1Q20 Earnings
Rodobens (RDNI3 BZ)
May 14, 2020

Operator:

Good morning. Welcome to RNI's earnings conference call for the first quarter of 2020 (1Q20). With us today are: Carlos Bianconi, CEO; and Felipe Rodrigues, Investor Relations Manager.

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 streamed live via webcast, which can be accessed at ri.rni.com.br, where the accompanying presentation also is available.

We also clarify that any statements made during the conference call regarding RNI's 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. Welcome to our conference call. This forum is very important for being able to pass on to you our message and details on the company's key numbers and their behavior in 1Q20.

Let's start with the period highlights. Our main highlights were the growth in sales in the My Home, My Life (MCMV) segment in the quarterly comparison. So, as I already mentioned in prior events, our strategy to increase mass and share in the MCMV segment is making progress. So, we registered solid growth in sales in this product line.

Our land bank reached a total potential sales value of R$5 billion at the end of the quarter. So, we registered growth in this line. And this land bank is mostly concentrated in the MCMV segment, in Band 3, especially 2 and 2.5.

Another highlight was our net financial income, which amounted to R$6.8 million, which was due primarily to the IGP-M index, which increased in relation to other months and was stable year over year.

The average rate of production debt decreased, which led to a reduction in the financial cost of production, of the business plan and of funding for execution of 2 percentage points on a year earlier.

Meanwhile, backlog net margin broke through 30%. So, the Company's strategy is aligned with its products, which are registering margins of 28%, 30%, 31%. So, we are achieving future results of 30%, with our sales accompany our construction execution. You will note later that for most of our projects we have not yet started construction. So, these projects still are not being reflected in our income statement. But this backlog margin is being created and soon we will begin recognition based on PoC and be able to see this in our results.

I'll now turn the call over to Felipe, who will go over our operating and financial results. Felipe?

Felipe Rodrigues:

Good morning. Let's start with our operating results, on slide 6, which shows our launches. In the quarter we had only one, in fact, two launches, with on project, High Redentora, and only the fifth phase of a subdivision project in Goiânia.

High Redentora is a lower-income SBPE project in the Vila Redentora district of São José do Rio Preto. It was launched in January with potential sales value of R$56 million. By the end of April, it was already 35% sold.

We had two other projects to launch, both in the MCMV segment, one in Goiânia and the other in São Paulo city, but we suspended both due to the pandemic. For these projects, we have conducted virtual meetings, are accompanying demand in the markets and will launch both projects as soon as conditions improve.

Turning to side 7, you can see some photos of High Redentora, which is a lower-value SBPE project with an average ticket of around R$340,000.

On Slide 8, you can see quickly our net sales, which posted reasonable growth on the prior quarter of R$76 million, with the sale turnover ratio going from 7% to 10%. The sales highlights in the quarter were precisely High Redentora, which we launched in January, and the launches we made in 4Q19.

Highlights in net sales in the quarter were, that two-thirds refers to products that were recently launched or for which construction has not begun, and with only 6% of finished units in stock. Later, you will understand better why this information is important.

The good news on sales is that the launches we made in 2019 are registering a good sales turnover ratio, which supported growth this quarter.

Let's go to the next slide, which shows our inventories. Inventories moved relatively sideways in relation to the end of last year, down 2%, impacted mainly by the drop of 9% in MCMV inventories. Given the lack of launches, the MCMV segment registered good turnover, with inventory falling 9%.

On the other hand, inventory in the subdivision segment grew 22%, from R$54 million to R$65 million, due to the small launch of a phase in the project in Goiânia, but mainly due to the net negative sales that we reported in the subdivision segment.

However, as you can see from the chart of inventories by year of sale, our inventories are still very recent. Half was launched as of 2019 and as of 2018, already under the new strategy.

The inventory consists only of 14% finished units and 70% units with delivery scheduled for 2022 and onwards, which means that, despite the sideward move in inventory, it is still very young. Most of our inventory is still under construction. So, our current level of finished inventories is no source of concern.

Let's turn briefly to our financial results in the quarter. On slide 11, you can see our income with a comparison of 1Q20 in relation to 1Q19. Net revenue declined by 29%, which unfortunately represents the accounting adopted for our industry.

First, the fact that I mentioned, that 66% of net sales refer to products recently launched or for which construction has not begun, which still have low levels of PoC, means that the revenue from these sales is reflected in our backlog margin. These are future results that will be apportioned as construction progresses on these projects.

Another factor that affected revenue was the suspension of construction due to the pandemic. Certain projects were shut down in late March and early April, which also affected the PoC of these projects.

The projects that we launched in late 2019 that were scheduled to start construction now in the first quarter were not begun, which also affect their revenue recognition.

And, lastly, only 6% of sales were of finished units. For comparison, in 1Q19, 36% of sales were of finished units. Sales of finished-units have their inventory recognized in full at the time of sale, and this percentage was very low in 1Q20.

On the other hand, although net revenue declined by 29%, gross revenue was relatively stable, growing by 2%. What does that mean? That under our new strategy the profitability of our products has increased. Gross margin expanded by 6 p.p., which confirms that these new products are registering higher profitability that we first expected. And as the new cycle of products gains share in our net result and our legacy products decline, gross margin expands over time.

A negative highlight in our income statement was equity income, which fell by R$-2,5 million. Recanto das Emas, which is a partner project, reported negative net sales in the period.. The project already has been delivered, so whenever cancellations exceed sales, that significantly adversely affects the line equity income, which was the case in this first quarter.

More than offsetting this effect, in our net financial result we always consider IGP-M to be like M-2. So, the acceleration in IGP-M inflation in November and December was very significant, which supported the receivables portfolio, leading to a very strong financial income result in the quarter.

The combination of these factors led to a net loss attributable to the controlling shareholders of R$7.3 million, down 25% from the net loss in 1Q19.

On slide 12, you can see exactly how the decline in net revenue can be explained by the sales mix, with products with lower PoC generating lower revenue and more backlog revenue, which will be apportioned over the life of the construction project.

Slide 13 presents a very interesting analysis. The green line is backlog margin, while the blue line is adjusted gross margin. Today, adjusted gross margin is precisely tracking backlog margins in 1Q19, which means that gross backlog margin reflects our future margin. In other words, backlog margin this quarter will translate into gross margin next year with the apportionment of results.

So, gross margin expansion, which broke through 30% this quarter, is pointing to margins next year that are even higher or at least at the same level,

And this is borne out by Slide 14 precisely by the expansion in gross backlog margins going forward as new projects are launched and become integrated into our future results.

Last, you can see our cash and debt, with the cash balance declining sharply from the end of 4Q19 to the end of 1Q20, which was due to the operation we carried out in March. We repurchased CRIs issued in 2017 and carried out a new issue, in a transaction with two legs.

However, the first leg occurred in the week of the pandemic, and the second leg, which would be the reimbursement, was ultimately suspended, given the restrictions on all banks. Nobody understood the scenario, and the second leg never happened, which is why we ended the quarter with such a low cash position.

However, the operation is already in the process of being disbursed, with R$40 million bolstering the cash balance now in May, with the level normalizing.

RNI also carried out a CCB issue in April in the total amount of R$50 million, which is part of our conservative stance to protect our financial position in order to weather the pandemic, whose length and intensity still remain uncertain.

During the period, cash consumption was R$50 million, which is a natural level for the business. We are in a period between launches and expect our cash position to normalize over the course of the year. We expect our cash position to equalize this year, despite the cash burn in the first quarter.

Note that we have three deliveries of SBPE projects over the course of the year, one of which was made in the first quarter. So, we expect strong cash inflows from the transfers of these projects.

With regard to the credit portfolio, we are following up on a case-by-case basis all requests for waivers and cancellations. Of course, delinquency should begin to rise, but remember that RNI has a crisis committee, with all financial and cash-preservation measures being taken.

So, despite the highly complicated and challenging moment that will spare no one, we are ready, always monitoring the situation and seeking measures to mitigate the effects.

Lastly, in closing, we want to highlight all the support that we have received from the Brazilian Association of Real Estate Developers (ABRAINC) and from the Caixa Econômica Federal with the measures they implemented. which have been of great help to the industry in general.

So those were RNI's results. I'll now hand the call back over to our CEO, Bianconi, for his closing message. Thank you and see you next time.

Carlos Bianconi:

Thank you, Felipe. In closing, I want to go over some points that I believe are the pillars of how our business is being run in the situation that we are now experiencing.

The first point is that implemented effective monitoring from the very start of the pandemic, which we have maintained, with systematic meetings being held every week. This monitoring, which is conducted through our crisis committee, is proving effective for dealing with COVID. We discuss the business, discuss a lot cash, because cash is extremely important and we must preserve it, implementing activities and guidelines at the Company to preserve cash, which during a crisis is the main commandment. Obviously, we have to take precautions on all fronts.

We are holding virtual meetings. And you may have seen in the article published today in *Valor*, our sales performance via the digital channel. Our origination is very strong, as also is our conversion, which is because of our company already having its entire portfolio functioning on the digital platform.

So, we are operating everything from the origination of a lead to the transformation of this lead into an end consumer, into a life, with even the contract being signed electronically. We are conducting our activities with the full support of the digital channel, which conveys and provides all of the required level of safety to the customer. The customers, from their homes, has a virtual experience, with a virtual tour to get to know the decorated unit, all from their smartphone, and even can close and execute the sale.

Supported by these virtual meetings, we are carrying out two pre-launches. We are conducting an evaluation of the market through a pre-launch and pre-sales, and not an actual launch. The products are the Nova Jaçanã project in São Paulo and the Estação RNI project in Goiânia.

We are making use of these tools and making good progress through this channel. The trend is to intensify with each passing day. It is a very efficient and productive channel with a very interest cost level.

With the digital capacity to keep our sales team active and motivated. We are working with House and partners. We have our own brokerage House and partner brokerages in all cities where we operate.

And we are managing to carry out this digital transformation very dynamically and quickly. The motivation of the sales team has in some points even surpassed our expectations. We thought that we would have encountered resistance, but, to the contrary, the adoption has been nearly unanimous.

In parallel, we also have the support of Caixa Econômica Federal and Abrainc, which has provided much support to the sector. They have managed important achievements and very important advances for the construction industry. And we, especially because of MCMV, and the regions in which we operate, always have made very clear that, due to the new strategy that we adopted starting in early 2019, the macro-regions and regions in which we are operating all focus on the interior of Brazil and on the agricultural sector. And the MCMV product has been very resilient. Even our low-income horizontal projects have delivered a very satisfactory performance.

The competitive advantages of RNI is that we are located outside of major urban centers; that the MCMV and horizontal SBPE products have proven resilient, as I just mentioned, and profitable. We understand that we have a housing shortage in our country, predominately in the bracket of MCMV, which is first-time buyers, which is exactly where we are positioned, and in horizontal SBPE, which are units with an average price of R$280,000 to R$350,000, and which have delivered satisfactory performance in terms of sales and profitability.

with attractive multiples. We are a Company that also offers excellent price to book value, with RDNI3 trading today, influenced by all that is happening in stock markets, at 0.4 times book value. We are a company that has much more to offer than this ratio of 0.4. We continue being a company that is highly attractive to investors.

That was what I wanted to say to you today.

Felipe Rodrigues:

Bianconi, before we go to the Q&A session, can I read you two questions that arrived via webcast?

Carlos Bianconi:

Please.

Felipe Rodrigues:

Christian Bojlesen is asking about the equity income from the subdivision projects in Goiânia, precisely the R$-2.5 million on the income statement. He asked for you to comment on how RNI is seeing this over the coming quarters.

And Marcelo Maturano, also a shareholder, is asking if any the macro-regions outlined by the Company have already reactivated their economies?

Carlos Bianconi:

So, on the first question, Christian, thank you for your question. The project in Goiânia is a low-income lot subdivision project. So what caused this reversal in equity income? It's because we had a cancellation of 100 lots there. In March, we had the cancellation of 100 lots and sold almost nothing. It was a month of repositioning. The portfolio of these 100 lots deteriorated, delinquency rose and they were cancelled.

When you carry out a cancellation, it's because the project has very high margins, and automatically, because the unit is ready and has been delivered and all, any cancellation that you carry out for which there is no corresponding sale, your result is affected.

It is a project in which we have a partner, in which we hold 50%, and this portfolio should tend, we believe, because of the current situation, maintain this behavior of renegotiations and some cancellations. Not in this same proportion, but we are expecting a trend of this kind. But, already in April, we sold 24 units. So, in April, we already had a positive trend in subdivisions.

It's a characteristics of this product. You are tied to the behavior of the customer. You have this portfolio and sometimes it adversely affects a bit the result. We have been monitoring this and closely following the renegotiations and the conditions of customers. We have a collections team that monitors this daily.

On the second question, Marcelo, thank you for your question. Of the macro-regions in which we operate, the ones that we already have activated, where we have launched products, they are in the Midwest, specifically Cuiabá, Rondonópolis, Várzea Grande, these macro-regions already are beginning to open up again. Our sales performance is in line with our expectations. Sales have not fallen, because these are regions that have a certain resilience because of the importance of agriculture.

Goiânia is where the subdivision project is located, which is managed by our partner, not us, but we are also testing a product in this market, with announcements in the newspaper and it is, as I commented earlier, a MCMV product. We are observing that there is a market for our products, that the market is active, and are conducting tests. Base on the volume of interest and the registration of customers, we have observed a satisfactory performance.

Remember that we did not have any product whatsoever. We acquired the lot last year, approved the project and now are almost ready to launch the first product.

Meanwhile, the other macro-regions, those of Rio Grande do Sul, Santa Catarina and the interior of São Paulo state, have been maintaining levels systematically. We have products. In São José do Rio Preto specifically, we have São Marcos, which is performing, which is a vertical MCMV project; we have Green Home, which, as Felipe said, is one of the SBPE products that we are delivering now and which has registered good sales. Now we will accompany the conversion of sales into bank transfers, for amortization, as usual.

We also have Rondonópolis, which is another vertical project with good performance this year, and we are converting the individuals and delivering the keys now, for amortization; and we also have Arvo Lacerda Franco, in São Paulo.

So, in general, in these main macro-regions, we are more building our backlog. With the exception of the products whose evolution we have been accompanying, which are sales and construction execution, we are very confident that, if we have more adverse effects from the pandemic, and we expect Brazil to recover as quickly as possible, we see the possibility of building a solid result.

And you can see that in the curve of past sales, as Felipe said, 66% of sales were of products whose construction has yet to begin. We have Ourinhos, we have Palhoça in Santa Catarina, we have Cuiabá, which is a MCMV project, and we have Rondonópolis.

In all these projects, we are starting construction now, and we accelerated the start of construction, given that there are a series of concessions. Caixa Econômica Federal created a six-month waiver to create a buffer given everything that is happening. So these projects will start in September. Then they will begin to be felt in the income statement through the PoC of these products.

In general, because we are exploring so much the digital channel, given the solid conversion, we envision the macro-regions remaining stable and contributing to the Company's overall income generation.

Felipe Rodrigues:

We also have a questions from Regis. He asks, "in these times of low interest rates and COVID-19, what is RNI's view with regard to real estate once again becoming an excellent investment asset?".

Carlos Bianconi:

Thank you for your question. It’s a great question, because real estate, the Brazilian home, our home has now become our safe harbor. It always was, but now more than ever, because of the pandemic, we all are working from home, and we do some activities outside the home, but while taking important health precautions. And this is also happening at our ongoing construction projects. We only have one project suspended, which is Pacatuba. All other construction projects are advancing normally, with all the precautions and monitoring.

Today, our main product is a horizontal condominium of low-income housing, under MCMV bracket 3. The homes themselves are now being used intensely, because of working from home. But this has also locked us up in our offices.

And our home condominiums offer a place to decompress. So, our customers are working from home, they are in the home units, but they can take advantage of the common area, which offers an important space in which to decompress. So people can take a walk around the common spaces Unlike in vertical housing units, where they end up more restricted and focused on their home office.

So, we are thinking a lot about this issue of decompressing, which already exists in horizontal condominiums. But we are creating spaces precisely for that use, which are spaces with more green and nature where people can breathe in some fresh air and then go back to work inside their home.

So, the housing units are smart and optimized units. They offer floor space characteristic of the sector, with units of around 44 to 50 square meters, but they offer greater well-being because of the space they have in the yards, in the common spaces and in general.

We have thought about this a lot. We already have been thinking more about quality of life for the MCMV customers that have purchased an RNI housing unit, which offer exclusive areas with lots of 119 and 121 square meters, where normally they expand their built-up area in their backyard with a special recreational area. And then they also have all of the common spaces of the condominium to make use of.

On this point, a lot of value is created for the customer, which is lower-income, and it is very important for our Company for them to be able to use their property intelligently and with more well-being and health.

Felipe Rodrigues:

We have a final question from Fernando. He asks if construction works have been suspended, which you already have answered, but he also asks if RNI already has observed any increase in mortgage rates.

Carlos Bianconi:

As for construction, I want to repeat that our projects have registered no cases of COVID-19. We are taking the temperate of all employees and service providers. We are conducting monitoring. All new employees and new contractors undergo an initial triage. Depending on the people with whom they interact once they leave the construction site, their family members, they receive a differentiated treatment. So, we are following 100% of health protocols.

With regards to mortgage rates, I don't have any precise data, but given the cut in the Selic rate at the last meeting of the Monetary Policy Committee (COPOM), and the expectation for further cuts, which is what we have been hearing. And I think that rates, instead of increasing, will tend to remain stable, or may even decline. We do not have this information, but that is what the market is expecting, especially given that financing costs have fallen.

We already were expecting a cut in MCMV rates because of the mismatch with the SBPE. Since the program's launch, in 2009, MCMV rates have been from 8% to 6%. And the expectation is for them to fall considerably.

But because of the pandemic we are experiencing, and because of the new expectations for the future that change every day, I prefer to work with what we have right now, which is the credit capacity of the customer today, their income capacity, and the rates that are being offered by banks, especially Caixa Econômica Federal and Banco do Brasil.

Operator:

Thank you. With no further questions, I will pass the call back over to Mr. Carlos Bianconi for his closing remarks. Please, Mr. Bianconi, you may proceed with your closing remarks.

Carlos Bianconi:

I want to thank everyone for listening today. I also want to say that we remain firm in the development and growth of our products; in the massification of our products and in the recovery of our profitability, as you can see by the numbers, which have yet to be directly reflected in our income statements, but because of PoC this will intensify with the progress of construction projects, starting in September.

And we have construction projects already ongoing that are still not 100% products under the new strategy. We have cycles that are ending and cycles that are starting.

And our condition today, with a low level of finished inventory, as you saw in the presentation, our proportion of finished units, which is what actually has a cost, we are at around 14% or R$93 million, compared to 86% or R$579 million of units in production.
Today, we are a Company that is ready for the digital world, already operating on the digital front, which offers our customers greater comfort and convenience to negotiate, of course, in compliance with the parameters of the programs and banks.

We have made great strides and hope to advance much more, because that is the path we, as Brazilians, as a Brazilian company, know that lies ahead, but we never imagined how much we have leveraged the use of this tool over the past 60 days, and we are very pleased. We have had various cases, customers as well, and the feedback has been very strong in terms of satisfaction with the Company's performance.

Today, we are preparing projects to launch. Of course, we will always follow the studies, the supply of market share, before we launch a product with the important health precautions.

At our sales stands, we always offer both physical and virtual options. Customers who want additional information and to schedule a meeting with our specialist, by complying with all the health requirements and protocols, we can serve them at our stand, provided that we comply with all requirements and limit the number of people. So also on this front we are taking all the precautions.

And monitoring the path of income. Today, that is one of the most important data points. We believe that, as soon the post-COVID world emerges, we can emerge from this stronger than when we entered.

And one of the main commandments of the Company: cash preservation. All our actions are focused on preserving cash to ensure our solid financial position and the continuous of all the Company's businesses.

I want to thank everyone and hope that we continue this dialogue. Our IR channel is always available to exchange ideas on whatever we can, with the regulatory requirements. Warm regards.

Operator:

Thank you. That concludes RNI's earnings conference call for the first quarter of 2020. You may disconnect now. Have a good day.