

Rassini Q4 and Full Year 2016 Earnings Call Transcript

Francisco Freyre, Assistant VP, Investor Relations & Finance
Juan Pablo Sanchez, Chief Financial Officer
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10:00 a.m. ET

Operator: Good morning, and welcome to Rassini's Earnings Conference Call for the Fourth Quarter and Full Year 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 website at rassini.com.

Alternatively, you can e-mail rassini@rassini.com and a member of the Rassini investor relation 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, everybody, for joining us today. With me on the call is Juan Pablo Sanchez, our CFO.

We would like to begin by sharing some highlights from the year and the fourth quarter of 2016. This 2016 was a solid year for us with full year sales increasing 26.7% year over year to MXN16.3 billion. EBITDA grew to MXN3.2 billion.

Consolidated net income for the full year of 2016 increased to MXN1.4 billion compared to MXN844 million delivered in 2015.

Sales for the fourth quarter of 2016 were MXN4.4 billion, a 37.2% increase compared to MXN3.2 billion in the fourth quarter of 2015.

EBITDA for the fourth quarter increased year over year to MXN821 million. And net income for the fourth quarter was MXN201 million, an increase of 92 million compared to the fourth quarter of 2015.

We're pleased with these results and feel confident to extend our growth in the coming year as we continue to prioritize superior product innovation and best in class customer service. Just recently, Rassini was included as one of the top 20 most advanced companies within the Mexican stock exchange in terms of implementation, follow up and continuous improvement in the environmental, social responsibility and corporate governance indicators by being included in the sustainability index. We feel proud of this achievement and at the same time very motivated to reaffirm our commitment with these initiatives.

Turning now to our industry outlook, which you might see on slide 4 of our presentation, you can see that macroeconomic conditions in North America continue to be favorable. As of the end of 2016, we are still seeing high housing starts, low unemployment rate and low fuel cost. All these factors contribute positively to increased demand for vehicles.

On slide 5, the seasonally adjusted annualized rate of U.S. light vehicle sales grew throughout 2016 reaching 18.3 million units during December 2016. And production of light vehicles in North America reached 17.8 million units for the year.

December inventories closed at a level of 62 day supply, which is close to the industry ideal of 60 days of supply. IHS forecasts the total production of light vehicles in North America is estimated to slightly decline by 1% to 17.6 million units during 2017. And then looking forward to 2018 and 2019,

production is expected to grow at a 2% growth per year reaching 18.4 million units in 2019.

Regarding Brazil, operation – operating conditions within this market remain challenging primarily due to the economic downturn. But Rassini's volume in the NAFTA region continues to offset the lower volumes in the Brazilian business.

Moving on to our financial highlights and results on slide 7, we reported stable financial performance in 2016 continuing a six year trend of year over year sales and EBITDA improvement. A compounded annual growth rate of sales was 12%. And for the EBITDA, it was 22%.

As seen on slide 8, sales in North America region remained healthy. NAFTA now accounts for 92% of sales with Brazil representing 8%. NAFTA also contributes essentially all of our EBITDA, while Brazil contributing only 2%.

Moving on to slide 9; we see NAFTA sales in our suspension divisions grows 34%, while sales in our brake division grows 24% contributing to an overall 30% sales growth in our NAFTA business. EBITDA in our NAFTA business grew by 47% for the year.

Results in Rassini's Brazilian business continue to be affected by macroeconomic conditions including low consumer confidence and higher cost of electricity, gas, labor and sales taxes. Rassini continues to actively work toward adjusting these operations to align its structure --

Operator: Ladies and gentlemen, this is the operator. I apologize. But there will be a slight delay in today's conference. Please hold and the conference will resume momentarily. Thank you for your patience.

Francisco Freyre: -- We are not sure at the moment where we were cut, so we will start over again for the presentation. So we were just discussing at the beginning of the conference the results for 2016. So if you start back in the slide number 2 of the presentation, we can go through some highlights from the year and for the fourth quarter of 2016, which was a very solid year for us, with full year sales

increasing 26.7% year over year to MXN16.3 billion. EBITDA grew to MXN3.2 billion.

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Results in Rassini's Brazilian business continue to be affected by macroeconomic conditions including low consumer confidence and higher cost of electricity, gas, labor and sales tax. And Rassini continues to actively work toward adjusting these operations to align its structure with the current situation in Brazil and remain confident that whenever conditions improve Rassini will be ready to supply the market with its high-quality components.

As shown on slide 10, we reported 2016 consolidated net income before taxes on minority interest of MXN1.9 billion compared to 1.2 billion for the same period in 2015. Net income in 2015 increased to MXN1.4 billion from MXN884 million in 2015. And earnings per share were MXN4.47.

Slide 11 details consolidated cash flow. Net operating cash flow grew 1.8 % year over year to MXN2.4 billion in 2016 reflecting improvements in the company's sales and EBITDA.

As part of our commitment to deliver increase in value to our shareholders, last April, we made a dividend payment of MXN480 million. And we concluded the year with a cash balance of MXN1.9 million compared to MXN1.2 billion at the end of 2015. As our operations deliver increased cash flow, we exercise a prudent leverage policy and strict cost control through prioritized debt pay down.

As shown on slide 12, Rassini's consolidated net debt in terms of U.S. dollars as of December 31, 2016 was reduced to 58 million compared to the \$83 million as of the end of the same period of 2015. And the consolidated cash balance at the end of the fourth quarter of 2016 was \$93 million.

Slide 13 details our financial ratios. As you can see, our leverage ratio was further improved to 0.3 times net debt to EBITDA as of December 31st. And the interest covered as ratio was 10.2 times EBITDA to net interest expense.

In summary, we are pleased with our progress in 2016. We delivered on our financial objectives, we continue to reinforce our partnership with top manufacturers and we expanded our capabilities as well as our facilities.

Our 2016 outlook remains positive as we continue to see strong demand for our products. And we believe the market presents us with a strong foundation for growth in the years to come.

With that, Juan Pablo and I would be happy to take your questions. Operator, you may now open the line.

Operator: [OPERATOR INSTRUCTIONS]

Alejandro Azar: Hi, everyone. Thank you for taking my questions.

If you could give us your outlook for 2017 on the volume side, on the profitability side. And one more question regarding your dividend payments. As you've said, your dividend went from almost 250 to 480, with your strong balance sheet and your strong free cash flow generation. Would you be increasing this dividend for 2017? Thank you.

Juan Pablo Sanchez: Hello. Good morning. Thank you for your questions.

Regarding the expectation for 2017 respect to volume, we see growing around 1.5 percent in the Suspensions business. This is according with market trends. And this is also based on information obtained from IHS who is a well-known forecaster.

In the case of the brake business, we are expecting a growth in the volume of around 4 to 5 percent on 2017. In connection with your question about dividends, during March or April, the Board of Directors will review this situation and will make a proposal for the shareholders' meeting for this point.

In the past, normally, we have been (targeting) 30 percent of the income of the previous year. However, the board and the stockholders' meeting can review that amount and adjust accordingly.

Alejandro Azar: You don't have a dividend policy or ...

Juan Pablo Sanchez: Yes. Our dividend policy is 30 percent of the net income of the previous year. However, in the board of directors meeting, this percentage can be reviewed depending of the financial position of the company like in the last year.

Alejandro Azar: Perfect. Thank you very much.

Jean Bruny: Can you hear me – can you hear me?

Juan Pablo Sanchez: Yes, we hear you.

Jean Bruny: Thanks for taking my question. Just a couple of things, the first one on the \$30 million investment in Puebla expansion. Can you give us an update on that? How is expansion going on?

And second one on – more generally on the market. Obviously, we had a lot of doubts coming from that U.S. election. How do you see the clients? Much more your feeling now obviously the clients. How the new contracts are going on? And so on.

Just to have your view on that as well. Thank you very much.

Juan Pablo Sanchez: OK, Jean. Sorry. Your second question – I couldn't hear you very well. But I will answer the first question.

We are on time in the expansion of the brake business. We got a financing last year in order to cover the expansion of the foundry. We will increase our capacity from 175,000 tons to 200,000 tons.

We are on time. And the idea is to finish this expansion during this year and start supplying the constructs that we won in the past in 2018.

Jean Bruny: Thank. And over – so last quest ...

Juan Pablo Sanchez: Sorry, Jean, we lost you again.

Jean Bruny: Maybe easier the ...

Juan Pablo Sanchez: Jean, we've got problems with your line. We can't hear you.

Jean Bruny: OK. I – I'll – I'll call you after then.

Juan Pablo Sanchez: OK.

Operator: And your next question comes from the line of Luis Miranda.

Luis Miranda: Yes. Thanks for taking the question.

Couple of questions. The first one is regarding we see in terms of profitability and margins for 2017, if you expect any pressure here from inflation in Mexico, labor cost or FX. And the second point is in Brazil, if you expect results to be stable. Or would you – are you forecasting an improvement?

And the final question is with regard CAPEX. I (inaudible) that one is the most important project for this year. But I want to know there're some additional expansions on the pipeline. Thank you.

Juan Pablo Sanchez: OK. First, the margin for 2017, we will expect a profitability obviously similar to 2016. Although we can face on pressure because inflation as we

can see because some commodities have been increasing. However, the company always works to be productive and try to absorb these increases by productivity. And we try to keep our breakeven as low as possible. But we feel comfortable that we will be productive to absorb that.

Second, regarding Brazil, although it seems that Brazil is stable, we don't see a very significant increase in the automotive market in Brazil at least within the next two to three years. We are seeing that the U.S. economy will be stable on this level. OK.

And for the third question we don't have more at this time. We don't see an expansion. We don't have in the timeline and no expansion at this point in time.

OK. That will depend on new contracts if we are able to get additional platforms in the near future.

Operator: Again, that is star, one to ask a question. And your next question comes from the line of Hector Cabrera.

Hector (Cabrera): Hello, Francisco, Juan Pablo. My question is if your biggest risk, if you're being briefed now switching the OEMs in the brake products from you guys to U.S. suppliers.

Juan Pablo Sanchez: Sorry, Hector. But the line is very, very bad. We didn't hear you very well. Could you repeat your question?

Hector (Cabrera): Sure. I just want to ask you if your main risk at this time is having the OEM switching on the brake side from you guys to U.S. suppliers.

Juan Pablo Sanchez: No, Hector. At this point in time, nothing is happening. We have to take into consideration that in this industry you cannot move production in one week, two weeks, three months. It takes some time to transfer production from one site to other – to other sites.

By the way, the other day, the MEMA, the Motor & Equipment Manufacturers Association in United States – they presented with a

presentation saying that at least change from one side to other side will take three to four years.

Hector Cabrera: OK.

Operator: Again, that is star, one to ask a question. Your next question comes from the line of (Jose Vasquez).

Jose Vasquez: Hi, Francisco, Juan Pablo. Good morning.

Given the current balance sheet that's quite positive for you, what are your plans going forward? Are you being interested in acquiring something or expanding current production?

I know that all those things rely on future contracts awarded to you. But could – you could give us some color on what you could do are you – you would like to see as any – going forward given the strong balance sheet that you have right now. Thanks.

Juan Pablo Sanchez: Yes. The first goal of the company is to launch all the platforms that are in the pipeline with the quality and service required by our customers. In that, we will be making some capital expenditures during 2017 in order to meet quality requirements like a painting line. Or also we are developing another kind of materials. Then we will be working on that.

The first answer is we will be very focused, launching the platforms that we already have with the quality and service required by the customers. The second – in the past, we mentioned that we were working, try to find some business in Europe or other region.

We will be working on that, but on an opportunistic basis. We are looking if we have an option. We will evaluate that very carefully. At this point in time, we don't have any on the table right now.

Operator: And there are no further questions at this time.

Francisco Freyre: OK. Thank you, operator. Thanks, everybody, again for joining us today.

If you've got any additional question, please don't hesitate to reach out to us.
We look forward to updating you again with the results of the first quarter
2017 very soon.

Operator: This concludes today's conference call. You may now disconnect.

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