

Y 2020 Earnings Call

Company Participants

- Miguel Mickelberg, Chief Financial and Investor Relations Officer
- Raphael Horn, Chief Executive Officer

Other Participants

- Alex Ferraz, Analyst
- Andre Mazini, Analyst
- Daniel Gasparete, Analyst
- Gustavo Cambauva, Analyst
- Jorel Guilloty, Analyst
- Marcelo Motta, Analyst
- Nicole Inui, Analyst
- Ygor Altero, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for holding. At this time, we would like to welcome you to the Fourth Quarter Earnings Results for Cyrela Brazil Realty SA. Today, we have with us Mr. Raphael Horn, Chief Executive Officer; and Miguel Mickelberg, Chief Financial and Investor Relations Officer.

We would like to inform you that all participants will be in listen-only mode during the Company presentation. Ensuing this, we will go on to the Q&A session when further instructions will be given. (Operator Instructions) As a reminder, we would like to inform you that the conference call is in Portuguese, the English conference will be heard through simultaneous translation. This event is being broadcast simultaneously over Internet.

Please bear in mind that forward-looking statements made during this conference call referring to the Company's business outlook, projections, and operational and financial goals are based on the beliefs of the Company as well as on information currently available to the Company. Such expectations are no guarantee of performance as they involve risks and they refer to future events and therefore depend on circumstances, which may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors could impact the future results of the Company and lead to results that differ materially from those expressed in these forward-looking statements.

I would now like to turn the floor to Mr. Horn, who will begin the presentation, you may proceed, sir.

Raphael Horn {BIO 19714328 <GO>}

Good morning to all of you. In a highly challenging year, in the context of the coronavirus pandemic, the construction sector proved to be highly resilient with construction sites uninterrupted and continuous job creation. We have had unprecedented interest rates, better purchase conditions and credit affordability for our customers and the company delivered strong operating results, especially in the second half of the year.

Cyrela reported launches totaling BRL5.8 billion, 34% higher than those presented in 2019, while sales amounted to BRL4.7 (Sic - 4.9) billion 7.4% higher than in 2019. In the quarter we had launches of BRL2.9 million (sic - billion) and sales of BRL1.9 billion, corroborating the macro and microeconomic context in which the Company is inserted.

The solid operating numbers reflected positively with BRL1.1 billion of net operating revenue and net profit of BRL261 million. The highlight of the quarter was the positive operating cash. We are maintaining the leverage at a low and healthy level with net debt equity indicator of 5%. We enter 2021 with a very positive outlook for the year with the expectation of the GDP and employment recovery interest rates at healthy levels above those of 2020. And we are prepared to deliver solid operational and financial indicators. Once again, if the macro situation does not take a turn for the worse in 2020.

Miguel Mickelberg {BIO 20023910 <GO>}

Thank you, Raphael. Thank you all. Let us begin with the presentation on Slide number 5, we will speak about the launches. We had five new products with a PSV of several million. Now if we exclude the Cyrela percentage the volume launched was 33% higher than 2019. The share of the company was of 90%.

In Slide 6 to 8, we highlight the main launches for the fourth quarter.

We go on to Slide number 9, where we will speak about our sales performance. In the fourth quarter contracted sales had an increase of 34% compared to the fourth quarter '19. Sales for the year reached BRL4 million (Sic - billion) and Cyrela percentage was 8% greater year-on-year. The state of Sao Paulo was responsible for 69% of the sales.

In Slide number 10 we're going to speak about our speed of sales. The speed of sales was 48.4%. Now if we observe the speed of sales in our launch vintage, those that were launched in the fourth quarter were sold in 38%.

And Slide number 11, we will speak about the Cyrela inventory. At the end of the quarter the inventory was valued at BRL5.5 billion. Now the movement and change in inventory can be observed in the graphs.

In Slide number 12, we speak about our finished units. In this quarter we said 21% of the finished units. And if we add what was delivered in the period, we had an increase of 5% in the finished inventory vis quarter on quarter.

In Slide 13, we speak about the delivered units. This quarter we delivered four projects totaling 370 units and a PSV of BRL690 million. We delivered more than 2,000 units representing a PSV of BRL1.5 million (Sic - billion).

In Slide number 15, we will address the financial results. The net revenues of the company reached 9% less than in the third quarter of '20 and 13% higher vis-a-vis the same quarter in 2019. We had BRL1.3 billion, a 11% greater than the figures in 2019. The gross profit was BRL379 million, a 11% lower than the previous quarter and 20% less than what we had year-on-year. For the year it amounted to BRL1.1 [ph] billion, 31% less than in 2019. We show you the net income of BRL261 million compared to BRL1.4 million (Sic - billion) the previous quarter and profit of BRL104 million, net profit reached BRL1.8 million (Sic - billion).

In Slide number 16, we're going to speak about our profitability. In the fourth quarter '20, our return on equity -- measured as return on equity was 34.3%.

In Slide number 17 we will speak about the indebtedness. Net debt at the end of the quarter represented BRL2.7 million (Sic - billion) with a cash position of BRL2.4 billion net debt was BRL297 million. The total debt is 80% long-term. Our leverage measured as net debt over total equity reached 5.1%, 7 percentage points higher than the previous quarter.

In Slide number 18, we will speak about cash generation. The fourth quarter of '20 had a cash generation of BRL439 million compared with BRL745 million quarter-on-quarter.

At this point, Raphael and I would like to initiate the question-and-answers session. Thank you very much.

Questions And Answers

Operator

Thank you. We will now go on to the question-and-answer session. (Operator Instructions)
Our first question comes from Alex Ferraz from Itau BBA.

Q - Alex Ferraz {BIO 18651758 <GO>}

Hey, good morning, Miguel and Raphael, and thank you for the presentation. I have two questions. The first referring to cash generation, a very relevant figure for the quarter, especially if we exclude the effect of the IPOs and joint ventures. Besides the sale of finished products, the delivery volume, what is that helped you in cash generation? Is there an additional effect? And if we should expect that it will maintain the strong level in coming years with the recovery of work?

My second question is, which is your vision of the mix of launches in 2021 and which will be the pace of launches in Sao Paulo? And if you intend to also focus on income, which seems to be more resilient and less susceptible to the situation, last year it was very representative in terms of launches, but we would like to know if this will continue on, due to the restrictions in the scenario?

A - Miguel Mickelberg {BIO 20023910 <GO>}

Good morning, Alex, this is Miguel, I will speak about cash generation. For the quarter we had three main non-recurring effects, we had dividends representing BRL18 million, BRL17 million and taxes of IPO of almost BRL40 million. So all -- once again as a non-recurrent amount we would have BRL110 million and net cash of BRL340 million. Cash generation was quite strong more than BRL300 million rise, given thrust by the finished inventory. We also have additional inventory. Until the third quarter we were releasing our results along with the JVs, the operating results. And those BRL300 million that refer to the things under construction was quite expressive.

Looking towards 2021, we will have a more challenging scenario. We had a growth of 34% and launches in 2020 we will be spending more on land plots. And because of this, we don't expect to have an expressive cash generation, because we will have significant cash burn.

Raphael, will speak about the launches.

A - Raphael Horn {BIO 19714328 <GO>}

Good morning, Alex. How are you? I think that our launch of grid or plan was prepared in January. And we believe we will have a positive year. Of course, we were not expecting this exacerbation due to COVID, especially in March with an economic impact and the impact will be negative for everybody involved.

For the time being, we believe that through the digital means, at least, we will maintain a very positive number of sales. We don't believe the situation will worsen more. Now, what will happen with our programming, this is still very uncertain. The first semester of last year we were convinced, we would not be able to sell anything. Now the novelties of the coronavirus this year are precisely that there are novelties. We'll see how this plays out. Of course, we have the vaccination and a great deal of uncertainties. Once again, we still believe that March and the first quarter have been good for the sale of apartments and our programming will be very good. Now whether this will continue or not will depend on what will happen with the coronavirus and vaccination and truly we cannot anticipate anything in terms of this.

Now, when we speak about our -- those who buy our buildings, high end, middle class, this doesn't change very much. People, of course, at present are frightened, and we have been able to sell apartments and we do believe it will be a good year. But if the next four months will go down, this will change everything, that I have mentioned here.

Q - Alex Ferraz {BIO 18651758 <GO>}

Thank you very much. That was extremely clear.

Operator

The next question comes from Daniel Komparativ (Sic - Gasparete) from Credit Suisse.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Hey, good day to all of you, and thank you for the call. I have two questions by my end. The first refers to cash. We saw in the quarter results a very strong revenue. And what was the result of this operation and which is the growth potential for 2021? If you think that you will be able to lock value as part of your strategy and as part of your company operations?

My second question, and I'm sorry if you have already mentioned this. How do you envision the increase in real estate funding and the market, because of what is happening? The expectation that it will increase throughout the year. Now, how will this impact your buyers? Thank you.

A - Miguel Mickelberg {BIO 20023910 <GO>}

Thank you, Gasparete for the questions. This is Miguel. We had a strong financial result in the fourth quarter, in terms of cash, we had non-recurring results BRL680 million, a BRL100 million in GPL with a lag of 11% with the index of general prices. And this is how we account for the premiums and this is why we had higher results in the fourth quarter. Cash of BRL40 million of financial revenues and the net results were somewhat lower perhaps, but they did give us a good contribution to our P&L.

Now if we look towards the future, of course, the goal is to grow considerably. The competition is here, and the dynamic that we based ourselves on this and in-house dynamic very well known in the business. In terms of the funding rates for individual persons, now the savings is close to 10%. Now if we think of a SELIC of 5.5%, this is still below the 4% that we are expecting. Now the customer rates vary between 6.7% and 7%. And in this scenario, we will have a credit of 270, up to 300 basis points, which is reasonable. And everybody has real estate credit. This is a product that is here to stay. And it also helps in increasing the customer loyalty for the long-term. We are quite enthusiastic with this, and we don't believe there will be an expressive increase. The savings represented 20% of origination in Cyrela. These are customers that transfer units, and all of this was based on (inaudible) and that product will be more expensive because of the SELIC rate that is increasing, and there could be above that product, and we don't know if this product will end up losing its share. But we're not considering a significant threat for the time being, in terms of funding.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Thank you very much. And simply to follow-up, in terms of cash -- a similar contribution towards profit in fourth quarter '20. Now, what will happen this year? This is a very profitable operation. When we look at other fintechs and the market, they are having losses. Now with your fintech we have profit and growth, is that correct?

A - Miguel Mickelberg {BIO 20023910 <GO>}

Yes. CashMe had profit in all of the quarters of the year, it grew in the fourth quarter as well the portfolio has been growing. The CashMe portfolio has delivered BRL680 million throughout the year. It is highly profitable indeed.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Thank you.

Operator

Our next question comes from Gustavo Cambauva from BTG Pactual.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Good morning. Well, in truth, would like to hear more about the market in general. You have spoken about the issue of coronavirus that will be decisive for the future pace of the year. However, if we look at this from the viewpoint of the construction sector, how do you envision the demand at the beginning of the year? And if there is any issue of concern?

Well, something that goes beyond competition and the procurement of land. There were several launches last year, strong launch in the industry as a whole. Therefore, which is your vision in the market as we go forward in terms of competition? And your vision regarding dividends, last year you paid substantial dividends. Now this year, with a low leverage, you will have a perhaps more significant reinvestments in the operation, landbank, lots and much more. Will you be able to maintain dividends that are similar to those of last year? Or how are you going to gauge that in the year 2021? Thank you.

A - Raphael Horn {BIO 19714328 <GO>}

Well, when we speak about demand and we're faced by coronavirus, my personal opinion, of course, my house, my life with a very good demand, CVA with a good demand and the high-end apartments as well, maintaining a very high demand. We are very good, historical moments and this of course is partly due to the structure of Brazil and everything seems to go on. That micro part is not of great concern.

When we speak about the competition, well, competition, you can't have capitalism without competition. And as a whole, the issue of an oversupply is not a problem for five years. We haven't had to do anything. We have a very good demand. And well, we do have good products in the market. But once again, we do not disclose any of this perhaps in other sectors. There will be different types of products and it is very important to know how to position and segment in this scenario, which at present is very good, especially with the products that we are offering perhaps one or another products will have to undergo some changes. But for the time being, things are very good.

And coronavirus is a completely different story. Now if this begins to impact demand, as I mentioned before, Cambauva, to speak about the dividends. In fact, we did in the year with a reasonably low leverage. And you know that, it is not a problem for us to work with

a higher leverage level. We paid out dividends of BRL418 million, which is the minimum mandatory and this already represents 4.5%. When we pay out dividends the leverage goes to 12% or 13%. This is still something that is comfortable for us. On the other hand, we have an acceleration of the operation and we might have greater cash burn to finance our procurement.

Now, if we see in the second semester, that our cash position offers us sufficient leeway going forward, as we did in previous years, we will pay out extraordinary dividends in the second semester. All of this dependent on how the operation will play out during the year.

Q - Gustavo Cambauva {BIO 17329406 <GO>}

Thank you. Thank you very much. Good morning.

Operator

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

Q - Nicole Inui {BIO 17757166 <GO>}

Good morning, and thank you for the call. I would like to go back to your cash. If you could give us more color, more details of the level of interest rates that you're working with. And what is happening with your default rate? That is all. Thank you very much.

Operator

Ladies and gentlemen, if you could please hold. In a few instance we will continue on with our conference call. Please hold on for a few seconds.

A - Miguel Mickelberg {BIO 20023910 <GO>}

Nicole, can you hear us?

Q - Nicole Inui {BIO 17757166 <GO>}

Yes. I do, indeed.

A - Miguel Mickelberg {BIO 20023910 <GO>}

We do apologize. I disconnected my phone without wanting to. Now regarding the cash at present, we work with interest rates of plus 15 per year, and the average rate must be the IPCA plus 11. So this is a very comfortable level for us. We have not had a significant increase, and have been able to manage this very well.

Q - Nicole Inui {BIO 17757166 <GO>}

Thank you, Miguel.

Operator

Our next question comes from Andre Mazini from Citibank.

Q - Andre Mazini {BIO 20377100 <GO>}

Good morning, Raphael and Miguel. The question is about the negative impact of BRL55 million, that refers to land plots and inventory and goes through the cost line item. Now to ask about the landbank in Rio, you have a very vast landbank in that city, and there is a decrease between the second quarter up to present with a PSV that was greater, perhaps greater than what was launched in that location.

Now many of the lands in the Baja [ph], what is going to happen to them perhaps if you want to sell them out if the price would be too high? How can you capitalize all of this? And perhaps this would enable you to decrease the landbank, you have in the Barra. And what are you going to be doing in the future? What is produced in the south seems to sell out very quickly? But what happens if this changes and Baja of course represents a completely different world. So how do you envision this area? Baja and all of this refers to the landbank that you have been Rio de Janeiro? Thank you.

A - Miguel Mickelberg {BIO 20023910 <GO>}

Andre, good morning. This is Miguel. Yes, we have BRL55 million, BRL37 million referring to land in Pontal and Baja, where we had a very high PSV. We had already paid a significant amount for this land plot, but we had future commitments. And we're going to keep only a small part of this land and we have recorded the loss in our accounting. Of course, this had an impact on the PSV of Rio de Janeiro, now if we look at region until January, the Southern region was doing very well. All of the projects we launch was successful and quite a bit of Vivaz and Minha Casa and Minha Vida. In 2020 we did launch products at Baja with a very good result. Now we have been sounding this out to see if we can continue launching, and we're following up on the market. Of course, there can be specific launches now. We launched a product that we began in 2014. And 2020, of course, this could be another alternative to grow in the region.

Q - Andre Mazini {BIO 20377100 <GO>}

Thank you, Miguel. Thank you very much.

Operator

The next question is from Marcelo Motta from J.P. Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I have two questions. If you could speak about trends, the increase in the price of material, not of course have a scarcity but the way you are working, perhaps you cannot accelerate the pace of your works. And if you think that there will be a restriction of COVID in the continuation of construction work, will you have to have perhaps less workers at your worksite, something that we did not truly observe in 2020? Thank you.

A - Miguel Mickelberg {BIO 20023910 <GO>}

FINAL

Good morning, Motta. This is Miguel. When it comes to the gross margin, the last vintages that we launched higher margin than the company average, so we still foresee growth in the coming years. And when you speak about how the cost pressure has an impact on margin with the high end sales, our margins have been protected or caused the company the IPCA. This is how we closed contracts with our customers. Now in Minha Casa, Minha Vida, we don't have that backup of IPCA. We have tended to lose margin and depending on how long this effect expense, the impact of course will be greater or lesser when it comes to COVID and its impact on construction sites. We have been able to maintain very good productivity. We have apartments for people that are over 60, we're following all of the market practices and protocols. And of course we have different periods when people come to work, this has an impact on productivity. But we do not deem these impacts to be relevant, unless of course, the problem is enhanced.

Q - Marcelo Motta {BIO 16438725 <GO>}

Thank you. Thank you very much.

Operator

The next question is from Morgan Stanley.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Hey, good day to all of you. I have two questions. The first, if I could gain an understanding on if you are okay for the coming eight months? Or are you going to have to continue your procurement to be able to carry out the launches that you have planned for the coming two years?

And the second question, which is your vision for the multifamily project, to launch apartments for income? And if this increase in interest rates what it is that you will begin to think of about the projects, your returns in terms of the size of these projects, if anything will have to be changed, because of this pressure? Thank you very much.

A - Miguel Mickelberg {BIO 20023910 <GO>}

Good morning, Jorel. This is Miguel. Referring to our landbank, we like to have the plots for the coming year and a large amount of landbank for the coming year. And this year, of course, we will have to procure quite a bit of land lots for the year 2021. Extending until 2022, we have been able to procure these land plots. Although the market is competitive, this is quite seasonal. When it comes to the multifamily project as you already know, we have four projects that have been planned. We haven't begun work on these, we have a new partner and we will begin work at the end of this year or at the beginning of the year 2022. And once these projects have been delivered, we will have a clear notion of profitability and demand. Of course, higher interest rates will impact this segment. As we mentioned previously, this operation always begins small, this is how we do things. We want to learn, we're not going to occupy a large part of our volume. And as the operation evolves, we learn more and we take more operational decisions to know how big this project will end up being.

Q - Jorel Guilloty {BIO 18291521 <GO>}

Thank you very much.

Operator

The next question comes from Ygor Altero from Santander Bank.

Q - Ygor Altero {BIO 21419045 <GO>}

Good morning, and thank you for the presentation. I have two points here, that I would like to refer to the more restrictive measures that we have, especially in the region of Sao Paulo. Which is your vision of the approval of the budgets by the city hall in this period of greater turbulence. Last year, of course, it was somewhat difficult to deal with the City Hall of Sao Paulo. So, how do you envision this happening?

And if you could speak about, you can offset the losses that you have with the stands us -- stands have been closed and you do need to maintain a healthy level of sales. Thank you very much.

A - Miguel Mickelberg {BIO 20023910 <GO>}

Thank you for the questions, Ygor. Regarding the City Hall, in fact, when we have more restrictions, this hampers the operations of public agencies. Despite all of this, last year we were able to work with our programming and have several launches despite a rather long stop. This year, of course, we can't imagine what will happen if this lockdown is not very long. We should be able to fully comply with our programming, our schedule. If you could repeat the second question please?

Q - Ygor Altero {BIO 21419045 <GO>}

Yes. Of course. The second question refers to commercial restrictions, now that your sales stands, most of them are closed. How do you envision using other vehicles, online sales or other strategies that you can take advantage on? Will you able to hear my question?

A - Miguel Mickelberg {BIO 20023910 <GO>}

Yes, of course. Our brokers have learned significantly how to work online, and we have been using this, a great deal. Recently this helps us minimize the impact. But in the high end and middle end income, we do have several people who like to visit the stands to have that experience, to see the market. And of course there has been an impact. But perhaps one of the learnings of last year is that we're ever -- we're better prepared to be able to mitigate this and continue working this way.

Q - Ygor Altero {BIO 21419045 <GO>}

Thank you, Miguel. Thank you very much.

Operator

At this point, we conclude the question-and-answer session. We return the floor to Mr. Raphael Horn for the closing remarks. You may proceed, sir.

A - Raphael Horn {BIO 19714328 <GO>}

Thank you very much for the call. As citizens, of course, we will have to stay home more to ensure that we have better solutions for Brazil. There will be macroeconomic impacts of course. The increase in interest rates, without a doubt will increase, perhaps to rates of 5% to 6% a year, but this is something historical in Brazil, perhaps. Now Brazil has sound macroeconomic conditions. And of course, we're going to continue working in this direction. Thank you all very much for your participation.

Operator

Thank you. The Cyrela conference call ends here. You may now disconnect and have a very good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.