Conference Call Transcript

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October 25, 2013 @ 11:00 AM ET

Melanie Carpenter: Thank you. Hello ladies and gentlemen, and welcome to Javer's Third Quarter 2013 conference call on today, the 25th of October of 2013 for our recording. Joining us are Mr. Eugenio Garza, Chief Executive Officer of Javer; Mr. Felipe Loera, Chief Financial Officer, and Ms. Veronica Lozano, Investor Relations. The presentation will be followed by a Q&A session for investors and analysts only.

Please note that some comments today may include forward-looking statements. Those may include comments regarding future economic performance and results of operations, strategic plans, objectives, goals and targets, future developments in the market in which the company operates or seeks to operate. For a complete note on forward-looking statements, please go to the quarterly report which we sent out yesterday afternoon. If you didn't receive a copy or you need any assistance, please don't hesitate to call I-Advize in New York at 212-406-3693. And now, I'd like to turn the call over to Mr. Eugenio Garza for his comments. Please go ahead, Eugenio.

Eugenio Garza: Thanks very much, Melanie, and good morning everyone. Thank you for joining us and for your continued interest in Javer. As you saw in the results we issued yesterday, Javer reported a solid quarter on the back of a well-executed and dynamic strategy that is capitalizing on the opportunities presented in our sector. We were able to capture market share from key competitors currently focusing on their restructuring processes by adjusting our sales mix to move to more middle income in order to maximize profitability and at the same time prepare our inventory for a favorable subsidy climate that is gearing up very rapidly. Javer titled 4,227 homes in the third quarter, up 1.6 percent from the similar period last year with a big shift in sales mix to more middle income and residential units. We also sold 33 percent more commercial lots and our average sales price for all of those categories increased during the period. All of this led to a solid top line growth of 21 percent to nearly 1.4 billion pesos and to double the EBITDA reported last year, reaching 214 million pesos.

Our strong pricing in sales outpaced costs and expenses, with SG&A over sales down 1.6 percentage points from last year. Our bottom line was affected this quarter by a one-time non-cash charge of 189 million pesos stemming from the revaluation of one of our properties that had fallen out of the scope of subsidy availability due to changes in the SEDATU regulations. We were expecting this to occur once we saw the proposed changes and thought it would be best to report the write-off at this point. As a result, we have reported a net loss of 226 million pesos but now have all of our properties registered at their fair value.

Due to our strong operating performance and efficient use of inventory, we were able to report free positive cash flow of close to 54 million pesos during the third quarter and 107 million pesos accumulated for the first nine months of the year. Furthermore, thanks to the funds raised to prepare for the ViveICA acquisition, which was cancelled, we are now sitting on over 1.1 billion pesos in cash. With just US$6 million funding due from our 2014 bond in August of next year, we have plenty of resources to take advantage of the opportunities that are being presented to us in this housing market.

More and more projects repossessed from distressed home builders are becoming available for purchase. Some of them have the right characteristics to fit into our portfolio, and medium term strategy, with a more rapid ramp-up than we would have had with the ViveICA acquisition. So as you can see, the aligning of several factors could not have come at a better time for Javer. Our strong financial situation, excess cash levels and ample land reserves that qualify for subsidies give us the capacity to bring our company to the next level.

We expect a substantial increase in the proposed subsidy budget for next year, and given the fact that for the fourth consecutive month, we have been the number one supplier of Infonavit homes in the country, we are well positioned to capture mortgage subsidies to fuel our growth in the affordable entry level segment next year.

Lastly, I want to touch upon the impact of the proposed Mexican fiscal and social response on Javer. While the original proposal by the executive branch seemed to provide a very grim outlook for our business and included a full VAT tax on home sales and mortgage interest, unfavorable changes in land production and Infonavit funding structures, I am very pleased to report that the revised bill that is now being discussed in the legislature today contains no VAT on either home sales or mortgage payments of any kind. In the end, we foresee a positive result on our business given that the funding that will come from these reforms will likely lead to a better housing subsidy availability climate for the next few years.

As far as what to expect in terms of proposed 2013 guidance, we anticipate titling to be between 18 to 19,000 homes with about 5.9 billion pesos in revenues and EBITDA of between 850 to 900 million pesos, very close to our initial targets for this year. We would remain to expect -- free cash flow positive to neutral for the entire year.

In conclusion, we feel confident about our current situation to seize upon the timing of today's dynamics in the Mexican housing sector and the fact that our liquidity levels and our ability to leverage this advantage will deliver superior returns for all stakeholders.

This concludes our remarks. Once again, thank you for your attention

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