Q2 2019 Earnings Call

Company Participants

- Eduardo Fischer Teixeira de Souza, Chief Executive Officer
- Rafael Nazareth Menin Teixeira de Souza, Chief Executive Officer
- Ricardo Pinto Paixao Rodrigues, Chief Financial and Investor Relations Officer

Other Participants

- Alex Ferraz
- Analyst
- Andre Mazzini
- Gustavo Cambauva
- Jorel Guilloty
- Luis Stacchini
- Marcelo Motta
- Nicole Inui
- Renato Mendes

Presentation

Operator

Ladies and gentlemen, good morning. Thank you for standing by and welcome to the Conference Call for Analyst and Investors of MRV Engenharia e Participacoes S/A to discuss the Earnings of the Second Quarter 2019.

Today with us are Mr.President, Rafael Menin and Eduardo Fischer, and the CFO and IR Officer Ricardo Paixao. We inform you that all participants will be in listen-only mode during the company's presentation, we'll then we start the Q&A session and further instructions will be provided. (Operator Instructions)

Now we are going to turn the call to the President, Mr.Rafael Menin. Please Mr.Menin, you may go on.

Rafael Nazareth Menin Teixeira de Souza {BIO 19167704 <GO>}

Good morning everyone. First of all, thanks once again to be with us in our earnings release. We, at MRV are always reporting consistent results. The main indicators have very good advances. So, MRV has been keeping the tradition in its 13th year as a public company of producing good indicators. So let me talk about them. The first is the production cycle. We started a movement last year to shorten the production cycle, and that make us improve our numbers and also decrease our SG&A. It was an important movement. There is still room for us to expedite things. But I would say that as a whole, it has been completed.

The second thing to discuss is the drop in margins. Indeed, MRV from '17 to today has been managing net margins and that can be explained by a bit more difficulty for the approval of credit, more conditions from the funding agencies and also a weak economy in Brazil. Unemployment is still high. The economy is not growing. So we have the commercial efforts first quarter to keep our volume of sales, that in our opinion is suitable. We believe, that this margin is going to be close to 30% also in the second half of the year, third and fourth quarters, and as the economy picks up. We have been investing a lot in digital products, lots of cool things that are being implemented within MRV. And I have no question at that as soon as the economy picks up, our margin is going to resume even better and healthier levels.

Another important aspect with -- is that we continue to increase and implement our project with SBPE. We've signed on with Bradesco, the second largest private bank. So today we have Caixa, Bradesco and Santander working with the SBPE funding. And this is very important not only because of the diversification of funding but also to work with three banks that have transfers on construction phase. Another movement that is very important for the company is Luggo. We completed the first project three months ago with lease completely allocated. Customers are very pleased. This is a rental experience that is unique. This is a product for rental. It's different from the traditional market in which the real estate agency can have a digital way, but you're talking about rentals that are not customized in Luggo. It's for customers at the base of the pyramid with rental amounts from R$1,100 to R$1,500 a month.

So this is a project we are very excited about and we believe that it's going to be huge for the company in the future. And it has been proved to be a winning project. We have three projects to be finalized in recent months and others to start in the second half of the year and also in the beginning of 2020. So Luggo is growing year-on-year. This year, approximately 400 units, next year 800 units. So this is a company that we can grow 100% a year with our capital structure. The drop in the Selic interest rates has a key role here. We have been introducing assets with a margin of 9.5%, and the Selic interest rate today is at 6% and it can get to 5%. So that is explosive for Luggo business case.

Another important aspect is the Minha Casa Minha Vida program. The current administration is very qualified, lots of good people. We are having high-level discussions with the government and there are two interesting movements recently that in my opinion bring the permeability and balance to the program. First the reduction of 10% of the OGU that is responsible for 10% of subsidies in Phase 2, 90% from the funds. The OGU will now have -- no longer have a role in subsidies. Brazil is in a complicated tax position and not depending on OGU is something that is a victory. And that was build between the government and the segments.

The second thing is 100% transfer of the profit to quota holders. Our quota holders are Brazilian employees that are having a yield of 6.5% now which is the best yield -- better than savings accounts. It's important to remember that the workers' compensation funds do not have income tax. So it's 6.5% net. So in the current scenario, it is spectacular. And I think the two actions in my opinion again will bring primality and balance to the program. Another aspect is that in the second half of the year, we have a pipeline of excellent launches. We expect to sell more in the second half of the year and launch more as well.

Another important point is our investments in technology platforms, the digital agenda, user experience, real estate solutions. We think this is very important for MRV in the next 5 to 10 years. It is a fact, that the world is changing fast. Our customers are changing as well, their need for new things. But workers' compensation fund has a limit in size. It cannot expand more than it is now. And if Brazil resumes growth of the market can double size in recent -- next year. So MRV is building an ecosystem to be -- prepare them. We know customers that buy a Minha Casa Minha Vida project in MRV in 2014, may migrate to an SBPE program in the future or Luggo.

So even if that means more investments, this year, we started with an IT budget when we have already been cleared to an increase of 20%. Of course that lowers our cash flow, but I have no question that this is the right investment to make. If you look into the next year, we are going to invest 20% more than we invested in '19 and I think this is the right movement. And that will make MRV a very different platform from what currently we have in the market. We want to be the only company working at the base of the pyramid with income from R$1,800 to R$6,000 -- selling different things SBPE, Luggo, Minha Casa Minha Vida, sales of ventures.

So we cannot have this platform, this ecosystem working in 160 cities without investments in technology customer relationships. We also have the movement of increasing our after-sales team. That has a cost, but that will be something that will yield fantastic results for the company. And as for the prices as it was mentioned, we have investments in products, brands. And this is not something that you're going to reap the results from the next month. But we have a product that is better than the market. We can sell it at a higher price. And right now we have a gap of a quality as compared to the competition that is going to be even greater than the future. So MRV sees the market as positive.

Brazil our segment given our demographic is growing. If the company includes tomorrow or -- next year, we can grow by 2% or 3% and we are going to still have very good years. The government has the right agenda and it will bring income. It will reduce unemployment. And at some point the demand of given our demographics is going to be close to the demand of income, so about 1 million new homes a year. So the movement that we are making today will position us in a unique position in the market out there.

I'll turn now the call to Ricardo, that is going to talk a bit about the financial indicators.

Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Thank you, Rafael. Good morning, everyone. First, I would like to highlight that after 26 quarters of the current generation we had a small break of the second quarter of '19. But we have a cash generation of R$68 million of the company. In June, we paid R$164 million of the dividend. And together with that we have a leverage of 10.5%. This is a very comfortable level. And for the second half, we want to pay more dividends. Talking about fixed income. This is a market that is very strong. The market as a whole is very liquid and the company settled a CRI of $360 million with a 5 year term bullet with R$100.4% of the CDI. We were thinking of a continued distribution in four months, but the volume of bonds were sold at almost total on the first day. Annually we had growth in debt of 18%. In terms of time 35 months, and we are at a 119% of the CDI.

The company continues to invest in innovation, decorated virtual apartments, on call services and others, with all contributing to the reduction of expenses. Our SG&A is improving as Eduardo mentioned. We had more dilution with 13.5% this quarter and I would like to talk about the MRV debt. We have said that this year we would be below 16.5%. So we are already with 120 bps of savings compared to what we had estimated. And we had a return on equity ROE annualized to 16%.

Now we are going to open for your questions.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we're now starting the Q&A session. (Operator Instructions). Our first question comes from the Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Hello, good morning everyone. I would like you to talk a bit more about gross margin. You had a huge reduction in the quarter, and you mentioned that it has to do with the banks being a bit more restrictive. I would like to understand better what is going on. So, if you could break down the margin in-terms of cost, production, if you have any pressure? Or is it indeed a lot more discounts being applied in the sales of units? And a second question along those lines, is the MRV portfolio, that is the direct funding that you have. That has always been an alternative to banks. When banks are a bit more restrictive you finance the customers a bit more. So what I would like to understand, if we should expect that this portfolio to grow and somehow offset the drop of gross margin? So, how do you see the issue of funding and possible impact on margins? Thank you very much.

A - Eduardo Fischer Teixeira de Souza {BIO 18837505 <GO>}

Hello, Gustavo. Good morning. This is Fischer. I'm going to answer your question in two parts. First gross margin. There are two components that hit that: production costs and prices. And a bit of the two things happened, but a lot more price than costs. Along the recent years, we gained efficiency in production. We saw costs, going down. Along 2019 in the first half of the year, the drop in costs stopped. So we were not able to have the gains we had in previous years. But I wouldn't say this is a greatest component. The greatest component came from pricing.

Banks hardened, especially Caixa Economical Federal, in the granting of credit. It's a bit tougher, a bit more complicated. And therefore, we had to be a bit more aggressive in our commercial terms that Rafael mentioned in the opening -- in terms of pricing more specifically. So, if we were to separate, it would be 20% coming from production costs and 80% due to pricing just like you still have an idea of the ballpark. And to answer, the second part of your question, a reflex of that is that we have to start to extend our portfolio. But when we extend our portfolio, you have to provision losses. So, this is also something that hits the bottom line immediately in provisioning.

So, what we are going to see at least in the next two quarters -- well, the next half of the year is a tighter commercial condition. We don't see it changing now, but costs I don't think will be a pressure. And we are going to work with discounts as we have been doing, and expanding the portfolio as well. So, this is our scenario for the next half year. But again, to reinforce the point, the operation is really grand. It is efficient. Eventually, we are going through a year that is tougher than expected, but we are doing our homework in homes, so that linearity of growth in MRV is expected. So, we are looking into growth of revenues that is huge. The bottom line continues to grow regardless of the difficulties we are having with marketing. I hope, I have answered your questions.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Yes, Eduardo, you did. Thank you very much. I just have a matter of position to make. It's a doubt of mine. As I would think that if you have a pressure on prices, you would pass those 100% to financing, and you would absorb anything that the banks do not want to finance. But in practice, this is not what happened. You had some discounts and absorbed some of it. Why the decision of also being aggressive in prices instead of absorbing funding in 100%?

A - Eduardo Fischer Teixeira de Souza {BIO 18837505 <GO>}

Because it's not necessarily you can put everything in your own portfolio. Sometimes the customer is conditioned to the bank, and I have to have the products to have a lower price for the customers to be approved in credit conditions. So, I cannot bring all the discounts to the portfolio, I cannot do that, I have to have a mix. In some situations, it's possible; in some, are not. It depends on the customer, the income, and the credit conditions that you have on the table.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Okay. I got it. Thank you very much and I wish you a good day.

Operator

Our next question comes from the Renato Mendes from JP Morgan.

Q - Renato Mendes {BIO 4829804 <GO>}

Hello everyone, thanks for taking my questions. I have two questions as well. First, cash flow. With saw a generation of cash for this quarter, what can we expect in terms of cash generation for the second half of the year? And connected to that in terms of your land bank, the company has quite a robust to land bank. Are you considering new acquisitions or are you at a suitable level? And another question in terms of SBPE. Rafael mentioned in the beginning, that you are already having negotiations with several banks. What do you think the evolution is going to be like in throughout the year? Are you talking about 20% to 35% of lunches? How fast do you think you're going to get those levels?

A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Okay. This is Ricardo speaking. Okay. First, cash generation, we expect to have stronger cash generation in the second half of '19 than the first half. We started lots of construction work. And in our methodology, when we start construction even before the launch, we have the entrance door, the walls, the entrance gates. So we have some expenses before we start with sales, and then a transfer of credits to banks.

Land bank, this is something very important. Today, we see that our land bank is the right size now. From now on, it's much more replacing inventory than really growing the land bank. That was an important strategy. We grew the land bank along the years. We're able to buy cheaper land at strategic locations with very good quality in the past three years. We still have a window of opportunity in some places, but to the company for now, wants to keep the 50 billion of the land bank as a sustainable amount.

And for your other question...

Q - Renato Mendes {BIO 4829804 <GO>}

SBPE?

A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Well, SBPE is something that we are gaining attraction. We're able to migrate part of our land bank to have SBPE products. It may happen, but with the drop of the Selic interest rates, that we see the following: price has changed getting projects close to safety. So, we might have a migration of Phase 3. So we might have a migration of Phase 3 of Minha Casa Minha Vida to SBPE. But anyway, this year, we should have a volume of launches in SBPE, a much higher than what we had in the previous year. And for the next year, we are going to have even more so.

Q - Marcelo Motta {BIO 16438725 <GO>}

Okay. Thank you for your answers. Thank you, good day.

Operator

Hello. Our next question comes from, Luis Stacchini from Credit Suisse.

Q - Luis Stacchini {BIO 18717891 <GO>}

Good morning everyone, thanks for taking my questions. I would like to explore two points with you. First, trying to understand a bit more the sales of ready inventory. We can only see the inventory variation. There was a drop of approximately a 190 million, even with a very strong quarterly volume of delivery of about 10,000 units. So first, the precise amount of sales of inventory? And how much of this sale -- I suppose you have a tighter margin. How much of the sale impacted the gross margin? And second, you talked about the credit conditions before. So do you see due to your geographic expansion, a variation between larger and smaller cities in which you operate? So if you could talk a bit about, that would help a lot.

A - Rafael Nazareth Menin Teixeira de Souza {BIO 19167704 <GO>}

Okay. This is Rafael speaking. Okay. First, ready units. Our sales of ready units went up in the second quarter. We have lots of campaigns. We changed the five lots. And in the first -- or in first quarter, we're going to have the slightly higher levels than our historical levels. We started the year with a very high inventory level, more than what we had in '16-'17 -- '15-'16.

Basically, the projects that we had financed with Banco do Brazil, we're at very high inventory. Banco do Brazil was very restrictive. It was very difficult to finance. And you can only change the bank when you have the clearance. So, the BD inventory as we call it is going on. And in the beginning of next year, we are going back to the levels of inventory of ready units close to the past. And that has an impact in gross margin. We had to be a bit more flexible in prices. You don't have the 18 months of construction until the purchase of -- the delivery of keys. You have to work with pro soluto, you have to have some discounts. So this is true.

As for conditions, we do not have a variation per region. It's more related to the type of customer than the type of region. In the Northeast and -- or the Southeast, the conditions for the same customer for the same income is the same. For customers that have lower income or more informal income, then you have more conditions. So, it's more connected to the customer profile than the region in the country. But obviously, in the Northeast, you have slightly lower formal income. So in the mix probably you have more conditions in the Northeast. But it's not related to the region. It's more related to the customer profile. Is that clear?

Q - Luis Stacchini {BIO 18717891 <GO>}

Yes. Just a bit more color about ready inventory. What is the difference of margin that you have? Is it a huge difference of margins?

A - Rafael Nazareth Menin Teixeira de Souza {BIO 19167704 <GO>}

Not really. This is a number that we won't disclose, but Ricardo can talk to you a bit more about the evolution revolution. He can give you a call, just for you to understand it better.

Q - Luis Stacchini {BIO 18717891 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Nicole Inui from Bank of America.

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning, thanks for the call. I have two questions. First, about the SBPE projects with Bradesco and Santander and a large amount of transfers on -- during the construction phase. I would like to have some feedback, what the project is going. What do you feel the appetite of banks to have more of these projects? And to understand that if they are already working with other construction companies or just with you for now? And the second question is about launches in the second half of the year. From now on, just for us to have an idea of where you see opportunities to expand in terms of regions and type of project, Phase 2, Phase 3, or outside the Minha Casa Minha Vida program? That's it, thank you.

A - Eduardo Fischer Teixeira de Souza {BIO 18837505 <GO>}

Hi, Nicole, this is Fischer. Well, first, projects with Bradesco and Santander, SBPE. So these products that are starting as pilot office in Curitiba and Campinas, Santander and Bradesco. They are doing very well, and we had some expectations in terms of sales, that are becoming true, especially in Campinas. It has been a very robust launch. And the banks of course, are following very closely what's going on, and in the feedback is that they are quite excited with the projects.

And in our view, transfer in the construction phase for the bank is better. You don't -- you have a credit spread throughout lot supplies instead of a single player. So, it's doing very well. We see both banks with lots of appetite and expectations with regard to those projects. And Ricardo mentioned that in the beginning, the idea is to continue to expand this project. We have some launches going on. We are going to have others in the second half of '19. And in 2020 it's going to be even more robust, this line outside the Minha Casa Minha Vida. As for launches, we traditionally have a second half of the year more robust than the first half, and that should be and will be the scenario that we should expect for 2019.

As for geographies, we have established the strategies some time ago. We are not growing to new areas. We are occupying empty spaces that we have in the geographies that we already operate, because we believe there is lower risk and more efficiency in that. So, in the second half of the year, we are going to have more launches in the areas in which we already operate, mostly focused on second phase. You know that this 1.5 phase, less relevant. So we are going to see lots of Phase 2, some of 3, and very little of 1.5 for Minha Casa Minha Vida. So the breakdown for the second half is more like this. I don't know if it's clear for you.

Q - Nicole Inui {BIO 17757166 <GO>}

It's great. Thank you.

A - Eduardo Fischer Teixeira de Souza {BIO 18837505 <GO>}

Thank you.

Operator

Our next question comes from Alex Ahas from -- Review.

Q - Alex Ferraz {BIO 19294308 <GO>}

Good morning everyone, thanks for the presentation. I have two questions. The first is about the scenario that you see in the programs, especially after the changes. I don't know. It's hard to know what's going to happen. But if you have any outlook to -- in terms of judgments for the future. You said that SBPE is very close to Phase 3. Do you think that in the future you're going to have a larger migration to SBPE? That strategy of having 30% of launches outside the Minha Casa Minha Vida, do you think this can increase because of problems? Do you think do you have space for market share?

And also Luggo, you started to say more about that. What is the price that you see to Luggo? So I would like to know a bit more color in terms of how it's performing. The first project seems to have been very well. If you have a pipeline, and in which geographies? I think the first was in Belo Horizonte. Do you expect to work in Sao Paulo with Luggo as well?

A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Okay Alex. This is Ricardo speaking. First, Minha Casa Minha Vida program. The provisional measure that was passed now, we still do not have all the information to design models. But in the conversations that we have had with the technical team of the government, they say that those measures will not change the capacity of the housing program.

We know the housing program is considered a priority for the government, both because of social, but also tax purposes, collection of taxes and everything. So, we are very confident, these are changes that the government is making better. They are thinking very carefully about that, not to impact the program. So given all that, what do we have? We have the size of the workers' compensation fund that is to be maintained or maybe in further years a bit lower. The company does not consider the possibility of not gaining market share. Quite the opposite we have been able to gain market share and we have several expense on several cities.

We can give you more color if you want to. So we are not afraid of not gaining market share, if the program contracts more than expected. But anyhow, we are in a strategy of diversifying of having more SBPE and Luggo. And the size of Luggo, we don't know. We're in starting to -- the first four projects with a real estate fund. So this holds as of the fourth quarter. But there we have one in Belo Horizonte, in Capinas, and we have other projects next year for Salvador in two year's time and Rio de Janeiro. So, this is a project to escalate, and it's going to be important for the company in the future.

We see this project as a winning project. And we also have as I mentioned an explode explosive combination. So, you have a capacity of execution. And when you compare that to the current Selic rate, and people say that it's going to go even further down and when where you think of the normal yields of investors, to what we have the margin is very good. So, it is something that tends to grow. I don't know how much it's going to grow. But

I think that in five years' time, we'll probably have half the operation in Minha Casa Minha Vida and the other half between SBPE and Luggo.

Q - Analyst

Okay Ricardo. Thank you very much.

Operator

The next question comes from Mr.Jorel Guilloty of Morgan Stanley.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Good morning everyone, I have to questions. The first, I would like to understand the chop in gross margin a little, better you're saying the financial health of clients is weaker and therefore you had discounts. But you still see a growth in launches for the next quarter. So I would like to understand the dynamics? Do you think that the customer financial health is going to improve? Or if you're going to change the should the profile of launches?

And also about Minha Casa Minha Vida, changes and growing more to SBPE. Do you feel that, that has to do with the interest rates? Or do you think that the interest rate is already at the right level for this change to happen?

A - Ricardo Pinto Paixao Rodrigues {BIO 22108148 <GO>}

Okay. This is Rafael speaking. Okay. Gross margin has no connection to launches. They're two different things. Clients have an appetite for bank, and that continues. Of course, if the economy has grown 3% this year, you would have more appetite. But the demand is quite balanced in terms of supply. Lots of people want to buy and has to buy property. So, our launches are based on those demands.

And we are all over Brazil, geographically speaking, in several regions in which we operate. We have very low inventory levels. So our lower level of launches in the first-half of the year has to do with our incapacity to have licenses in regions with lower inventories than credit restrictions. We still have credit. We have a budget for the year. Everything is okay. Customers want to buy. What happened is that banks started to be a bit more restrictive.

They are imposing more conditions. They are granting less credits. And because of that, we are having to be a bit more aggressive in the commercial conditions. And then the gross margin goes down a bit. But that is not a barrier for us to launch more in the second half because in our budgets, we have already the provisions that enable us to launch more in the second half of the year. And this is a gain of market share. In several segments in which we operate in which we have a few products we are going to launch more. So, this is the dynamic. The people that want to buy, there is financing but financing is being a bit stricter a bit tougher.

As for SBPE, our interest rates are going down. Some banks are announcing 7.9 plus percent CR. I do not remember any ratio lower than that. Of course, for you to get this ratio, you have to have lots of characteristics to be able to be entitled to the 7.9%. But things are doing well. As Ricardo mentioned, the ceiling of Phase 3 is already close to SBPE. If Selic goes down to 5%, and blanks will start to offer SBPE up to 7%, it gets even more appealing. And this is what we are expecting for this project today is to have a lower appeal than the Minha Casa Minha Vida. It was much lower. Now if interest rates continue to go down by 0.5% or 1%, the scenario changes completely. And we know that those clients with a bit more income are more sensitive to the economic moves. And quite often they already have a property. So they're buying a second home.

So, the recovery of the economy unemployment going down, positive images, the passing of the pension reform, and a decrease of interest will be very good for those markets, specifically at the basis of the SBPE. This is a market in which we didn't have many launches in the last 2or 3 years. So we feel there is huge demand, lots of needs. In some markets, perhaps sometimes we have a bit more competition in this specific segment. But in many cities in which we operate, competition is close to 0. And another interesting aspect, going back to investing in projects and quality. Today, MRV has some projects that we sell until the 10th floor to Minha Casa Minha Vida, and from the 10th to the 20th floor, when you're talking about apartment towers in SBPE.

So you have flexibility of traffic from. And this is a win-win for customers and the company.

So we have no question that the movement we started two years ago had perfect timing. The investment in market, product quality proved to be right. And it will enable us to be successful to have higher revenues in our portfolio. So we are quite optimistic and the dynamics of from now on is going to be better with a drop in interest rates and an increase in confidence. Did I answer your questions?

Q - Jorel Guilloty {BIO 18291521 <GO>}

Yes. Thank you very much.

Operator

Our next question comes from Andre Mazini from Citibank.

Q - Andre Mazzini

Good morning, everyone. I didn't get the call from the beginning, so I hope, I am not redundant. I would like to understand a bit more about Luggo. What kind of contracts do you have? Will customers have the flexibility to choose? Can they have a contract that lasts just a few months? Or is it a 30-month contract like you have generally in property or real estate agreements? So, what is the average time of contracts that you're thinking about? And the second part may be harder to answer, but how long do you think active units are delivered? Will they take up to be sold?

A - Eduardo Fischer Teixeira de Souza {BIO 18837505 <GO>}

Okay. Andre, this is Fischer speaking. Okay. At first, Luggo starts with a traditional agreement in terms of time. But certainly, we are studying our flexibility because let's put things into context. How do we see that? You have two types of clients: clients that do not want to buy a property, they want to have a long-term rental: and you have customers and we can see that clearly in our customer funnel, that wants to buy real estate but they don't have the means now and they don't have credit for that.

So these can be people that will choose rental for a shorter or longer time. And eventually they can migrate to MRV platform buying property. So that's the rationale. And as we mentioned the first movement of Luggo in Belo Horizonte is we have traditional kind of contracts. But we want to have the flexibility with time. The second question, I'm sorry I forgot.

Q - Andre Mazzini

How long the units would be sold?

A - Eduardo Fischer Teixeira de Souza {BIO 18837505 <GO>}

Well, basically we think it would be six months for us to transfer to the real estate funds. But, that's the first model. As we move on, we can have a mixed program and do this even before and further preserve our cash position. So, for the first Luggo movement it will happen in stabilization. And perhaps in the future we can do that beforehand in the country.

Q - Andre Mazzini

Okay. Thank you very much.

Operator

(Operator Instructions). We are now closing the Q&A session. Now, we are going to turn the call back to Mr.Fischer for his final considerations.

A - Eduardo Fischer Teixeira de Souza {BIO 18837505 <GO>}

Well, just to close, I would like to mention two points that perhaps were more approached and perhaps there would be nicer to give you a bit more color. First margins. Of course, a drop in margins is never good. But it is good to make it clear, that this is something that we considered for a long time for us to deal with this situation this year. And we expect margins to go back to normal as the macroeconomic scenario gets better and the banks become a little less strict in the granting of credit. So this is not something that caught us by surprise.

So, we estimate that we are going to be at this level of margin in the second half of the year. And as for next year if the company should improve, which we all expect we are going to be able to go back to historical margin levels. So, this is the movement we were aware. Of course it's not good but we are comfortable in how this operation is working.

And we see room for the margins to get better as the major economic conditions will bump, which we expect in the turn of the year.

Second, Minha Casa Minha Vida, that for the next -- the last 12 months there was much noise about that. And Rafael mentioned something important. That government has changed its pitch in the last eight nine months since they won the elections to today. They announced it clearly the importance of the housing program, that they are improvising with the segments very closely. So any movement is something that we are part of. And more and more, we see a concern for movements not to be abrupt and that we can preserve the capacity of granting credits throughout time. So the government itself understands this is important. And eventually it will join the process even investing more money as the tax issues are cleared.

So today, I'm much more confident than I was in the past. New administration that is very rational and understood so very fast the importance of the segment in the stake in our GDP and in the generation of employment. So these are two things I would like to talk about. Thank you very much for joining us and see you next quarter.

Operator

MRV Engenharia e Participacoes S.A. conference call is now closed. So, we thank you very much for joining us and wish you a good afternoon. Thank you very much.