[CFA BRAZIL]FEA USP Student Research

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Brazilian Homebuilders

MRV Engenharia S.A.

Faculdade de Economia, Administração e Contabilidade FEA USP

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Research Team:

Allan Paladino

Guilherme Braga

Guilherme Zagatti

Gustavo Chiarini

Walter Cavalcante

Ticker: MRVE3	**Recommendation: BUY**
Price: BRL 9,56	**Price Target: BRL 23,12(US$ 12,61)**

Indicadores:

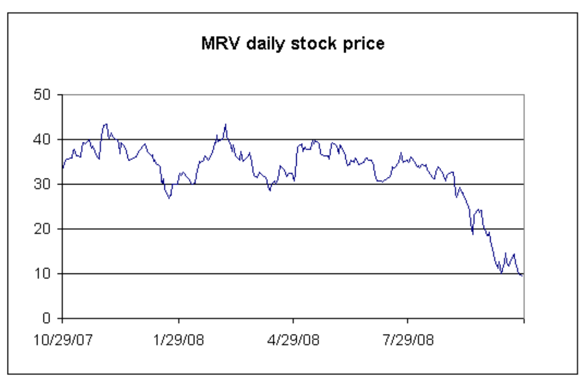
	Revenue	Gross Profit	EBITDA	EBITDA Margin %	Net Profit %	Upside (YoY)
2007A	441477M	34,85%	31712M	7,18%	9,70%	-
2008E	1,434,702M	30,75%	331956M	23,14%	20,88%	186,16%
2009E	1.879.163M	31,75%	430738M	22,92%	20,87%	-
2010E	2,787,321M	33,25%	705891M	25,33%	19,43%	-

Strong fundamentals, despite uncertainties

- **BUY recommendation based on strong performance expected for 2008; high demand pushed by low income sector, high margins, relatively good positioning in the current unstable markets.** Therefore, we recommend buying MRV shares, with target price of R$22.00 (US$ 9.77), 92.5% upside*.
- **Despite of the global financial crisis, the fundaments of the homebuilding sector remains strong:** Although the global financial crisis is threatening the supply of credit, damaging the companies most dependent on it, the Brazilian homebuilding sector is well positioned compared to US. At that country, the stocks are being negotiated at 1.2x P/EBITDA. This data shows that the market has already priced the subprime effects. The homebuilding sector in Brazil is also strong compared to the Mexican one. While here the papers are being negotiated at an average of 7.8x P/EBTIDA, in Mexico this same ratios is quoted 3.05x.
- **MRV will uphold its planned launches for 2008 and with good margins:** Sales will remain at the same pace due to the stable conditions to finance the purchase of a house and the little sensibility of the low-income class to interest rates increase and to global liquidity problems. The margins will remain at the same level due to the profitable business structure and the its pricing power (although this power may be lessened).
- **MRV risks:** Company's sale is highly dependent on good conditions of credit, income and GDP growth. Liquidity crisis of the financial system can hinder the sector due to its high dependence on working capital and consumer trust, which can decrease sales. The company may be hampered by its sensibility to possible price increases of raw materials and workforce.

Market Profile	
52 Week Price Range	R$9,40/R$43,45
Average Daily Volume	R$17.564.579
Beta	1,63
Dividend Yield (Estimated)	4,81%
Shares Outstanding	135.993.378
Market Capitalization	R$ 1300,1 MM
Institutional Holdings	44,40%
Insider Holdings	9,70%
Book Value per Share (28/10/08)	1
Debt to Total Capital (Dec 2008E)	48,28%
Return on Equity (Dec 2008E)	14,02%

* stock price from 10/28/08



Important disclosures appear at the back of this report

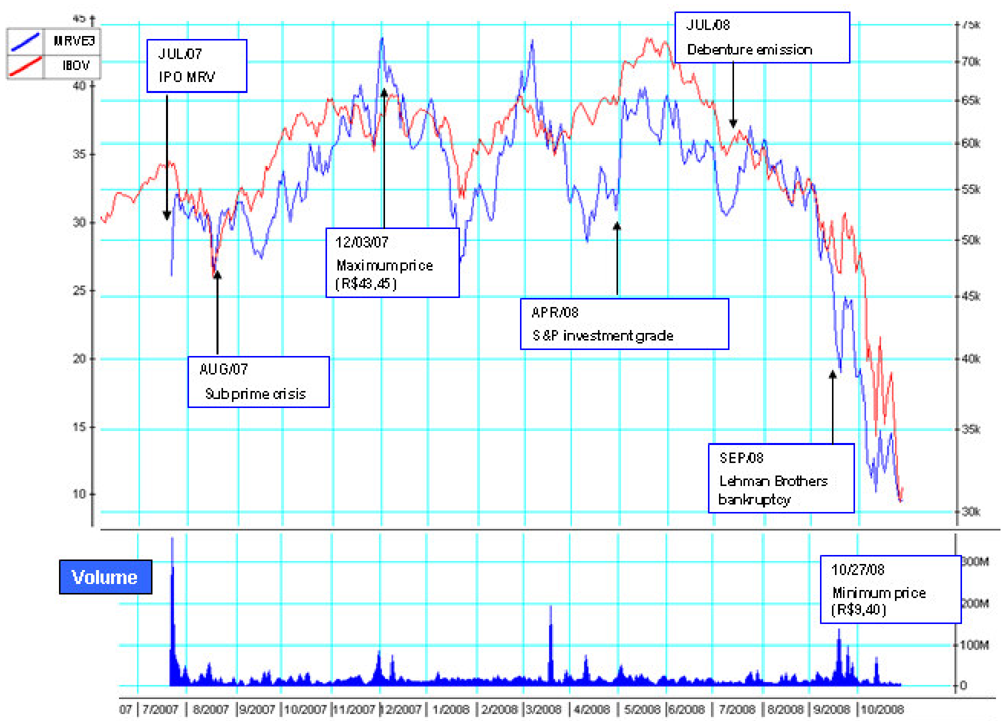
Investment Summary

Target Price: R$ 27,36 - BUY
We calculated the target price based on the multiple method and we found a target price of R$ 27.36 for the end of 2008, revealing a 186.16% upside potential.

Low-Income Segment Demand for Houses
MRV builds and sells residences for the low-income segment. This segment concentrates a large amount of the Brazilian homeownership deficit, which is of around 8 million houses. Following the increase in average income and the new credit conditions, this once restrained demand started expand. Furthermore, low-income house demand is less impacted by tightening in monetary policy, as loan rates are not indexed to Brazilian overnight lending rate. The financing of popular houses is funded by the SBPE (Brazilian System of Savings and Loans) and the FGTS (State-driven workers guarantee fund).

Risks
The main risks which can negatively affect MRV are:
1) Difficulty in obtaining credit among the financial system, due to the global liquidity crisis, which may harm new projects and completion of already launched developments not yet delivered.
2) Growing civil construction costs, especially cement and work force, which could tight business margins and sales, in case the company cannot pass higher costs on..
3) Possible decrease in sales, generated by a decrease in consumer confidence, which could postpone the decision to buy a house due to the global financial crisis.

Figure 1: MRV x Ibovespa with Volume



Source: Economática/Student Researchess

Business Description

MRV ENGENHARIA E PARTICIPACOES SA, headquarted in Belo Horizonte, Minas Gerais, Brazil, is a large homebuilder and real-estate developer in the low-income segment. The company works with three standardized products (Parque, Spazio and Village), within great part of the Brazilian territory (63 cities in 13 States and the Federal District), both in big cities and capitals (48% of the landbank) as in small cities (52% of the landbank). MRV has a vertically integrated structure, being responsible for searching and buying land plots; creating projects; and launching, building and selling real-estate developments. Though integrated, MRV also works with partnership and outsourcing.

MRV Business Model
MRV started in Belo Horizonte, expanding its business in 1994, always focusing in the low-income segment. The production cycle starts with the identification of the land plots to be bought. At this stage, the company searches for a good location (mainly in terms of public transportation availability), in areas with good demand potential, i.e. concentration low-income individuals, lack of large competitors, etc. Nowadays, sales potential of the company's landbank is of R$ 9.5 billions. Following land acquisition, a project is made and sales start after its approval. There are three ways which the sales occur: by its own sales representative (16%), by a partners' sales representative (70%) and by the internet (14%). Today, MRV operate three products:

- *Parque*: The cheapest product line of MRV. It consists of vertical apartments, costing around R$ 1,200 per square meter, at most R$ 77,000 per unit. They represent from 40% to 45% of the projects launched.
- *Spazio*: Vertical apartments whose square meter costs between R$ 1,600 and R$ 2,000; with total cost per unit being between R$ 70,000 and R$ 140,000. Spazio product line has the largest share of total projects launched, around 50%.
- *Village*: Horizontal developments which cost between R$ 1,400 and R$ 1,800 per square meter; total cost per unit ranging from R$ 100,000 to R$ 200,000. These developments are less representative in MRV's portfolio (4.8% in 2007).

The projects' construction begins three months after it is launched. At this point, around 50% of the units are already sold, and 17% of the revenue is appropriated. Having standardized products makes the homebuilding faster; and the quality and cost control better. MRV's operating cycle of 12 to 33 months is lower when compared to sector's average (18 to 36 months). These factors create larger margins for the company, less cash needs and bigger returns in each project.

Credit needs for business operation and financing
Mainly to the low-income class, the purchase of a house, because of its higher value, strongly relies on the availability of credit and its conditions. In order to sell, it is a necessary condition to finance the client to purchase the house. Financing is made through private banks and/or through CEF (Caixa Economica Federal, Brazilian state-owned bank), MRV's long time partner. Apart from the clients, the companies are also extremely dependent on financing, mainly of its working capital. Homebuilding is characterized by large working capital needs, with medium-term tenors. Therefore, the companies need to obtain cash to its operation in the SBPE incurring an interest rate of around 10.5% + TR (Brazilian reference rate, around 2%/yr). MRV can obtain better finance conditions to its clients through the "Credito Associativo" of CEF (financing system of the Brazilian government, which offers lower interest rates to lower-income families).

Geographical Diversity in the Brazilian Territory
MRV own landbank is well distributed throughout the Brazilian territory, reaching great part of the Brazilian home ownership deficit. The landbank is located in 13 States plus the Federal District, among 63 cities. Its landbank represents 97,400 units or R$9.5 billion in potential sales. Today, these land plots are well balanced amid capitals (50.3%) and other cities (49.7%). The land plot is more concentrated in Sao Paulo and Minas Gerais. MRV downsized its landbank capacity, since it uphold launches for two and a half years ahead compared to three years back then. Nevertheless, the company is still placed in a good position considering future launches.

MRV's Competitive Advantage and Differentiation
The company operates in a segment which has been growing consistently in past years. The credit availability and the increase of income among this segment are a great booster of the demand for MRV products. The country has a home ownership deficit of 8 million houses, which is concentrated mainly in the low-income segment, thus there is great restrained demand for houses. Because of new legislation and habitation policies, there is plenty of money available to real-estate financing. Moreover, the real income of the population has grown. These factors push up demand for houses, raising the number of sales in the low-income segment and in the whole homebuilding sector.
MRV's position among the sector is extremely favourable. Despite several Brazilian higher-income homebuilders are now putting efforts in the low-income sector, MRV has the greatest expertise among its peers, a standardized production that enables short cycles and allows cost controls, which generates higher margins, and a well distributed landbank through the country, which grant a sustainable growth. Finally, it is important to highlight the partnership with CEF, which guarantees a health cash flow to the company.

Industry Overview and Competitive Positioning

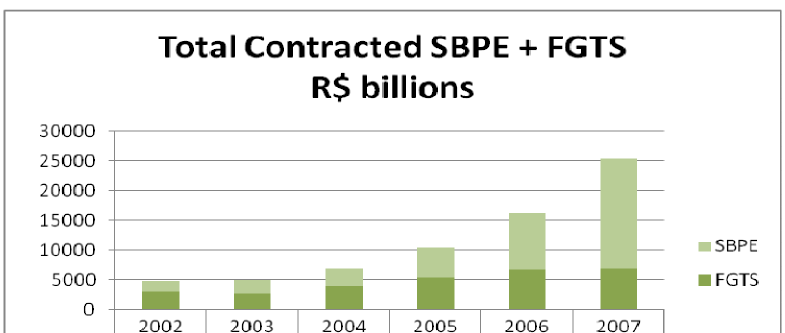
The sector of homebuilders is considered to be a highly strategic sector for the government, since it generates many jobs and is intrinsically linked to economic growth. Moreover, the country faces a great deficit of homeownership, which, in 2006, accounted for almost 8 million of residences. Therefore, this sector has been included in PAC, the Government Program to Accelerate Growth, and has been helped during the actual turmoil by several procedures and official declarations, guaranteeing that financial funding will not lack.

Norms and Regulations
The real state sector is highly dependent on the SFH (Habitation Financial System), which is regulated by the CMN (National Monetary Council), the BACEN (Central Bank of Brazil), the CEF (Caixa Economica Federal) and the SEDU/PR (Secretary for Urban Development linked to the Presidential Cabinet).

Since its creation, the SFH is funded by voluntary saving, which comes from the SBPE (Brazilian System of Saving and Loan), and compulsory saving, which comes from the FGTS (Assurance Fund for Period of Work). The SBPE is constituted by all the institutions which receives voluntary savings, be it public or private; while the FGTS is managed by an Advisory Custodian Bureau and it is operated by CEF.

According to CMN norms (resol. n° 1980 of 30/04/1993 and n° 3005 of 30/07/2002), at least 65% of the voluntary savings from SBPE must be directed to fund the real-state sector. From this amount, 80% must be loaned by the SFH tax; and the rest can be lent by market taxes, since that at least half are homebuilding operations and 20% must be hold in reserve at BACEN.

The credit from SBPE and FGTS has increased during the past years and last year it was contracted R$ 25329 billion. The sum tends to increase the next years, albeit the global financial crisis may reduce its growth.



	2002	2003	2004	2005	2006	2007
SBPE	1769	2218	3002	4852	9340	18410
FGTS	3066	2697	3861	5478	6768	6919

Apart from the SBPE and the FGTS, the president signed the 443 MP (Provisory Act), which authorized CEF and BB (Bank of Brazil) to acquire capital participation of homebuilders in case of liquidity problems.

Although this procedure was vastly criticized by members of the homebuilding sector, it was made clear that the government is prone to help the companies which may come through difficult times. Nevertheless, the funds promised by the BNDES were not yet guaranteed, a fact which did not please the sector.

Finally, it should be highlighted that the legal institutions in Brazil have been strengthened, thus reducing the risk in investing in the homebuilding sector. There were introduced new legal instruments, such as the "patrimonio de afetacao" scheme, which allows the company to compute in different balance sheets theirs different projects, protecting the consumer in case of bankruptcy. On the other hand, it has been enforced the right which allows the lender to expropriate the insolvents, thus protecting the lenders.

MRV has learnt to take advantages of all these norms and regulation. For example, the company has strengthened its relationship with CEF, becoming a strategic partner of the bank. Furthermore, the company has been using the new accounting schemes, which bring more safety to the investors, because unsuccessful projects do not jeopardise others.

Main Indicators

The actual turmoil has changed several indicators from past tendencies, thus making it more difficult to predict them for the following years. Nevertheless, it is possible to draw some lines based in current events and in past indicators.

The INCC (National Price Index for Civil Construction) increased a lot during the beginning of the year, stimulated by the high demand of raw materials throughout the world. From January to September, the index had raised 20% more than the inflation measured by the IGP-M, which was also high. The increasing costs of homebuilding were greatly influenced by the increasing costs of labor and cement. Nevertheless, the turmoil of the market made the INCC retreat. Due to the decrease of demand for raw material and the reviewed growth forecasts all over the world, the index has been raising less, from a peak of 2.02% increase in May to a 0.95% increase in September. The index growth is predicted to be low in 2009.

Another important indicator is the GDP of the Construction, which has raised more than 5% the last 2 years and is predicted to increase 10% this year. For the following years, according to FGV data, the GDP of Construction is expected to grow at a 6.5% rate, which is higher than the growth of the GDP. Therefore, the homebuilding sector should be considered to invest.

MRV has scale production, which minimizes inflationary threatens, since the company buys in large quantity. Moreover, the price index has not grown extremely high and it is expected to be stable next years. On the other hand, MRV has been growing more than the average of the sector, so we believe that it will continue to maintain this pace, thus outs

The Importance of Credit

The credit plays an important role in the homebuilding sector, since each company has great demand of working capital and it is consumers need financing in order to acquire a house.

However, the companies are facing liquidity restriction. Many companies have taken actions to acquire cash in order to continue its operations, such as selling land plots, disposing assets, increasing capital or making operations with bigger companies. The world financial crisis has also made banks more selective and restrictive, thus reducing credit and making it more expensive. Therefore, the companies which have accelerated launch growth earlier have more cash and are better placed than their rivals to securitize their receivable and to start to generate and reinvest some cash flow from operations. Also, the companies which are better placed have more opportunities to buy land plots from the companies which are selling than fast in order to generate cash.

The fast growth which companies faced past years, when there was a lot of credit will have to slow down in order to accommodate the restriction of cash. The companies which have more leveraged capability and more equity are the ones better placed to excel, since they have more credibility among banks. On the other hand, companies which may be more leveraged or have less credibility will have to curtail growth and/or dilute their assets in order to avoid a liquidity crisis. Nevertheless, the actual funding should be available to allow all the already lunched projects to be delivered.

MRV has a very healthy balance sheet and a back-of-the-envelope calculation shows that the company would not need any financing to pay for all its net debt, given its equity is higher than the debts. Consequently, MRV will not have as much difficulties with credit as other companies which are extremely leveraged.

Furthermore, MRV has one of the lowest cash-burn rates in the sector, showing that the risks of equity dilution are low. Nonetheless, the company must be aware of the actual moment so as to not incur liquidity problems.

The Emerging Low-Income Class
The low-income class is the class most prominent nowadays in Brazil, accounting with 86.2 million citizens or 46% of the population of the country. The consume potential of the low-income class was R$ 365 billion in 2007, almost a quarter of the total consume potential of people living in urban areas. The main factors which explain the surge of the low-income class is the growth of employment, credit facility, price stability and government transfer (i.e. the Bolsa Familia Program). Therefore, the greatest risks in working with the low-income class are price increases, credit decrease and growth of unemployment. If the turmoil gets worse, these risks can materialise and jeopardise the surge of this class. However, this should not occur, because the country is better prepared to go through a world crisis. However, we believe that the growth of the low-income class will be reduced.

In the homebuilding sector the growth tendency is not denied, since at least half of the future buyers come from this class. The main homebuilders greatly increased their focus in the low-income class. In 2007, eight of the main companies of the sector raised their launched projects toward this segment in 400% compared to 2006, and this year the increase is planned to stay above 100%.

MRV was a pioneer to deliver to this segment, thus the company has a lot of expertise in this area. However, the company has never diversified its consumer, thus becoming extremely vulnerable to changes in the low-income segment. Nevertheless, we believe that the company would be very resilient in case the low-income class were to go through a recession, given the company’s tradition and know-how. Nowadays, MRV is in a very good moment so is the low-income segment, which is the main focus of the actual government. We do not believe that any major changes will happen in the following years, thus MRV will continue to increase its sales.

Financial Analysis and Valuation

Following the several capital injections in MRV (Private Equity in 2006, R$ 160MM; IPO in 2007, R$1,300MM; debentures issue in 2008, R$300MM), we believe the company is ready to finance its growth over the next years, being not severely hit by the current financial crisis and able to take advantage of the high potential demand in its sector.

We’re assuming a decrease in sales growth and new launches in 2009, with a slight recovery in 2010.

For 2008 and 2009 we project EBITDA of R$331MM and R$430MM, respectively, growing 947% and 30% yoy. Growth in 2009 takes in consideration the impacts of the financial crisis and, therefore, lowers margins. We forecast revenues of R$1.4 billion in 2008 and R$1.9 billion in 2009, with 26,000 units being launched in 2008 (given as guidance by the company) and 31,000 units in 2009, 225% and 30% higher y/y.

Multiples

We have used the multiples method in our valuation since we believe that, in moments of financial crisis such as these we`re going through, what matters and shall be taken in consideration is the market pricing of the assets. We assume that investor have changed they fair value level. MRV was once traded at a P/E of 30x, but what we notice today is that it will hardly go over 15x. However, investment is even though extremly atractive when we analyse net income growth over the period and realize that, with no multiple's change, price still remains at atractive levels.

Our valuation implies an upside of 186.16% to Dec08, with TP of BRL 27.36 in Dec-31-08. In our calculation we took base-price as of Oct-28-08, BRL 9.56, calculated its financial multiples and considered they`ll remain constant in Dec08, Dec09 and Dec10. Using these multiples and our earnings, EBITDA and other projections we reached target prices to these dates. We discounted these prices to present value using company's cost of capital and considered its average as our target price.

Our valuation implies an upside of 92.5% as of Dec08, with TP of R$22.00. For the calculation we took as base prices as of 22-Oct-2008, R$11.43, calculated its multiples and extrapolated them to Dec08, Dec09 and Dec10, calculating the implied TP for each of them and taking its average as the price in each date.

DCF
We project MRV's cash flow until 2010 and realized that DCF valuation is harmed due to two key problems:
a) MRV has grown abnormally in the last years due to raise of capital (IPO, debentures, etc) and currently has a unsual large cash position, which is clearly transitory.
b) Homebuilding sector requires high levels of working capital and cash position in the formation of landbank and construction processes. We believe these peculiarities harm the DCF method since company is expected to need large amount of working capital in its current business phase, capital which has been already raised, as mentioned. In order to have a robust analysis using this method, horizon period would need to be too long, harming the precision of our forecasts and therefore our analysis.

Comparing American and Mexican markets we realize that Brazil is well valuated by investors and that the market understands that the strong foundations of the Brazilian economy deserve a prize when compared with these two countries.

Investment Risks

The bitterest effect of the credit restraint, since the beginning of the financial crisis, is the increase of the costs to obtain cash. This unreal upsurge was mainly caused by the herd behavior and it can jeopardize new projects, aggravating the crisis. MRV is financially protected for the next year and has access to the resources form the SBPE, which goal is to fund the homebuilding sector in the country. Furthermore, the company has strengthened its cash needs by a successful debenture subscription concluded in July, just before the global financial crisis. The debentures produced R$ 300 million. All these factors contribute to strengthen MRV, which has enough cash to uphold 2008 launches and to launch 40 thousands units per year within the estimated time.

We believe that the demand of the low-income segment will be less disturbed compared to the others segments because of the following reasons:

1- **Real growth of the income will be lessened, but it will remain at a high rate compared to 2009 GDP:** Data shows that the employment rate will grow less, but it will grow more than the GDP because of the stimulated Brazilian economy, stronger macroeconomic fundaments and greater demand

2- **The extremely large Brazilian homeownership deficit:** A research by Secovi-SP shows that the homeownership deficit is calculated around 8 million residences, another research from ABECIP shows that to supply house demands in Brazil it must be built around 20 million houses until 2020. These are indicators that show that there is plenty of space to grow within the sector.

3- **Easy credit to the final consumers:** This is mitigated by the large presence of CEF within MRV projects. The long relationship between MRV and CEF has made the clients of the company to choose the CEF financing options, which will not suffer any modification in its costs. Moreover, the procedures taken by the government to foster the use of the resources from FGTS guarantee that there will be enough cheap credit to MRV clients in the coming years

4- **High growth rate of the population and families:** Considering the demographic growth rate 25 and 35 years ago, we have found out that the potential clients of MRV grow at an average rate of 2.1% and that the average number of people per family in Brazil has greatly decreased, from 5 individuals per family during the 80s to 3.2 individuals per family today. These facts have triggered a high increase of demand.

The facts cited above allows us to say that MRV will be less influenced, compared to the rest of the sector, by the effects of he global financial crisis. Therefore, the company is in a very good position

within the solidification of the low-income segment. At this moment, MRV can even be placed as a buyer company.

MRV is sensitive to increasing costs of raw materials observed in Brazil during 2008, especially the increasing costs of cement and workforce. These two elements represent 30% of the total construction costs of the company. On the other hand, the land plot represents around 8% of the costs. Therefore, the company is highly sensitive to the increasing costs of these elements. We believe that the growth rate of the demand for MRV's products will slow down due to the increase of supply and the decrease of the growth rate of the Brazilian GDP, which will also slow down construction costs for the next year. The main effect of these factors on the company is losing profit margins, which is also fostered by weaken pricing power. We predicted an increase of 2.5% in the historic costs of the company for 2008, and 1.5% for 2009. Nevertheless, we have deemed MRV to be well positioned compared to its competitors. Moreover, we have judged the company capable to obtain EBTIDA margin of 23.14% in Dec. 2008 and 22.92% in Dec. 2009, reflecting its strong position within the sector and its philosophy to uphold a business structure focused in results and high margins.

MRV is still subjected to increasing land plot costs: We believe that the global financial crisis will trigger a decrease in the demand for land plots in Brazil, which will reduce pressure costs. The high demand in 2007 is unreal, especially because of the IPOs occurred in the sector. This movement triggered a high increase in the companies' landbanks. Today, a contrary movement has been occurring, since some companies, especially those which have liquidity problems and no cash to conclude its launched projects, are selling part of their landbanks. Therefore, the land plots have had its price reduced. Moreover, we have seen an upsurge of land barters between companies. According to MRV's expertise in acquiring land plots, we believe the company is well positioned.

Figure 1: Income Statement

Source: Company Documents, Student Estimates

Income Statement (in M)	2007	%	2008E	%	2009E	%	2010E	%
Gross Sales	**441.447,00**	%	**1.434.702,75**	%	**1.879.163,85**	%	**2.787.321,12**	%
(-) Cancelation + Sales Taxes	(57.327,00)	-12,99%	(207.461,98)	-14,46%	(271.732,28)	-14,46%	(403.054,32)	-14,46%
(=) Net Sales	**384.120,00**	**-12,99%**	**1.227.240,77**	**85,54%**	**1.607.431,57**	**85,54%**	**2.384.266,80**	**85,54%**
(-) Cost of Sales	(230.282,00)	-52,17%	(786.117,68)	-54,79%	(1.010.859,92)	-53,79%	(1.457.575,79)	-52,29%
(=) Gross Profit	**153.838,00**	**34,85%**	**441.123,09**	**30,75%**	**596.571,65**	**31,75%**	**926.691,01**	**33,25%**
(-) Selling expenses	(31.024,00)	-7,03%	(108.855,50)	-7,59%	(161.608,09)	-8,60%	(211.482,99)	-8,60%
(-) Administrative expenses	(114.494,00)	-25,94%	(100.572,66)	-7,01%	(131.729,39)	-7,01%	(195.391,21)	-7,01%
(-) Other revenues/(expenses)	22.161,00	5,02%	91.021,44	6,34%	119.219,26	6,34%	176.835,23	6,34%
Total Expenses over sales	(123.357,00)	-27,94%	(118.406,72)	-8,25%	(174.118,21)	-9,27%	(230.038,97)	-8,25%
(=) Operational profit	**30.481,00**	**6,90%**	**322.716,38**	**22,49%**	**422.453,44**	**22,48%**	**696.652,04**	**24,99%**
(-) Net interest income	36.681,00	8,31%	28.325,79	1,97%	37.100,92	1,97%	(55.030,96)	-1,97%
(+) Non-operating revenues	2.214,00	0,50%	5.254,87	0,37%	6.882,80	0,37%	10.209,10	0,37%
(=) Net Income Before tax	**69.376,00**	**15,72%**	**356.297,04**	**24,83%**	**466.437,15**	**24,82%**	**651.830,18**	**23,39%**
(-) Income tax and Profit Sharing	(23.854,00)	-5,40%	(47.882,07)	-3,34%	(62.715,61)	-3,34%	(93.024,64)	-3,34%
(-) Minority interest	(2.719,00)	-0,62%	(8.836,75)	-0,62%	(11.574,31)	-0,62%	(17.167,92)	-0,62%
(=) Net Profit	**42.803,00**	**9,70%**	**299.578,22**	**20,88%**	**392.147,23**	**20,87%**	**541.637,63**	**19,43%**
# Shares (x1.000)	**135.232,74**		**135.993,38**		**135.993,38**		**135.993,38**	
Earning Per Share(EPS)	**0,31**		**2,20**		**2,88**		**3,98**	
ROE	**3%**		**19%**		**21%**		**24%**	

Figure 2: Balance Sheet

Source: Company Documents, Student Estimates

Balance Sheet (in M)	2007		2008E		2009E		2010E	
Current Assets	1.469.277,00	77,1%	1.742.667,39	73,6%	2.167.618,71	73,6%	2.417.503,35	73,6%
Cash and cash equivalents	605.232,00	31,8%	172.011,98	7,26%	213.957,28	7,26%	238.622,43	7,26%
Receivables from clients	210.148,00	11,0%	446.617,51	18,85%	555.525,67	18,85%	619.567,07	18,85%
Inventories	640.989,00	33,7%	1.085.913,15	45,84%	1.350.714,24	45,84%	1.506.425,54	45,84%
Other current assets	12.908,00	0,7%	38.124,76	1,61%	47.421,52	1,61%	52.888,31	1,61%
Non current assets	416.937,00	21,9%	565.824,29	23,88%	703.801,15	23,88%	784.935,85	23,88%
Fixed Assets	18.389,00	1,0%	60.550,82	2,56%	75.316,20	2,56%	83.998,71	2,56%
Assets	**1.904.603,00**	100,0%	**2.369.042,50**	100,00%	**2.946.736,06**	100,00%	**3.286.437,91**	100,00%
Liabilities	523.224,00	27,5%	771.375,83	32,6%	1.054.958,98	35,8%	988.432,60	30,1%
Loan	15.347,00	0,8%	7.107,32	0,3%	32.710,91	1,1%	36.481,85	1,1%
Payables to supliers and others payables	51.397,00	2,7%	55.672,50	2,4%	93.118,76	3,2%	103.853,56	3,2%
Other operational accounts	365.380,00	19,2%	317.496,38	13,4%	442.659,14	15,0%	328.680,46	10,0%
Non current liabilities	91.100,00	4,8%	391.100,00	16,5%	486.470,16	16,5%	542.550,79	16,5%
Stockholders Equity	1.372.983,00	72,1%	1.597.666,66	67,4%	1.891.777,08	64,2%	2.298.005,31	69,9%
Liabilities + Stockholders Equity	**1.904.603,00**	100,0%	**2.369.042,50**	100,0%	**2.946.736,06**	100,0%	**3.286.437,91**	100,0%

Figure 3: Statement of Cash Flows

Source: Company Documents, Student Estimates

Cash Flow (in M)	2007		2008E		2009E		2010E	
Operational Profit	**30.481,00**	**6,90%**	**322.716,38**	**22,49%**	**422.453,44**	**22,48%**	**696.652,04**	**24,99%**
(+) Depreciation/Amortization	1.231,00	0,28%	9.239,86	0,64%	8.284,78	0,44%	9.239,86	0,33%
EBITDA	**31.712,00**	**7,18%**	**331.956,23**	**23,14%**	**430.738,22**	**22,92%**	**705.891,90**	**25,33%**
(+ -) Changes in Working Capital	(499.140,00)	-113,07%	(325.238,56)	-22,67%	(236.738,33)	-12,60%	(372.491,64)	-13,36%
(+ -)Non- Operational Profits	2.214,00	0,50%	5.254,87	0,37%	6.882,80	0,37%	10.209,10	0,37%
(-) Capex	16.281,00	3,69%	42.161,82	2,94%	(14.765,38)	-0,79%	(8.682,51)	-0,31%
(-) Income taxes and profit sharing	(41.937,47)	-9,50%	(136.296,76)	-9,50%	(178.520,57)	-9,50%	(264.795,51)	-9,50%
(-) Net Financial Expense	36.681,00	8,31%	28.325,79	1,97%	37.100,92	1,97%	(55.030,96)	-1,97%
(+ -) Extraordinary itens	-	-	-	-	-	-	-	-
(+) Dividend Received from subsidiaries	-	-	-	-	-	-	-	-
(-) Minorities	(2.719,00)	-0,62%	(8.836,75)	-0,62%	(11.574,31)	-0,62%	(17.167,92)	-0,62%
Free Cash Flow	**(456.908,47)**	**-103,50%**	**(62.673,35)**	**-4,37%**	**24.838,56**	**1,32%**	**(11.307,39)**	**-0,41%**
(+ -) Increase in Cash position	595.860,00	134,98%	(433.220,02)	-30,20%	41.945,31	2,23%	24.665,15	0,88%
(+ -) Investments/Divestments	-	-	-	-	-	-	-	-
Free Cash Flow to Equity Holders	**138.951,54**	**31,48%**	**(433.220,02)**	**-30,20%**	**66.783,87**	**3,55%**	**13.357,76**	**0,48%**
(-) Dividends	10.700,75	2,42%	74.894,55	5,22%	98.036,81	5,22%	135.409,41	4,86%
(+ -) Share Buyback/Subscription	-	-	-	-	-	-	-	-
Change in debt position	**149.652,29**	**33,90%**	**(358.325,47)**	**-24,98%**	**164.820,67**	**8,77%**	**148.767,17**	**5,34%**

Figure 4 •: Valuation
$ in R$

Source: Student Estimates

10/22/08 MULTIPLE	
P / E (x)	10,7
P / BV (x)	1,00
Price / Sales Ratio (x)	2,2
P / EBITDA (x)	9,4
E / P (%)	8,91%
EV / EBITDA	10,5
Price 10/28/08	R$ 9,56
Upside	-
# shares	135.993.378
Market Cap	R$ 1.300.096.693,68
Net Debt	(R$ 82.008,00)
EV	R$ 1.300.178.701,68
EBITDA	-
Profit	-
Equity	-

12/31/08 multiple	target price
P / E	23,57
P / BV	11,75
P / SR	27,24
P / EBITDA	21,17
E / P	24,72
EV / EBITDA	23,57
Price at 12/08	24,23
Present Value (12/08)	24,23
TARGET PRICE	27,35
# shares	135.993.378
Market Cap	R$ 3.295.119.548,94
Net Debt	R$ 599.363,85
EV	R$ 3.294.520.185,09
EBITDA	R$ 306.238.807,19
Profit	R$ 299.578.216,91
Equity	R$ 1.597.666.660,00

12/31/09 multiple	target price
P / E	25,95
P / BV	13,91
P / SR	32,48
P / EBITDA	27,68
E / P	32,36
EV / EBITDA	25,95
Price at 12/09	30,55
Present Value (12/08)	26,63
# shares	135.993.378
Market Cap	R$ 4.154.597.697,90
Net Debt	R$ 841.001,70
EV	R$ 4.153.756.696,20
EBITDA	R$ 400.432.015,73
Profit	R$ 392.147.233,33
Equity	R$ 1.891.777.085,00

12/31/10 multiple	target price
P / E	29,87
P / BV	16,90
P / SR	42,22
P / EBITDA	38,08
E / P	44,70
EV / EBITDA	29,87
Price at 12/10	41,03
Present Value (12/08)	31,19
* discount rate (WACC):	
# shares	135.993.378
Market Cap	R$ 5.579.808.299,34
Net Debt	R$ 2.548.698,69
EV	R$ 5.577.259.600,65
EBITDA	R$ 550.877.486,06
Profit	R$ 541.637.628,00
Equity	R$ 2.298.005.306,00

Figure 5: Launches

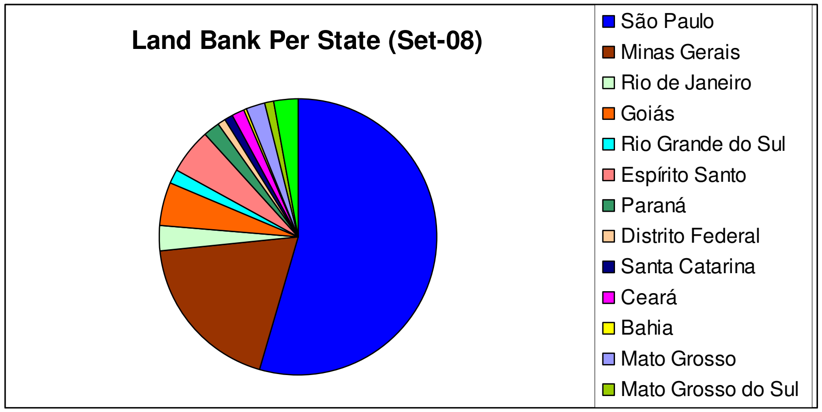
Source: Company Documents, Student Estimates

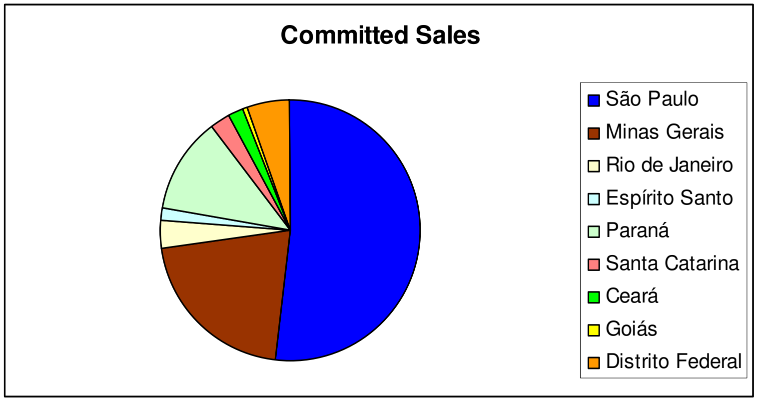
	2006	2007	2008 (9M)	2008E	2009E	2010E
Revenue Growth	-6,12	322,36%		225%	30,98%	48,33%
Launches		283,64%	69,15%	38,02%	19,23%	30,00%
Unities Launches	2.903,00	11.137,00	18.837,74	26.000,00	31.000,00	40.300,00
Launches (R$)	337.337,00	1.199.948,00	1.996.800,00	2.756.000,00	3.286.000,00	4.271.800,00
Average Price (un.)	116.000	108.000	106.000	106.000	106.000	106.000
Land Bank (R$)	1,43 bi	10 bi	9,55 bi			
Land Bank (un)	12.000	107.000	97.000	89.838	58.838	18.538
Needed Land Bank 1				53.568	65.576	180.616
Needed Land Bank 2				51.150	62.868	120.964
Necessary Raise				-38.688	4.030	102.427

	2011E	2012E	2013E	2014E	2015E
Revenue Growth	19,33%	19,33%	19,33%	19,33%	19,33%
Launches	12,00%	12,00%	12,00%	12,00%	12,00%
Unities Launches	45.136,00	50.552,32	56.618,60	63.412,83	71.022,37
Launches (R$)	4.784.416,00	5.358.545,92	6.001.571,43	6.721.760,00	7.528.371,20
Average Price (un.)	106.000	106.000	106.000	106.000	106.000
Land Bank (R$)					
Land Bank (un)	-26.598	-77.150,58			
Needed Land Bank 1	202.290	226.565			
Needed Land Bank 2	135.480	151.738			
Necessary Raise	162.078	228.888			

Figure 6: Launches, sales and land bank per state

Source: Company Documents





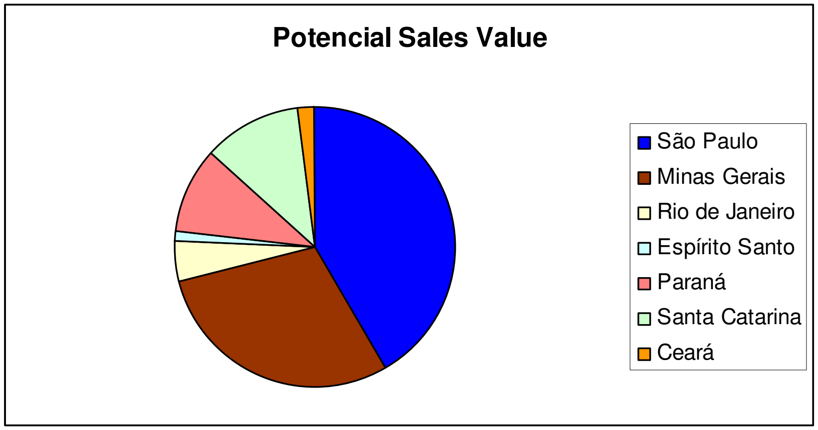


Figure 7: Changes in the negotiation

Source: Company Documents, Student Estimates

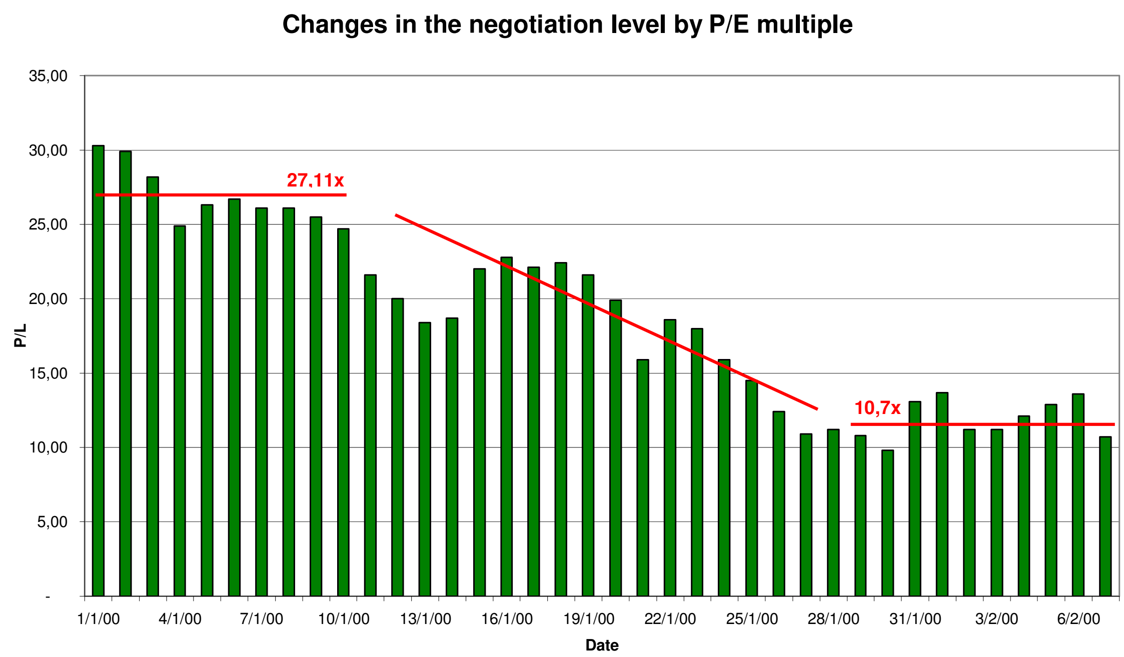


Figure 8: Gross sales x PSV

Source: Company Documents, Student Estimates

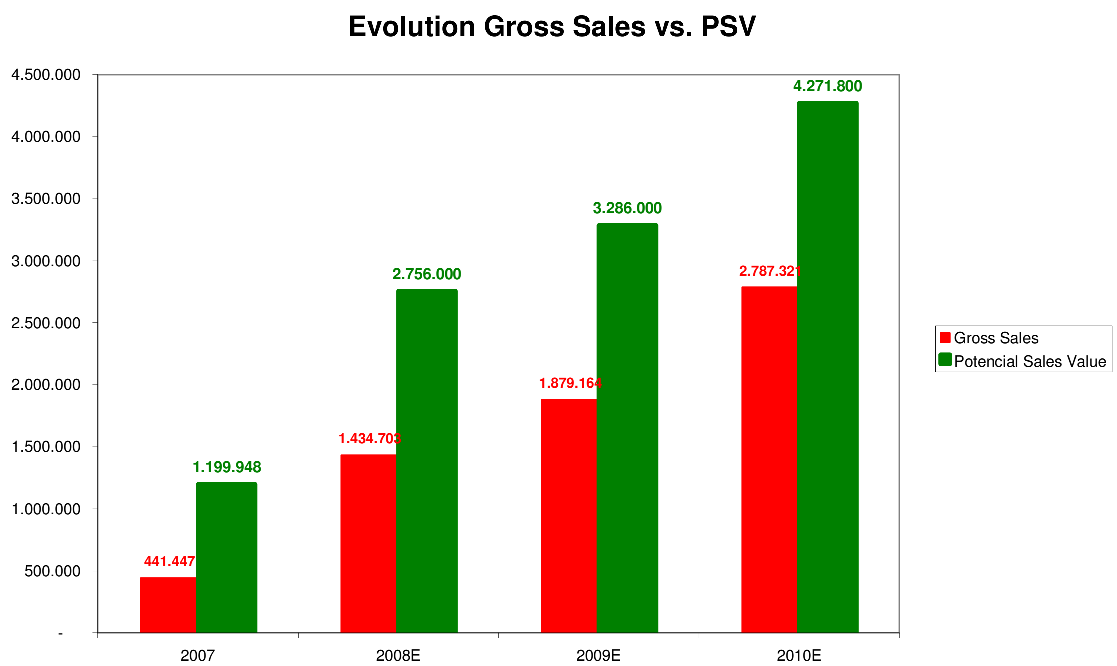
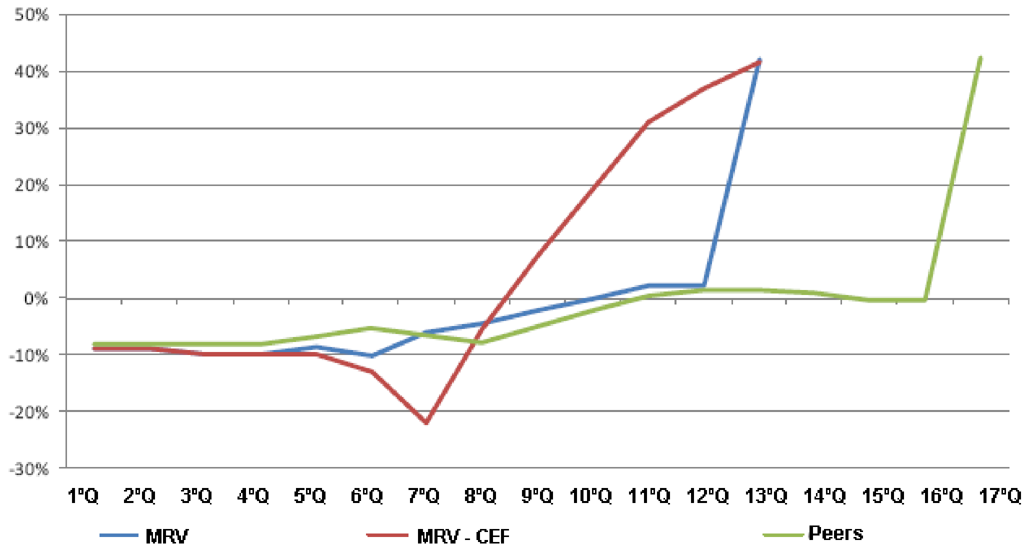


Figure 9: Gross sales x PSV

Source: Company Documents



This report has been written by:

Allan Paladino:

Guilherme Braga:

Guilherme Zagatti

Gustavo Chiarini

Walter Cavalcante

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