Executive Director Real Estate Development
- Leonardo Guimaraes Correa, Chief Financial and Investor Relations Officer
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive Officer Region I

Other Participants

- Gustavo Cambauva, Analyst
- Marcelo Motta, Analyst
- Rodrigo Fraga, Analyst
- Victor Tapia, Analyst

Presentation

Operator

Ladies and gentlemen, good morning. Thank you for holding and welcome to MRV Conference using audio conference call. All participants will be in listen-only mode during the company's presentation. After the company's remarks, we will have a Q&A session, when further instructions will be given. (Operator Instructions)

I'd like to give the floor to Mr. Rafael Menin.

Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Good morning, everyone. I am very pleased to announce another annual results with excellent indicators. In 2016, we reported evolution in virtually all financial indicators. We increased the gross margin, improved margin and net profit and reduced the company's leverage even further. It is also worth to highlight the reduction in the volume of mutual rescission and the continuous growth and qualification of our landmark -- land bank.

After some years of great investments in teams, land bank, IT processing, new productivity methods, we feel quite comfortable to restart a new and qualified cycle of growth. Our current structure allows us to operate a level over 50,000 units per year with no need to -- for additional investments.

We chose not to establish a time limit to achieve this new side [ph], but when we look at the maturity of our land bank commercial strength and market conditions, we believe it's possible to get there in mid-term.

Thank you and I will now open to the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Mr. Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning. I have two questions. The first I'd like to elaborate on the gross margin that increased, we saw this cycle of the city is important to have a relevant productivity gain. What is your expectations with a more mature operation in the city? What is your margin expectations? Maybe this is 40% that you've showed for some cities, is it feasible or these are data for smaller cities where prices are smaller?

And my second question is related to the land bank -- land in Paulista. How is the launching of this project, when do you expect it to be launched and can you give us a general update in this project? Thank you.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Gustavo, good morning. So the first question, we highlight this indicators to give you a flavor of what we were able to achieve in our operations in the last two, three years. You see some substantial growth. We grew -- we mature in the city and improved a lot the operational quality.

As for our expectations, as we continue with our operational improvements we will be able to get some margin gain. It will be 40 in average, no, I don't think so. You were right, in some cities we have an average growth that is smaller reducing the margin potential. So the average that we see is around 30, as we mentioned in the past. So that is around 33.

I think we can still have some increase during this period. As for Nasbe [ph], we have the official launch that is scheduled for Friday, the day after tomorrow. So on Friday this will come to the market with a very good expectation. We have already opened the sales booth. We are receiving some visits.

The responsiveness and the acceptance has been great because of the pressure -- the project is fantastic. It's unique for the site. So I think that in the first quarter, we will capture good sales volume that will become stronger and stronger.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you very much.

Operator

Our next question is from Victor Tapia from Bradesco.

Q - Victor Tapia {BIO 20566083 <GO>}

Good morning. So following this path of large projects, I'd like to know your IR projections in projects in Curitiba, Fortaleza, Rio de Janeiro and Bahia? Thank you.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Good morning, Victor. It's Rafael. For these large projects, we are disclosing this in the delivery, Nasbe is the first one. Last few year we launched a large project in Rio with 3,000 flats and it's been well accepted with a good sales, good margin. A large project (inaudible) during the third quarter and the great BH, Belo Horizonte, one in Goiania in the -- by the end of the year.

So from now on you will see an increment in launching in large cities. We did our homework, we bought very good land in a time that nobody was buying and as the projects become feasible we start to launch the projects. We have a very good expectations about this. These are projects with good margin and this will improve the growth of the company. Our objective is to reach 50,000 units per year.

Q - Victor Tapia {BIO 20566083 <GO>}

Thank you.

Operator

Our next question is from Rodrigo Fraga from Citi.

Q - Rodrigo Fraga {BIO 20043127 <GO>}

Good morning, everyone. I was listening to your comments in -- about the variation due to sales reduction. Can you come elaborate on the business margin in the fourth quarter and have you seen a relevant reduction in these months? And can you tell us or share with us what do you think about this new first quarter?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Good morning, (inaudible). We had an incremental along with the last few year. We are in a normalized level now and in the next quarters, what we may see is a reduction in commercial expenses, especially due to these new launchings. During the crisis we are -- we were facing, we had to spend more to sell the units and now with this improvement in the economy, we see different scope. And due to Minha Casa Minha Vida Program it is improving also. The amount of people who will be inserted in the program and there is points to an increase in the demand, which will reduce these commercial costs.

Q - Rodrigo Fraga {BIO 20043127 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes from Marcelo Motta from JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I have two questions. First, if you can elaborate about the fourth quarter, what you saw and the expectations you have for this year? Is it going to be more flat or how do you see 2017?

A - Leonardo Guimaraes Correa {BIO 15387486 <GO>}

Marcelo, its Leo speaking. Concerning G&A, we are restricting our expenses, as you saw in our general comments and even with this sales expansions in these large projects, they are more effective in terms of the cost, but we see that we want to have a G&A nominally equal to last year's.

And to the net income, this has been totally addressed. The margin is likely higher than the gross margin. So it is reflecting positively. The company is well leveraged and this will contribute during some quarters negatively in terms of net income, but the important -- the operation is healthy. We have an increment and as its entering in a phase of cash generation, it will reduce the debt.

We had some developments -- larger developments. They were more affected by the crisis, but now this part of cash generation will decrease the gross margin and little by little we will reduce the negative contribution of (inaudible).

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you.

Operator

(Operator Instructions) Mr. Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

I want to ask two more questions. The first relates to the purchase of land. You had a great acquisition. And so what is the outlook for land purchasing? Did conditions change or this scenario is, is too easy to continue to buy more land? Do you think the volume will be like 2016 or are you going to increase it?

And the second question relates to cash generation because you are generating -- you announced the dividends of BRL150 million. How do you think -- what do you think about the leverage of the company due to the cash generation for 2017? Do you think if the leverage level is comfortable or do you think it's necessary to leverage more before paying a greater volume of dividends?

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A - Hudson Goncalves De Andrade {BIO 15387504 <GO>}

Gustavo, it's Andrade [ph]. As for your first question, the purchase of land, we still see a window of opportunity. We see very few companies buying land. We know that this will change but we will buy much more land because we want to launch more. This year we will have an investment of 400 million for land purchases and we estimate for next year the same level. And we believe then it's important to have this investment to -- for the company in the mid and long run. So you will it growing, increasing and next few year we will want to reach more than 50 billion. I think this will be a great competitive advantage of the company.

A - Leonardo Guimaraes Correa {BIO 15387486 <GO>}

As for your second question. The company this year is in a similar level as previous year. The first half was weaker and the second half is stronger and since we are a very conservative company, the [ph] real estate goes through cycles. So we don't see a problem of the level of leverage, we have today. When the capital cost reduces, we can be less conservative in terms of dividends. So looking forward, you see dividends higher than last year, but is still having a conservative approach just the way we like to run our business.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay. Thank you. Good morning. Have a nice day.

Operator

(Operator Instructions) Mr. Victor Tapia from Bradesco, would like to ask a question.

Q - Victor Tapia {BIO 20566083 <GO>}

One more question in relation to visibility [ph]. You did provision of about 30% of the current portfolio, after the (inaudible). So how do you see the future scenario? If there is no scenario, do you think it's going to increase the provision?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Well we have a rule. We follow this rule that is related with the performance of the company of the economy, the availability of income in general and clients. So as the financial conditions improve we can see -- but for now we will continue with this provisioning level as it is, maybe something more, but not much different from what we presented in the last quarter.

Q - Victor Tapia {BIO 20566083 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) As there are no further questions, we would like to turn the floor to the CEO for his final considerations.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 16905756 <GO>}

Well, I'd like to highlight two important things first. First this gross margin issue, along the last years, we've been in a efficiency that came mainly due to the company management. The banks were strict here in credit, and so this also impacted our capacity of (inaudible) the price, so this year we will continue to have these operational gains with chances to gain also in the price line. This is a result of the economy, but also of the Minha Casa Minha Vida project.

We just received a communication of the new rules for the new phase of the program, which in our opinion is very beneficial. We see an increase -- a potential to increase the sales and also to increase the number of units, which we will reflect on the margins. So I'm starting to enter '17 very optimistic with our growth. I expect a very good surprises.

And another point is what is our great differential of being more exposed in large markets. A higher demand with higher income allowing for a higher sales prices, but this is extremely favorable. Traditionally, we can put more margins in these categories [ph] because the increment of cost is not proportional to the increment of sales price. So I think it's a very positive scenario and we will be able to launch to the market nice products in this metropolitan areas.

So to close, we are starting to enter the '17 year at MRV with a very optimistic view. We think we can continue to increase productivity and volume. I'd like to thank you all for your participation and let's meet again in the next release. Thank you.

Operator

So we are now closing the MRV Engenharia conference call. Thank you and have a nice day.

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