Y 2015 Earnings Call

Company Participants

- Eric Alencar, Chief Financial Officer, Investor Relations Officer
- Raphael Horn, Co-Chief Executive Officer

Other Participants

- Alex Ferraz, Analyst
- Daniel Gasparetti, Analyst
- Guilherme Capparelli, Analyst
- Luiz Mauricio Garcia, Analyst
- Marcelo Motta, Analyst
- Priscila Lisboa, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Cyrela Brazil's Realty Conference Call, where we will be discussing the Fourth Quarter 2015 Earnings Results. At this time, all participants are on listen-only mode. Later, we will conduct a question-and-answer session. And at that time, further instructions will be provided. (Operator Instructions)

This conference is being recorded and it will be available at the Company's website at www.cyrela.com.br/ri. This call is being simultaneously translated into English and broadcast over the Internet. Questions may be asked by participants connected abroad. The earnings release published yesterday, on the 23rd of March, after the closure of BM&FBOVESPA trading session may also be accessed at the Company's website.

Before proceeding, we would also like to mention that the forward-looking statements that might be made during this conference call relate to the Company's business, prospects and forecasts, operating and financial targets related to the potential growth are 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 we have Mr. Raphael Horn, Co-CEO and Mr. Eric Alencar, CFO and IRO.

Now, I will turn the conference over to Mr. Horn. Mr. Horn, you may begin.

Raphael Horn {BIO 19714328 <GO>}

Good morning, everyone. In 2015, the economic and political crisis deepened in the country. A greater challenge than the crisis itself is that we cannot foresee and then just to set crisis. We are certain that 2016 will be as challenging as if no more challenging than last year. The main impacts for our segment are the temporary drop in demand and more credit restrictions from banks. We have always had a conservative management, a strategy that has proven itself suitable.

Our leverage is lower the moment, when the access to debt market is restricted. We're also generating cash and decreasing our debts. In January 2016, we captured BRL115 million for three years at a cost lower than CDI. As a result, we are no longer need -- needing financing apart from SFH for the year. The priorities for 2016 will remain the same. Assertiveness and new launches extremely selective expenses on Landbank and prioritizing semi and finished units from a solid cash generation.

So now let's comment on our operating results. On slide five, we will address Cyrela's consolidated results. In the fourth quarter of 2015, we launched BRL760 million, compared to 2.3 million in the fourth quarter of 2014. And in this quarter we launched seven new products, six in Sao Paulo and one in Rio de Janeiro. Year-to-date, we launched BRL2.9 billion versus 5.9 billion year-on-year. Excluding swaps in launches of the MCMV program level 1, the volume launched year-to-date in Cyrela's share was 2.3 billion, a drop of 43% year-on-year. The company's share in volume launched increased from 80% in the fourth quarter of 2014 to 87% of the same period in 2015. Year-to-date, the CBR share was 81%, compared to 83% year-on-year.

On slide six, we would like to highlight the launch of the project One Sixty in Sao Paulo, located in Vila Olimpia neighborhood is a very high-end project designed by renowned Philippe Starck.

Looking at slide seven, we'll talk about our sales performance. On the fourth semester 2015, the sales reached 1 million -- 1.9 million year-on-year last year. Year-to-date pre-sales reached BRL3.4 billion against BRL5.7 billion in 2014.

Excluding swaps of the MCMV program level 1 pre-sales year-to-date amounted to 2.6 billion of the CBR share, a 35 -- sorry, a 35% reduction when compared to the same period, 2014. The state of Sao Paulo and Rio de Janeiro jointly accounted for 77% of sales year-to-date.

On slide eight, we'll address our sales speed. The company's annual SoS was 33%. Looking at sales speed by launch period, projects launched in the third quarter 2015 has been on average 37% sold. The projects sold in 2015 have been on average 50% sold.

On slide nine, we'll talk about Cyrela's total inventory. At the end of the fourth quarter, inventory at market value totaled BRL6.6 billion, 4% lower quarter-on-quarter. The change in our inventory can be seen in the chart on the right.

On slide 10, we have a breakdown of our finished units. In the quarter, we sold 14% of the finished units at the beginning of the period adding the inventory of projects delivered along the quarter and pricing of the units at market value, but inventory decreased 7% quarter-on-quarter. The Northeast regions stood out as it accounted for 28% of finished unit sales. Still, the Northeast region accounts for 30% of the company's finished units. Finished units in Natal account for 54% of the Northeast finished units. We are aware of the -- the important of this matters to the Company, we'll keep on focusing our efforts on these projects.

On slide 11, we'll talk about delivered units. In the quarter Cyrela delivered 19 projects, which correspond to almost 4,000 units. Year-to-date delivered units accounted for PSV BRL6.8 billion similar to 2014.

I will now turn the floor over to Eric, who will present our financial results.

Eric Alencar {BIO 18098474 <GO>}

Thank you, Raphael. Good morning. On slide 13, we'll present our financial results. Gross revenue was BRL1 billion in the quarter, down 9.7% quarter-on-quarter and 32.5% lower when compared to the fourth quarter of the previous year. Year-to-date, gross revenue was BRL4.5 billion down by 24.9% from the 5.9 billion of the same period of the previous year. Gross income in the quarter was BRL349 million a 11.6% down from the gross income of the last quarter and 29.5% lower than the year-on-year comparison. Year-to-date, gross income was BRL1.5 billion, 19.6% down from the 1.9 billion from the same period of the previous year. The Company's gross margin in the quarter was 33.9%, 0.8% lower than the 34.7% from the last quarter and 1.5% higher than the 32.3% of the fourth quarter of 2014.

Year-to-date, the gross margin was 34.6%, 2.5% over the 32.1% of this fourth quarter of 2014. Year-to-date EBITDA was BRL144 million, 32.7% [ph] down in the quarter than last year and 43.6% down year-on-year. Year-to-date, the EBITDA was 749 million, 28.6% down from the 1 billion of 2014.

The net income in the quarter reached BNL98 million, 25.3% down quarter-on-quarter and 34.7% down year-on-year. Year-to-date net income totaled BRL448 million, 32.3% lower than that of the same period of 2014. The decrease in net income is due to lower revenue as a result of a drop in the sales volume. Thus our net margin for the quarter was 9.5%, compared to 11.5% margin quarter-on-quarter and 9.8% in the year-on-year comparison. Year-to-date net margin was 10.3%, 1.1% lower than the same period of the previous year.

Please go to slide 14, now we'll see our profitability. In the fourth quarter of 2015, our return on equity measured as a net income LTM on the average shareholders' equity was 7.8% and our EPS was BRL0.26.

On slide 15, we'll talk about our customers financial solution. In the fourth quarter of 2015 transfers, trust of deed and payoffs amounted to BRL704 million, 13.7% less quarter-on-quarter and 10.1% less year-on-year. Year-to-date, business volume amounted to BRL3.3 billion, 5.5% vis-a-vis the same period of 2014. Considering units, transfers, trust of deed and payoffs totaled 3.2 thousand units, 20.6% less in the quarterly comparison and 8% less compared to the same quarter of 2014. Year-to-date, the number totaled 15 thousand units, 7.1% less than the same period of the previous year.

Slide 16, it shows the company's cash generation. In the fourth quarter 2015, Cyrela purchased all of the Plano & Plano shares increasing our shareholding from 79% to 800%. This operation used the extraordinary amount of cash of BRL80 million in the quarter. Thus the cash used totaled BRL28 million in the quarter, a cash generation of BRL52 million disregarding such operation. Year-to-date the cash generation amounted to 813 million or BRL893 million excluding the Plano & Plano operation, compared to 867 million in 2014.

On slide 18, we present our indebtedness. Gross debt at the end of the quarter was BRL3.7 billion. The cash position was 2.2 billion. Thus our net debt was BRL1.5 billion. Of the total gross debt, 62% were lend to loans for construction and 68% is long term. The average cost of our corporate debt is still below 100% of CDI. Our net debt over equity ratio was 22.2% versus 21.3% in the previous quarter. The low debt level coupled with the cash generation confirm Cyrela's financial solidity and puts us in a privileged situation to take advantage of the opportunities in the real estate market.

We will now begin the question-and-answer session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Priscila Lisboa from Banco Votorantim.

Q - Priscila Lisboa {BIO 19370762 <GO>}

Hello, good morning, Raphael, Eric, everyone. I have two questions; first if you could comment a little bit more about cash generation in this quarter. We had around 200 million in the company in the last quarter then now it dropped to around 50 million. When I look at this figure than the finished units, I would like to understand more about this movement with the construction cost. And the second question is, there was a drop compared to the same quarter in 2015 -- in the third quarter in 2015, I would like to understand a little bit more about that.

A - Raphael Horn {BIO 19714328 <GO>}

Hello, Priscilla, Eric is going to answer this question.

A - Eric Alencar {BIO 18098474 <GO>}

We are generating cash for many different orders and we end up forgetting about this volatile perspective. Our trends with the deterioration in the number of launches is to generate cash, but as you said in the last quarter it was lower, it was lower due to the

Plano has spot on situation and because we have 15 million to pay corporate debts and other items. For example, the number of construction and that did not drop.

And in January and February, we have difficulties to find transfer clients. Now onto 2016 and 2017, the key for generating cash at Cyrela is to sell semi and finished unit. The amounts of cash generation in 2016 will depend directly on that. For 2017, these construction will drop significantly even with a low sales level, we know that we'll be -- going to be more aggressive in the cash generation. But for this year, the biggest driver will be the sales of finished and semi-finished units.

About G&A, there was a drop in G&A, especially in the line items related to management. For example, indemnification. We cannot decrease that amount that much, but for example wages and salaries dropped a lot. Do not consider that as a standard for this year, because the company will keep on continue and it's working continuously to adjust G&A according to the size of the company. We don't know the numbers yet, but we're going to talk about that along the quarter.

Q - Priscila Lisboa {BIO 19370762 <GO>}

Okay. Eric, thank you very much.

Operator

Next question comes from Guilherme Capparelli with Citibank.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Good morning. Your gross margin dropped in 2015 -- increase in 2015 compared to 2014, and I would like to know your expectations for 2016 especially with the discount impact, to sell the finished or the semi-finished units. Do you expect to keep this trend around 34%, 35% or does it make sense to expect a lower margin?

A - Eric Alencar {BIO 18098474 <GO>}

Hello, Guilherme, this is Eric, how are you? It is difficult to tell you about the margins for our next year -- I'm sorry, for 2016. Because it is a mix of the type of sale, if you consider of all the launch period project, you have a gross margin of around 20%. For the new project, they have a margin of 40% even with the discount we were able to keep our margin in the same level. This slight increase was due to the construction saving.

In 2013, 2014, we had an overrun, but last year we reversed, returned the tables and so you have an idea, 1% of the margin in this quarter came from savings in construction. But let me tell you about our mindset. Our philosophy is about monetizing the company, if we have a lot of projects they have 20% gross margin, we want to sell them at 20% and generate cash instead of increasing the value and not selling it. We're going to follow the situation quarter-on-quarter, until now we have no impact.

Q - Guilherme Capparelli {BIO 21476330 <GO>}

Okay, thank you.

Operator

Next question comes from Alex Ferraz with Itau BBA.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning, Eric and Raphael. Thank you for the presentation. I have two questions, the first one is, can you talk about your rationale about allowances, while we considered then the metrics that you used and the second is, can you comment on the commercialization of One Sixty and what is the situation for the first quarter in 2016, and if you want to focus on the high-end project?

A - Eric Alencar {BIO 18098474 <GO>}

Alex, I will ask the -- I will answer the first question. This is Eric, and the other question will be answered by Raphael. As you saw that we added 21 million in allowances according to a (inaudible) guidance, I believe almost all companies in the market follow that our criteria was. We consider that every clients debt is overdue over 106 -- 360 days, and with more than 360 days, we are going to terminate, cancel those contracts. So we are going to calculate the amount outstanding, which was 179 million and we created allowances for the gross margins in the balance sheet. We consider doing historical, a value that we get back from this contracts that are canceled. And that's how we'll calculate the figure. In short, we created allowances for gross margins for customers that our overdue over 360 days and that represents 179 million.

Operator

Next question comes from Luiz Mauricio Garcia with Bradesco.

A - Raphael Horn {BIO 19714328 <GO>}

Now let me answer Alex's question, the second part. Good morning, Alex. You asked a couple of questions, but we sold 14 units and 54. It is a good performance for high-end project and if you when you ask that if we want to stay in this market, yes, we like high-end market, our days still continue working on it. So whatever we know that we have a good performance, we are going to keep on working in that segment.

We like higher end segment and we believe that we are able deliver differentiated projects to the customers. We had a tough first quarter, Brazil was not in an easy condition, right now our segment is not in an easy condition. But for now, the first quarter has been very hard, very tough.

Q - Alex Ferraz {BIO 19294308 <GO>}

Thank you.

Operator

Next question comes from Luiz Mauricio Garcia with Bradesco.

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Good morning. I have two questions; first about the purchase of Plano & Plano. I believe you had already made it clear that you are going to do that and create a partnership with the controller in a new JV. But about the amounts that was paid could you comment on the amount and the 21% and 80 million figure with the 318 million outside of the debt and 320 million, it is the moment where Cyrela is having a tough period. And what can we expect in terms of returns from now on.

And the second question is about the use of cash. Company was conservative in terms of keeping our high cash position to pay corporate tax and we know that happens along the fourth quarter. And what can we expect in 2016, are we going to keep with the same strategy, are we going to keep our high cash position and focused on lowering leverage to pay more corporate tax is that what we can expect, those were the two questions.

A - Eric Alencar {BIO 18098474 <GO>}

Luiz, how are you? This is Eric. I'm going to talk about Plano & Plano and then I would like you to ask your second question again, because we couldn't pay your attention to that due to other reasons. About Plano & Plano, you know us we are conservative and our shareholders are conservative as well. Our planning level was above the comfortable level in the current market condition. So what we defined was we are -- we've decided to dismantle the company, create a new GV that focuses on lower capital allocation with the share of 50%.

Since there was a debt of the shareholders amounted to BRL80 million that we covered that's what we did recovered, this debt to help dismantle the Company. The operation was very close to the bookings and the contract show us that the operation is a booking operation, which means that we did not make any money with Plano & Plano and the opposite also applies. This was just a change in the format of operations due to the fact that we want to have a conservative capital restructure.

As regard to the second question, could you please ask it again?

Q - Luiz Mauricio Garcia {BIO 17432519 <GO>}

Yes, sure. I just would like you to talk about your strategy in the use of cash and your focus in 2016 as regarding to keep on decreasing leverage and paying corporate debt?

A - Eric Alencar {BIO 18098474 <GO>}

We like to monetize the company and our mindset is completely turned to that. We are very selective in the launches and in the use of cash generation on Landbank. As we said cash generation in 2016 will depend a lot on the sale of finished units and in 2017, we have a more guaranteed position. As regard to cash generation there is a mandatory factor that we must consider; first cash goes to as of age, banks don't even deposit the money in our accounts. They just say this customer transferred this units and the discount was made. So the cash will be used to pay debt. If we have any surplus our trend is to distribute this surplus and the Board will have to decide, if we are going to repurchase shares or we are going to distribute this money in an ordinary or extraordinary fashion.

Operator

Excuse me. (Operator Instructions) Thank you. Next question comes from Daniel Gasparetti with Merrill Lynch.

Q - Daniel Gasparetti

Good morning. Thank you for the presentation. Eric about what you've commented previously, I agree with you, but I would like to understand a little bit more about the discount level and the total number of sales, because we know this that there was a higher level of discount, this 3% isn't low, but it's not. And I would like to know about the inventory that you have the units under construction, what is your opinion about it? And how is the level of flexibility that you have? About 2016 the market is tough, is low I would like to know your expectations for launches, for pipeline, for launches. I would like to know if you're going to focus on projects like One Sixty and other differentiated projects.

You're going to focus on low income projects, I would like to know your opinion about that?

A - Eric Alencar {BIO 18098474 <GO>}

Good morning, Gasparetti. I believe we are very pragmatic, we are committed to try and buy lots of land for the best price possible and sell it for the best price possible, but we are not in a laboratory. This is real world, sometimes prices are lower or higher, but we are committed to try and keep a good price for the shareholder. You asked about the discount, right? If it's going to increase your PSV, right? My answer is initially no, market is increasingly tough, tougher and we want to keep our healthy sales levels. Let's try and to improve, as far as now it's really hard and the situation in Brazil right now. I believe that is closely impossible, our reality is very challenging, right now. As regards the strategy for our launches in 2016, we're going to be highly selective and we are going to do it to launch it only if we know we have a market for that type of projects.

If we know we have customers and if we are going to make money we'll do it, if we don't we are not going to launch anything, each case will be analyzed one by one and we are going to launch projects there, we believe that are going to be profitable with MCMV and SCTS [ph] projects that's different. This market is still good, customers have money and there is a good demand. So in low income project and MCMV, we're going to have, we'll keep through the regular pipeline, this is strategy for 2016. Our focus right now is not launches, is finished units and launches, if we decide -- if we determine that we are able to make money.

Q - Daniel Gasparetti

Thank you very much.

Operator

Next question comes from Marcelo Motta with JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. About your receivable, the average term increase a bit in the fourth quarter, it's around 350 days and in the last quarter it was about 324 days. I would like to understand if this was the spot-on situation in the fourth quarter or if we're going to be able to increase the levels or is it going to be tough due to the current situation in the country?

A - Raphael Horn {BIO 19714328 <GO>}

Hello, Motto. It is not a structural, it is a normal variance, it is more difficult to do the transfers with bank. We use to send the documentations to the bank to do the transfer, but we now have to send this documentation to a number of banks for them to evaluate the customers, but I wouldn't expect an increase in this number in 2016.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you very much, regards.

Operator

(Operator Instructions) If you don't have any questions, I would like to turn the conference on to Mr. Horn to the closing statements.

A - Raphael Horn {BIO 19714328 <GO>}

Thank you for attending this conference. Have a good holiday tomorrow and see you in next call.

Operator

That does conclude Cyrela's audio conference today. Thank you very much for your participation. Have a good day.