4Q19 Results
RNI (RDNI3 BZ)
March 12, 2020

Operator:

Good morning and welcome to RNI's earnings conference call for the fourth quarter of 2019 (4Q19). With us today are: Carlos Bianconi, Co-Chief Executive and Chief Financial and Investor Relations Officer; Alexandre Mangabeira, Co-Chief Executive Property Development Officer; and Felipe Rodrigues, Investor Relations Coordinator.

We inform that this event is being recorded and simultaneously translated, 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 need assistance during this conference call, please request the help of an 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 go to the highlights of the fourth quarter and full year 2019 for RNI Negócios Imobiliários.

To start with, launches totaled R$371.1 million in 2019, signifying growth of 42% in the MCMV segment. The company has been focusing on the MCMV segment as per the strategy defined.

Net sales grew 26% in 2019, driven by the 109% growth in the MCMV segment. This ratifies the focus of our operations.

Addition of PSV of R$ 1.2 billion to the land bank, ending 2019 with land bank of R$ 4.9 billion, of which 67% is targeted at the MCMV projects, once again changing the characteristic of the Company's land bank, directing the focus to 80%. We already have implemented 67%.

Net Revenue in 4Q19 was the highest since 3Q16; we are talking of three after 2016. In the year, revenues totaled R$319.8 million. This means growth of 75% in relation to 2018. This is another very important point.

Adjusted gross margin in 4Q19 was 38.9%, was driven by the booking of the sale of a piece of land that no longer belonged to the Company's core product. So, in the year, adjusted gross margin stood at 30.2%, already reflecting the entry of products of the new strategy; products that are focused on the My Home, My Life segment, bands 2 and 3 on a priority basis.

Talking of the structure, the ratio of G&A to net revenue was 12.7%. This shows very serious management of SG&A, the structure and the machinery, meaning the lowest index since 2014. The idea is to grow business volume and not necessarily the structure at the same proportion. The idea is to maintain control always.

All this led to net income of R$5.3 million in 4Q19, the highest since 1Q16, marking a turning point for the Company, which posted net income of R$1.6 million in the year after three consecutive years of net losses.

We also reduced average production debt by 1.7 p.p. We improved the financial conditions of production, as well as financial expenses through debt portability and renegotiations, seizing opportunities in the new macroeconomic scenario. We are always alert, looking for opportunities to improve the interest curves, financial expense curves, and always adapting ourselves to the new reality of Selic.

We registered growth of 6 p.p. versus 4Q18 in Gross margin of backlog revenue, that is revenue to be recognized, which reached R$121 million in 4Q19. This already reflects the entry of products in the current model, products launched since 2H18, and much of it concentrated also in 2H19, though with lesser impact in this case, especially because of the pace of sale, it being the year-end, but which will contribute a lot in 2020.

These are the main points about our Company worth highlighting, from the launch to the development of projects. I now turn the floor to Felipe, our IR manager, who will discuss the operating and financial results with you. Felipe?

Felipe Rodrigues:

Good morning, everyone. Moving to slide 6, to talk about the operating results, launches in 2019 were highly concentrated in the fourth quarter. Launches in the 4th quarter totaled R$300 million, bringing the total PSV launched in the year to R$371 million, up 15% from 2018. Also important mentioning here is the 42% year-on-year growth in My Home, My Life (MCMV).

Another highlight on slide 6, which provides details of the projects launched, was the Company's strong return to Mato Grosso and to Santa Catarina. In Mato Grosso, we launched three projects: Origem Várzea Grande, in the second phase; Parque Ohara RNI in Cuiabá; and RNI Moradas Clube Vicente Bissoni in Rondonópolis; and the return to Santa Catarina was RNI Green Club launched in Palhoça. We also launched Ourinho in the interior region of São Paulo and Cipreste Jardim Botânico, a vertical SBPE in Ribeirão Preto. Those were the launches during the year.

Moving to slide seven, which shows the sales figures. Though sales volume grew in comparison with the 3rd quarter, from R$51 million to R$55 million, the inventory turnover ratio declined.

The decline in the pace of sales is due to the concentration of launches in the final quarter, especially in the final month. Since the bulk of sales of these projects did not enter December but moved to 1Q20, these projects registered low VSO, which should normalize during the course of 2020. However, this low VSO affected consolidated VSO, which fell from 10% to 7%, and which we expect to recover in 1Q20.

However, we closed the year with net sales of R$ 240 million, for growth of 26%, driven not only by the significant reduction in cancellations but also by the 109% growth of My Home, My Life. The sales highlights of 2019 were the developments Origem Várzea Grande and Green Life São Marcos in Rio Preto, Morada das Flores in Pacatuba and Green Home in São José do Rio Preto, which accounted for half of these net sales.

With regard to inventory, on slide eight, we can see that from 3Q to 4Q, there was a significant growth of 52%, also due to the launches in the final month but without the respective sale. So, a sizeable part of these new launches is fully entering this inventory that ended in December.

Another important point is that half of our inventory today is represented by the My Home, My Life segment. In 3Q and 2Q this number was around 20% to 25%, but today it is already half, which shows that the operational numbers are in line with the strategy defined for a stronger presence in the My Home, My Life segment.

And below, in the second graph on the aging of this inventory, we can see that it is a recent one, with 70% launched since 2018. It’s a large inventory still in progress and the chart on the right proves just that - only 13% of our inventory is concluded, the rest is in progress. In 2020, we have PSV of R$ 99 million to deliver, which are Green Home, Green Life and Arvo Lacerda Franco in São Paulo, and Green Club in Rondonópolis.

Talking briefly about the Company's financial results, on slide ten about the net revenue growth in both the quarterly and annual comparisons, which reflects the growth in sales and the strong pace of construction work on the projects we launched in 2017 and 2018. The high PoC of these works, with a good percentage of sales, boosts the revenue line in the income statement. The reduction in cancellations also reduces the financial impact on revenue.

Moreover, in the last quarter, we also sold a non-core area that was not in alignment with the strategy, and this sale generated a gain for the Company and boosted revenue. We ended the year with revenue growth of 75%.

Gross Profit has accompanied this volume growth, while margin remains stable in the annual comparison. Recalling that in 2018 too, we registered non-recurring sale of areas and we had contract amendments; both in 2018 and 2019, we had non-recurring effects that helped the Company’s profitability.

Talking of selling expenses, we notice an increase in the quarterly comparison due to the concentration of launches in 4Q19, whereas in 2018, it was weaker. The 2% decline in the annual comparison, which is a question of product profile, because in 2018 we launched at the start of the year Arvo Lacerda Franco, which is a middle income project, Green Club, a middle-income project and Green Home, launched in November 2017, was also a middle-income project. Thus, 2018 was marked by marketing efforts targeted at a product that demands more selling expenses: SBPE. Since this year our focus was on My Home, My Life, which is a lighter product in terms of selling expenses, we saw this slight decline.

One of the highlights of the results, which Bianconi already commented, in the chart below is G&A, which decrease in both comparison periods. This is very important for us as it shows our rigorous control of costs and expenses. Despite a 75% growth in net revenue, G&A declined 5%. The company's machinery and structure is optimized and prepared for this growth in the coming years.

As for equity income, net sales at partners have been declining since there were no launches. Since 2016, there was no launch whose revenue was recognized under equity income. At the end of the year, we launched Cipreste Jardim Botânico, and in January we launched High Redentora. So henceforth, the equity income line should start recovering in the coming periods, impacting the results.

All this, revenue growth combined with cost control and profitability, enabled the Company to register net income of R$ 5.3 million in the last quarter, and to a point of inflection in the Company's results. In the year, we registered net income of R$1.6 million, after three years of net loss. We managed this turnaround in the results.

Slide 11 has a more macro image of this. Revenue has been growing in the comparisons. Profit has been growing in line with this volume, though financial income is falling significantly in the annual comparison due to the weaker IGP-M and the reduction of portfolios. Nevertheless, the operating income from sales and constructions enabled this turnaround in the Company's results.

Slide 12 shows the historical figures. We can see that, in the accumulated net result, after several years of loss, we managed this turnaround and now the trend is for the result to grow.

Talking about the balance sheet, on slide 13 we have the backlog revenue. We can see that between 4Q18 and 4Q19, backlog margin rose 6 p.p. This is the result of the products in the new strategy, whose profitability is higher, the products launched since 2H18 seeking the range that we have been telling the market, with gross margin between 28% and 33%. This starts to be reflected in the Company's future revenue and that is why the Company's gross margin should be between those 28% and 33%, going forward. Backlog margin already proves this.

And finally, the slide on debt. The growth of the Company's debt is always linked to production and that's important for us. Corporate debt remains intact and all our leverage is linked to production. So much so that, if you analyze net debt excluding production debt / PL ratio, it is negative. So, the corporate debt today doesn't scare us, it is the production debt and is natural to the business. Though we used cash of R$70 million during 2019, it was used up in construction works, in operations and production.

It's also important to mention that in 2019, we settled R$170 million. We renegotiated debts, transferred debt to cheaper interest banks, settled a few expensive debts and seized a few opportunities in this scenario of 4% interest rate.

So, production debt is still the biggest portion of debt, representing 88% of total debt and should continue this way in the coming periods.

I will now hand over the call to Alexandre Mangabeira, for the closing remarks. Thank you.

Alexandre Mangabeira:

Good morning, everyone. To conclude the presentation, we have to talk about our strategy.

First, commenting on the performance of launches in 2019, our expectation was to reach R$ 500 million. Unfortunately, two projects that were expected to be ready by the year-end ended up slipping. One of them, High Redentora in Rio Preto was launched but the other is still in the process of registering the incorporation. In 2020, we expect a much higher growth proportionally than we had in 2019.

Regarding our macro-regions, which we have been commenting on for some time now, the team has already been assembled. We have land buyers and approvers, all set for the launches to be carried out in 2020. It's a great team. So, I believe we will have launches distributed throughout 2020 and concentrated at the end of the year.

In with regard to the land bank, we made a major change. You can see in the chart that the My Home, My Life already accounts for a significant portion of the total land bank. We discarded a few projects and acquired new pieces of land. There is still a vertical to horizontal relationship, I believe it's half each, and the trend for the long run is that we will focus a more on the horizontal.

We are doing this because the approval process for horizontal is slower. We cannot depend only on it now, so we are including something vertical in our pipeline, at least for the next two years. But in the future, the residences project is much more than buildings. We will always do both but maybe the share of horizontal will be higher.

Basically that's it. We will now open the Q&A session.

Pedro Zaniolo, Condor Insider:

Good morning. Thanks for taking my question. My question is about the outlook for you this year considering all that is happening. We have entered 2020 with prospects for GDP to grow 2.5% more or less, and now, with coronavirus, oil, the stock markets melting abroad, we are already seeing this number dropping to less than 2%. We are in March and it could drop even further during the year. How would this affect your estimates for this year and next year? Thank you.

Carlos Bianconi:

Good morning Pedro. Actually, in 2020 we are seeing the stock exchange in a scenario that we have not seen in recent times. We believe that the news have been worrying; something happened yesterday, And more happened today. The stock exchange suspended trading twice already.

Talking about our scenario and our business, we have projects that were already launched and we have an attractive VSO in 2020. As I said at the start of the presentation, at the end of the year, we had launched the main MCMV projects that had been planned for 2019. This should have happened towards the middle of the year in order to better use the VSO, but we launched these projects at the end of the year.

And now, in the first quarter of 2020, we are seeing some interesting performance due to a few reasons. The main reason is that interest rates are favoring the inclusion of clients in long-term borrowings.

Another point that began in 2020 and is helping us a lot is that we are outside the Rio-São Paulo-Belo Horizonte axis. All these projects were launched within the macro-regions that Mangabeira mentioned a while ago. So, we have been dealing with demand, I don't mean pent-up demand but which is a little more interesting than in large centers.

And our product is also a differentiated product. We are talking about a horizontal condominium of low-income houses - My Home, My Life. We also launched two verticals, one of them in the agribusiness and a horizontal also in the agribusiness.

We are taking advantage of this pragmatic scenario in Brazil. As you know, our six macro-regions are most located in the interior regions of Brazil, where actually the crises happen, but not with such intensity.

But of course, there a point of attention. We are monitoring but we are focusing on the Company's growth, because demand exists, the product is better, the market is better, income levels have returned, Brazilians have income, and there is the macroeconomic scenario, which is really drawing attention. But we are highly confident and are working to maintain and grow the Company's results.

I'll hand over to Mangabeira to make a few comments about your question.

Alexandre Mangabeira:

Pedro, here's my opinion. Brazil's macroeconomic fundamentals are solid. Obviously, the issue of coronavirus mainly affects the capital markets but I actually see an opportunity. We are already talking about a possible reduction in interest rates; discussions are already going on, including the possibility of reducing interest rates for My Home, My Life. The question of a person's confidence in deciding to purchase property could have some influence; but at the same time, if you look at the drop in interest rates, it's an opportunity.

I don't see any increase in unemployment, which is the biggest hindrance for our segment. Even if GDP drops, we won't have this issue of unemployment. Perhaps companies may reduce investments, I don't think there will be unemployment. So, we won't have major distortions for our segment.

And I think that this issue of coronavirus is making everyone desperate but I think it will go way quickly.

Pedro Zaniolo:

OK. Thank you.

Carlos Bianconi:

There's another point from Christian. Christian, thanks for the question, but I noticed that you said that we had already answered the question; that basically your question was along the lines of what Pedro from Condor first asked and whom we thank once again for bringing up this issue.

Christian, it's actually a little bit of all that we have been talking. Today we are living a moment that is different from what we have been living recently. But, as Mangabeira mentioned, it's more of a macroeconomic condition. And we are dealing with the client that has income, and who wants to buy, which is an investment.

Today, we have a very favorable scenario and we believe, considering all that we are seeing in the Brazilian financial scenario, that everything should remain the same or improve.

So, we rightly chose these six macro-regions, where we always operate, and noticed that since these six macro-regions are located in the interior of Brazil close to agribusiness, they oscillate very little. Our volumes are growing, we have been growing; in January, we sold some, in February we improved further and in March we are improving even more.

So, we will have some progress. As Mangabeira commented, we already have a few launches in 1Q20, unlike in 2019, when we didn't have any launch until June. We had just one launch in June 2019. In 2020, we already started off better equipped in this regard.

Well, that's it. Thanks for the question.

Operator:

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

Carlos Bianconi:

We will go through the key highlights of the Company. Synthesizing our business in light of all that happened, all of you who follow our management, our company and our philosophy, what do we see today? We see a Company with extremely low debt.

Our bank debt, when we look at our balance of debt excluding production, it's -10%. That's is very good. It places our Company in a very important position. We were in the turnaround stage and now it's just growth.

So, with regard to the financial aspect, the financial result we achieved during the year reflects just that. We reduced the Company's operating costs and financial expenses and put it in a highly competitive position.

We developed products, about which we already have strong know-how. We produced 66,000 units in all of Brazil.

So, all of you who cover us, feel free to send your comments through our IR channel. Felipe is always at your disposal to give you the numbers and comment on them, or talk about the future or about what is happening today. I know these are strange times at the stock exchange, in the macroeconomic scenario - not the microeconomic scenario - which is where we are, but we are very confident.

We are prepared, we have funding, we have credit, we have various products being approved, we have projects in the conclusion stage and in the process of obtaining RI, and we are already going to the launch and contracting stage.

So, I thank you all and we remain at your disposal to talk about the Company's figures, as well as the macro- and microeconomic scenarios. Warm regards and until next time.

Operator:

Thank you. That concludes RNI’s earnings conference call for the fourth quarter of 2019. You may now disconnect.