

Q1 2019 Earnings Call

Company Participants

- Miguel Mickelberg, Chief Financial Officer
- Raphael Horn, Co-Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andre C. Mazini, Analyst
- Luis Stacchini, Analyst
- Marcelo Motta, Analyst
- Renan Manda, Analyst
- Unidentified Participant
- Victor Tapia, Analyst

Presentation

Operator

(starts abruptly)

(Operator Instructions) As a reminder, this conference is being recorded and the audio will be available on the company's website, www.cyrela.com.br/ri.

This call is being simultaneously translated into English and is being broadcast over the Internet. Questions can also be asked by participants connected abroad. The earnings release published yesterday, 9th of May after the close of the B3 trading session, can also be accessed on the company's website.

Before proceeding, we would like to mention that the forward-looking statements that may be made during this conference call relating to the company's business prospects and forecasts and operating targets related to its financial growth potential are predictions based on management's expectations about the future of Cyrela. These expectations are highly dependent on domestic market conditions, the general economic performance of the country and international markets, and therefore, are subject to change.

With us today are Mr. Raphael Horn, Co-CEO; and Mr. Miguel Mickelberg, CFO. I will now turn the conference over to Mr. Horn. Mr. Horn, you may now begin.

Raphael Horn {BIO 19714328 <GO>}

Good afternoon. The Bovespa Index hit an all-time high of 100,000 points in the first 90 days of the new government. However, tensions between the executive and the legislature motivated by the political coordination to approve the pension reform, eroded the market's optimism.

If the reforms are approved, we are going to see an economic recovery. We remain confident that Brazil can take the path to renewed growth and development even though the volatility caused by the political situation may delay or slow this process.

Concerning our results, launches performed well for another [ph] quarter , with a sales speed of 52%. One of the highlights in this regard was the first project in the Vivaz brand.

In the first quarter, our cash generation was BRL150 million with a net income of BRL48 million. This reflects not only the better economic situation but also our management's internal efforts.

Now we'll comment on our operating results. On slide 5, we'll address Cyrela's launches. In 1Q '19 we launched nine new products with a PSV of BRL547 million, 26% higher year-on-year. Excluding swaps, the volume launched Cyrela's share in 1Q '19 was 62% higher year-on-year. The company's share in the volume launched in 1Q '19 was 78% compared to 60% year-on-year.

Slide 6 highlights the launch of Atmosfera Brooklin project in Sao Paulo with a PSV of a BRL142 million and sales over 48% in 1Q '19. Slide 7 highlights the launch of Living Wish Panamby project also in Sao Paulo with a PSV of BRL125 million and sales over 65% in 1Q '19.

On slide 8 we'll talk about sales performance. In 1Q '19, pre-sales totaled BRL1.044 billion, 70% higher than the BRL613 million year-on-year. Excluding swaps, pre-sales amounted to BRL746 million in Cyrela's share, a 97% increase year-on-year. The city of Sao Paulo and Rio de Janeiro jointly accounted for 82% of sales.

On slide 9 we'll address sales speed. The company's annual SOS was 49%. Looking at sales speed by period, projects launched in 1Q '19 had been 51% sold.

On slide 10 we'll address Cyrela's total inventory. At the end of the quarter, inventory at market value totaled BRL5.019 billion, down by 11% quarter-on-quarter. The change in our inventory can be seen in the chart on the right.

On slide 11 you can see a breakdown of our finished units. In 1Q '19 we sold 11% of the finished units at the beginning of the period. Adding the inventory of projects delivered along the quarter and pricing the units at market value, finished units inventories decreased by 11% quarter-on-quarter. We are aware of how important this matter is to the company and we'll continue to focus our efforts on these products.

On slide 12, we'll talk about delivered units. In 1Q '19 Cyrela delivered five projects totaling 1,440 units. Units delivered in 1Q '19 account for PSV of BRL357 million, 64% lower year-on-year.

I will turn now the floor over to Miguel who will present the financial results.

Miguel Mickelberg {BIO 20023910 <GO>}

On slide 13, Miguel presents our financial results. Gross revenue was BRL826 million in the quarter, down by 38% quarter-on-quarter and 83% higher year-on-year. Gross profit in the quarter was BRL249 million, down by 25% quarter-on-quarter and 99% higher year-on-year. Our net profit totaled BRL48 million in the quarter with a net margin of 5.9% compared to a profit of BRL116 million in 4Q18 and losses of BRL51 million in 1Q '18.

Please go to slide 15 to see our profitability. 1Q '19, our return on equity, measured as the net income of the past 12 months over the average shareholders' equity was 20% and our EPS was BRL0.13.

On slide 16 we'll talk about our customers' financial solution. In 1Q '19, transfers, trust and dividend payoff amounted to BRL625 million, 15% lower quarter-on-quarter and 16% lower year-on-year. Transfers, trust of deed, and payoffs totaled 2,900 units, 22% lower in the quarterly comparison and 15% lower year-on-year.

On slide 17 we can see our indebtedness. Gross debt at the end of the quarter was BRL2.1 billion. The cash position was BRL1.4 billion, thus our net debt was BRL570 million. 29.4% of the gross debt are related to loans for construction and [ph] 90% is long term. Our net debt over equity ratio was to 12%, 2.8 percentage points lower quarter-on-quarter. The low debt level comes from Cyrela's financial solidity and puts us in a privileged position to adjust our capital structure.

On slide 18 we'll see company's cash generation. In 1Q '19 our cash generation was a BRL115 million versus BRL135 million in 4Q '18 and BRL184 million 1Q '18.

Now we will begin the question-and-answer session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. (inaudible) with Itau BBA.

Q - Unidentified Participant

Good morning, Raphael and Miguel. I have two questions. The first one is about dividend. You mentioned in the release that in April you finished another issuance of dividend. So I

believe that's well addressed. Should we expect to see a trend of dividends every half year, or are you going to announce different strategies for dividend still this half of the year?

Now when it comes to finished units, if we consider the drop in deliveries, we can see that in the first quarter, the number of the deliveries was lower and you are still selling finished units. What do you think is going to happen until the end of the year? Do you think we're going to finish the year with BRL1.5 billion or even lower than that?

A - Miguel Mickelberg {BIO 20023910 <GO>}

Good morning. This is Miguel. When it comes to dividends, our leverage was every low in the quarter. It was 12%, which is very low in a long time. So we want to reduce that number even more and paid dividends. We don't know the timing yet, but we like the dividend model that we are using to pay dividends every half year. Now when it comes to finished units, we had an internal target of selling around BRL1 billion in the year and we won 27% of that in the first half of the year. So we are keeping a good pace. April and May were slow because of the new launches that we have but we believe that we are going to reach that level.

Q - Unidentified Participant

Okay. Thank you, Miguel.

Operator

Our next question comes from Mr. Tapia with Bradesco.

Q - Victor Tapia {BIO 20566083 <GO>}

Good morning. The first point I would like to address is related to gross margin. It was a surprising level and it has been so for some years now. But we also saw drops year on year and quarter on quarter, too. So I would like to know your expectations when it comes to the margin for the whole year of 2019 and how is that going to impact your profit. And the second point, if you could tell me more details about it, I would like to know more about your expectations when it comes to sales of the projects that you just launched. I would like to know your expectations for the Minha Casa Minha Vida segment and your expectations for the whole year in this segment. Thank you.

A - Miguel Mickelberg {BIO 20023910 <GO>}

Good morning, Victor. This is Miguel. When it comes to gross margin, in the past quarter we said that our new launches have a higher gross margin but our other (inaudible) is concentrated in Heritage projects and other high-end projects with higher margins. So these dynamics of seeing a lower margin that's expected. On the other hand with the gross margin that we report that is going to be higher, as you have been seeing, but it has some volatility because we have a lot of finished units with lower margins. So we expect to see higher margins but we may have quarters with lower margins as well.

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A - Raphael Horn {BIO 19714328 <GO>}

Good morning, Victor. This is Raphael. You asked us about the market and sales and launches. It's good. It's been good. It's making a slow progress. It's certainly better than it was before. We have to wait for the reforms to be approved so that we can regain the growth. But you can see that our results have been improving quarter-over-quarter.

Now when it comes to Minha Casa Minha Vida, we are more focused on working with CURY and Plano e Plano in that segment and our participation in that segment is very -- is very little. We focus on our partners and they are doing very well.

Q - Victor Tapia {BIO 20566083 <GO>}

Okay, thank you.

Operator

The next question comes from Mr. (inaudible) with Morgan Stanley.

Q - Unidentified Participant

My first question is about cash generation for the rest of the year. In the first quarter of 2018, you showed a lot of finished units which helped cash generation, but can we expect a significant cash generation from now on, or is it going to be similar to the first quarter? And the second question is about your expectations when it comes to your position when it comes to purchasing land plots.

A - Unidentified Speaker

Good morning. When it comes to cash generation, we had a very strong quarter especially because of the finished units and also because of lower constructions expenditures, and we expect to have lower cash generation than we had in 2018. We are spending money in constructions and new launches. So the volume in the year may be even lower than the one that we had Cyrela in the first quarter 2019.

You asked if we are happy about our landbank. We are. Yes, we are. It could be better obviously, but I believe that our position is very good. Of course, it could be better, but it's good. And landbank is about continuous work. We have to pay attention. And you asked if we are expecting to launch more than we have been launching. And about the [ph] 444 target that we have, our focus is to pay dividends. We believe that we have to keep our profitability high. We are not going to exchange that plan for increasing our landbank to launch new products. Our plan remains the same. Obviously, we love landbank and we are going to purchase new land plots as they are appropriate, but we are maintaining our [ph] 444 target and our dividends payment plan.

Operator

The next question comes from Mr. Mazini with Citibank.

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Q - Andre C. Mazini {BIO 20818108 <GO>}

Hello. Good morning. Thank you for the call. My question is about finished units. I would like to understand a little bit more about the acceleration that we saw in the quarter. Is it more related to you selling finished units according to the book price? And at the same time, the banks have a better appetite to provide credit or are you giving discounts on the book price? And what would that discount be? Thank you.

A - Unidentified Speaker

Good morning. Our inventory was never a huge problem for us. If we have too much -- too much inventory, that is a problem, especially if you have high rates of cancellations. What is happening now is that we are selling finished units and cancellations dropped significantly. But again it's not that finished units changed. It's just that the level of cancellations decreased, and that's what we said before. When that happens we are going to sell more and we are going to generate more cash. So thankfully, we are close to zero cancellations. It is in a very low level and that is why it seems that we are selling more finished units. But one thing is to sell finished units when you have lower cancellations and that's the best scenario possible.

Q - Andre C. Mazini {BIO 20818108 <GO>}

Okay, thank you.

Operator

Our next question comes from Mr. Motta with JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good afternoon. Good morning, rather. I'd like to ask you about the launches along the year. We see many companies launching more products in the beginning of the year, decreasing their pipeline of launches along the year. And I also would like to know about the geographic distribution of your launches. Of course, you're focusing on Sao Paulo, but is there any other region that is performing well, too?

A - Unidentified Speaker

I believe that our launches are well distributed along the year and the second quarter we are going to do some launches as well. So I believe that our distribution is very good. The second half of the year will be very good as well. And the second question was -- was about geographic distribution, exactly, I'm sorry. We are focusing on Sao Paulo, Rio, and Porto Alegre. Most of new launches are in Sao Paulo. We have some projects in Rio, but the economy there is still recovering. I'm sure that you know about it. And Porto Alegre is a smaller market. So there's no surprises in relation to geographic distribution.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay, thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Manda with Santander.

Q - Renan Manda {BIO 16845063 <GO>}

Hello, good morning. Thank you for taking my question. I actually have two. First about indemnities, I saw drop in these expenses in the quarter. I would like to know if that's related to a isolated situation and if you are going to keep that level. And also about landbank, are you still purchasing land plots especially here in Sao Paulo and what do you think about the prices? There are many companies concentrating launches here in Sao Paulo with volumes going up, but are land plots still being sold with attractive prices. Do they a good return rate are you still seeing some pressure when it comes to negotiating landbank?

A - Miguel Mickelberg {BIO 20023910 <GO>}

This is Miguel. When it comes to indemnities, the number was very low. It was BRL10 million. We see some volatility in that number, in that figure. It is harder to have settlements in the beginning of the year because people are traveling, they are on vacations, but we are going to see higher volumes in the next quarters, but we are going to see some volatility, too.

Now when it comes to landbank, our [ph] 444 target is all about having a good strategy when it comes to purchasing land plots. If you buy too much land bank, you may end up in a very unhealthy curve. We have to do it in a very well-planned manner with a good strategy. And of course, prices are going up, but we don't have to purchase landbank. You have to be patient. If you don't rush things up, I believe that you are going to find some good opportunities. We are at the beginning of a new circle. I don't think it is a topic of concern right now. But the main point is that our strategy allows us to be very patient when it comes to purchasing landbank.

Q - Renan Manda {BIO 16845063 <GO>}

Okay, thank you.

Operator

Next question comes from Luis Stacchini with Credit Suisse.

Q - Luis Stacchini {BIO 18717891 <GO>}

Thank you for taking my questions. I would like to know a little bit more about competition in Sao Paulo. Do you think that can be a problem for your launch pipeline? For example, if there is a new launch from the competition in the same region that you plan to have a new launch, and do you think that there is a risk of losing market share. So I'd like to know a little bit about your opinion when it comes to the competition and seeing more launches in Sao Paulo. And the second question is about the lower contribution that we saw this quarter. We saw a lower participation of CURY in your results because there's some

volatility in the low-income segment. So I'd like to know more details about that. If it is a non-recurring impact and that is -- you are going to recover in the next quarter.

A - Miguel Mickelberg {BIO 20023910 <GO>}

Good morning. This is Miguel. We saw two non-recurring effects. The first one was our Ibirapuera stand that had an impact and also a contingency. Those were the two higher impacts we believe that that line item is going to have an expansive result, especially because of the construction work in Ibirapuera and because of CURY.

Now when it comes to the competition in Sao Paulo, well, we all expect prices to go up at some point. We have been working with low prices for four years now. It is not going to happen now, but it is going to happen at some point. We just have to think where in the cycle we are right now. And also it will really depend on the reforms to be approved.

The economic cycle is more relevant than the launches that are happening in Sao Paulo right now. So at least that economic scenario is going to be more significant than the new products that we are going to do in Sao Paulo. Sao Paulo is still a major city. We still have very good regions in Sao Paulo to launch new products. If the economy does not move forward, does not make any progress, we are going to stall as well. Now if we see some recovery, then the market is going to recover as well. And we just have to make sure that we are rational when it comes to purchasing land plots.

Q - Luis Stacchini {BIO 18717891 <GO>}

Okay, thank you very much. Now another question. When it comes to the stand in Ibirapuera, can you tell me a little bit more about the impact of that?

A - Unidentified Speaker

The stand had around BRL7 million in fixed assets and our share was BRL3.5 million. So we had a minus BRL2 million of impacts in our line item.

Operator

(Operator Instructions) There are no more questions. So I would like to turn the floor over to Mr. Horn for his final remarks.

A - Raphael Horn {BIO 19714328 <GO>}

Thank you again and see you in the next quarter. Thank you very much.

Operator

That concludes Cyrela's conference call for today. Thank you very much for your participation.

FINAL

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