1Q19 Earnings
Rodobens (RDNI3 BZ)
May 10, 2019

Operator:

Good morning. Welcome to RNI's earnings conference call to discuss the results of the first quarter of 2019 (1Q19). With us today are: Carlos Bianconi, Co-CEO, Chief Financial & Investor Relations Officer; Alexandre Mangabeira, Co-CEO of Property Development; and Felipe Rodrigues, Investor Relations Coordinator.

We inform that the event is being recorded and translated simultaneously, and that during the Company's presentation, all participants will be in listen-only mode. We will then begin the Q&A session for analysts and investors only, when further instructions will be given. If you require assistance during the conference call, please request the help of the operator by pressing *0.

The event also is being broadcast simultaneously via *webcast*, which can be accessed at ri.rni.com.br, where the presentation is also available.

We also clarify that any statements made during the conference call regarding RNI' business prospects and its operating and financial projections and targets are based on the beliefs and assumptions of the Company's management as well as on the information currently available. They involve risks, uncertainties and assumptions, as they refer to future events and, therefore, depend on circumstances that may or may not occur.

Investors are cautioned that the conditions of the overall economy, industry conditions and other operational factors could affect the future performance of RNI and lead to results that differ materially from those expressed in such forward-looking statements.

I will now pass the call over to Mr. Carlos Bianconi, who will begin the presentation. Mr. Bianconi, you may proceed.

Carlos Bianconi:

Good morning, everyone. Let's start with the highlights of RNI Negócios Imobiliários in 1Q19. The highlights of our Company's performance in 1Q19 include gross sales, which came to R$106 million, surpassing all quarters of 2018.

The second item was the decrease in cancellations of 40% and 21% in relation to 4Q18 and 1Q18, respectively. Average monthly cancellations in 1Q19 was R$8.7 million, the lowest level since the IPO. So, the volume of cancellations has fallen substantially, and we aim to keep it around this level or even lower.

Net revenue amounted to R$79 million, which represents year-on-year growth of 57%, which is the strongest increase reported since 3Q16. Adjusted gross margin for the new model, in other words the products under the Company's new strategy, stood at 25.1%, which also supported total adjusted gross margin, which stood at 18.8%.
General and administrative expenses were R$9.5 million in 1Q19, representing a decrease of 10% from 4Q18 and stability in relation to 1Q19. We adjusted the Company's structure and are effectively managing and controlling this adjustment without influencing the generation of new business.

Despite the decline in adjustment indexes and the non-recurring interest expenses, the net loss in 1Q19 decreased by 16% year-on-year, to R$9.8 million. The indexes we mentioned here are the portfolio adjustment indexes, such as IGP-M and IPCA inflation, which were negative in the first quarter, which automatically decreased the restatement of the portfolios held by the Company.

The net debt index (ex-production debt)/Net Equity was a record -15%. The Company's net debt corresponds to -15% of Net Equity. This means that we currently have more cash than structural debt, which attests to the quality of our current debt, 88% of which is related to the Company's production.

The gross margin of backlog revenue (REF) expanded by 4.1 percentage points. In other words, the Company's launches, which are growing – and just as a reminder, we launched R$199 million in 2017 and R$323 million in 2018 – have already for some time now been generating backlog revenue, which stood at around R$157 million in 1Q19 and is growing.

This growth corresponds to 25% compared to prior periods, with the launch of new products and of a new cycle of projects. In theory, we are talking about the generation of backlog margin with growing margins.

Let's turn now to the operating results. In terms of sales, contracted gross sales in 1Q19 came to R$106 million, while net sales amounted to R$80 million. Corroborating the Company's key points, this reflects the reduction in the volume of cancellations, of R$26 million, and the R$80 million in net sales, which represents growth in comparison with 4Q18 and the whole of 2018.

Breaking sales down by segment, most sales still come from SBPE. We still have some inventory remaining from SBPE launches, which we are selling. And although we discontinued the Subdivision segment, we still have some revenue from it. And the share of the My Home, My Life (MCMV) segment has been growing, and please remember that it is mostly concentrated in brackets two and three, with R$13 million, compared to R$9 million in 4Q18. So, we have resumed launches of MCMV products, which include both vertical and horizontal projects.

Breaking down cancellations by segment, units cancelled are still predominately in the SBPE segment. Most cancellations in 1Q19 were concentrated in the SBPE segment, which is still associated with sales from some time ago, but today mainly involve exchanges of units, substitutions, downgrades and upgrades. So, whenever there a cancelation, it is replaced by a more recent sale.

Going now to our operating results, you can see the evolution in inventories at market value, with total inventory closing 1Q19 at R$481 million. Broken down, the inventory is currently composed of R$132 million in MCMV projects and R$282 million in SBPE projects. The SBPE inventory starts with Super Economic, so it already contains horizontal SBPE projects. Just as a reminder, when we talk about inventories, we are talking about total inventory, which includes products being launched and products under construction.

In 4Q18, the total inventory stood at R$573 million, so we reduced the inventory by 16% and improved the performance of the inventory turnover ratio already in 1Q19.

Looking at inventory by launch year, this R$481 million is concentrated in 2018, which accounted for R$184 million; and with 2017 accounting for R$96 million; with the inventory becoming less concentrated and losing importance the further back we go.

Looking at the inventory in terms of the timing, in other words, when will construction of these units be completed, R$116 million or 25% of the inventory in represented by finished units, which is typical for our industry. So, our inventory, which in the past was much more significant, today stands at around R$118 million. And R$373 million or around 75% of the inventory consists of units under construction, in other words, associated with projects that are starting construction or at some percentage of completion.

And these projects will be completed as follows: R$83 million still in 2019; R$174 million in 2020, and R$106 million as of 2021. And this inventory associated with launches will grow as we launch new projects. Consequently, there is also growth in backlog margin, in other words, revenue from future periods.

Moving to the Income Statement, net revenue was R$78.9 million in 1Q19 compared to R$50.1 million in 1Q18, representing growth of 57%.

Gross profit was R$10.6 million in 1Q19, compared to R$5.6 million in 1Q18; with gross margin of 13.1% in 1Q19 compared to 11.3% in 1Q18.

Selling expenses are under control, despite the growing sales, as already shown by our gross and net sales and automatically net revenue. Selling expenses were R$6.6 million in 1Q19, compared to R$6.7 million in 1Q18. So, we sold more without increasing expenses and, although variable, these expenses continue to decline as a ratio of revenue. Of course, this behavior will not necessarily continue, but will depend on how the market behaves and on our sales efforts.

G&A expenses were R$9.4 million in 1Q19, compared to R$9.4 million in 1Q18. Note the stability between quarters, which means we accommodated inflation between periods, which once again demonstrates the control and management of our costs, especially our structural costs.

Equity income was R$72 thousand, which is low, virtually zero, compared to the loss of R$153 thousand in 2018. Automatically, this is related to projects with partners that did not contribute net income. Meanwhile, the Company posted a net loss of R$9.8 million in 1Q19, compared to the net loss of R$11.7 million in 2018.

Let’s turn now to the summarized financial results, the 1Q19 income statement. Revenue was R$78.9 million in 1Q19, compared to R$50.1 million in 1Q18.

Gross margin expanded from 11.3% in 1Q18 to 13.46% this quarter, which substantiates our strategy of maintaining gross profit and automatically the growing quality of our projects.

Adjusted gross margin was 18.7% in 1Q19, excluding financial costs and the Business Plan, compared to 20.53% in 1Q18. So there was a slight decrease in the adjusted figure, but reported gross margin expanded 2%.

Net income from the controlling shareholder was a net loss of R$11.7 million in 1Q18, compared to R$9.8 million this year. So once again the net loss improved by nearly R$2 million between quarters, or 16%.

In terms of cash and net debt, I want to remind everyone of the Company's strategy to deleverage, monetize assets and improve the quality and management of its debt, with the cash position standing at R$137 million in 1Q19. Compared to both 4Q18 and 1Q18, this is the Company's highest cash position.

Meanwhile, the debt position stood at R$377 million, and the main aspect of our debt quality and profile is that R$332 million is production financing. Of course, we are talking about a company that is resuming growth, so automatically production debt has to grow, which is healthy debt.

Breaking down this R$ 332 million, Plano Empresário accounts for R$69 million, and CCBI/DRI, which currently is less expensive than Plano Empresário, accounts for R$263 million. That explains the predominance of CCBI/CRI, which also is production debt – and all of them are real-estate financing – to support growth directly linked to the business, our SPEs, with the appropriation of assets.

In terms of bank debt, as we said earlier, we are talking about a swapped 4131 of R$45 million, also at a very low cost, one of the best in the market. So, this represents the Company's smallest structural debt position in relation to all prior quarters and years.

Automatically, we arrive at R$240 million, with net equity of R$616 million, for a ratio of -15%.

So, we have a net cash position and solid financial conditions that leaves the company ready to grow, with cash in hand and no debt pressure.

Why do I say no debt pressure? Because of the debt maturity schedule. And it is mostly production debt: the R$9 million, the R$27 million in 3Q19 and the R$49 million in 4Q19. This is all matched to the transfers of units in the portfolio or the receipt of payments. So, there are no bullet maturities. The 4131 financing is still far off, with R$22 million in 1H20 and R$23 million in 1H21. So, that is the Company's financial position.

Reiterating, from the financial and structural standpoints, the Company is ready and able to grow. And that is what we will be doing going forward.

I'll now pass the call over to Alexandre Mangabeira, who will give the closing remarks.

Alexandre Mangabeira:

Good morning, everyone. Briefly touching on our take on the market and the Company's strategy for the rest of the year, in early 2019, we observed slightly stronger sales demand, with most customers showing higher confidence, as demonstrated by the stronger growth in our sales compared to last year.

There is still favorable prospects for passage of the social security reform, but we believe that for the segment we are focusing on – My Home, My Life – this will have little impact. Demand for MCMV always was and will continue to be stronger than for SBPE.

In terms of the Company's strategy, we opted to no longer work with vertical SBPE projects in the regions we want to operate. These are projects whose prices in these regions are a bit tighter, so margins end up being slightly lower.

The landbank that we have for these projects we are going to sell, partner with someone who is interested or eventually cancel the agreement. So, we are intensifying even more acquisitions of landbank in the MCMV segment for both horizontal and vertical projects to achieve our goal of launching, within the next two or three years, around R$1 billion.

In terms of launches, we had planned to launch a project in 1Q, but it got delayed due to difficulties in obtaining the necessary approvals, but we expect the launch of two projects in 2Q. In the year, our expectation is still for a reasonably larger volume than last year.

We are now available for the Q&A session.

Operator:

Since there are no questions, I will hand the call back over to Mr. Carlos Bianconi for his closing remarks. Please, Mr. Bianconi, you may proceed with your closing remarks.

Carlos Bianconi:

We closed 1Q19 with the figures we just presented and remain at your disposal though our IR channel and through Felipe Rodrigues.

We continue to focus on resuming growth, with a focus on the My Home, My Life, predominately in bracket three and bracket two; and on low-income horizontal projects in the SBPE segment. We continue working to develop projects and to improve profitability, hoping for, especially with the pension reform, improvement in the business scenario.

We are very confident and believe strongly in Brazil and in the recovery of our growth and the Brazilian economy. Warms regards and thank you.

Operator:

Thank you. This concludes RNI’s earnings conference call for the first quarter of 2019. You may disconnect now. Have a good day.