Conference Call Transcript
3Q14 Results
Aliansce (ALSC3 BZ)
November 12, 2014

Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Aliansce 3Q14 Earnings Conference Call. Today with us we have Mr. Henrique Cordeiro Guerra, and Mr. Renato Botelho, CFO.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question-and-answer session for investors and analysts. At that time, further instructions will be given. Should any participant need assistance during this call, please pres *0 to reach the operator. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of the Company's management and on information currently available to the Company. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Henrique Cordeiro Guerra, who will start the presentation. Mr. Henrique, you may begin the conference.

Henrique Cordeiro Guerra:

Hi everyone, thank you for joining our call this morning. Despite an environment marked by more challenging macroeconomic conditions and by non-recurring events, Aliansce's portfolio delivered solid operating and financial figures in the 3Q14.

Total rent revenues increased 13.5% to reach R$94.1 million during this past quarter. Our NOI increased 13.8% to reach R$107.7 million and adjusted EBITDA grew by 14.4% to reach R$92 million. The adjusted FFO was of R$44.4 million in the 3Q 2014.

Same-mall-NOI expanded 8.3%. NOI margin was 91%. The adjusted EBITDA margin of 74.8% was highest in the Company's history. The margin levels are indicative of the Company's ability to seek greater efficiency and to benefit from the gains of scale. The sale of ownership in Santana Parque Shopping resulted in a gain of R$83.6 million in the 3Q14, without tax consequences this sale.

This past quarter we witnessed a slowdown in the pace of same-store sales and same-store rent. In the 3Q14, same store sales and same area sales were 4.7% and 5.3%, respectively. Same-store rent and same-area rent were 5.7% and 6%, respectively.

In addition to low economic growth, a series of non-recurring events impacted retail sales in our properties. In July, several of our malls had to close during the World Cup matches. Infrastructure work to improve roads and urban transportation around some of our properties, as well as the construction of expansions, also affected the number of visitors to our malls. However, we see these assets in the future benefiting from improved access and tenant mix resulting from the expansions.

Our debt structure is proving to be resilient in this environment of greater macroeconomic uncertainty. Approximately 83% of the Company's debt is indexed to low volatility indices. We had virtually no increase in debt during this past quarter and in our cost of funding. The increased cash generation provided by our portfolio is expected to contribute positively to our leverage ratios in the future. The disposition of non-core assets may add to this process.

We are following a cautious approach to growth. Despite the under penetration of retail in Brazil, we would like to see signs of a renewed cycle of growth before engaging in new developments. We are focusing on the delivery of a pipeline of expansions in the next 24 months that will add 36 thousand sqm to Aliansce's own GLA.

Aliansce's internal growth potential is significant. Given their size, strategic positioning and a comprehensive tenant mix, we believe that our properties carry significant growth potential.

With that I would like to ask everyone to turn to the presentation section of this call. As we begin usually, I would like to begin first by discussing our operating metrics, and then we will move transitioning to the financial highlight section of this presentation.

Beginning, as we usually do as I had mentioned, with the overview of our portfolio, we have 19 malls in operation, 446 thousand sqm of owned GLA, 41% of this GLA has less than five years of operating history. We have 32 malls in total under management and planning and a presence in all regions in the country, with exposure to all major income segments.

I think it is important to highlight that the formats, the retail format that we have focused as a Group here is with large regional malls that are the dominant malls in their trade areas. That is what we look to own and hold in our portfolio.

Shifting now please to page three. We will begin with the operating highlights section on the left hand side. Our sales expanded by 18.1% between the 3Q13 and 3Q14. We had a CAGR here, as you can see, between the 3Q10 and the 3Q14 of 19.4% in terms of total sales expansion. If you consider the 9M14, in relation to the 9M13, we witnessed total sales growth of 20.4%.

On page four now please. Our occupancy rate for the Company was of 97.2% in the 3Q of this year. Our mature assets showed an occupancy of 98.5%, while our newer malls showed, the ones that have less than five years of operating history, showed a total occupancy of 95.3%. Our occupancy costs stands at 9.8%. The mature assets were 9.9% and newer generation assets, younger malls with 9.4%.

On page five now, I think it is important when we look at our story, when we look at our young portfolio as we see assets ramping up, I think the Aliansce portfolio is well anchored by assets that have proven to be very resilient and also show a lot of growth potential.

We have currently five assets representing 60% of Aliansce's NOI in the 3Q14. These assets hold a lot of potential still. Two of these assets have less than five years of operating history. The average sales per satellite or in-line tenants per sqm was of R$2,100 approximately.

If you consider the average age of these assets, it is 14 years, so even considering our assets that are more established, we still see significant growth, the healthy relationship of occupancy cost about 70 b.p. below the average for the portfolio, for Aliansce's portfolio.

In the 3Q14, these assets as a group, they had sales per sqm, that were 22% above the Aliansce's portfolio. If you are consider in-line tenants and the occupancy costs, as we can see on the right hand side is 70 b.p. lower than the 13.2% for Aliansce's portfolio. I think this shows the potential that we have for future rent increases in the periods ahead.

On page 6, on the left hand side, we see that revenue breakdown for rent, rent represents 72% of our overall revenues. Within the rental revenue, minimum rent represents 81%, stands and kiosks 10.7%, percentage rents 8.2%, parking represents 15% of our overall revenues, represented during this 3Q14, services rendered 8.4% and the contribution of 4.2% of key money to our overall revenues.

Growth revenues increased 13.6% between the 3Q13, and 3Q14, it is important to highlight that at the end of last year in the 4Q, we opened two malls, so the organic growth was responsible for a portion of this growth, as well as the contribution of these malls or the newer malls, as you see on the upper right-hand side of the page.

I would like to ask you please to shift to page seven, continuing with the financial highlights section of the presentation. On the upper left-hand side, our rent revenue has increased between the 3Q13 and 3Q14, 13.5%. Same-mall-rent per sqm increased 8.9%, and rent per sqm 7.4%.

On the right-hand side, as we had mentioned earlier, I would just like to highlight that there is a table here that excludes the impact that we have had from one property which has been going through a significant transformation, I think, there is no other property there I can think of in our portfolio that has ever had so much happening to it within one fiscal year that has been the Via Parque property.

We have changed the façade of the mall, the mall has been without one movie theatre, without any movie theatre complex during the year of 2014. We have added new restaurants to the mall, a new gym, numerous stores, and we have also renovated a significant portion of the mall, but on top of all the construction work involved in these expansions and complementary tenant mix, and rebuilding a movie theatre, there is significant access work that is being done by the municipality of the City of Rio to boost the transportation, urban transportation system as well as roads that will provide greater accessibility to the mall.

But this obviously has resulted in an impact in the short term. That has impacted the number of visitors and the traffic flow to the mall, resulting in a low drop of sales in relation to last year and has had an impact is our ability to raise rents in that property.

We expect, in the future, that the property will benefit from all of these changes and that we will be able to recover, not only a significant portion of the investments that have been made, but also this will be captured through higher rent increases in the future.

Same-area rents, as we see in the 3Q14, for the portfolio was 6%, if you exclude the impact

Via Parque it was of 6.3%, and the World Cup in July, it was of 6.9%. Same-store rent, the same trend was in the 3Q14 5.7%, 3Q14, excluding the impact of Via Parque on the consolidated numbers and of the month of July, we have same store rental growth 5.9% and 6.7% respectively.

On the lower left-hand side of the page, we again see the breakdown of the contribution of minimum rent, percentage rent in mall and media through the evolution of our rental revenues.

The other point that is important to highlight and I will be able to comment on that later in the presentation is that we see a very positive trend. Aliansce has a younger portfolio than its peers in the sector for several years. And we have seen gradual pickup between the average rent per sqm in our malls and that and the average for the industry. So this difference has been reduced, and we expect this trend to continue.

Moving on please to page eight. I would like to comment on our NOI and NOI margins. Our NOI growth was of 13.8% in the 3Q14, similar growth rate if we consider the 9M14 in relation to the same period of last year. Same-mall-NOI growth was of 8.3% in the 3Q of this year.

On the lower right-hand side of the page, we look at the increase in our NOI margins from the 4Q13 to the 3Q14, 8.2 p.p. increase, as we have seen our assets, particularly the younger assets in the portfolio, achieving higher occupancy and higher productivity per sqm, resulting in higher NOI margin.

On page nine now please. Our EBITDA and EBITDA margins, the adjusted EBITDA for the Company was of R$92 million in the 3Q of this year. This was 14.4% growth compared to the same period in 2013. Our adjusted EBITDA margin was of 74.8% in this past quarter. This is an all-time high figure for us. Our EBITDA margin increased 3.3 p.p. in the last three years, and we see this on the lower left-hand side of the page on the bar graphs and also on the right-hand side of the page, the expansions since 2011.

Adjusted net income on page ten and FFO. Our adjusted net income was R$ 71 million in the 9M14, R$25 million in this quarter. Our adjusted FFO was of R$44 million in the 3Q14 and R$128 million in the 9M14.

We got an impact here that we try to show in our adjusted FFO, where we have gone from a period last year, where we had a significant amount of debt that had grace period on the payment of interest. As a result, we have a higher disbursement of interest connected with these loans that were very important to bring about the growth of the Company, particularly as we developed and opened five new malls during the 2012 and 2013 periods.

On page 11, please, our expansion pipeline, a significant growth avenue for the Company, has been for some time. We have a portfolio that has significant growth potential by way of expansions, and in spite of this more challenging environment for retail, we think that expansion still provide very attractive alternative to growth. They bring scale to our properties, allow us to calibrate and refine the tenant mix.

So, we have 36,300 m² of owned GLA, with expected opening until the end of 2016 as we see here on both these pages. We also, on the top table, the expected NOI and IRRs for these expansions, a very attractive alternative for us to allocate our capital.

Continuing now on page 12, growth drivers. I had mentioned the expansion, we are boosting the size of seven malls that have an average occupancy rate of 98%. The net CAPEX should be invested, until 2016 will be of approximately R$142 million. On the lower portion of the page, we show what the expected increase is in the GLA of the Company, from the opening of these expansions until the end of 2016.

Now on page 13, please, I would like to shift to our balance sheet. Our total debt at the end of the 3Q14 was of R$1.9 billion. Our cash position was of R$360 million, resulting in a net debt of R$1.58 billion.

On the lower portion of the page, we see our principal amortization schedule. I think we have a very comfortable position, not only in terms of amortization of our debt, but also in the way that this debt has been constructed and the way, the architecture fundamentally of our balance sheet, where we have a great majority of our debt index, the low validity indices, the TR rate being the principal index for our debt. This is shown on the pie chart on the lower right-hand side of the page.

On page 14 now, please. There are a series of financial and operating performance indicators here. We will be happy to discuss any aspect of our presentation and of the Company's operation and finances with my colleagues that joined me here today.

I thank you for your patience and interest in this call, as I welcome any questions that you may have.

Operator:

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Henrique Guerra for any closing remarks.

Aliansce:

Thank you. I would like to thank everyone for their participation on the call today. We remain available should you need any further clarification. Have a nice day. Goodbye.

Operator:

Thank you. This does conclude today's presentation. You may disconnect your line at this time, and have a nice day.