



Rassini Q1 2016 Earnings Call Transcript

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Juan Pablo Sanchez, Chief Financial Officer

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Operator: Good morning and welcome to Rassini's Earnings Conference Call for the First Quarter of 2016. At this time, all participants are in a listen-only mode. Following prepared remarks, there will be a question-and-answer session.

As a reminder, this conference is being recorded for replay purposes. Please note that the accompanying presentation for today's conference call is available for download on the company's Web site at rassini.com. Alternatively, you can e-mail Rassini at rassini.com and a member of the Rassini Investor Relations team will send you a copy of the presentation deck as soon as possible.

With that, I will now turn the conference over to Francisco Freyre, Assistant Vice President of Investor Relations and Finance for Rassini. Please go ahead, sir.

Francisco Freyre: Thank you, operator. Good morning and thank you for joining us today. With me on the call is Juan Pablo Sanchez, our CFO.

Rassini extended the favorable pace of results during the first three months of 2016, delivering another record-breaking quarter. Sales and EBITDA in this period reached the highest quarterly levels in the company's history. Sales grew by 19 percent year-over-year while EBITDA saw an increase of 45 percent. Net income increased 106 percent to MXN502 million.

We continue to benefit from favorable industry dynamics within the automotive sector as well as positive macroeconomic trends in the NAFTA region which continue to drive demand for our high quality technically advanced component.

Sales continue to grow in Rassini's main market, NAFTA, based on increasing demand, market share gains for brake and suspension components and new contracts awarded during 2015. Suspension components represent 71 percent of product sales while Brakes comprises the remaining 29 percent.

During the first quarter of 2016, the company started the temporary production of components in response to a customer's extraordinary request for a defined period of time. We estimate this event will generate approximately between \$60 million and \$80 million of additional sales in 2016 and the first half of 2017.

Rassini is increasingly recognized as an industry leader in their field of innovation. Last week, it was announced that Rassini will participate at the 2016 SelectUSA Investment Summit in June, the theme of which is "The Innovation Advantage."

Rassini will be presenting alongside all the global companies about the benefit -- the benefits that communities and companies of all sizes received from innovation in business processes and manufacturing techniques. We are honored to participate -- to be part of -- this ongoing dialog about innovation. And in this event, we will have the U.S. President Barack Obama as a distinguished guest.

In March, the company received a supplier award from Fiat Chrysler Automobiles, FCA, recognizing Rassini's quality approach at their Saltillo plant where they build vans, and that is located in Mexico.

We are proud of all of our team's accomplishments today and we look forward to announcing many more milestones during this year including the inclusion of our products in additional high profile new vehicles models.

Turning now to our industry update on the slide 4 of our presentation, in the North American automotive industry which is Rassini's main market, we see the continued growth.

This performance is driven by positive macroeconomic factors which also have higher housing starts, lower unemployment rates and decreased fuel cost. These positive trends re-enforce our favorable perception of the continued growth of the automotive industry in North America.

Please continue to slide 5. The seasonally adjusted annualized rate of U.S. light vehicle sales reached 16.5 million units in the U.S. during the month of March. And March inventories closed at a level of 65 days' supply.

Light vehicle production rose by 5 percent year-over-year in North America with total production reaching 4.5 million vehicles in the first quarter, including 2.8 million light trucks. IHS experts forecast that production in North America could reach 18.2 million units in 2016 and their estimates remain positive with light vehicle production expected to increase to 18.4 million units in 2017, and 18.5 million units in 2018.

As we have mentioned before, these positive numbers lend further support to the argument that consumers have increase in likely to buy cars given these favorable economic conditions.

Rassini continues to enjoy its preferred business partner relationship with OEMs and remains optimistic about the growth trajectory for the remainder of 2016.

Turning to our consolidated financial highlights on slide 6 and 7, we began the year on a very strong first quarter, positioning record breaking results yet again.

As mentioned at the beginning of our remarks, consolidated sales rose 19 percent in the first three months of 2016 to MXN3,809 million, and consolidated EBITDA grew 45 percent to MXN779 million during the first three months of 2016, compared to the same period in 2015.

This increase was driven by higher sales, enhanced product mix in the NAFTA region, strong control over the cost structure and lower utility prices.

As seen on the slide 8, certainly in our main market, NAFTA, it remained strong and continue to grow year-over-year. North America now accounts for 91 percent of our sales while Brazil represents 9 percent.

Rassini's strength in this core NAFTA region continues to more than offset the lower volumes from the Brazilian business, which are mainly attributable to the economic downturn. The suspension division in Brazil continues to have a positive albeit small EBITDA despite these challenging macroeconomic conditions.

Moving to slide 9, within NAFTA, sales in our suspension division rose 36 percent compared to the first quarter of 2015, while our brake division sales grew by 11 percent. As a result, the total sales growth in our NAFTA business was 27 percent.

And on the profitability front, EBITDA growth of the NAFTA region increased 52 percent during the first quarter. Again, results within Rassini's Brazilian business continued to be affected by macroeconomic conditions which have both depreciated in local currency and reduced demand for automobile and commercial vehicles.

Rassini continues to actively work towards addressing its operations while I need to structure with the current situation within the Brazilian economy.

Moving to slide 10, we reported consolidated net income before taxes and minority interest of MXN499 million, a 68 percent increase compared to the same period of last year.

With respect to our bottom-line, net income amounted 505 million -- sorry, MXN502 million, more than doubling the figure generated in the same period last year.

As outlined on slide 11, net operating cash flow grew 24 percent year-over-year to MXN329 million. Our consolidated cash balance reached MXN1,179 million as of the end of March 2016, an increase of 46.4 percent compared to last year.

Looking on to slide 12, as our operations continue to deliver strong cash flow, we are reinvesting these resources and also applying them to pay down debt. Rassini's consolidated debt in terms of U.S. dollars as of March 31st, 2016, declined to \$148 million, compared to the \$193 million as of the end of the same period in 2015.

Consolidated cash balance as of the end of the first quarter was \$67.7 million, resulting in consolidated net debt of \$80.6 million.

Turning to slide 13, financial ratios further improved as Rassini's leveraged ratio as of the close of the first quarter was 0.5 times net debt to EBITDA, while the interest coverage ratio improved to 10.5 times EBITDA to net interest expense.

We remained positive about the upward trend in our automotive sector as we continue to see pent-up demand and an enhanced product mix. As we continue to grow our relationship with suppliers and OEMs, we remained confident that we may continue to gain market share and be viewed as the preferred supplier and banner of choice. This will, in turn, allow us to deliver increased value to our shareholders.

To finalize our remarks, we would like to mention that yesterday, the board of directors appointed Mr. Eugenio Madero as Vice Chairman of the Board of Directors, and it was ratified by the general shareholders meeting of the company.

As well, a payment of dividend was approved in the amount of MXN1.5 per share to be paid on May 2nd this year. With that, Juan Pablo and I would be happy to open up the call for questions. Operator?

Operator: Thank you, Mr. Freyre.
[Operator Instructions]

And your first question comes from the line of Damien Midot.

Damien Midot: Hello. Can you hear me?

Francisco Freyre: Yes.

Damien Midot: Hey, congratulations for your results. And I just have a question regarding the Rassini consolidated figures. Do we have any breakdown for Rassini's Mexico operation in terms of sales or EBITDA because we'd like to have some color about the NAFTA region? Thank you.

Juan Pablo Sanchez: OK, good morning to everybody and thank you for joining us in this conference call.

Let me tell you, we see the information, as a NAFTA region, we don't breakdown by country considering Mexico and United States because we deliver our products in plants in Mexico and in United States and the criteria of the OEM to follow is to define and decide, make a decision where we deliver the products.

For example, we deliver leaf springs for the Silao plant of G.M., and that plant send almost 95 percent of the production to United States. That's why we see the information for NAFTA region.

If you want to have an idea of the sales that we have in our plants in United States, I can tell you that it's around \$120 million to \$130 million per year.

Damien Midot: OK, thank you.

Operator: And your next question comes from the line of Hector Cabara.

Hector Cabara: Oh, hello, congratulations on your results. I just have one question -- well, a couple of questions. What's the average rate -- average rate of the long-term debt, and also, if you could give me the EBITDA of 2015 in dollar terms, and if you can, the estimate of EBITDA for 2016?

Juan Pablo Sanchez: OK, well, average life of our debt is 2-1/2 years, Hector. And in respect of our EBITDA in dollar terms, I can say that if you took into consideration an exchange rate of MXN18, you can figure out very easy the amount of that.

Hector Cabara: OK. But just the average -- the average rate?

Juan Pablo Sanchez: Average rate of our debt?

Hector Cabara: Yes.

Juan Pablo Sanchez: OK. It's LIBOR plus 2.5 percent is the average rate of -- that we have in our debt.

Hector Cabara: OK, thank you.

Operator: [Operator Instructions]

And your next question comes from the line of Hector Vazquez.

Hector Vazquez: Hi, good morning, Juan Pablo and Francisco, and congratulations for the positive results. Two questions, during the last quarter, we saw a positive trend regarding working capital.

Moreover, this quarter, we saw a negative working capital. What would you expect for the following quarters?

And the second question, do you have any guidance in terms of volumes and profitability for 2016? Thank you very much.

Juan Pablo Sanchez: OK, thank you very much. With respect of working capital, yes, this quarter, we can say that we have outflow in working capital. Mainly, it's due to we have a higher payment of taxes.

As you know, we have to carry out advanced payments here in Mexico and that payments are calculated based on our factor because last year was a very good year, we have high profitability that increase this factor and means that we have to make these payments of income tax.

The other part in the working capital is that we increased our inventories at the end of this quarter because we are supplying new contracts and we are making

a (kind of back) in order to satisfy the requirements for the -- for the next quarters.

We will think that in the -- in the next quarters, we will be stabilizing this, and as always, our target is to have our capital working needs in -- let's say, our target is to be -- to have there zero, except for the -- for the taxes.

OK, with respect to the guidance, we said in the last conference call that we are expecting in for the full year an increase in volume terms of between 6 percent to 8 percent.

And with that, you can -- more or less, you can factorize back in your model and you will see an increase in the profitability because of this volume. And that's the guidance that we can deliver at this point in time.

Hector Vazquez: Thank you very much.

Operator: And your next question comes from the line of Rodrigo de la Sierra.

Rodrigo de la Sierra: Hi, good morning, congratulations for these figures. Just one question, we know a case the EBITDA that you -- that you reached was something around 150 million in the EBITDA -- I mean 150 million EBITDA plus what we had. You can -- do you think that you can maintain these amounts of money for the rest of the year in this case, I mean in EBITDA?

Juan Pablo Sanchez: Yes, we are expecting to keep on that. This -- as we mentioned, this EBITDA expansion comes from new contracts that we are supplying with a better mix in the -- in the products that we are selling.

Then if the market keeps this behavior and the volume keeps in the -- in the same level that we are facing right now, and we see that we will keep this strength.

Rodrigo de la Sierra: OK. Just one more, you just said that there is -- the source of this growth is because this new contract and a better mix in your -- in your volume sales. So in the second case, I mean in the mix in the sales, you are expecting

to maintain this I mean in the coming years or it is just a thing that you -- we are going to see in just 2016?

Juan Pablo Sanchez: No, we think that we can keep that in the coming years because as we have been mentioning in the past conference call during this year 2016 and 2017 and 2018, we will be starting to supply new contracts mainly in the brake divisions.

And during 2018, we will be supplying the replacement of the -- for example, the platform, the GM Pickup platform. We will start the replacement in 2018.

As we mentioned, we have a new business coming in like the Tesla model, the Mustang, the one platform that we called T1XX that -- the meaning, let's say, in the -- the name of this platform is the GM Pickup.

Then we have also a vehicle for Fiat Chrysler like the Patriot, Compass, Wrangler, Dart. And as I mentioned, we will expect that because those are new contracts that we have on hand.

Rodrigo de la Sierra: Thank you very much.

Operator: And your next question comes from the line of Jose Vazquez.

Jose Vazquez: Hi, good morning, Francisco and Juan Pablo. Here in your press release, you mentioned that given the better sales mix that you have seen, your EBITDA breakeven point has declined.

Is it at consolidated level or by region, by NAFTA region? And if that's the case, what's your current breakeven point for the Brazilian operations? Thank you.

Juan Pablo Sanchez: Yes, thank you for the question. In the -- in the NAFTA region, we have a breakeven around 30 percent to 35 percent, OK, on our install capacity. That means that we are able to generate positive EBITDA running the facilities with this rate.

In the case of Brazilian operations, the Brazilian operations have a higher breakeven because, as you know, the salaries and all the costs and expenses are higher than in the NAFTA region. The breakeven point that we have in Brazil is in the 40 percent to 43 percent on the install capacity.

Jose Vazquez: OK. So the decrease in breakeven is on a consolidated level, right?

Juan Pablo Sanchez: Yes.

Jose Vazquez: The one that you mentioned on the press, OK. Thank you very much.

Juan Pablo Sanchez: Yes. OK.

Operator: And your next question comes from the line of Jean Bruny.

Jean Bruny: Hi, Juan Pablo, and thank you very much for the conference call and congratulations on the results.

I have just a couple of questions. The first one you especially answered now, it's regarding Brazil. You're making a positive EBITDA for the last year's register in the first quarter. Just to know what you -- we may expect for the rest of the year to maintain that kind of level of EBITDA at around between, let's say, MXN5 million to MXN10 million.

And the other question is regarding the dividend, you just (inaudible) that you will be paying now MXN1.5 per share on May 2nd. Just want to know if you have a policy as regards to the dividend policy of the -- of the company.

And if you also have a target in terms of leverage of your balance sheet, I think you've improved strongly in the first quarter, if you can maintain that kind of EBITDA for the rest of the year, it could be a very strong balance sheet.

And probably, I mean my estimate is we'll be finishing the year by -- with 0.3 times net debt to EBITDA. Do you think it's too low to have some initiatives to maybe take more of that or to make some more investments to increase the leverage, that kind of doubt I may have? Thank you very much.

Juan Pablo Sanchez: OK. Yes, Jean, the first question about the -- I'm sorry, maybe I didn't hear you very clear but you are talking about Brazil. Could you repeat your first question? I will answer the last question and at the end, please ask me the first question.

Regarding the dividend that you asked about our policy, our policy is to pay dividend considering 30 percent of the net income of the previous year. In this case, we are paying a dividend of MXN1.5 per share, that is a percent more or less 54 percent of the income that we made last year easier.

Because at the end of the previous -- the definition of the dividend payment, the board of directors are reviewing the situation of the company, review the liquidity position of the company and they can make a decision to pay a higher -- a higher amount. OK, but I can say that the policy is to keep this 30 percent of the net income.

In respect to your third question about our leverage debt, yes, we are in 0.5 times debt to EBITDA. And we are expecting to keep this ratio in this level. Although we are expecting to -- for the second -- for the rest of the year, we will be obtaining some financing because we will make an expansion in -- mainly in the brake business.

As I mentioned, we -- in the -- in the previous part I mentioned that we will win new contracts that we be supplying in 2016, 2017 and 2018, and with that, we will have to make the additional expansion in the brake business.

We are expecting to increase our gross debt by, let's say, \$15 million, but because of the result that we have, we will see at the end of the year that the ratio will be in 0.5 times debt to EBITDA. That's the answer to the last questions and could you repeat the first question please?

Jean Bruny: Yes, yes, very clear. Yes, it was just regarding Brazil. What kind of EBITDA we can expect for the rest of the year after the 4 million reported in the first quarter?

Juan Pablo Sanchez: Yes. The Brazil, as everybody knows, is a very difficult situation. It's -- although we have news during the last week or within the weekend about the political decisions, we are thinking that our target is to have the Brazilian business above breakeven.

We are expecting to have the operations with an EBITDA of -- margin 5 percent to 6 percent to save. That will depend on the behavior of the market because in Brazil, the things change very quick and sometimes it takes some time to adjust the operations according with the change.

But on the -- on the other -- on the other part, we are trying to maintain our operations in Brazil running and because of that, we are transferring some part of the production in the NAFTA region to Brazil.

Brazil is producing not a complete set of leaf springs but they are producing some leafs or some part of the leaf springs. And with that, we are trying to keep our operations running plus the domestic and aftermarket that we have in Brazil.

Jean Bruny: Thank you very much, very clear, Juan Pablo. Thank you.

Juan Pablo Sanchez: OK.

Operator: [Operator Instructions]

And your next question comes from the line of Hiro Nakagawa.

Juan Pablo Sanchez: Yes. Go ahead please.

Hiro Nakagawa: OK, thank you. So could you provide us the value of new contracts you had during 2015 and also during the first quarter of this year?

Juan Pablo Sanchez: You want to know the life?

Hiro Nakagawa: No, value over the new businesses?

Juan Pablo Sanchez: Yes, the value of the new businesses, it's around MXN25,000 million for the next five years.

Hiro Nakagawa: That's the amount you -- that's the amount of contracts you made last year?

Juan Pablo Sanchez: Yes.

Hiro Nakagawa: And how -- and like about half of this amount is new business and the other half is like the extension -- renewal of the prior contract?

Juan Pablo Sanchez: Yes, we can say that.

Hiro Nakagawa: OK, great. And your first quarter number and your EBITDA for the NAFTA was around the \$44 million and which is very good, but was there any specific items that contributed positively or is it such a seasonality or inventory accumulation? Or this is just a sustainable figure for your current business?

Juan Pablo Sanchez: For us, it's a sustainable business. We are not having some extraordinary items. This is something that is, let's say, moving or changing this. We see that this is a sustainable run for us.

Hiro Nakagawa: Great. Thank you very much.

Juan Pablo Sanchez: OK.

Operator: And there are no further questions at this time. I will turn the call over to Mr. Freyre or Sanchez for the closing remarks.

Francisco Freyre: Thank you, operator, and thank you, everyone, for joining us today. We look forward to updating you again with the results of the second quarter of 2016.

And in the meantime, please don't hesitate to contact also with any questions you might have. Thank you.

Operator: And this concludes today's conference call.

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