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Q4 2011 Earnings Call

Company Participants

- Carlos Medeiros, CEO

Other Participants

- Fanny Oreng, Analyst
- Varena Wachnitz, Analyst

Presentation

Operator

Good afternoon, 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 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. At that time further instructions will be given.

(Operator Instructions)

Today we have a simultaneous webcast that may be accessed through the website www.brmalls.com.br/ir. The slide presentation may be downloaded from that 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 future events and therefore depend on some 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. Carlos Medeiros who will begin the presentation. Mr. Carlos Medeiros, you may begin your conference.

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Carlos Medeiros {BIO 15324538 <GO>}

Hi. Good afternoon. Thank you for participating in our 4Q '11 conference call. As in the previous calls, we'll go over a brief presentation on the Fourth Quarter results and after that, Leandro and myself will be open for Q&A.

We'll start this brief presentation, which will be based on a presentation that is available on our website on page two. When we talk about our net revenues which reached BL264 million, 42% increase over the same period of last year. For the full year we reached a net revenue of BRL861 million, up 58% from 2010.

In terms of our net operating income, we entered the quarter with (BRL243 million) a 46% increase over the same period of last year. For the full year of 2011, our net operating income reached (BRL773 million), a 59% increase over the same period of last year.

When you look at our NOI on a same mall basis, our same mall NOI reached a 24% growth in the Fourth Quarter and 23% growth in 2011. Our EBITDA in the Fourth Quarter reached BRL208 million, 51% above the Fourth Quarter 2010. Our EBITDA for 2011 reached BRL685 million, 59% above 2010. Our FFO reached BRL93 million in the Fourth Quarter, 31% above the Fourth Quarter of 2010. For the full year, our FFO reached BRL331 million, 50% above the same period in 2010.

In terms of our rent and (inaudible). Our same store rent reached 15.2% in the Fourth Quarter, which was the highest ever in the history of the Company. For the full year we ended with same store rent of 13.6% in 2011, which again is the highest ever in the history of the Company. Our same store sales in the Fourth Quarter ended with 8.8% and our same store sales for the full year reached 8.9%.

In terms of our renewal leasing spreads, we ended the year -- the Fourth Quarter with 27.3% growth, achieving for the fifth consecutive quarter a renewal leasing spread above 27%. Since the Second Quarter 2010, we've been posting renewal leasing spreads above 20%, which again establishes a record in terms of a period which we described above 20% for the Company.

In terms of acquisitions, we've acquired a stake in eight shopping malls in 2011 for a total investment of BRL1.4 million. Since our equity offering, which took place in May of last year, we had invested BRL1.1 billion. The total expected NOI for the malls that we've acquired in 2011 is BRL117.5 million, with an expected real unleveraged IR of 13.4% and with an average entry cap rate of 9.5% for all the acquisitions that took place in 2011.

In terms of our greenfields, we opened our largest greenfield ever, Mooca Plaza Shopping on the 29th of November of 2011, which was actually the largest shopping mall opened in Brazil in 2011. This mall was opened 100% leased.

For 2012, we expect to open three greenfield projects, the first one, the (inaudible) and in the state of Minas Gerais. We expect to open that mall in the Second Quarter of 2012. We also expect to open (inaudible) Plaza in the state of Sao Paulo. This will be our largest mall.

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It should be opened in 2012, reaching almost 43,000 square meters. It should be open in November of this year.

And lastly, this year we will open Londrina Norte Shopping, which we expect to open in the last quarter of this year, a month before (inaudible) and the remainder is in the state of Parana. Then, we have a few other projects. We have Catuai Shopping Cascavel, which we expect to open in 2013. We have (inaudible) which we are planning to open in the Second Quarter of 2014. And shop Contagem , which we're also planning to open in the First Quarter of 2013.

When we add all the projects that we have announced so far, we plan to increase our own GLA by 23% in the coming two years. Adding a total of 36,000 square meters through expansions and 147,000 square meters through greenfields.

In terms of our balance sheet, we ended the year with a cash position of BRL452 million, a growth debt of BRL3.2 billion and net debt of BRL2.7 billion. Our debt profile continues to be very long term and diversified with an average duration of 13 years. In terms of our capital market activities, we ended the year with a stock having increased 7%, compared to a decrease of 18.1% for the Bovespa Index.

With that, in conclude my -- the brief summary of the Fourth Quarter results. And we -- Leandro and myself are available for any questions you may have. Thank you.

Questions And Answers

Operator

Thank you.

(Operator Instructions)

Our first question is coming from Mrs. Varena Wachnitz from T. Row Price. You may proceed.

Q - Varena Wachnitz

Thank you. Good morning. I just wanted to ask about some of the expansions and greenfields as comparing to the opening dates that you had maybe a couple of quarters ago, and I think they were postponed by a couple of quarters. Just wanted to clarify if that's the case and if so, what is the reason? Thank you.

A - Carlos Medeiros {BIO 15324538 <GO>}

Hi, Varena. The date that we set for the greenfields is normally tentative before we start construction and then we -- we try to make it a final date. So the projects that we haven't started construction, and I think the case in point is Shopping (inaudible), I mean the date may changed based on the approval processes.

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So we -- so that project we felt was more appropriate to delay the expected opening date, which of course, because this is our largest project ever built by our company, this is the largest project built in the state and therefore, it involves some complexity. And we feel it's more comfortable for us to branch open in the Second Quarter of 2014. It doesn't mean that we may not -- we cannot anticipate it later, but we feel for the market its more comfortable and also for our tenants that we work with a more conservative opening date.

After we start construction, it's more difficult for those dates to be changed. And we have so far -- we have never delayed a project that we have started construction. But before construction, again, depending on all the necessary approvals, which doesn't depend on us, it can be a process which can (sleep) one or two quarters.

Q - Varena Wachnitz

Yes, yes. Okay, very clear. Thank you.

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you.

Operator

Our next question comes from Miss Fanny Oreng of Merrill Lynch. Miss Fanny, you may proceed.

Q - Fanny Oreng {BIO 15372489 <GO>}

Thank you. Hi, Carlos, and hi, Leandro. I have a question, what is the average of occupancy cost on your greenfield in the first and the second year?

A - Carlos Medeiros {BIO 15324538 <GO>}

Hi, Fanny. This is an unusual question. So --

Q - Fanny Oreng {BIO 15372489 <GO>}

Yes, (inaudible) -- I'm just asking that because I've been listening from retailers that some greenfields are having an occupancy costs well above what they expected. So that's why I'm asking this.

A - Carlos Medeiros {BIO 15324538 <GO>}

No. I mean what we've seen -- I mean what we've -- the number that we show as our occupancy costs includes all the greenfields. So when we take them out -- I mean obviously its varied, but when we take them out there's not a big impact. So our -- there is a -- if there is there's a small variance from the overall portfolio. So we're not seeing that at least in the model that we have open.

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Q - Fanny Oreng {BIO 15372489 <GO>}

Okay, because I've been listening on some greenfields of some competitors occupancy costs for retailers like that, exceeds 20%; something in the first few years. So that's --

A - Carlos Medeiros {BIO 15324538 <GO>}

I mean, there could -- I mean, there could be cases, and we see that even in some existing malls that -- I mean, there's some tenants in some periods of time that may have a higher occupancy cost. But that doesn't mean that the average occupancy cost of the mall is there. And also, I mean it's important to note that the number that you see for the average of our company which is normally between 9% and 10% includes anchor stores, which have on average a much lower occupancy cost.

Therefore, if you're talking to a satellite store, for example, the occupancy costs on average will be closer to 50% than closer to 10% because the anchor stores bring their average down. So if you're hearing that anchor stores are having 15% or 16% -- or if you're hearing that satellite stores are having 15% or 16% occupancy costs -- I mean, it's not above the average. Just that -- the averaging is brought down by the anchor stores.

But having said that, I mean what we've seen in all of our records so far is that the overall sales expected for the malls are in line with what we projected. So we -- or in some cases like recently with Mooca, we've seen higher numbers than what we originally projected.

So therefore, when we do those projections we assume that the occupancy costs will be around between 9% or 10%. And of course, if the sales are in line, I think the occupancy costs on average will be also in line. Again, there are a few cases which may not be the case, but the average is still in line with the average of our company.

Q - Fanny Oreng {BIO 15372489 <GO>}

Okay. Okay, perfect. Thank you, Carlos.

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you.

Operator

(Operator Instructions)

Thank you, this concludes this Q&A session. At this time, I would like to turn the floor over to Mr. Carlos Medeiros for any closing remarks.

A - Carlos Medeiros {BIO 15324538 <GO>}

Thank you very much for participating in our Fourth Quarter 2011 earnings conference call. We remain here if you have any additional questions, you can call us directly. And again, thanks and have a good afternoon. Bye.

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Operator

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

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