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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to today's Neinor Homes Full Year 2019 Results Presentation. For your information, today's conference is being recorded. (Operator Instructions) I would like now to turn the conference over to your speaker today, Juan Gómez Vega. Please go ahead, sir.

Juan Gómez Vega *Neinor Homes, S.A. - General Director of IR*

Thank you. Good afternoon. We are here today with our CEO, Borja Garcia-Egotxeaga Vergara; and our Deputy CEO and CFO, Jordi Argemí.

During today's call, we will present the annual results for fiscal year 2019. The presentation of today is divided in 4 sections. First, we will see the business and financial review of 2019. Secondly, we will present what we believe is a step to enter into the biggest residential opportunity. The launch of Neinor Rental a new business line. Thirdly, we will confirm our guidance for 2020, and we will review our ESG efforts.

At the end of the call, as usual, we will finish with a Q&A session.

With this, I will leave you with our CEO, Borja Garcia-Egotxeaga Vergara.

Borja Garcia-Egotxeaga Vergara *Neinor Homes, S.A. - CEO & Executive Director*

Good afternoon, everyone, and thank you very much for your time.

I want to take all of you back to April 2019, when I took over the role of CEO of this company. At that time, I gave you 5 very important messages.

First, we said that Neinor was a profitable company, with the objective to achieve an EBITDA of EUR 70 million in 2019. Today, I am proud to tell that we exceeded all our targets, and we achieved EUR 104 million of adjusted EBITDA. We also mentioned that margin protection was a top priority for the company. And we were able to exceed our gross margin target too. And this wasn't an easy job, we dealt with construction companies in tough situations or even going bust. We dealt with cost inflation. But we have the muscle and experience to handle these situations. The results are in front of you. We made more money, that is 30% gross margin exceeding expectations. We also said that we had full visibility on our business plan. And today, we continue to do so.

We have 80% of our land bank under different stages of development. We are a developer with plenty of visibility for the upcoming years.

The fourth message that we work -- the fourth message was that we will keep our focus on investor's profitability and dividend distribution.

Today, I am proud to tell you that we are anticipating our first dividend of EUR 40 million that will be paid on a quarterly basis during 2020, which means EUR 0.51 per share.



And the last and most important message relates not to 2019, but for the future of Neinor Homes. We said and confirm today that we see plenty of opportunities to exploit the company potential.

Today, this means Neinor Rental. We will go over this further down the presentation. But for now, I will just reinforce the message that we are making a big step to enter in the biggest residential opportunity out there.

As you can see, we have been working hard and fully focused on execution. And today, it is a pleasure to show a solid performance reached by the company. So now we will take a look to the operating highlights of the company. Following this, I will give the word to Jordi and he will go in detail through the financials. Then I will come back with an overview of the status of our business plan and zoom into our land acquisition strategy.

So now if you please move to Slide #6. Starting with the development activity, the company has equivalent of 11,000 units of one of the best land banks in Spain, with more than 5,000 units of work in progress and finished products.

During 2019, we not only delivered close to 1,300 units, but we are also able to request and obtain licenses and start new constructions to get full visibility for upcoming years.

We'll see more information later on.

On our commercial activity, we see a strong demand in our markets. I encourage you to go through the Page 20 in the annex, which shows the manners who play in our markets.

Not only there is a big gap, but that gap is increasing. We are sitting in the growth areas of Spain. On top of this, we keep improving our innovative go-to-market and our Neinor stores.

The technology, which allow us to get 85% from our leads online. All these allow us to have more than EUR 900 million of presales and allow us to exceed our presales targets in order to give further visibility to our business.

The margin protection. I already commented on this. We have dealt with cost inflation with problems with construction companies and so and we resolved them all.

And we're able to make even more money for the company.

Moving on to our servicing business, it keeps generating great positive EBITDA, with EUR 22 million during 2019 and revenues of EUR 32 million, fulfilling our business plan.

Moving forward to the next slide, Jordi will give you a deeper view on the financials that I quickly mentioned before.

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

Thank you, Borja. You have the key data points of the P&L in Slide #7.

As already commented, we have closed 2019 with revenues of EUR 489 million and EBITDA adjusted of EUR 104 million. Given, it means EUR 34 million of additional EBITDA. And this is the result of the combination of the following 5 factors.

On one side, the HPA captured under control over the construction costs have implied a gross margin of 30% versus the 28% guidance.

On the other side, we have notarized almost 70 additional units versus the minimum target. Since we have been able to anticipate the delivery of 2 developments from the North, Leioandi and Abra.

Third, we have been able to achieve more profitability for unit notarized, thanks to the OpEx optimization plan implemented during 2019.

Fourth, we have sold a land plot in Cañaveral capturing full margin that was expected in the business plan for 2021. And fifth, and last factor, servicing business line has achieved an EBITDA record of 68% versus the 50% to 60% guidance. And coming back to the slide, last caption of the P&L. Positive net income of EUR 64 million. And here, it's important to say that it includes a voluntary impairment of around EUR 10 million for the legacy product. Excluding this impairment and just focusing on the core business, the net income should have been almost EUR 75 million.

Now if you look at the right-hand side of the slide, you will see the comparison between these numbers and the results achieved in 2018.

And as you will see, we have increased development revenues by 41%. We have multiplied by almost 2x EBITDA adjusted, and we have increased the net income by 28% and excluding the voluntary impairment, it should have been 50% increase.

So basically, from a P&L perspective, we have done a great 2019, accomplishing and even exceeding our commitments. And with a change in the mortgage law in the middle of the year, which has extended [unfortunately] timings by 1 month. This is definitely a big step to continue improving confidence from the market.

Regarding the balance sheet, we have ended with a very strong cash position, EUR 130 million of cash, excluding the deposits received by the clients.

We said during 2019 that we were not in a rush to acquire land, that good opportunities would come sooner than later. So as you can see, we are very well prepared for this 2020.

Regarding leverage, only 16% loan-to-value. This is below our guidance and also below last year 2018 that we had 19%, and this is mostly explained by the strong cash position in our balance sheet just commented.

Also, as every year, we perform a new valuation. This has resulted in a GAV of EUR 1.65 billion, NAV of EUR 1.25 billion and a net NAV of EUR 1.2 billion.

As commented at the beginning, this means our net asset value per share of EUR 16.3. And this means more than 60% upside compared to our current share price in the market.

And finally, shareholder remuneration. The good result of 2019 and the strong visibility in the coming years, allow us to anticipate a dividend of EUR 40 million, which is added to the share buyback of EUR 50 millions already deployed. And these are not words. Now these are facts, this EUR 90 million in total represents more than 1/3 of the total commitment of this management team at the beginning of the year.

And we will continue working to achieve what we promised.

Borja Garcia-Egotxeaga Vergara *Neinor Homes, S.A.* - CEO & Executive Director

Thank you, Jordi. Now please let's go to Slide #8, where we saw our high visibility for the next 3 years. The main message I want to give here is that during 2019, we not only generated the very good results that you just have seen, we were working on a daily basis on each one of the milestones we need to achieve to have full visibility for upcoming years.

We keep the targets we communicated last year. We have a solid grasp on timing's, revenues and risk control. We are on track for our 2020 deliveries, and we have a very good and de-risked business for '21 and '22.

As you can see, all developments for '20 and '21 and with all works in progress, and 20% on WIP for 2022. And another 42% already with licenses for also 2022.

So now we go to the next and important topic in the Slide #9, which is our land strategy. We always said and we continue to believe that we will only buy profitable and very accretive opportunities.

At the end of last year, we started to see what we anticipated. The land market turning into a buyer's market. This disciplined approach now allow us to have more than EUR 110 million of acquisitions firepower in a market where we see new and better opportunities on a daily basis.

With regards to strategy, we keep focus in our markets. As mentioned before, we see a strong sales in our markets. These regions are the growth engines of Spain. In these places, supply is still far from reaching demand, and the trends is for the capped increase.

So we will keep acquisitions in our core markets. Also, let's keep in mind that EUR 110 million is cash. I will make sure to do equity efficient acquisitions.

Now we move to Slide #11. And this slide relates to the 5th and most important message that I gave back in April 2019.

Today, we not only see plenty of opportunities to lever our platform, but we can confirm that we are going into full execution on a new business line. We are launching Neinor Rental. A rental platform with a goal to achieve 5000 units in the next 5 years. The PRS sector is a massive opportunity today in Spain. Demand is growing at a fast pace. And there is very limited supplier products. Neinor, with a strong development platform is perfectly positioned to capture this opportunity. We will start with a seed portfolio of 1,200 units and grow from there in order to become a full-fledged residential platform.

With this, I will give the word back to Jordi, who will go into further details.

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

The strategy and business opportunity that Borja has just said, is very clear. Now how we will implement this new business line, let's jump to Slide #12.

We are going to launch a seed portfolio of up to 1,200 units. And why 1,200 units? Basically, because this is the result of cherrypicking in our land bank, the best units for this business without affecting the business plan committed with the capital markets. And these units are in excellent locations with very solid rental market economics.

What do we expect from this portfolio? We expect to achieve 6% to 7% gross yield on cost, which will represent a return-on-equity of 15% once stabilized. And these high returns means that we expect to multiply by at least 2x the profit of these developments compared to our business plan of build-to-sell in a similar period of time.

And from 3x to 6x money, should we keep these assets stabilized in our balance sheet. So there is no doubt on how accretive will be this new business line for the company and for investors, but always under 2 assumptions. The first one is that we are launching it fully financed. As you know, this business is highly capital intensive, and this has always been one of the concerns on this business.

And I'm glad today to announce that we have secured with 4 Spanish banks around EUR 100 million financing, which means 100% of the CapEx required. And second assumption and result of the first one is that we don't need to raise equity nor use funds from the build-to-sell to finance these business lines. So as a conclusion, this is a -- this business line is a clear Add-on. We keep the business plan and shareholder remuneration, unchanged, and the proof is that we have even anticipated 1 year, the EUR 40 million dividend. As a result, PRS will add net asset value for the company and for investors and will anchor the potential platform valuation.

We will split this 1,200 units into 2 different portfolios. The first one is represented by 4 plots with 611 units, and you have the details in Slide #13.

As you will see in the slide, these 4 plots are Hacienda Homes, Sky Homes, SS de los Reyes and Parla. These are in the most outstanding cities of Spain regarding the residential demand as they are in Madrid, Valencia and Malaga. These specific developments present

contrasted sales demand and very high potential income with rents per square meter above EUR 9. And the deliveries will be during the years 2021 and 2022 and they will represent a total stabilized rent of around EUR 9 million and FFO of around EUR 5 million.

Borja Garcia-Egotxeaga Vergara *Neinor Homes, S.A. - CEO & Executive Director*

Thank you, Jordi. Moving to the next section, in Page #15, I will give you the guidance for this year 2020.

First, you will see our target pre-sales coverage which is 90% for 2020 deliveries, 65% for 2021 and 40% for 2022. We keep this as our top priority to improve cash flow visibility.

In terms of profitability, we aim to achieve EBITDA of over EUR 100 million. We keep the dividend payout ratio at 50% of net income. And as we have said right now, we will launch 1,200 units for Neinor Rental. The first 600 you have seen previously in detail and another 600 that are in process to be launched.

In Slide #17, you can find a brief review of the most outstanding items regarding our ESG efforts. It is important to mention that a Neinor Homes would care for all our stakeholders, which includes shareholders, employees, customers, suppliers and the communities where we work.

We keep improving our governance. We brought 2 international board members with past residential expertise. We are the leading developer when it comes to sustainability. We are constantly looking for ways to innovate and to improve the quality in our business. And finally, and to wrap up, I would like to leave you a few messages.

We have outperformed in every aspect of our achievements in 2019. And I would like to thank to all people that makes Neinor Homes for their amazing effort. Second, we will keep placing our shareholders as a top priority, as has been demonstrated by the dividend anticipation. With regards to our core activity, we feel very comfortable and optimistic for the coming years, since we have high visibility and a de-risked business for the next years. Our fourth message is that we are proud to launch and execute Neinor Rental with a clear goal to become a relevant player in what we strongly believe is a massive opportunity.

And we're able to execute this as an add-on to our core business with no impact in our business plan guidance. It is just in addition to our BP, and it's improving the NAV of the company.

Last but not least, I want to reiterate that we will keep working hard to achieve and exceed again your expectations. Thank you very much.

Juan Gómez Vega *Neinor Homes, S.A. - General Director of IR*

Thank you, Borja. Now we're going to go into the Q&A session. I encourage everyone connected through the webcast to submit questions in written form there. And now I will hand over to the operator to get to -- take the questions over the phone.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now be taking our first question from the line of Jose Cravo from Santander.

José Francisco Cravo *Grupo Santander, Research Division - Equity Analyst*

Just 2 questions, if I may. So the first one is on your remarks about land acquisition. So you said that you have EUR 110 million in cash to make equity efficient acquisition. So could we think that for instance, that the target of EUR 250 million that you have in exclusive negotiations, that could be feasible for this year? That will be my first question. And my second question is on the GRI that you are assuming for the 611 units that you've announced from the 4 plots today. Are you assuming to get this EUR 8.7 million of GRI? Stabilized GRI in 2024, are you assuming any inflation?

Mario Lapiedra Vivanco Neinor Homes, S.A. - CIO

Okay. I'm Mario Lapiedra taking the first one regarding the land acquisition and efficiency of the equity. We have that EUR 110 million of equity, and this exclusive of EUR 250 million. We will try to do as much as possible to fulfill this EUR 250 million with a EUR 110 million, but we have additional pipeline. So we will select out of that, deals under exclusivity, the best one, and we will keep negotiating additional exclusive deals in the next months.

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

And regarding the second question that was inflation embedded in the GRI now that we are putting in place, there is, but we are extremely conservative on what we have assumed, it depends on the location, obviously. But on average, we are in 2.5%, 3% roughly.

Operator

We will now take our next question from the line of Flora Trindade from Caixabank.

Flora Merícia Trindade Banco Português de Investimento, S.A., Research Division - Analyst

First question I have is just a clarification. So you will keep the 2.5 target deliveries at run rate. And on top of this, you will add the rental units. Is that it? And just to clarify. And I was just wondering if this decision to enter the rental business reflects any change in the view that you have for the homebuilding sector. So considering the deceleration, are you seeing reenter into Rental as a potential edge, if you can comment on the sentiment in the sector, homebuilding? I would appreciate. And then secondly, the assumptions behind the 6% to 7% yield on costs, you mentioned. Does this include this 2.5% to 3% inflation you were mentioning before? Can you just give us an idea of what assumptions are you putting in this 6% to 7%? And also, how do you see the regulatory risk for the sector, considering the increasing pressure we are seeing in Spain regarding rent increases?

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

Okay. A lot of questions from your side. Regarding the targets now in the run rate and if rental effects. These targets, the answer is no. And more than units, I think that the key metric here, as we said at the beginning of this year, was the EBITDA. EBITDA is EUR 150 million, at run rate level, we are going to keep that, and the rental will not affect that. On the contrary the run rate, and once we have the rental, obviously, these rental -- these income coming the rental will be added to this run rate level, okay? Regarding the second point that was if this is a conservative no movement because the development business or build-to-sell is not strong, of course, not, of course, not. What we say is, on the contrary, we are being aggressive because we are saying that we are preselling well, that we are in the good locations where there is demand. So we are very comfortable with this. We are going to keep all the targets of the build-to-sell the same business plan committed last year. But on top of it, what we are saying is that we are going to open a new lever to create value for the company, but also for the investors. And this is what we are doing that and a pure add-on.

The Second point -- the second question, it was the either 6 point -- 6%, 7% gross yield includes the inflation rate? The answer is yes. Absolutely. Obviously, we can work through it, but probably it's not the momentum now. Once we have the one-on-one call review, if you want, we can go through them. And there was a fourth question. I don't remember, Flora? The fourth question.

Flora Merícia Trindade Banco Português de Investimento, S.A., Research Division - Analyst

Sorry. Sorry for the number of questions. It's just the pressure. So we're still -- not only media pressure and regulation...

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

Exactly regulation. Look, when we have to take the decision as add-on to put the rental business is because there is a clear contract with their fundamentals of the business, okay? So this is a long-term strategy, long-term investments. So obviously, potential regulation can affect the short term, but the long-term internal demand supply, and demand is highly above the supply. So we are not concerned on that point. But on top of this, obviously, what we have done is to analyze those regions that are less risky from that perspective. And if you look the regions that we are or that we will be for the rental business are the ones that we feel very comfortable with.

Operator

(Operator Instructions) There are no further questions. Please go ahead, sir.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Sure. We have one question coming through the webcast. It's from Mariano from Kepler. Would you say in the medium term, that Neinor could be conceived more as a PRS player rather than a home builder?

Borja García-Egotxeaga Vergara Neinor Homes, S.A. - CEO & Executive Director

No, absolutely not. And this is important to clarify here today. Neinor is a developer, and our core business is to develop and to sell houses. In addition to this, we have today, other lines working in the company, as a service in line that we do for our clients. And this is just an add-on for our company. In our aspiration of being the company that gives a fully -- services as a homebuilder.

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

And just to give you also a complete additional data points, if you look at the seed portfolio of 1,200 units, this would contribute with EUR 10 million roughly of EBITDA. So at the end of the day, it's less than -- it's basically 5%, 6% over the total contribution of all our business lines. And if you take the -- our vision of 5,000, this would imply a EUR 40 million FFO and EBITDA of almost EUR 50 million. And again, this would represent 25% of total contribution. So we are a developer as core business and we have add-on as a complement.

Operator

You have -- sorry, for the interruption. We do have one further question on the phone. Ignacio Romero from Sabadell.

Ignacio Romero Banco de Sabadell, S.A., Research Division - Research Analyst

Yes. I have one question. Just to clarify, your given cost estimate for the rental business. You mentioned that you target a 6% -- between 6% and 7%. And I was wondering if that includes as the cost of the land, the book value? Or is that the valuation as of the December from...

Jordi Argemí García Neinor Homes, S.A. - Deputy CEO & CFO

It's the book value, it's the real book value of the land embedded to the real cost for land company. Land bank CapEx.

Operator

There are no further questions.

Juan Gómez Vega Neinor Homes, S.A. - General Director of IR

Okay. We do not have any additional questions on the webcast so that will conclude our results call for today. So operator, you can close the call.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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