Q2 2013 Earnings Call

Company Participants

- Armando D'Almeida Neto, Deputy Chief Executive Officer, Investor Relations Officer, Member of the Executive Board
- Rodrigo Krause, Investor Relations Superintendent

Presentation

Operator

Good afternoon. Welcome everyone to Multiplan Second Quarter 2013 Earnings Conference Call. Today, with us, we have Mr. Jose Isaac Peres, CEO; Mr. Armando D'Almeida Neto, CFO and IRO; Mr. Marcello Barnes, CIO; Mr. Rodrigo Krause, IR Superintendent; and Mr. Hans Melchers, Planning Manager.

Today's live webcast and presentation may be accessed through Multiplan's website at www.multiplan.com.br/ir. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Multiplan's remarks, there will be a question-and-answer session. 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 Multiplan's management and on information currently available to the company. They involve risks and uncertainties, because they relate to the future events and therefore depend on circumstances that may or may not occur. Investors should understand that conditions related to the macroeconomic scenario, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I would turn the conference over to Mr. Rodrigo Krause in the name of Mr. Peres. Mr. Rodrigo, you may begin your conference.

Rodrigo Krause

Thank you. Good morning to everyone. Dear ladies and gentlemen, welcome to Multiplan second quarter 2013 results presentation. Sales, this second quarter of 2013, reached R$2.6 billion and corresponds to an increase of 16%. Gross revenues reached R$262.8 million with an increase of 24.2% compared to the same period in 2012. EBITDA was almost R$149 million and presented an increase of 23.7%.

Net profit reflected this good performance with a growth of 11.5% or R$70 million. FFO was R$109.4 million and grossed up an additional 16%, the same as in the previous period. At the end of 2012, we experienced a strong GLA growth that contributed to this great performance. And based on our development policy, we're adding an additional 20% to our owned GLA this year.

If we disregard this success of the new malls recently opened, same-store sales had a 5.8% increase over those of the same period in 2012. The resilience of our shopping centers becomes even more evident that for analyses purposes only, if we purge the month of June alone for the three shopping centers most impacted by the street protests in Brazil, sales growth would have been 7.3%.

The company has dedicated itself to the consolidated operations and to the new shopping centers. It is worth mentioning, however, the developments that will increase our GLA are the following. Morumbi Corporate, this is a two-tower corporate center in Sao Paulo with 74,000 square meters in GLA and integrated to MorumbiShopping, in line with our mixed-use policy.

This project was awarded the highest level certification by the leads environmental sustainability with the goal certificate and will be delivered in full on August 15th this next month. It will have elevated flooring, all required installations to allow leasing companies to move in and start working immediately. This development has state-of-the-art equipment that ensures that it is fully operational, including power generators that allow full functioning of the offices for, at least, 72 hours.

Its elevators are the most modern available in the country, with a speed of six meters per second, which is roughly 20 feet per second. As an example of this speed, these elevators could run 20 floors in 10 seconds.

From an investment perspective, these two towers are valued at market prices at R$1.4 billion, and we're funded to date with company funds. The direct investment in these two buildings is included in our assets at a cost of R$500 million. I call your attention to the value generated to shareholders in developing this project, which started five years ago when we bought the land.

The demand for the leasing of its area is currently at 150% bidded with important names already lined up to negotiate. The company is also building two towers integrated to BarraShoppingSul in the south of Brazil, of which one is a condo office, called Diamond Tower; and the other a residential building with services, called Residence du Lac. Sales already concluded, reached 82% and 97% respectively. These two towers should generate, according to our estimates, about R$17 million in profits.

Parque Shopping Maceio, which we expect to inaugurate in the fourth quarter shortly. This development is a joint venture with Aliansce in the Northeast region of Brazil and we'll have 38,000 square meters in GLA. In addition to the shopping center, the total area of the land plot of roughly 200,000 square meters foresees the construction of several real estate developments whose economics are not yet reflected.

Furthermore, we expect to conclude these coming months of August and November two important expansions at RibeiraoShopping, increasing its GLA by 15.5000 square meters.

There is also the expansion of BarraShopping in Rio already under construction and with the inauguration scheduled for April 2014. This expansion should add another 10,000 square meters of GLA to the main shopping center in the western side of Rio de Janeiro.

The company also has a land bank of approximately 631,000 square meters and recently acquired an additional 12,000 square meters at ParkShoppingSaoCaetano. Throughout the following months we will combine a few challenges to continue the consolidation process of the recently inaugurated shopping centers, by bringing down to the performance levels of the rest of the portfolio and, at the same time, as we complete the projects that will be the base for our next expansion cycle.

In doing so, we reaffirm our characteristics that have made us leaders in our segment, capacity to innovate, incessant search for quality in our projects, operations and management and, more importantly, focus on the results for our shareholders. Not less impressive is the fact that we have reached the market value in mark of R$10 billion and being the largest company in the sector.

We would like to add that our assets are valued at R$17 billion, that is 15.2 billion in properties for investment and about R$1.8 billion in real estate for sale. In spite of the recent turbulences, our delinquency index is among the lowest in the last five years reaching the mark of a meager 2.0%.

Finally, I would like to say that we will continue to evaluate acquisition opportunities, that the company has a healthy financial situation, and that it keeps its focus on new projects and innovation, Multiplan's main characteristics.

Thank you to all that put their trust in us and give their best to accomplish this ambitious and successful --. I thank, also especially, our investors, shareholders, partners and shop owners that are in this together with us, to our directors and teams whose dedication is the main reason of our success, to them my sincerest thank you.

I now hand the floor to Armando D'Almeida Neto, who will continue with more details on our financial results. Armando?

Armando D'Almeida Neto

Thank you, Rodrigo; thank you, Mr. Peres. Ladies and gentlemen, good afternoon. The second quarter was certainly not an ordinary one. A poor perception on the economic environment was fueled by the recent street demonstrations, while attentions were temporarily away with the FIFA Confederations Cup that took place in Brazil.

Nevertheless, our company presented once again solid results. Let's start the presentation then, focusing on operations on page three and four.

Demand for space remained strong with occupancy at 97.6%, 10 basis points better than the first quarter of 2013. New areas added in the last 12 months boosted the sales figure that delivered a 16% increase over the second quarter of 2012, outperforming the national retail figure of 3% on April and May '13 over the same period last year.

By the time of this results presentation, the national figures for the month of June was not yet released. Same-store sales of 5.8% or R$1,468 per square meter, despite some points. One, a significant change in mix that has been implemented and the temporary effect that caused in between store changes. Sometimes, while you buy back some space and get the new tenants, prepare the new store, that demand sometimes -- create a gap that end up having effects on the same-store.

Two, the Easter sales changing calendar that impacted the first quarter sale of the second quarter as it happened last year. Three, the FIFA Football Championship has reduced the mall consumer flow during the matches. And last but not least, the street demonstration across cities in Brazil. For analyses purpose only, we exclude the month of June in BarraShopping, New York City Center and MorumbiShopping Malls that were mostly affected by the demonstration. The same-store sales would have been of 7.3% instead of 5.8%, a very strong figure in my opinion.

Satellite stores sold R$1,900 per square meter, while delinquency and rent loss remained at well behaved 2% and 0.2% respectively, in spite of the significant area increase and the number of operations that was also increased.

Please move to -- forward to page, slide number five. Gross revenue increased 24.2% quarter-on-quarter or 26.5%, if we exclude the one-time sale of Morumbi Business Center that happened in the first quarter of 2012, but due impacted the second quarter this year.

Rental revenue was the main income stream with 58.3% of the gross revenue, with the base rent being responsible for 88% of the rental revenue line, in average 4.4%.

Rental revenue reached R$162.1 million, adding R$28.5 million over the second quarter '12 or a 21.4% increase as a consequence of the new areas added and the same-store rent of 8%.

Real estate for sale, key money and parking also presented important contributions, in which the latter benefit from the organic growth plus the 7.7000 new parking slot delivered during the fourth quarter last year.

Once more on rental revenue, and now on page six. Same-store rent went up by 8% surpassing the IGP-DI effect and the consumer inflation, the IPCA, with a real increase of 0.6%, while the average overall portfolio is at R$112 per square meter in rent.

In short, in terms of operations, we had even with a deeper change in the store mix and the construction works of mall expansions and renovations that are underway, the occupancy rate and same-store figures presented very solid results. And we are confident that the changes implemented will surely further enhance our properties performance. For the mall, the significant new GLA areas with less than five years in operation should be an opportunity leading to a faster growth phase as the malls get consolidated. You can also find sales and rent breakdown for new malls in our earnings release.

Let's continue with results starting with NOI on page seven. As we have been indicated in the past calls, this is the year we have dedicated money and attention to the new recently-delivered malls. And consequently, with shopping center expanses presenting a 66% increase.

We consider this as a timely and necessary increase in the shopping center expanses line, resulted mainly from promotion, mix change, operations and planned vacancy. We do not expect similar increases to be continued.

I'll just stop here for a while just to explain what I mean with the planned vacancy. So we have a unique opportunity with those new malls to have area, not just the new malls also with the store buyback that we've recently implemented the change in mix aiming the change in mix of better qualified property. So we have a unique chance to have space to deliver to names that we think will be important, the operations that will be important to the mall. That's what I mean by planned vacancy.

And that is not for free, you have a temporary cost of vacancy, the costs of the condominium that you have to pay in order to hold this space for tenants that we're aiming, that we want. You also have the brokerage fees related to the change in mix. We had marketing campaign, it was at Mother's Day. In the second quarter, we had the Mother's Day -- that is also I believe has happened internationally. But also we have the Valentine's Days, they're different in the U.S. at least that I know off. It happens here in mid-June. So in the same quarter, we have marketing campaigns in new malls that we want to contribute, we want to promote for this consolidation process.

And last but not least, if you look back in the past quarters before the malls were opened, so some of those campaigns and marketing expenses, they were attributed three operation expenses. And now as the operations start in the fourth quarter of last year. All those expenses were attributed to the shopping center expenses and pre-operational expenses. That's why, just to explain, justify the 66% increase that we have.

And again, we do not expect similar increases to be continued, to be perpetuated. Well, back on NOI and the bottom line is that, NOI plus key money of R$172.8 million, 17.1% higher year-on-year with a margin of 83.4%. On the half year figure, we have a 22.9% increase or R$354.9 million in NOI in the margin of 85.7%. The last 12 months' NOI per share, as you can see in the bottom of the slide seven, was of R$3.76 from R$3.29 a year before with a CAGR of 13% in five years.

Let's move to page eight and talk about the EBITDA. G&A increased by R$10.9 million or 51.7% and this was due mainly to expenses that hit the second quarter instead of the first quarter, as it happened last year.

The half year figure makes these points very clear with 11.2% increase or just R$5.3 million. Basically just to explain the G&A expenses, not just the calendar issue that hit the second quarter more than the first one, we had non-recurring expenses, mainly legal advice costs that we had, legal advisory that we had during the second quarter, and we also have some provisions.

In regards to new projects for lease expenses, they came down from 11.2 million in the second quarter last year to just R$1.2 million in this quarter. All in, EBITDA went up by 23.7% in the second quarter '13 with an unchanged 62.7% margin for the first six months, the picture of EBITDA is at R$308.2 million, 30% higher when excluding the Morumbi Business and the effect from the last year biz.

Finally, and on page nine, net income was of R$70.3 million, accumulating to R$140.8 million in the six months period, 20.1% higher than the first half of 2012 figure when excluding the Morumbi Business Center sale. The result achieved is highlighted when considering the increase in expenses and in the financial leverage as we're going to see shortly.

Just a few comments here. On the second quarter of 2012, our net debt was at R$865 million. On the second quarter of this year of June 30, we have net debt of R$1.4 billion or 567 million additional cost of debt that created roughly a 21.5 million in our financial result, an increase of 21.5 million in our financial results.

Moving on the financial, before we go to the indebtedness just few on the FFO. Just important figure not to forget to mention. In the last 12 months, FFO per share came in at R$2.5 from R$2.4 in the second Q '12 with a CAGR of 27.6% for the five-year period.

And now moving to page 10 to talk about the debt, cash and dividends. We present our net debt-to-EBITDA. Last 12 months EBITDA ratio of 2.34 times, equivalent to R$1.432 billion from R$1.644 billion at the end of the first quarter with no significant change in the debt index breakdown. We have zero in debt in foreign currency, all of our debt in local currency.

The funding costs increased 25 basis points from March 31 as a consequence of the increase in the basic rate and the weighted average maturity of 45 months that we have in our indebtedness.

With regards to new development center, moving to page 11, we have 20% increase in owned GLA with projects to be delivered in 2013 alone. We have one more at Shopping Maceio, two more expansion in RibeiraoShopping, and a two tower corporate building for lease is Morumbi Corporate. In addition, 105,000 square meters of GLA, in owned GLA in total, with an expected 15.2% per annum 30-year NOI yield.

By the way, RibeiraoShopping expansion VII will reopen in a couple weeks, on August 15. And by year end, after the expansion VIII, RibeiraoShopping will have roughly 400 stores bringing in the handsets shopping experience to consumers, due to the new mix stores, services and leisure. We will have about from the 400, about 20 odd anchor or mega stores. We have the gym center, we have convention center, we're going to have many new services operations, so the mall going to get even more complete.

And you can see from the pictures here on page 12, you can see Parque Shopping Maceio and on the top right you can see there is mixed-use and the comment from Mr. Peres about the mixed-use projects, the future projects to be delivered.

On page 13 you can see how far we are already with the expansion at VII and VIII on RibeiraoShopping. And you can see on page 14 the status of Morumbi Corporate and the size of the investment and the building that we have there is certainly unique. And you have features for the future development for 2014 by shortly and in the photo left.

As I mentioned, we have, for 2014, the expansion VII of BarraShopping that will add another 9.4000 square meters in retail and office space and the deliveries of two towers (technical difficulty) BarraShoppingSul that will create and further enhance the foot traffic, the consumer flow to the shopping center.

And before we start the Q&A session, I would like to make a quick remark on the stock liquidity that improved by 1.5% in number of stocks traded or 73.2% in an average daily traded volume of R$32.4 million.

I want to thank you very much for your interest and attention and move back to the operator to start the Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. The floor is now opened for questions. (Operator Instructions) This concludes today's Q&A session. I will turn over to Mr. Armando D'Almeida Neto. Mr. Armando, you may give your final considerations now.

A - Armando D'Almeida Neto

Thank you very much. Well, let me take advantage from the Portuguese call that we just finished, there were many questions. And I think a few to highlight in regards with the macroeconomic environment. So how they're going to affect our development appetite?

And the answer that came from Mr. Peres, I think, it was very accurate. It's just about our strategy. We are long-term investors, so we think on the long-term, those short-term views will not -- certainly not changed our investment pipeline, our investment plan. We've been focused on quality -- with quality malls and new malls even in harder economic environment, certainly will be demanded products. So in other words we continue our pipelines, development pipeline, we continue focusing on new land opportunity and new products opportunity that haven't changed.

And there was also some questions in regard to expenses. Just to make it very short, to the significant increase in G&A that we had last year, in the fourth quarter especially, it's a more than expected that we will make sure that new malls will perform, that they will get in the right path for consolidation. And that's the effort we've been doing that create some temporary increase in the shopping center expenses. But we are very confident to what we see.

The figures, sales figures for the new malls -- VillageMall, JundiaiShopping, and ParkShopping Campo Grande have been improving quarter-after-quarter. Just, you see growth. We see operations that the last Christmas season last year. They're opening up. So, we have more and more new operations, VillageMall in the second quarter opened the live theatre, the play house there, opened the convention center that enhanced furthermore the traffic in the shopping center.

So we are very confident about the future, very confident about the investments we've did and we will continue to look forward. So I want to -- and we also confident about sales; thank you, Rodrigo, for reminding me; in terms of the environment as July, the first few weeks of July showed a recover, not exaggerated optimism in anything, never see from us like this. But, increase to what we saw in June.

Well, I want to thank you for your interest, for your patience in listening to your call to our information and figures. Thank you very much, and wish you a very good day. Thank you very much.

Operator

Thank you. This concludes today's Multiplan Second Quarter 2013 Earnings Conference Call. You may disconnect your lines at this time.