Q1 2013 Earnings Call

Company Participants

- Armando d'Almeida Neto, Chief Financial Officer
- Rodrigo Krause, Investor Relations Superintendent

Other Participants

- Jason Mollin, Analyst

Presentation

Operator

Good morning. Welcome everyone to Multiplan's First 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 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 management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand the conditions related to the macroeconomic scenario industry and other factors could also cause the results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Rodrigo Krause on behalf of Mr. Peres. Mr. Rodrigo, you may begin your conference.

Rodrigo Krause

Thank you. Good morning, everyone. Dear ladies and gentlemen, thank you for your interest in the disclosure of Multiplan's 2013 first quarter results. I'll start by announcing that based on our 2012 results, we're paying our shareholders the amount of R$183.7

million. Of this total, R$125 million correspond to the distribution of interest on shareholders' equity before withholding taxes, to which we are adding R$58.7 million in dividends.

It is the most relevant payout of profits in the company's history, 23.3% more than in 2012, which in its turn was 45% higher than in the previous year. We are proud to present these results in 2012 year in which we accomplished our greatest effort in the investment in and the inauguration of three new shopping centers, Jundiai Shopping, Parkshopping Campo Grande and Village Mall in addition to the expansion of RibeiraoShopping and the conclusion of commercial buildings in Sao Paulo, Ribeirao Preto and Brasilia. Let's get back to the first quarter of 2013.

From our perspective, the retail market delivered a remarkable performance this first quarter. Sales volume in our shopping centers surpassed the R$2.4 billion mark, exceeding a 19.3% the number in the same period last year.

If we disregard the contribution from sales from new areas, same-store sales went up 8.1% in the same period.

With regards to rental revenue, we saw an increase of 28%, whereas with same-store sales growth was up 11.4%. The levels of rent loss remained at the same levels in low 0.2%, thanks to the inaugurations and expansions delivered in 2012.

We now the highest percentage of GLA under five years in the Brazilian market of shopping centers.

Notwithstanding the significant growth delivered, the consolidated occupancy rate reached 97.5%, even better than the already high 97.2% of the first quarter last year.

We agreed with special satisfaction the results for Village Mall, where sales per square meter reached R$1,045, already very close to the average for the portfolio of R$1,305 in spite to the inauguration only five months ago.

In consolidated terms, our net operating revenue in the quarter grew an outstanding 29%, when compared to the same period last year, reaching the mark of R$169.3 million.

In the shopping center segment, the main focus at our company EBITDA reached R$161.3 million that is 34.7% above the same period last year with a margin of 76.5%.

Net profit reached R$70.4 million, 25% higher than that of the first quarter last year, excluding the sale of Morumbi Business Center.

The company's performance and growth potential were once more recognized by the market in March, when we completed a new offering in a 100% primary issuance with a demand four times greater than the offering itself and raised R$622.4 million.

There was also a significant increase in the company's stock liquidity, but the growth of 21.9% in the daily traded volume in shares.

Our intention is to announce shortly new projects that will be added to those already underway.

The expansions of both BarraShopping and RibeiraoShopping, the conclusion of Parque Shopping Maceio incorporation of commercial buildings in Sao Paulo and Porto Alegre.

Throughout the next months, we will combine two challenges beginning the consolidation of the recently inaugurated shopping centers, bringing them to the same level of performance of the network, at the same time that we develop the next cycle of expansions.

With these goals, we reaffirm the characteristics that made us leaders in our segment, capacity to innovate, incessant search for quality in our projects, operating and managing and above all focus on results for our shareholders.

I couldn't conclude without a word to thank our Directors and team that haven't spared efforts to reach the success of this ambitious program, to the tenants that build this branches and the Multiplan network and to investors that honor us with the confidence.

Our thank you to analysts and professionals here with us today. Thank you for your attention. I ask now that Armando D'Almeida Neto to take over to talk to you in more detail about the results. Armando?

Armando d'Almeida Neto

Thank you, Rodrigo. Thank you Mr. Peres. Ladies and gentlemen, good morning and thank you for participating in Multiplan's first quarter 2013 conference call. Let's start our presentation with the operational performance on page three.

Shopping center sales represented, shopping center sales presented a strong increase of 19.3%, not just basis on the opening of three new malls and expansions of RibeiraoShopping, but also due to the organic growth represented by a Same Store Sales of 8.1%, and Same Area Sales of 8.8%, both growing at a faster pace than the during the fourth quarter 2012.

It is my opinion that is important to analyze not only the percentage growth presented, but also the combination with the already high sales performance in reais per square meter.

Our portfolio average considering anchors and satellite source was of R$1,305 per square meter, compared to the R$1,406 of the same store basis.

In the stores of 1,000 square meters of GLA in size, sales were of R$1,753 per square meter. A few highlights. Shopping Center Santa Ursula presented a sales of 25.3%, RibeiraoShopping with 21.2% and Parkshopping Campo Grande with 16.4% sales increase.

In short, we have a young, high quality portfolio that already present strong metrics in sales performance and is growing at a faster pace than the National Retail Index due to both new GLA being added and for the continuous increase in same store performance.

In the meantime, the demand for space continue to increase as we're going to see on page four to follow.

The Occupancy Rate of 97.5% was up 26 basis points when compared to the first quarter 2012. It is important to emphasize that even with 106.4000 square meters of total GLA delivered last year in the ordinary mix change, we can increase further the Occupancy Rate index.

Our goal is that we can improve throughout the year further raising the bar. One of the changes in the operational front was to see the strong recovery of 13.7% in same store sales, for anchor stores highlighting the segment of Ribeirao with 25.1% and services with 12.3% increase.

Due on the operational front, Occupancy cost were 14.2% as expected due to the opening of new malls, slightly increased through the last quarter expected due to the opening of the new malls, the new area they were added.

While the rental revenue loss improved slightly down to 0.2% coming from 0.3% in the first quarter last year.

Let's talk about gross revenues on page five. In the first quarter last year we concluded an offset of our sale called Morumbi business center in the city and state of Sao Paulo for the price of R$165 million. 152 million of the sale were recognized during the first quarter. And for a better comparison or better transparency, we are excluding in the coming pages the sale of this asset, so we can have better figures, better comparison for the other revenue lines.

Gross revenue and once again excluding the selling of Morumbi business center grew 26.7% with emphasis on the 28% increase in rental revenue and a 34.7% increase in parking. Both revenues rental and parking were leveraged by the new mall openings on top of organic growth.

By the way, the new mall openings also triggered the accrue of key money revenues that went up by 43.7%. With focus on our main income line, rental revenue, they once again increased 28% in the first quarter 2012 compared to the first quarter '13, boosted by the same store rent of -- let me start the sentence again, I mixed up some of my words.

With a focus on our main income line, that is the rental revenue that once again increased 28% in this first quarter 2013, and was boosted by the strong same store rent of a 11.4% and the new areas added.

With regards to rental, we have a few more points to explore. I'm on page six, my apologies for moving so fast. First and about the real increase of 4.3% on top of the inflation adjustment effect.

That figure was higher than the 3.9% presented for the first quarter 2012 and was also higher than a simple average for the past five years that is 3.7%. So with strong yield increase, rental increase on top of the inflation adjustment effect.

A second point is about the rental increase of consolidated malls, when compared to the rental increase of new malls.

BH Shopping and I'm calling new malls, malls with five years of operation or less. BH Shopping's rental revenue increased 27.2% and Parkshopping in Brazil increased 16.6%. While in the other side, the newer malls BarraShopping were 14.2% and Shopping Center Ursula 16.1% [ph], that's a good mix between consolidated and new malls rental growth.

Another interesting point is the 12.7% difference that you can see on the top right figure on page six, is a 12.7% difference in rental revenue per square meters.

When comparing the portfolio average to the average when excluded the new malls with five year or less in operations.

So, basically we're excluding from this calculation the malls from BarraShoppingSul, (inaudible), ParkShopping Sao Caetano, Jundiai, Village Mall and Parkshopping Campo Grande just to see the gap, the growth opportunity that we have in the rental revenue, when we exclude from the portfolio those new malls.

And that gap can be even wider when you compare the rental revenue of the new malls only with the consolidated malls.

So then this gap can go to 56%. And this is a gap that we believe we can be significantly reduced throughout the years due to the co-segments of our portfolio homogeneity and the high quality of the new malls that were recently delivered.

On page seven, we will talk about results and starting with the NOI and as was expected, planned, the shopping center expenses went up 35.6%. And it's due mainly represent R$6.5 million, and was due mainly to the initial effort to promote the new malls, the new shopping centers delivered.

Under normal circumstances, new malls present lower margins, we all know that and we are confident that those higher shopping center expenses will decrease throughout the year.

The R$6.5 million increase in shopping center expenses is relatively small when compared to the R$47.6 million increase in the revenues of the NOI. The bottom line is that NOI increased by 29.1%, with NOI margin practically unchanged at 88% against the 88.5% presented in the first quarter 2012, in spite of all the new area and the new malls opening.

One of the questions we got, if I'm not mistaken was during the last quarter was about the same mall NOI. So, we brought some information that may be helpful. The first quarter same shopping NOI that was for 13 shopping centers was 15% higher than in the first quarter 2012.

And with a margin of 90.4% better by 260 basis points, just to see that the growth was not coming only from the young new malls, but malls that been in operation at least for the past 12 months or longer.

One of the question -- on page eight, we will talk about continuing results and talking about the EBITDA analysis, but starting by G&A.

Our G&A expenses presented a significant decrease of 22.3%, due mainly to a reduction in non-recurring items and provisions recovers.

Even if we exclude the non-recurring factors, the increase in G&A would have been of a mere 4.3%, running behind the inflation for the last 12 months of 6.6%.

G&A margin was 8.9% and just to highlight that the service revenue or the portfolio management activity of the company, the revenues on the portfolio management activity was 25% higher than the full figure of G&A expenses.

In other words, the income with portfolio managers was enough to support our fixed cost.

New products expenses were also well behaved at 4.4 million, significant below the past few quarters and also as a result of the mall deliveries. In sum, we have shopping center EBITDA of R$161.3 million, with a 33.7% increase and a 76.5% margin. The company presented in this first quarter 2013 a significant margin improvement for both consolidated and shopping center EBITDA.

On the next page of number nine, when we exclude the last year sale of Morumbi business center, the net income of R$70.4 million went up by 25%. Even considering the leverage increase that was one time net debt EBITDA in the first quarter 2012 to 2.8 times in the first quarter 2013 and also the increase in depreciation due to the new average that were added.

The FFO went up by 10.7% reaching R$102 million. The last 12 months FFO per share presented a meaningful improvement in this first quarter give or take 3.5 times the amount presented in the first quarter 2009.

On page ten, starting by the indebtedness. Our net debt EBITDA ratio at the end of the first quarter was at 2.8 times with a net debt of R$1.6 billion.

The cost of debt came down a 157 basis points in the last 12 months, were 13 basis points lower when compared to the last quarter, currently at 8.95% per annum. As already mentioned in the letter by Mr. Barnes, our shareholders meeting approved distribution of R$183.7 million of interest on net equity and dividend, a new landmark for the company.

And also to conclude in the next pages we will show some pictures of the products under construction that too added to an order 20% increase in our GLA just in 2013.

Before we turn to the Q&A session, I just want to briefly mention about the accounting announcements call CPC19 Revision Two that equivalent to the IFRS 11, in which discussed on the account of methodology for joint ventures and joint operations.

So we brought in our earnings release a few pages detailing the information on this accounting pronouncement, the impacts on our balance sheet and then financial statements and also disclosing how we treated the information, the managerial information on the earnings release. So we have more information on our press release.

And I will turn to the operator to start the Q&A session. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) And our first question comes from Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. I wanted to follow-up on some of the data you just mentioned. You spoke about the NOI and NOI margin for malls. I believe you said open for more than one year. If you can again provide those numbers and give us some color on the drivers for those malls, it was one year that they opened up, correct, it was 13 malls you mentioned?

A - Rodrigo Krause

That's correct Jason, good afternoon, Jason. We have 30 malls that were in operation 12 months before and now and they presented us 15% increase in the NOI stores, same mall NOI calculation what we want to show. And as I also mentioned they had a margin increase of 260 basis points to NOI margin of 90.4% [ph].

Q - Jason Mollin {BIO 1888181 <GO>}

Can you give us some of the drivers for that growth that's I mean same store rents or other services et cetera?

A - Rodrigo Krause

Sure. Well, main drivers were the increase in rent or embarking as well we see increase flow in almost and also there was some expenses reduction especially when you get to ParkShopping Sao Caetano they opened in November 2011 is part of the calculation.

So is a young mall and certainly started with higher expenses, shopping center expenses that will reduce it throughout the year 2012 and this first quarter '13.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much.

Operator

(Operator Instructions) And our next question comes from Mr. Jason Mollin with Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

I'll just ask the second question, if you can maybe give us an update on the competitive outlook, I mean your occupancy looks very strong, your operational numbers look very strong. So maybe if any kind of comments on the supply of new mall coming to market and how that might impact your property.

A - Armando d'Almeida Neto

Jason surprise to have you back. First how we think, we think very long-term and it's very hard for you to predict any market scenario or the scenario specific to retain a very long-term. So what is our hedge, what has been our experience in this 38 years in operation with Multiplan?

Two, when bring a new mall, just invest in quality, invest in high quality and that's what we've been doing and we -- you can I mean I hope you realize that walk in our malls, we've been improving our quality for each of the new malls.

So, and that's what we did last year, we brought three new malls to market (inaudible) 25% on GLA increase last year. So we focus very much in deliver a product that was even better than we planned initially, okay?

And this is the hedge. So this is the hedge for the new mall opened that you see in the market for this GLA expansion in Brazil. But I also wanted to highlight, that you see clearly a migration of the street stores into the shopping center business by their increasing market share of the shopping center companies and that the shopping center in general to the national retail.

So it's clearly proven, especially when you look at the longest series I would say from 2003 when the index was created until now. So, and again, if you have the combination of this increasing demand for space in malls and having good malls, this is a good hedge to follow.

We like retail, we like the retail with the metric -- when you consider the metrics that we have in our shopping centers. It's not about how fast you're growing percentage wise, it's how much you're actually selling in a square meter basis and then you add the percentage growth.

We also like the mixed use strategy we have, we think the mixed use is also hedge because you create not just a mall, but a complex like we did in Sao Paulo, in Morumbi we embarked Cidade do Rio de Janeiro, like we're doing (inaudible) and offices surrounding and the residential building and the many products that we have to the region like (inaudible) and we will do more not just expansion, but more of real estate. So we like this strategy, we think this is a perfect mall creating a strong consumer, loyal consumer flow of walking, step into the mall consumer floor, this is also very important. Hope I --

Q - Jason Mollin {BIO 1888181 <GO>}

That's all. Thank you.

A - Armando d'Almeida Neto

Hope I answered your question.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much. Have a great day. Congratulations on the results.

Operator

(Operator Instructions) Now I will turn over to Mr. Armando d'Almeida Neto for final consideration, Mr. Armando, you may give your final considerations.

A - Armando d'Almeida Neto

Well, I want to thank you very much for the audience, for the interest, for the trust in our company. So we've been working hard to continue to deliver the strong growth the company presented and being have been presented in the past years. And so again thank you for your time. Thank you for your interest. Have a great day.

Operator

This concludes today's Multiplan's First Quarter 2013 Earnings Conference Call. Thank you for your participation and have a good day.