PRESENTATION: MRV

PUC-SP

Investment Summary

- MRV is one the major companies in the middle- and low- income segment
- Standartized Products
- Geographic Diversification – acts in more than 60 cities
- Launches may grow in the next years, instead the economic turnoil
- Inflation and Unemployment rate are risks to the bussiness
- BUY recommendation with a target price of R$ 18.60 YE2009

Valuation

- Launches may continue to grow during the next 5 years.

- Demand for low- income segment exists and government is supporting the sector with credit lines.

- At the same time, contracted launches may decline, but will not tumble, falling from 72% to 64% in 2013.

- Inflation to construction (INCC) rised in the past months and reached almost 12% yoy.

- Gross Margins kept health in the past 9M and may stay between 38% - 40% in the next years.

- G&A costs, against the net revenues, and costs with publicity may stay arround 5%.

Valuation

- PoC

REVENUE APROPRIATION CONTRACTED LAUNCHES	YEAR 1	YEAR 2	YEAR 3							
	30%	65%	5%							
			2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
2004 - ALONG THE TIME	30,54	66,17	5,09							
2005 - ALONG THE TIME		33,63	72,87	5,61						
2006 - ALONG THE TIME			63,87	138,39	10,65					
2007 - ALONG THE TIME				234,96	509,08	39,16				
2008 - ALONG THE TIME					572,40	1.240,20	95,40			
2009 - ALONG THE TIME						575,98	1.247,95	96,00		
2010 - ALONG THE TIME							596,01	1.291,36	99,34	
2011 - ALONG THE TIME								655,61	1.420,49	109,27
2012 - ALONG THE TIME									721,17	1.562,54
2013 - ALONG THE TIME										746,63
TOTAL REVENUE, PER YEAR			141,83	378,95	1.092,13	1.855,34	1.939,36	2.042,97	2.241,00	2.418,44
LAUNCHES	133,07	189,50	346,70	1.336,80	2.650,00	2.782,50	2.921,63	3.213,79	3.535,17	3.888,68

Valuation

VALUATION FREE CASH FLOW TO THE FIRM (FCFF)					
(R$'000)/YEARS	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**
CASH FLOW					
NET INCOME	380,284	380,432	410,808	462,317	518,660
DEPRECIATION	871	873	875	878	880
SUB TOTAL (A)	**381,155**	**381,306**	**411,683**	**463,195**	**519,541**
WORKING CAPITAL INVESTMENTS					
RECEIVABLES	368,195	275,509	231,071	182,193	156,870
INVENTORY	435,630	142,037	86,998	92,538	41,683
RECOVERABLE TAXES	4,950	521	642	1,228	1,389
INCREASE /(DECREASE) IN W.C.ASSETS (B)	**808,775**	**418,066**	**318,712**	**275,959**	**199,942**
INCREASE /(DECREASE) IN W.C.ASSETS					
TRADE ACCOUNTS PAYABLE	130,311	73,144	44,603	39,290	44,462
PAYROLL AND RELATED CHARGES	30,634	3,613	-1,674	7,921	8,964
RECOVERABLE TAXES	17,104	1,883	2,322	4,438	5,022
INCREASE/(DECREASE) IN W.C. LIABILITIES (C)	**178,050**	**78,640**	**45,251**	**51,650**	**58,448**
WORKING CAPITAL INVESTMENTS (D) = (B) -(C)	**630,726**	**339,426**	**273,461**	**224,309**	**141,494**
CAPEX INVESTMENTS (E)	1,855	1,939	2,043	2,241	2,465
TAX BENEFITS (F)	28,034	55,102	68,427	70,507	67,321
FCFF (G) = A - D - E + F	**-223,392**	**95,043**	**204,606**	**307,151**	**442,902**

Valuation

DCF

(R$'000)

COST OF CAPITAL	**17.67%**
RISK FREE	4.5%
BETA	1.37
MARKET RISK PREMIUM	4.5%
INFLATION SPREAD	3.0%
EMBI + BRAZIL	4.0%
COST OF DEBT	**12.96%**
NOMINAL COST OF DEBT	15.25%
TAX	15.00%
WACC	**16.70%**
% EQUITY	79.40%
% DEBT	20.60%
PERPETUITY GROWTH	4.00%
NPV 2009- 2013	440,415
TERMINAL VALUE	1,956,484
NPV+ TERMINAL VALUE	2,396,899
(-) DEBT	-472,272
(+) CASH	605,232
FAIR VALUE	2,529,859
SHARES	135,993,378
TARGET PRICE	R$ 18.60

WACC: 16.70%

Cost Of Equity: 17.67%

- Free Risk Rate: 4.5%
- Market Premium Risk: 4.5%
- Beta: 1.37
- Brazilian EMBI+: 4%
- Diferential of Inflation: 3%

Cost of Debt: 12.96%

- Nominal Cost of Debt: 15.25%
- Tax: 15%

Valuation

- Sensivity Analysis

Sensitivity Analysis

		Discount Rate						
		13.70%	14.70%	15.70%	16.70%	17.70%	18.70%	19.70%
Perpetuity Growth	2.75%	18.96	18.33	17.73	17.16	16.60	16.07	15.56
	3.00%	19.26	18.62	18.01	17.42	16.86	16.32	15.81
	3.25%	19.57	18.92	18.30	17.70	17.13	16.58	16.06
	3.50%	19.89	19.23	18.60	17.99	17.41	16.85	16.32
	3.75%	20.22	19.55	18.91	18.29	17.70	17.13	16.59
	4.00%	20.57	19.88	19.23	**18.60**	18.00	17.42	16.87
	4.25%	20.93	20.23	19.57	18.93	18.31	17.73	17.16
	4.50%	21.30	20.59	19.91	19.26	18.64	18.04	17.47
	4.75%	21.69	20.97	20.28	19.62	18.98	18.37	17.79
	5.00%	22.10	21.36	20.66	19.98	19.34	18.71	18.12
	5.25%	22.52	21.77	21.05	20.37	19.71	19.07	18.46

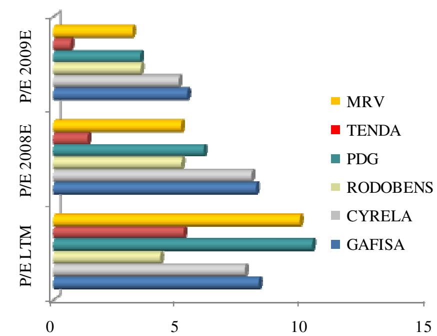
BR EMBI+	WACC	TARGET
1.50%	14.71%	22.73
2.00%	15.11%	21.78
2.50%	15.50%	20.90
3.00%	15.90%	20.08
3.50%	16.30%	19.32
4.00%	16.70%	18.60
4.50%	17.09%	17.93
5.00%	17.49%	17.30
5.50%	17.89%	16.70
6.00%	18.28%	16.14
6.50%	18.68%	15.62
7.00%	19.08%	15.11

BETA	WACC	TARGET
0.90	15.02%	21.99
1.00	15.37%	21.19
1.10	15.73%	20.43
1.20	16.09%	19.72
1.30	16.45%	19.05
1.37	16.70%	18,60
1.50	17.16%	17.82
1.60	17.52%	17.26
1.70	17.87%	16.72
1.80	18.23%	16.22
1.90	18.59%	15.73
2.00	18.95%	15.28

Valuation

- Multiples

PRICE/EARNINGS



Source: Bloomberg, Capital IQ

  - Main peers of MRV are Tenda, PDG and Rodobens
  - Fundamentals Loss , search for liquidity
  - MRV has one of the lowest P/E 09E
  - About P/BV , MRV is trading less than 1.0x

Valuation

- Risks to Target Price

  - Difficulties to get financial loan, both to the company and the clients is one of the major risks in our target price. In case it occurs, the company may reduce its launches and show low margins to maintain its clients.

  - We have already seen a lot of companies abroad announcing job cuts, but it has not reached Brazil yet. If things become worse than they are, our country may be hardly affected and the unemployment rate might rise, slowing down the consumer spending and decreasing the potential market for MRV.

  - The stocks liquidity is also a risk factor in our view. We are facing an uncertain macroeconomic situation, and the investors may penalize the stocks if they reduce their investment in the company.

Business Description

- 1979 – MRV was founded
- First Caixa’s Economica correspondent bank
- More than 6000 employees
- Listed at Bovespa as “Novo Mercado”
- The fastest construction cycle in the sector
- High standardizing level
- Three products : Parque , Spazio and Village

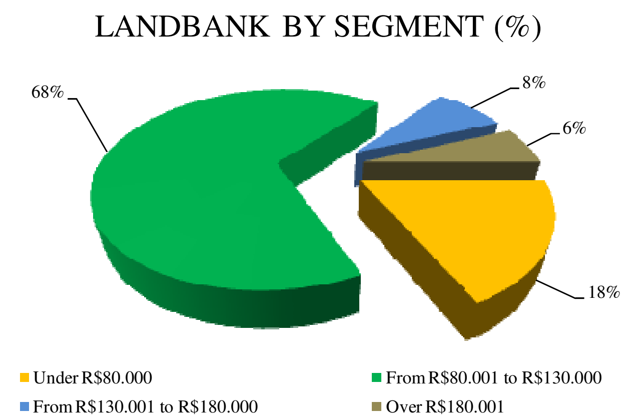
Business Description

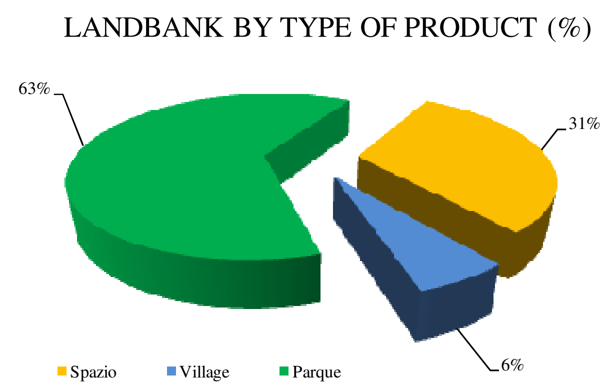
- Landbank

- 2 – 2.5 year duration for next years

- R$ 9.5 billion value

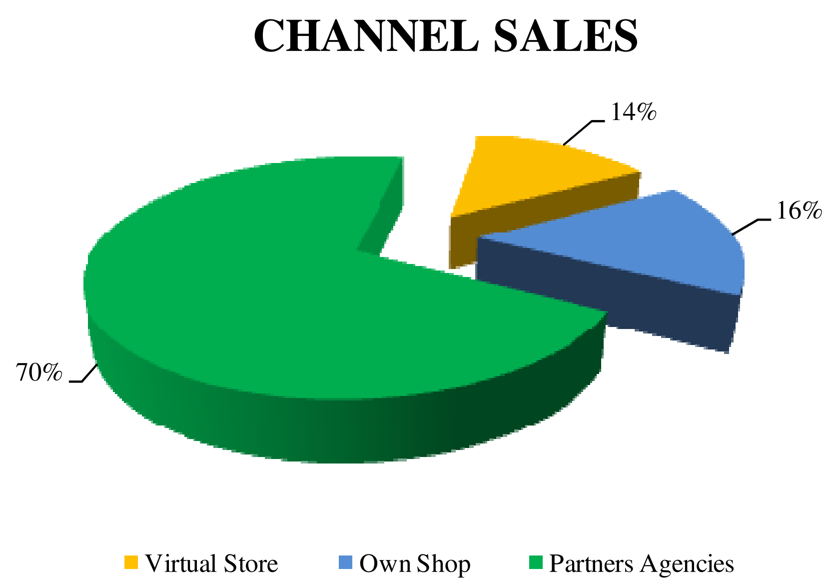
- 80% is in Brazil´s Southeast region





Business Description

- Channel Sales



Business Description

- Swot Analysis

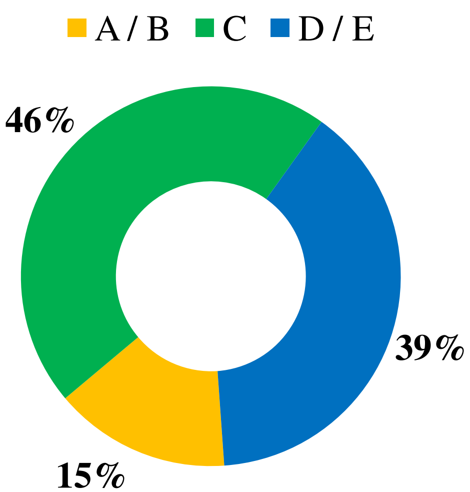
Strengths	Weaknesses
-Fastest construction cycle and cash flow payback; -High potential housing demand in the middle- and low-income segment; - Large experience in the middle- and low-income segment.	-Geographic concentration, most of the launches occur in São Paulo and Rio de Janeiro; -Needs large working capital.
Opportunities	**Threats**
-Governmental incentives to the real estate sector and regulatory changes; -Financing growth on the real estate sector; -Population growth and decrease of unemployment rate projections; -Sector consolidation;	-Global crisis and macroeconomic instability; -Credit crunch; -High Input prices; -Lack of qualified labor; -Changes in the internal market (interest tax raise and default);

Industry Overview

- GDP growth
- Interest Rates decrease
- Inflation Control
- Unemployment Rate decrease
- Purchasing Power Rise

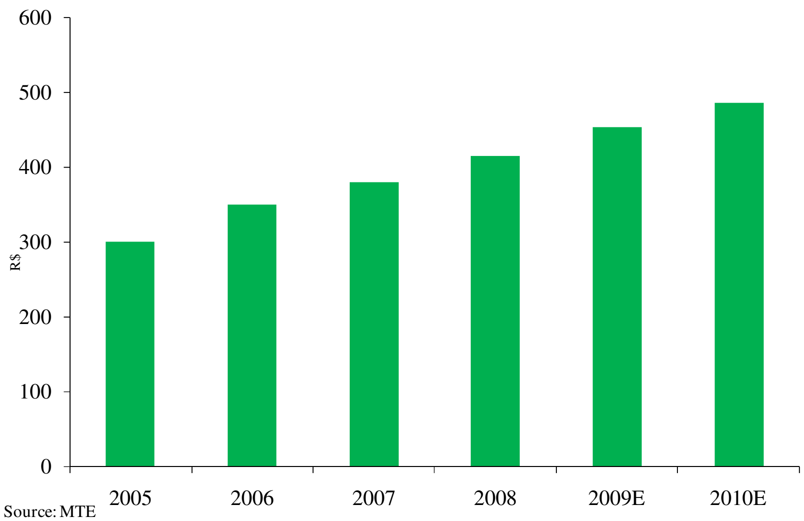
Industry Overview

Social Class Distribution



Source: Ipsos

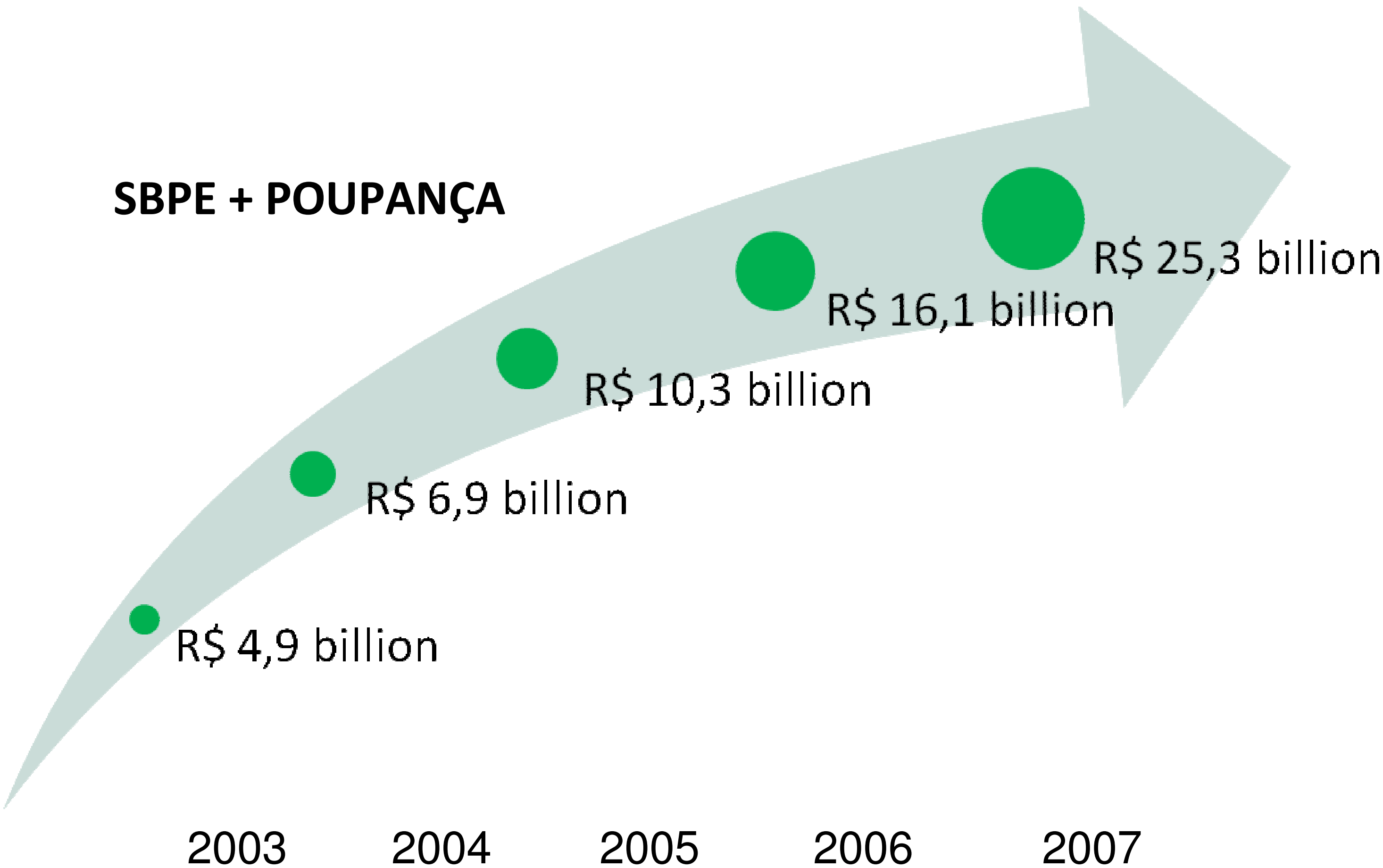
Minimum Wage



Source: MTE

Industry Overview

- Real Estate Credit



Industry Overview

- Real Estate Credit / GDP - Worldwide

Germany – 51%
Taiwan – 42%
Hong Kong – 39%
South Africa – 34%
Japan – 33%
Chile – 14%
China – 10%
Mexico – 9%

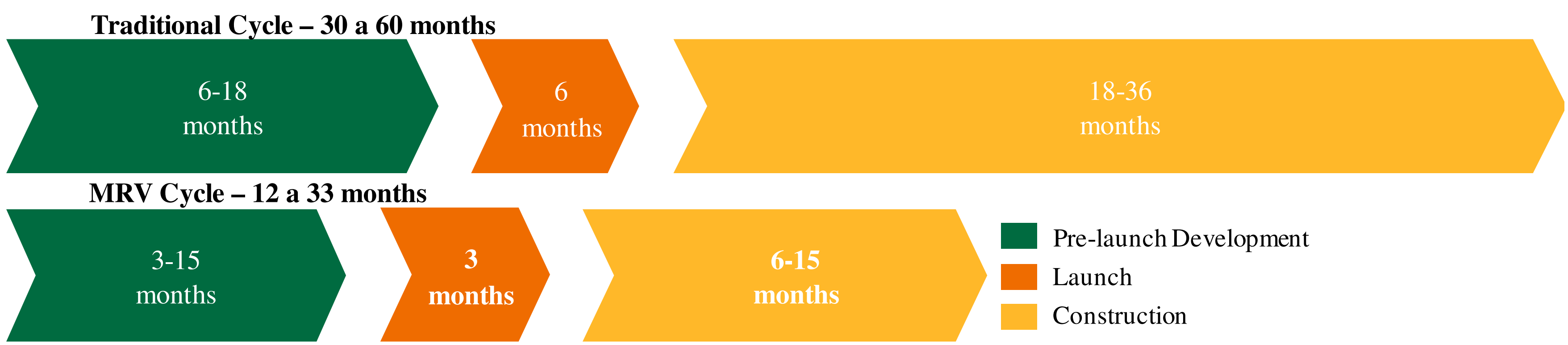
Colombia – 3%
Peru – 2%
Brazil – 2%
Argentina – 2%
Russia - 1%

Industry Overview

- Crisis
  - Intensification in past months reaching the global markets
  - Global Efforts to provide liquidity to financials
  - Bailouts to estimulate the economies
  - Money gets harder to get and more expansive
  - Highest unemployment rate since 70's

Financial Analysis

- Operational Cycle
  - Less working capital needed
  - Faster appropriation

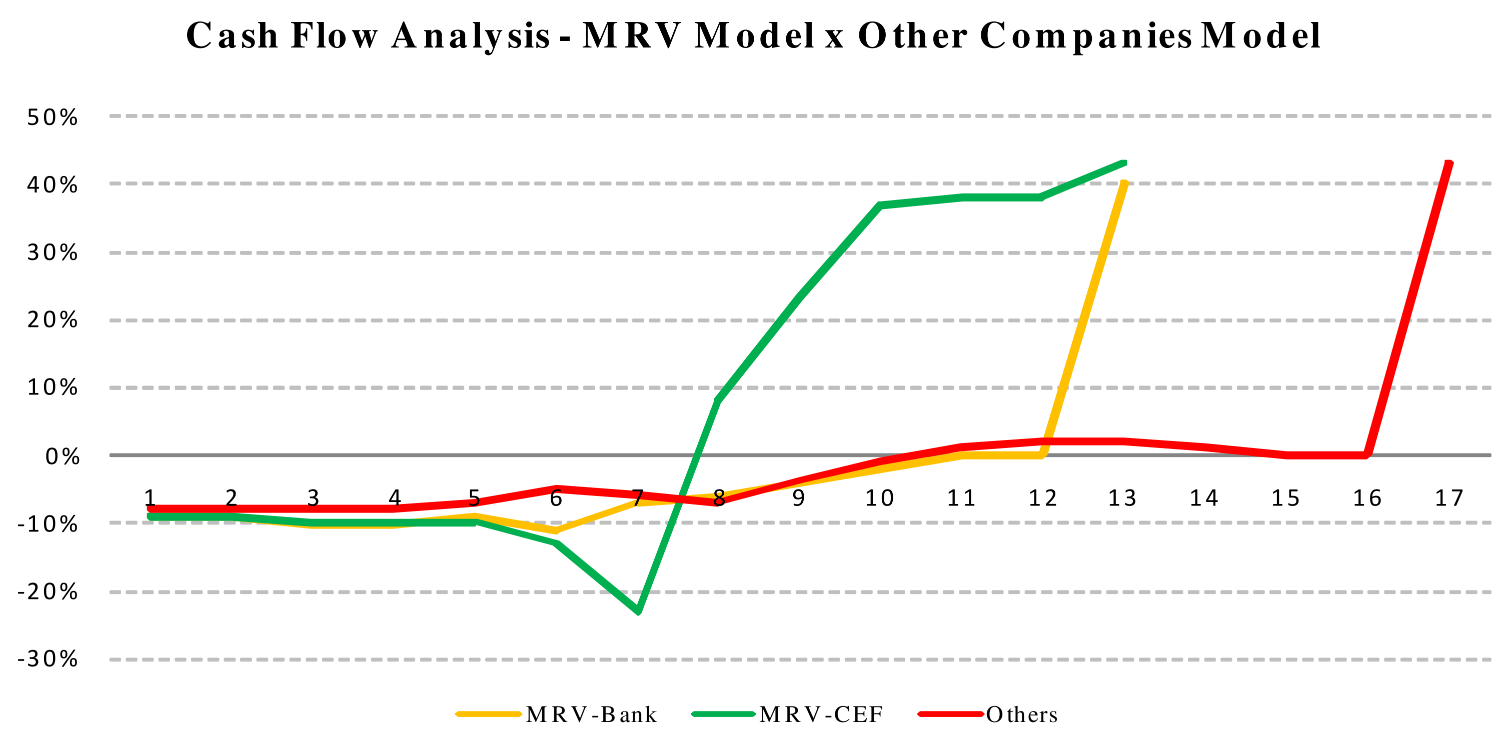


Financial Analysis

- Low leveraged structure
- Debenture emission
  - Credit rated brAA-(R$) conceded by S&P
- Crédito Associativo
- MRV´s model and Others Companies´ model

Financial Analysis

- MRV´s model and Others Companies´ model
  - Cashflow



Thesis Risks

- We believe that the credit crunch may affect the Brazilian economy's possibilities to obtain foreign investments resources, making the credit lines more expensive. Specifically in MRV's case, it will be more affected if it has no stand-by credit lines or its own resources to finance its working capital.
- Regulatory changes in FGTS and SBPE policies may upset the access to credit lines and decrease the MRV performance.
- The measures that can possibly be used by the government to control the inflation, as an increase in the interest rate or fiscal policies, may harm MRV by making the MRV growth unfeasible.
- The stocks liquidity is also a risk factor in our view. We are facing an uncertain macroeconomic situation, and investors may penalize the stocks if they reduce their investment in MRV.
- There is a hypothetical risk of default for any company in the sector and, if it occurs, the investors may raise the risk premium required for MRV to borrow money.

PUC-SP