

Rassini Q1 2017 Earnings Call Transcript

Francisco Freyre, Assistant VP, Investor Relations & Finance

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Operator: Good morning and welcome to the Rassini Earnings Conference call for the first quarter of 2017. At this time, all participants are in a listen only mode. Following prepare 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 relations team will send you a copy of the presentation deck as soon as possible.

With that I will now turn the call over to Mr. 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.

We have a solid start of the year, the first three months of 2017 were very productive and we are please with our first quarter results. Going to our presentation, on slide 2 you can find a snapshot of our financial highlights for the quarter which we will describe during the presentation.

Sales in first quarter increased 28% year-over-year to \$4.9 billion Mexican pesos. EBITDA also grew 28% to \$998 million pesos. We continue to see solid demand for our products, particularly in the North American region, which has resulted in market share gains for both our brake and our

suspension components. We are confident that we will see continued growth as we continue to focus on technology, quality, reliability and innovation that our customers value.

As a result of Rassini's performance in 2016, and in keeping with the Company's commitment of delivering value to its shareholders, Rassini announced that it will pay a dividend totaling %640 million Mexican pesos, or the equivalent of \$2.00 pesos per share on July 11, this year.

Recently, Rassini also received a Cemefi Social Responsibility (ES®) distinction for the fourth year in a row. This recognition is granted to companies that promote quality of life for their employees, relate positively with society, care for the environment and demonstrate exemplary business ethics in how they manage their operations.

Rassini was also pleased to be included in the IPC Sustentable Index from the Mexican Stock Exchange while being placed in the top 20 most advanced companies for environmental impact, social responsibility and corporate governance in a study published by the Universidad Anahuac earlier this year.

Turning now to slide 4, please. We are continuing to see the stable macroeconomic trends that contribute to the demand for vehicles in North America, where we are still seeing historically high housing stats, low unemployment rate, and low fuel prices.

Going to slide 5, the Seasonally Adjusted Analyzed Rate or SAAR for the US light vehicle sales was 16.5 million units during March of 2017, and March inventories closed at the level of 72 days' supply. Total North America light vehicle production was up approximately 2% compared to the first quarter of last year but the light trucks production increased 6% compared with the previous year.

We are confident that demand for vehicles will continue to be steady, and that confidence is also shared by market researcher firms and numerous industry analysts following the sector. For example, JP Morgan recently published a report discussing the current situation with the U.S. SAAR and commented

that they don't see the current level of vehicle demand as a bubble, but rather as ongoing demand that is supported by historic car sales per capita, light vehicle expenditures as a percentage of GDP, and the scrappage analysis.

IHS forecast that total production of light vehicles in North America is estimated to reach 17.5 million units in 2017 and looking forward to 2018 and 2019, production is expected to grow 1% per year, reaching 18.1 million units in 2019.

Moving now to our financial highlight and result on slide 7. We reported a strong financial performance in the first quarter, with notable year-over-year improvements to both sales and EBITDA.

Turning now to slide 8, sales in North America remain robust, mainly due to the increased market participation as recently launched platforms are ramping up. North America contributes essentially all of our EBITDA.

Moving on to slide 9, within North America, sales in our suspension division rose 25% compared to the first quarter of last year, while sales in our brake division rose 34%, contributing to an overall 28% sales growth in our North American business compared to last year. And EBITDA in this region also grew by 26% year-over-year.

We continue to see decreased demand and higher cost within our Brazilian business as the economy there continues to be challenging. However, Rassini's strong volume in the North American region continues to offset the lower volumes in Brazil.

As shown on slide 10, we reported consolidated net income of \$598 million pesos before taxes and minority interest, a 20% increase compared to the \$499 million for the same period in 2016.

As you might remember, during the first quarter of 2016, we received an extraordinary income for the sale of some mining rights that we had and this increased to base of comparison in the net income line when compared to this first quarter numbers. So this effect, in addition to the increasing taxes for the

complete amortization of tax losses that took place during 2016 and some severance payments that we did in the Brazilian operations during the first quarter led to a decrease of 9% in the bottom line which reach \$457 million pesos or the equivalent to \$1.43 Mexican pesos per share.

Slide 11 details our consolidated cash flow. Net operating cash flow grew 75% year-over-year to \$574 million pesos in the first quarter of 2017, reflecting improvements to the Company's sales and EBITDA.

Rassini remains committed to creating long term value for shareholders. As our operations deliver increased cash flow, we continue to maintain our prudent leverage policy and strict cost controls to prioritize the debt paydown. Slide 12 highlights that our consolidated debt balance has decreased to US\$42 million as of March 31st, down from \$81 million at the end of the same period, back in 2016. In US dollar terms, our cash balance as of the end of the first quarter of 2017 was US\$107 million.

Turning to our financial ratios on slide 13. As you can see, our leverage ratio as of March 31st 2017 has further improved to only 0.2 times net debt to EBITDA. Meanwhile the interest coverage ratio was 12.5 times EBITA to the net interest expense.

In summary, Rassini delivered solid results in the first quarter of this year, and we remain optimistic about our growth opportunities for the remainder of the year. We are laser-focused on carrying out our strategic objectives, deepening our relationships with our suppliers, customers and society and continuing to produce the high quality automotive components that we are known for.

With that, Juan Pablo and I will be happy to take your questions.

Operator, you may now open the line.

Operator: [OPERATOR INSTRUCTIONS]

And the first question comes from the line of Mauricio Serna from UBS.

Mauricio Serna: Hi. Good morning, everyone. And thanks for taking my question.

Quite impressive result. I just wondered if you could provide us some caller on profitability line and the EBITDA. You know, growing in line with sales is quite good.

Just wanted to know how much of this is derived from the mix and what were the negatives besides the energy cost? If you maybe could provide a little bit of breakdown on how each of these impacted, and Brazil, itself, how the margins are progressing compared to last year?

And what are the volume expectations and going forward, given that there're still some mixed feelings whether the U.S. auto sales industry will continue performing well, or if it will actually decline later on this year? Thanks.

Juan Pablo: OK, with respect to your first question; we have seen in the case of the SAAR, the seasonal adjusted annual rate that we have 16.5 million vehicles in March. Of these Baku salt in March, we can say that the most important part of them is related to the light trucks.

As you know, we are selling products for the light trucks in the line of suspensions and also for brakes. And that is giving volume and is supporting the financial results.

The market is presented a shift between passenger cars and light trucks. Light trucks reach 65% of the sales, while passenger cars 35%.

In respect to your question about energy, if we keep the cost of the energy that what percent is doing March of this year, we will see a negative effect around between .5% to 1.0 % to sales. That will be the effect.

With respect to your question of Brazil, we are seeing a slow recovery in the automobile market. We are expecting for this year an increasing in terms of volume of around 8 to 10 percent. It seems that the automotive industry is at the bottom right now and need to start to recover.

However, we have to be very focused that the Brazilian economy is improving, but you know that that can change suddenly. In our case, we are

working with the aim to adjust the operations according with a (inaudible) volume.

Mauricio Serna: Great. Thanks for the call. And congratulations again.

Operator: Next question, Valentin Mendoza from Banorte.

Valentin Mendoza: Hello Juan Pablo, Francisco, congratulations and another quarter of great results.

My question is again regarding the volume that we saw quite impressive in the multi leaf springs, as well as for the brake division. Compared to your expectations that you shared with us during the last earnings call, with 1.5% expected growth in the leaf spring business, and 4% to 5% in the brake division compared to the 8% you posted in suspensions, and 19% in the brake division.

My question is, is this a trend – or are you expecting this trend to continue during 2017? Or what are your expectations?

Juan Pablo: In that, Valentin, we are keeping our promise that we make in the last conference call. We are expecting for this year increasing the volume and the suspensions, like, 4% to 5% if I am correctly.

And in the brake business, we are expecting like 8%, something around that. We have not changed that; we feel comfortable with the data guidance for this year.

Valentin: OK, so you're actually revising this upward, right, from 1.5% in the spring business to 4% to 4% – and the brake division from 4% or 5% to 8%. You're more optimistic, right?

Juan Pablo: This is a – it's not as much Valentin. I really say that we will keep the first guidance that we mentioned in the last conference call.

Valentin: OK, thank you very much, Juan Pablo.

Operator: Next question, Pablo Carillo from Bancomer.

Pablo Carillo: I was just wondering if you could offer a little bit more color on the – how Rassini is looking at the U.S. dollar-peso for the – throughout the rest of the year, to see if it's going to effect maybe some of your margins or anything else?

And, again, congratulations on the results, thank you.

Juan Pablo: OK, in that regard, we have our mentioned in the past that the company's thought was to be focused on innovation, quality, service. These are ways that we can get contracts that rather have profitable for the company.

We really – we are not focused to, let's say, make money because of the valuation or position of the peso. And right now, it's very, very difficult to answer your question because there is a high volatility.

What you – you see the last – the beginning of the year, we have an exchange of the peso around \$22, \$21.5, now the level was \$18.7, more or less, and right now we've seen the level of \$19.

It depends on factors out of our control. The point is that we are focused to have very good contracts because of innovation quality and also to have a very strict cost control in our expenses or operational cost – the value of cost.

Pablo Carillo: All right, thank you very much.

Operator: And next question is from the line of Jose Vasquez from GBM.

Jose Vasquez: Hi, Francisco, Juan Pablo, good morning. I wanted to get into your sound financial situation, are you still interested in acquiring some companies for further M&A activity to strengthen the business, or maybe going into other geographies like Europe? Thank you.

Juan Pablo: Yes, nothing has changed since the last comment that we making our companies

Jose Vasquez: OK, thank you.

Operator: And there are no further questions at this time. I will turn the call over to Mr. Francisco Freyre.

Francisco Freyre: OK, thank you, Operator. Thank you again, everybody, for joining us today. If you have any additional questions, please don't hesitate to reach out. We look forward to updating you again in the – within three months with the results of our second quarter.

Operator: And this concludes today's conference call. Thank you for your participation, you may now disconnect.

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