

# Student Team Research

Industry: Real Estate

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## MRV ENGENHARIA

**Ticker: MRVE3 (Bovespa – Brazil)**  
**Closing Price (10/24/08): R\$ 10.30**

**Recommendation: BUY**  
**Target Price: R\$ 18.60**

**Date**  
10/29/2008

### MULTIPLES

|                  | 2009E   | 2010E   | 2011E   | 2012E   | 2013E   |
|------------------|---------|---------|---------|---------|---------|
| <b>P/E</b>       | 3.68    | 3.70    | 3.41    | 3.03    | 2.70    |
| <b>EPS</b>       | R\$2.80 | R\$2.81 | R\$3.02 | R\$3.40 | R\$3.81 |
| <b>PBV</b>       | 0.77    | 0.67    | 0.58    | 0.51    | 0.45    |
| <b>EV/EBITDA</b> | 2.21    | 2.14    | 2.00    | 1.81    | 1.65    |

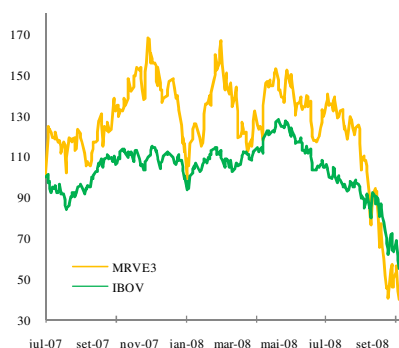
## DARK CLOUDS, BUT THE SUN IS COMING

### Market Profile

|                                  |                    |
|----------------------------------|--------------------|
| 52 Week Price Range              | R\$9.35 - R\$45.48 |
| Average Daily Volume 60d (RS)    | 21,007,082.89      |
| Average Share Trade 60d          | 1,065,900          |
| Beta                             | 1.37               |
| Dividend Yield (Estimated)       | 0.73               |
| Shares Outstanding (millions)    | 135,993            |
| Market Capitalization (millions) | 1,400.73           |
| Institutional Holdings           | 45.9%              |
| Insider Holdings                 | 9.7%               |
| Book Value per Share             | R\$ 10.97          |
| Debt to Total Capital            | 0.21               |
| Return on Equity                 | 9.55%              |

Source: Bloomberg, Capital IQ, Enfoque and Team  
\* Data collected on 10/24/2008

### MRV vs. IBOVESPA



Source: Bloomberg

- We are initiating covering on MRV with a **BUY** recommendation and a year-end 2009 target price of R\$ 18.60 per share, which represents **80.58%** upside potential from the current levels. Our DCF assumes a WACC of 16.70% and perpetuity growth of 4%.
- MRV is one of the major Brazilian homebuilding companies and acts directly in the mid- and low-income segment. In our view, the low-income will be less affected than the high-income segment. We see a CAGR to Launches for MRV at 8.73% during 2009-2013.
- Financing is very important to homebuilding companies. MRV needs more cash in the beginning, because of its segment, but its sales are done more quickly than its competitors', and the recognition of revenues occurs faster too.
- We do believe that the turmoil in the market will affect the Brazilian growth in the next year, but we do not see this negative scenario persisting for too many years.
- The inflation rise, mainly INCC, may be a problem to MRV, because the company may not transfer this cost rise to the final price. Therefore, the available income may decrease in case of constant inflation rise.
- The Company works with only three products to supply the mid- and low-income demand: Parque, Spazio and Village. The buildings are standardized over a rigid quality control, where 160 items represent 95% of the total material costs, and 90% of the inputs are used in all constructions.
- With the resources from IPO, the company has expanded its land bank, which nowadays has potential for launches of about R\$ 9 billion, where almost 55% are located in São Paulo, 18% in Minas Gerais and the rest throughout Brazil. We do not see a necessity of buying new lands in the short run, so MRV must only replace the land bank, with a higher swap rate than in the last quarters.
- MRV's marketing is aggressive and intends to capture good clients. Its selection is a differential, inasmuch as the rate of cancels and swaps is low when compared to the others players in the sector. The company sells through its website, its own employees and in partnership with others brokers.
- In relation to the main risks, we highlight: Financing problems to MRV and its clients, rises of unemployment rate and mismatch between revenues and costs.

### Important disclosures appear at the back of this report

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## INVESTMENT SUMMARY

The Brazilian financial system designated a large amount of money to the construction sector in the past few years. During 2005 about R\$ 10 billion were destined to house purchasing, and in the first half of this year the amount reaches R\$ 22 billion, 85% more than the same period last year.

MRV is one of the major companies in the middle- and low- income segment, acts in more than 60 cities around Brazil and was founded in 1979. The company was the first homebuilder with ongoing operations under *Caixa Econômica Federal* [Federal Savings and Loans Bank – CEF]'s real estate correspondent agreement and nowadays has an aggressive plan that contemplates the sale of 40,000 houses per year, starting in 2010.

Our valuation assumes that launches will grow in a CAGR rate of 8.73% during the projection time and the gross margin will be at 68% in most of the period. EBITDA, in its analyses, may reach R\$ 698.5 million by 2013 which results in a CAGR rate of 7.54% (2009-2013). Following this line, EPS may reach R\$ 3.8 in 2013, from R\$2.80 in 2009.

We found a target price of R\$ 18.60 in the end of 2009, which implies an upside of 80.58% from the close price in 10/24/2008, with a BUY recommendation. This represents a P/E 09E of 3.68 and EV/EBITDA 09E of 2.21.

## VALUATION

The recent turmoil of the stock market around the world, in our view, brings even more dark clouds above the Brazilian homebuilding companies. The fact is that if a company is disposed to pay more for a credit line, nowadays it will probably not find a lender.

This segment needs cash to finance its operations. In a scenario where it is expensive to obtain credit and even more difficult to get it, the solution, for the next couple of years, is to reduce growth perspectives. Our valuation considers a low growth rate to Launches for the next years, and for us, the trigger for these numbers change in a positive way as soon as the confidence is restored and the money comes back to the companies around the world, including the Brazilian ones.

Between 2009 and 2013, the Launches may grow at a CAGR rate of 8.73% and the Contracted Sales may decline from 72% in this year to 68% in the final year of the valuation.

About the gross margin, our opinion is that inflation of costs will not be a problem, because in a recession scenario, the consumption slows down and the prices tend to fall. At the same time, we do believe that management will keep its expertise and will find creative ways to build houses the same quality as they currently do. Changing inputs and signing long-term contracts with the suppliers are some ways to maintain margins as they are.

Our income and costs appropriation model (PoC) contemplates a percentage of 30% in the 1<sup>st</sup> year of construction, 65% in the 2<sup>nd</sup> year and 5% in the 3<sup>rd</sup> year. This time period, in our view, is an important characteristic that MRV already has, because fast construction implies less need of working capital, which is one of the major obstacles at the present moment.

We do not see an abnormal movement in General and Administrative costs against the revenues. In the next five years, this account may represent, in average, 5% of net revenues. Expenses with marketing and sales may reach about 4.5%, in average, during the projections.

In this line, the operational profit of MRV may reach R\$ 521.3 million in 2009 and jump to R\$ 697.6 million in 2013, the last year of the projection. The EBITDA keeps the same growth line and may show a CAGR rate of 7.54% during 2009-2013.

We assumed that the cost of short-term debt will go down in the next years, falling from 15.3% in this year to 12.5% by 2013, although the long-term rates may stabilize in 9% in the next year until the end of the valuation.

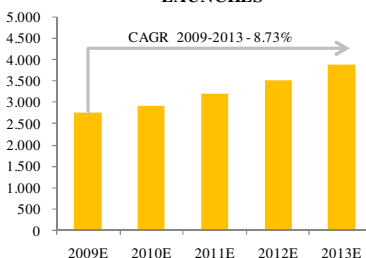
Our DFC is negative in the first year of valuation, impacted mainly by financing need, but from 2010 to 2013, it turns positive.

### SBPE + FGTS

| (R\$ Million) | SBPE   | FGTS  | TOTAL  |
|---------------|--------|-------|--------|
| 2007          | 18,410 | 6,895 | 25,305 |
| 2006          | 9,340  | 6,768 | 16,108 |
| 2005          | 4,852  | 5,478 | 10,330 |
| 2004          | 3,002  | 3,861 | 6,863  |
| 2003          | 2,218  | 2,697 | 4,915  |

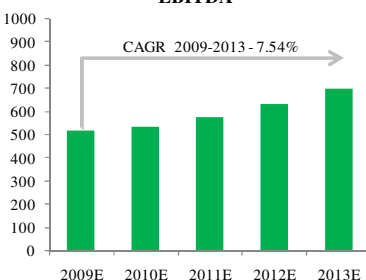
Source: Banco Central do Brasil

### LAUNCHES



Source: Team

### EBITDA



Source: Team

The debt against shareholders equity in our model must reach 0.39 in 2009, falling subsequently. The return on equity indicator may improve during the years, mainly impacted by the earnings growth.

| 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            |
| <b>SUB TOTAL (A)</b>                               | <b>381,155</b>  | <b>381,306</b> | <b>411,683</b> | <b>463,195</b> | <b>519,541</b> |
| 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          |
| <b>INCREASE/(DECREASE) IN W.C.ASSETS (B)</b>       | <b>808,775</b>  | <b>418,066</b> | <b>318,712</b> | <b>275,959</b> | <b>199,942</b> |
| 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          |
| <b>INCREASE/(DECREASE) IN W.C. LIABILITIES (C)</b> | <b>178,050</b>  | <b>78,640</b>  | <b>45,251</b>  | <b>51,650</b>  | <b>58,448</b>  |
| <b>WORKING CAPITAL INVESTMENTS (D) = (B) - (C)</b> | <b>630,726</b>  | <b>339,426</b> | <b>273,461</b> | <b>224,309</b> | <b>141,494</b> |
| 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         |
| <b>FCFF (G) = A - D - E + F</b>                    | <b>-223,392</b> | <b>95,043</b>  | <b>204,606</b> | <b>307,151</b> | <b>442,902</b> |

About WACC, we considered a free risk rate of 4.5%, market premium of 4.5%, unleveraged beta of 1.37, Brazilian EMBI+ of 4%, and differential of inflation of 3%. Following these premises, we reached a cost of equity of 17.67%. Considering that the cost of debt is 15.25% and the tax rate is 15%, our net cost of debt reached 12.96%. With the costs, we calculated an average between the cost of equity (79.4%) and costs of debt (20.6%) and, finally, we got a WACC of 16.70%.

| Sensitivity Analysis |        |        |        |        |              |        |        | DCF                        |                             |               |
|----------------------|--------|--------|--------|--------|--------------|--------|--------|----------------------------|-----------------------------|---------------|
| Discount Rate        |        |        |        |        |              |        |        | (R\$'000)                  |                             |               |
| Perpetuity Growth    | 13.70% | 14.70% | 15.70% | 16.70% | 17.70%       | 18.70% | 19.70% | <b>COST OF CAPITAL</b>     | <b>17.67%</b>               |               |
|                      | 2.75%  | 18.96  | 18.33  | 17.73  | 17.16        | 16.60  | 16.07  | 15.56                      | <b>RISK FREE</b>            | 4.5%          |
|                      | 3.00%  | 19.26  | 18.62  | 18.01  | 17.42        | 16.86  | 16.32  | 15.81                      | <b>BETA</b>                 | 1.37          |
|                      | 3.25%  | 19.57  | 18.92  | 18.30  | 17.70        | 17.13  | 16.58  | 16.06                      | <b>MARKET RISK PREMIUM</b>  | 4.5%          |
|                      | 3.50%  | 19.89  | 19.23  | 18.60  | 17.99        | 17.41  | 16.85  | 16.32                      | <b>INFLATION SPREAD</b>     | 3.0%          |
|                      | 3.75%  | 20.22  | 19.55  | 18.91  | 18.29        | 17.70  | 17.13  | 16.59                      | <b>EMBI + BRAZIL</b>        | 4.0%          |
|                      | 4.00%  | 20.57  | 19.88  | 19.23  | <b>18.60</b> | 18.00  | 17.42  | 16.87                      | <b>COST OF DEBT</b>         | <b>12.96%</b> |
|                      | 4.25%  | 20.93  | 20.23  | 19.57  | 18.93        | 18.31  | 17.73  | 17.16                      | <b>NOMINAL COST OF DEBT</b> | 15.25%        |
|                      | 4.50%  | 21.30  | 20.59  | 19.91  | 19.26        | 18.64  | 18.04  | 17.47                      | <b>TAX</b>                  | 15.00%        |
|                      | 4.75%  | 21.69  | 20.97  | 20.28  | 19.62        | 18.98  | 18.37  | 17.79                      | <b>WACC</b>                 | <b>16.70%</b> |
|                      | 5.00%  | 22.10  | 21.36  | 20.66  | 19.98        | 19.34  | 18.71  | 18.12                      | <b>% EQUITY</b>             | 79.40%        |
| 5.25%                | 22.52  | 21.77  | 21.05  | 20.37  | 19.71        | 19.07  | 18.46  | <b>% DEBT</b>              | 20.60%                      |               |
|                      |        |        |        |        |              |        |        | <b>PERPETUITY GROWTH</b>   | 4.00%                       |               |
|                      |        |        |        |        |              |        |        | <b>NPV 2009- 2013</b>      | 440,415                     |               |
|                      |        |        |        |        |              |        |        | <b>TERMINAL VALUE</b>      | 1,956,484                   |               |
|                      |        |        |        |        |              |        |        | <b>NPV+ TERMINAL VALUE</b> | 2,396,899                   |               |
|                      |        |        |        |        |              |        |        | <b>(-) DEBT</b>            | -472,272                    |               |
|                      |        |        |        |        |              |        |        | <b>(+) CASH</b>            | 605,232                     |               |
|                      |        |        |        |        |              |        |        | <b>FAIR VALUE</b>          | 2,529,859                   |               |
|                      |        |        |        |        |              |        |        | <b>SHARES</b>              | 135,993,378                 |               |
|                      |        |        |        |        |              |        |        | <b>TARGET PRICE</b>        | R\$ 18.60                   |               |

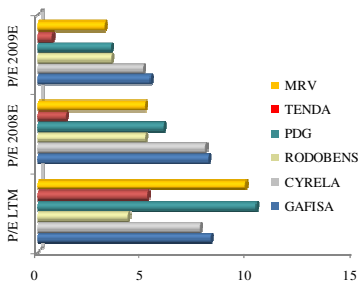
  

| BR EMBI+ | WACC   | TARGET | BETA | WACC   | TARGET |
|----------|--------|--------|------|--------|--------|
| 1.50%    | 14.71% | 22.73  | 0.90 | 15.02% | 21.99  |
| 2.00%    | 15.11% | 21.78  | 1.00 | 15.37% | 21.19  |
| 2.50%    | 15.50% | 20.90  | 1.10 | 15.73% | 20.43  |
| 3.00%    | 15.90% | 20.08  | 1.20 | 16.09% | 19.72  |
| 3.50%    | 16.30% | 19.32  | 1.30 | 16.45% | 19.05  |
| 4.00%    | 16.70% | 18.60  | 1.37 | 16.70% | 18.60  |
| 4.50%    | 17.09% | 17.93  | 1.50 | 17.16% | 17.82  |
| 5.00%    | 17.49% | 17.30  | 1.60 | 17.52% | 17.26  |
| 5.50%    | 17.89% | 16.70  | 1.70 | 17.87% | 16.72  |
| 6.00%    | 18.28% | 16.14  | 1.80 | 18.23% | 16.22  |
| 6.50%    | 18.68% | 15.62  | 1.90 | 18.59% | 15.73  |
| 7.00%    | 19.08% | 15.11  | 2.00 | 18.95% | 15.28  |

We maintained a median position about growth in perpetuity and our model uses 4%.

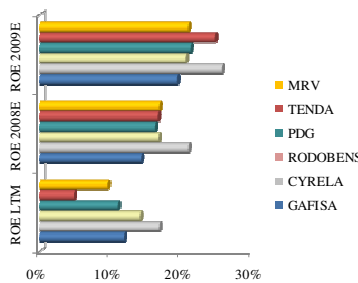
Finally, after summing the present values of the FCFF with terminal value of the company, we decreased the debt and increased the cash position, reaching a fair value for MRV of R\$ 2,529 billion by 2009, which gives an amount of R\$ 18.60 per share, with a **BUY** recommendation.

**PRICE/EARNINGS**



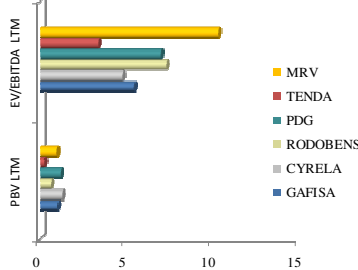
Source: Bloomberg, Capital IQ

**RETURN OVER EQUITY**



Source: Bloomberg, Capital IQ

**PBV – EV/EBITDA**



Source: Bloomberg, Capital IQ

**MULTIPLES**

The Real Estate Sector in the Brazilian stock market is composed of twenty-one companies. The two major ones, Gafisa and Cyrela, are not MRV’s direct competitors, because they operate in the high-income segment. We can say that Tenda, PDG, and Rodobens are the main peers of MRV, mainly Tenda, which is a hundred percent focused on the low-income segment.

We have recently seen a loss of fundamentals when investors seek liquidity around the world. Most of the multiples got down in the recent weeks. MRV does not have such low multiples. On the other hand, most of the other companies’ prices fell aggressively in the last weeks, so the multiples went down too.

Considering only the multiples, we find that MRV is being traded at a twelve months (P/E LTM) at 9.8, and Tenda, its main competitor, is being traded at 5.2 (P/E LTM). Looking forward, according to Bloomberg analyst’s estimates, the P/E projected for MRV in 2008 is 5.1 and for Tenda, about 1.3. For 2009, they expect that Tenda will show a P/E of 0.7 and MRV will have a multiple of 3.2. We reiterate that Tenda’s prices are too much discounted because the market is penalizing the restructuralization process with GAFISA and the extremely optimistic guidance for the company this year.

We see that Tenda has a PBV in the past twelve months of only 0.3 and MRV of almost 1. Despite Tenda’s low PBV value, we do believe that market has an erroneous view about MVR because the amount of 1.33 for PBV is historically too low for the sector and the equity markets.

The MRV’s Return on Shareholders’ Equity (ROE) is higher than Tenda’s in the past twelve months, the company got a 9.5% indicator and its main competitor got a multiple 4.8% only. According to Bloomberg’s estimates, by the end of this year, MRV may reach a ROE of 17% and by 2009, the multiple may reach 21%. In case of Tenda, market expects a ROE of 16.8% by the end of 2008 and 24.8 by the end of 2009.

In case of EV/EBITDA, in the past twelve months we see that MRV had the highest multiple in the comparables, reaching 10.3x, while Tenda had only 3.3x. As we said, in spite of being a good peer, Tenda is too discounted and, therefore, comparing MRV with PDG (7.0 x EV/EBITDA LTM) and Rodobens (7.3x EV/EBITDA LTM) seems to make more sense now.

MRV has the lowest multiple, while Tenda has the highest (it is being traded by a lower value than the value the company has in cash) - but its shares did not fall as sharply as occurred to Tenda.

**RISKS TO TARGET PRICE**

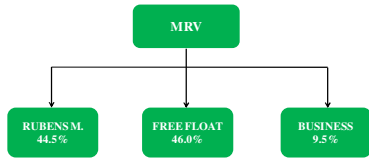
- Difficulties to get financial loan, both to the company and the clients is one of the major risks in our target price. In case it occurs, the company may reduce its launches and show low margins to maintain its clients.
- We have already seen a lot of companies abroad announcing job cuts, but it has 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**

MRV was founded in 1979 and acts in the middle- and low-income segment, in more than 60 cities in Brazil. The company has already worked with its own financing line; however, it has now an association with *Caixa Econômica Federal*, aiming at expanding its activities.

The Corporation has recently passed through a restructuralization process, enabling its stock market entrance, which collected more than R\$ 1 billion.

SHAREHOLDERS STRUCTURE



Source: MRV

Nowadays, it is listed at Bovespa, having its stocks traded under MRVE3 ticker, in “Novo Mercado”, the highest level of Corporate Governance. MRV’s differential is the fastest construction cycle in the segment, having already launched more than 50 thousands unities and has more than 6,000 employees.

Actually, an expressive portion of the Company’s stocks, around 46%, are on free float, while approximately 44.5% of total shares are owned by Rubens Menin T. Souza, the largest individual shareholder. The remaining, 9.5% of papers, are owned by executives.

With the purpose to provide the existent housing demand in the middle- and low-income segment, MRV developed three products (Parque, Spazio and Village), with standardized execution. In this model, 160 items represent 95% of material costs, where 90% of inputs are utilized in the three products. This structure gives scale gains, purchasing power, costs reduction and higher efficiency in building execution.

**Parque:** The buildings are characterized by vertical condominiums, with a maximum of five floors. They have no elevators, a usable area of 40 to 55 square meters per unit and the prices vary between R\$1,040.00 and R\$1,400.00 per square meter, with a maximum sales price of R\$77,000.00 per unit. This line contains a small recreation area, one parking space per unit, two or three bedrooms, and rarely a master bathroom and balcony.

**Spazio:** This line has larger added value than the Parque line. The buildings are also vertical condominiums with a maximum of five floors; however, the buildings are provided with or without elevators. The usable area is 42 to 70 square meters per unit. The average sales price per square meter varies between R\$1,670.00 and R\$2,000.00, thus the price per unit varies between R\$70,000.00 and R\$140,000.00. The recreation area is more elaborated than Parque’s, an average of 1.5 covered parking spaces per unit. Spazio units generally have balconies and master bathroom.

**Village:** This is the Company’s most sophisticated product. They are horizontal condominiums, with a usable area of 70 to 120 square meters per unit. The average sales price per square meter for these units varies between R\$1,430.00 and R\$1,830.00 and the price per unit varies between R\$100,000.00 and R\$220,000.00. The Village line offers more sophisticated and complete recreation areas, two parking spaces per unit and two to four bedrooms, with a master bathroom.

SWOT ANALYSIS

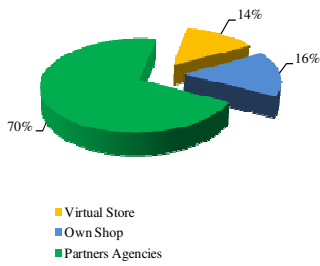
| Strengths   | Weaknesses   |
|---|--|
| <ul style="list-style-type: none"> <li>- Fastest construction cycle and cash flow payback;</li> <li>- High potential housing demand in the middle- and low-income segment;</li> <li>- Large experience in the middle- and low-income segment.</li> </ul>  | <ul style="list-style-type: none"> <li>- Geographic concentration, most of the launches occur in São Paulo and Rio de Janeiro;</li> <li>- Needs large working capital.</li> </ul>  |
| Opportunities   | Threats  |
| <ul style="list-style-type: none"> <li>- Governmental incentives to the real estate sector and regulatory changes;</li> <li>- Financing growth on the real estate sector;</li> <li>- Population growth and decrease of unemployment rate projections;</li> <li>- Sector consolidation;</li> </ul> | <ul style="list-style-type: none"> <li>- Global crisis and macroeconomic instability;</li> <li>- Credit crunch;</li> <li>- High Input prices;</li> <li>- Lack of qualified labor;</li> <li>- Changes in the internal market (interest tax raise and default);</li> </ul> |

OTHER HEADINGS RELEVANT TO COMPANY

MRV has a client base strategy, with a deep market research and analysis. The figures of the company itself show that three factors (location, price and payment conditions) justify 69% of the reasons to buy a house. The customer profile’s average income is between 2 and 20 minimum wages, 80% to 90% are buying its first real estate and they are usually married women or in marriage process.

The company focuses in middle-size towns with good growth expectations, stable employments and relevant participation on Brazilian’s GDP.

**CHANNEL SALES**



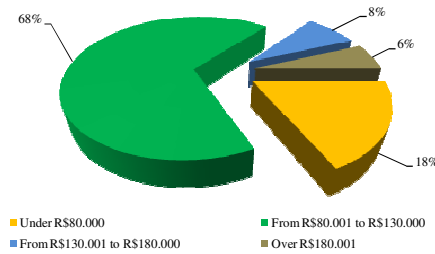
Source: MRV

Sales channels are three: Own team (more than 266 house-agents); Virtual store (around 80 house-agents) and Contracted Companies (950 house-agents), representing, respectively 16%, 14% and 70% of the total sales at the end of the second quarter this year. The sporting marketing is another way that MRV uses to maintain and raise its visibility and increase its brand strength. Actually, the company sponsors Vasco da Gama soccer team.

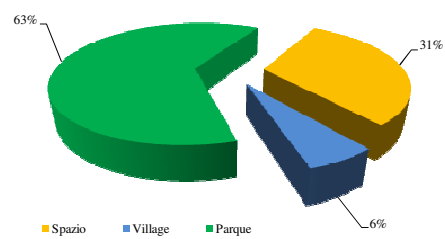
After the Initial Public Offering (IPO), the Company destined the resources obtained from market to finance the working capital and land bank acquisitions. At the end of 3Q08, the Company's land bank launch value was R\$9.5 billion, representing around 97 thousand unities. Approximately 83% of its land bank are located in the Southeast region, the biggest real estate market in Brazil, and the rest is distributed in the South, Middle-West and Northeast regions. The distribution between capital and country is approximately 48% and 52%, respectively.

The MRV's land bank duration is actually between 3 and 3.5 years. However, we expect for the next years that this period will reduce around between 2 and 2.5 years and, due to the decrease of land bank acquisitions and the stress scenario on financial market, the sales will slow down.

**LANDBANK BY SEGMENT (%)**



**LANDBANK BY TYPE OF PRODUCT (%)**



Source: MRV

**INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING**

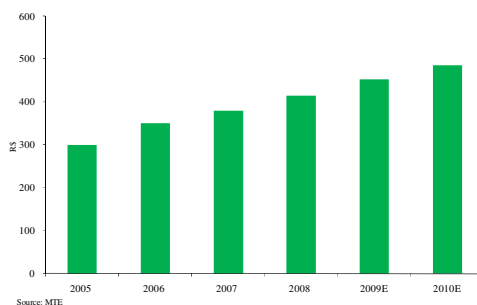
The improvements of the macroeconomics indicators, started after Plano Real, allowed the currency stability and inflation control. The Brazilian Monetary Policy brought the interest rates to the lowest levels in the last decades and permitted the improvement of credit operations, which, nowadays, reach 38% of GDP, against 30% on 2005. At the same time, the rise of commodities prices and the Real valorization compared to Dollar, pushed forward the Brazilian Trade Balance to records and, as a result of it, the country accumulated reserves, reaching the highest historically levels.

Recently, the deterioration of the North American and European economies reduced even more the liquidity of the Financial System, raising the prices and reducing the amount of credit lines, confirming the deceleration of the global economies for the next years. In case of an intensification of such economies, we expect that the companies can revise their growth forecast.

We believe that this negative outlook will decrease the growth intensity that persisted during the last years, but with a limited impact on the Brazilian economy, once the international institutions like the International Monetary Fund (IMF), there are still positive perspectives for our country.

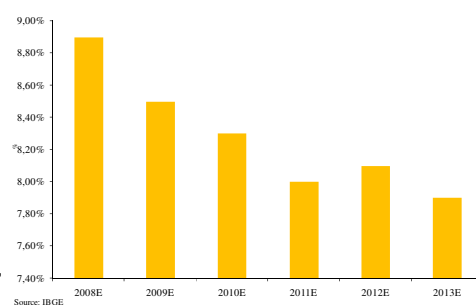
The Brazilian unemployment rate decreased by 3.6% between the end of 2001 and the middle of 2008. It indicates the continuance of the generation of formal jobs, which increases the real income, allowing a long-term family planning.

**MINIMUM WAGE**



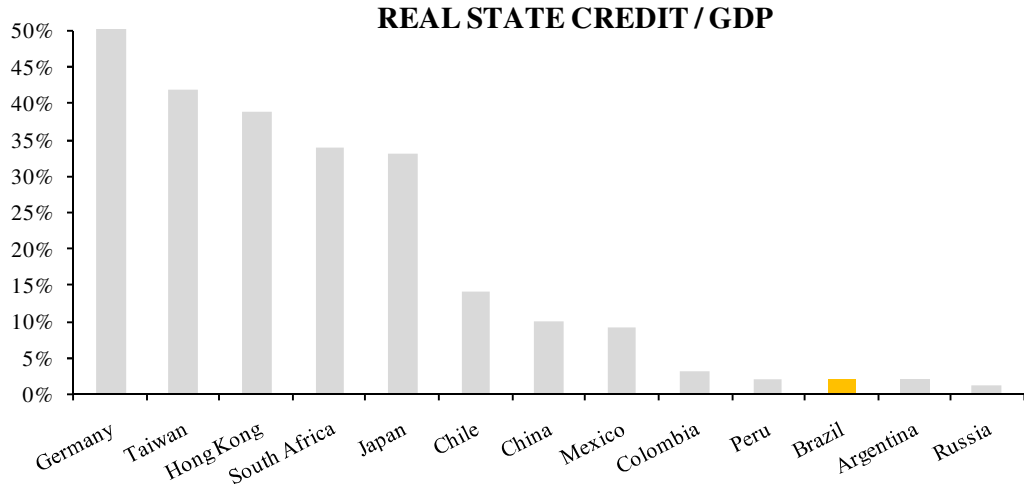
Source: MTE

**UNEMPLOYMENT RATE (%)**



Source: IBGE

We consider that one of the most important triggers for this segment is the population income, which already increased in the last years. For the future, our view is that people will have more available money and it will support the consumer spending in this segment. Since 2002, the minimum-wage buying power developed about 37%, according to Departamento Intersindical de Estatística e Estudos Socioeconômicos - Dieese [Inter Trade Union Department of Statistics and Socio-Economic Studies - Dieese].



Source: Banco Central do Brasil

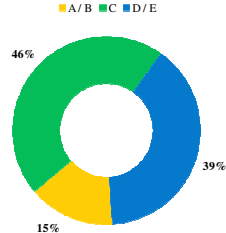
The real estate market started its expansion in 2004 when the government stimulated banks to raise the amount of resources destined to homebuilding financing. Actually, this kind of operation in Brazil represents only 1.7% of GDP, while in other countries this percentage is notoriously higher.

Resources for the sector expansion are provided by Sistema Brasileiro de Poupança e Empréstimos - SBPE [Brazilian System of Savings and Loans – SBPE] and Fundo de Garantia por Tempo de Serviço - FGTS [Government Severance Indemnity Fund for Employees – FGTS] as much as private capital (financial institutions).

Most of the Brazilian middle- and low-income homebuilders focus on B and C classes, which, according to IBGE, have an average income between 2 and 20 minimum wages, and may exceed 200 million residents by 2013. More than 32% of this amount of people will be between 20 and 39 years old.

This group composes MRV's target, which buys its first house at a lower price, by reason of being the first investment, due to a lower purchasing power and easy payment needs.

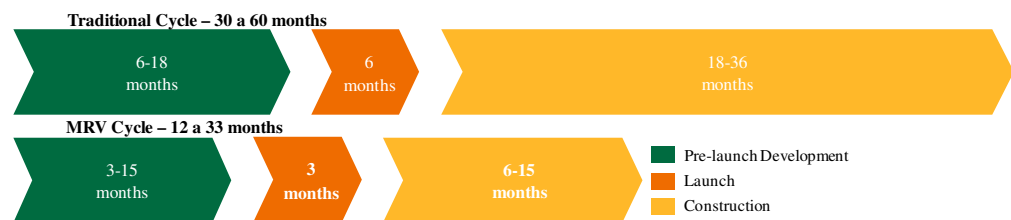
% Social Class Distribution



Source: Ipsos

## FINANCIAL ANALYSIS

The MRV's unique operational cycle, differently from its peers', mainly referring to its business model quickness, is virtually half of its competitors' by working on the mid- and low-income segment. This manner, its working capital needs are larger than its competitors'; however its results appropriation occurs faster.



Source: MRV

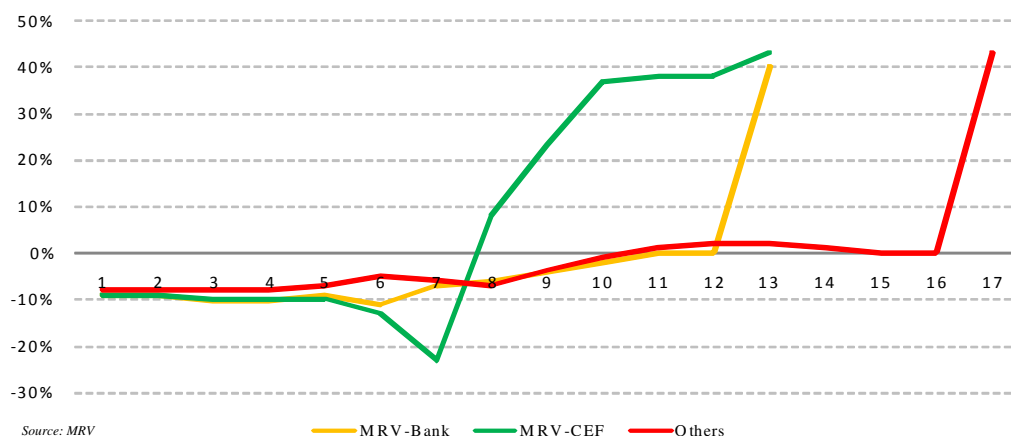
The company is actually capitalized, with a relatively low indebtedness level, that means, its short-term cash and cash equivalents are larger than its short-term debts. There are not so many companies at this moment under these circumstances in this sector. The MRV's credit rating brAA-(R\$) conceded by Standard&Poor's (S&P) classifies with the same level as that of a few companies in the real estate segment.

Even with an expansion after the IPO, MRV's capital structure is less leveraged than its peers'. The gross debt-shareholders equity ratio, in the last 12 months, was around 20%. For the next year, we are projecting around 40%. The short-term loans and financings in 2Q08 summed an amount of R\$19.728 millions. The Company counts on a R\$300 million debentures emission.

## CASH FLOW

The Company's cash flow is quite different from the others in the sector, just because MRV offers to customers several manners of finance, with particular periods of payment during the loan.

### Cash Flow Analysis - MRV Model x Other Companies Model



In the *Crédito Associativo* loan, a model offered by *Caixa Econômica Federal*, the debt is totally transferred to the buyers and the cash flow becomes positive in the 8<sup>th</sup> quarter. In the traditional banks model, the money that is turned back to the company takes much more time. Around 80% of the total are received by the company only from the 13<sup>th</sup> month.

We believe that MRV should raise its participation in “Crédito Associativo” for the next years because of the advantage in this financing model. Actually, this sort of credit represents approximately 33% of the business and the other 66% are bank financing.

## 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.

**Figure 1: Income Statement**

Source: Company Documents, Student Estimates

| <b>INCOME STATEMENT</b><br><b>(R\$'000)/YEAR</b>                  | <b>2009E</b>   | <b>2010E</b>   | <b>2011E</b>   | <b>2012E</b>   | <b>2013E</b>   |
|---|----------------|----------------|----------------|----------------|----------------|
| <b>NET REVENUE</b>  | 1,855,338      | 1,939,363      | 2,042,967      | 2,241,003      | 2,465,104      |
| <b>COST OF PROPERTIES SOLD</b>                                    | 1,150,309      | 1,202,405      | 1,266,640      | 1,389,422      | 1,528,364      |
| % OF NET REVENUE  | 62.0%          | 62.0%          | 62.0%          | 62.0%          | 62.0%          |
| <b>GROSS PROFIT</b>   | 705,028        | 736,958        | 776,328        | 851,581        | 936,739        |
| % OF NET REVENUE  | 38.0%          | 38.0%          | 38.0%          | 38.0%          | 38.0%          |
| <b>OPERATING INCOME (EXPENSES)</b>                                |                |                |                |                |                |
| SELLING EXPENSES AND MARKETING                                    | 81,635         | 96,968         | 98,062         | 105,327        | 115,860        |
| RESEARCH AND DEVELOPMENT  |                |                |                |                |                |
| GENERAL AND ADMINISTRATIVE EXPENSES                               | 102,044        | 102,786        | 102,148        | 112,050        | 123,255        |
| OTHER OPERATING (EXPENSES) INCOME, NET                            |                |                |                |                |                |
| <b>TOTAL OPERATING EXPENSES</b>                                   | 183,678        | 199,754        | 200,211        | 217,377        | 239,115        |
| % OF REVENUES   | 10%            | 10%            | 10%            | 10%            | 10%            |
| <b>OPERATING INCOME</b>   | 521,350        | 537,203        | 576,117        | 634,204        | 697,624        |
| <b>REVENUE/(EXPENSES) EXTRAOPERATIONAL</b>                        |                |                |                |                |                |
| <b>EBIT</b>   | 521,350        | 537,203        | 576,117        | 634,204        | 697,624        |
| <b>REVENUE/(EXPENSES) FROM OPERATIONS AFTER FINANCIAL RESULTS</b> | -64,826        | -80,502        | -82,950        | -79,202        | -74,983        |
| <b>NET (LOSS) INCOME BEFORE TAX AND MINORITY INTEREST</b>         | 456,523        | 456,702        | 493,167        | 555,002        | 622,642        |
| <b>CORPORATE INCOME TAX/SOCIAL CONTRIBUTION/ PARTICIPATIONS</b>   | 76,239         | 76,269         | 82,359         | 92,685         | 103,981        |
| <b>NET INCOME</b>   | <b>380,284</b> | <b>380,432</b> | <b>410,808</b> | <b>462,317</b> | <b>518,660</b> |
| % OF NET REVENUE  | 20.5%          | 19.6%          | 20.1%          | 20.6%          | 21.0%          |

**Figure 2: Balance Sheet**

Source: Company Documents, Student Estimates

| <b>BALANCE SHEET</b><br><b>(R\$'000)/YEAR</b>     | <b>2009E</b>     | <b>2010E</b>     | <b>2011E</b>     | <b>2012E</b>     | <b>2013E</b>     |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>ASSETS</b>                                     |                  |                  |                  |                  |                  |
| <b>CURRENT ASSETS (R\$ THOUSAND)</b>              |                  |                  |                  |                  |                  |
| CASH AND BANKS                                    | 128,576          | 129,268          | 171,263          | 278,174          | 502,318          |
| RECEIVABLES                                       | 1,372,950        | 1,648,458        | 1,879,530        | 2,061,723        | 2,218,593        |
| INVENTORY   | 1,012,272        | 1,154,309        | 1,241,307        | 1,333,845        | 1,375,528        |
| RECOVERABLE TAXES AND CONTRIBUTION                | 11,503           | 12,024           | 12,666           | 13,894           | 15,284           |
| OTHERS CURRENT ASSETS                             | 18,553           | 19,394           | 20,430           | 22,410           | 24,651           |
| <b>TOTAL CURRENT ASSETS</b>                       | <b>2,543,854</b> | <b>2,963,452</b> | <b>3,325,196</b> | <b>3,710,046</b> | <b>4,136,373</b> |
| <b>PERMANENT ASSETS</b>                           | 436,532          | 437,598          | 438,766          | 440,129          | 441,714          |
| <b>TOTAL ASSETS</b>                               | <b>2,980,386</b> | <b>3,401,050</b> | <b>3,763,962</b> | <b>4,150,176</b> | <b>4,578,087</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>        |                  |                  |                  |                  |                  |
| <b>CURRENT LIABILITIES</b>                        |                  |                  |                  |                  |                  |
| LOANS AND FINANCING                               | 331,495          | 348,070          | 313,263          | 250,610          | 175,427          |
| TRADE ACCOUNTS PAYABLE                            | 287,577          | 360,721          | 405,325          | 444,615          | 489,077          |
| PAYROLL AND RELATED CHARGES                       | 79,780           | 83,393           | 81,719           | 89,640           | 98,604           |
| TAXES   | 41,580           | 43,463           | 45,785           | 50,223           | 55,245           |
| OTHER   | 37,107           | 38,787           | 40,859           | 44,820           | 49,302           |
| <b>TOTAL CURRENT LIABILITIES</b>                  | <b>777,539</b>   | <b>874,434</b>   | <b>886,951</b>   | <b>879,909</b>   | <b>867,655</b>   |
| <b>TOTAL NONCURRENT LIABILITIES</b>               | 384,446          | 422,890          | 465,179          | 511,697          | 562,867          |
| <b>SHAREHOLDERS EQUITY</b>                        |                  |                  |                  |                  |                  |
| TOTAL CAPITAL STOCK                               | 1,372,983        | 1,372,983        | 1,372,983        | 1,372,983        | 1,372,983        |
| PROFIT RESERVE                                    | 445,419          | 730,743          | 1,038,849        | 1,385,587        | 1,774,582        |
| <b>TOTAL SHAREHOLDER'S EQUITY</b>                 | <b>1,818,402</b> | <b>2,103,726</b> | <b>2,411,832</b> | <b>2,758,570</b> | <b>3,147,565</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b> | <b>2,980,386</b> | <b>3,401,050</b> | <b>3,763,962</b> | <b>4,150,176</b> | <b>4,578,087</b> |

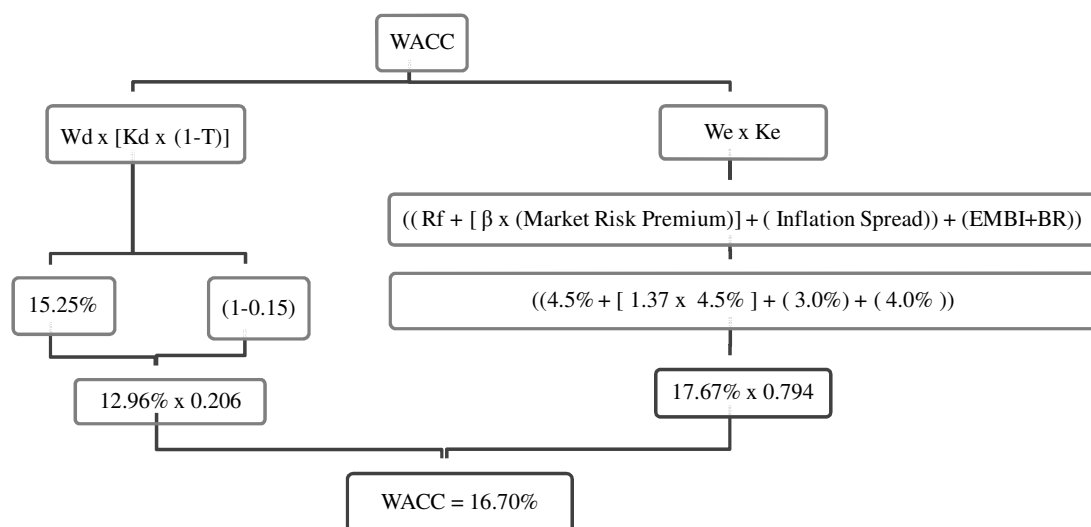
## APPENDIX

### MAIN FIGURES

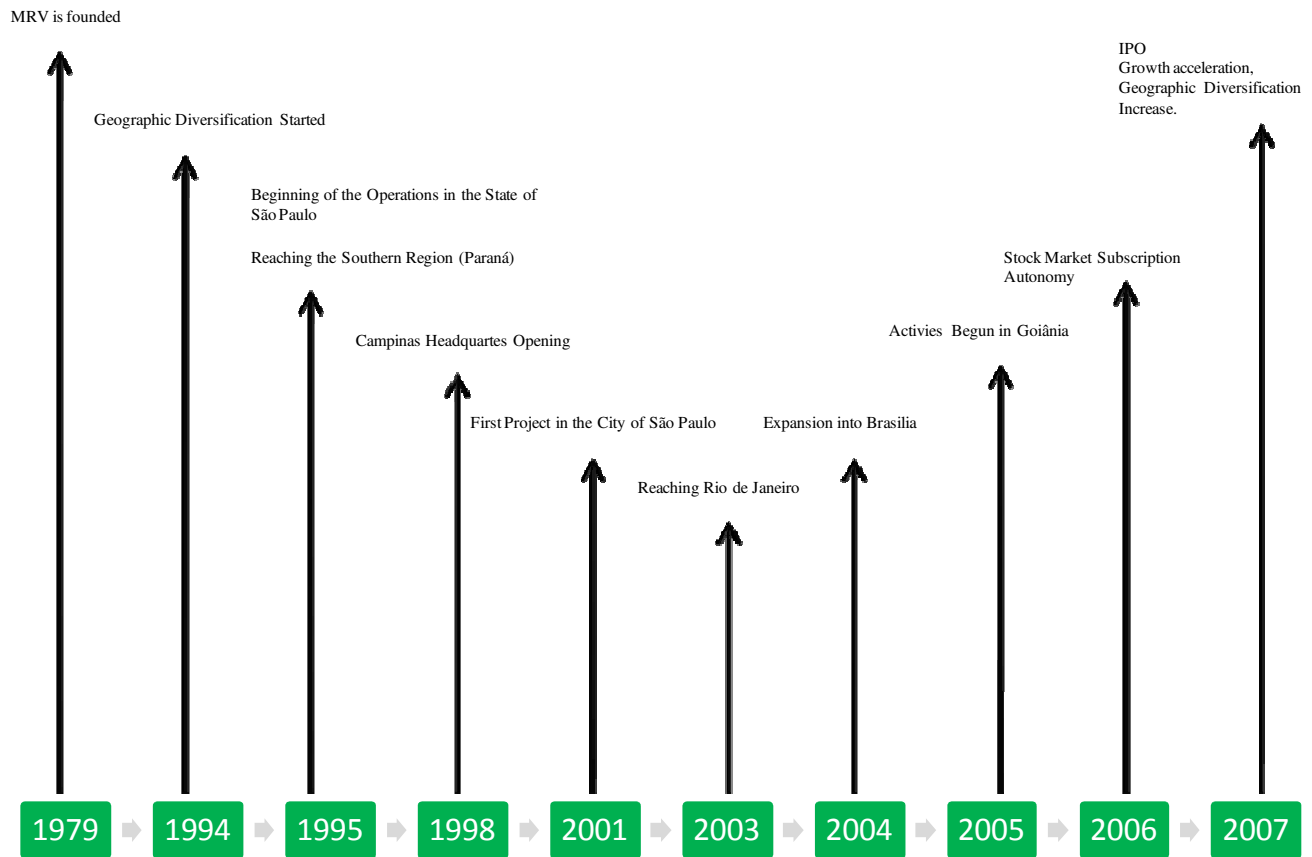
|                         | 2004   | 2005   | 2006   | 2007     | 2008E    | 2009E    | 2010E    | 2011E    | 2012E    | 2013E    |
|-------------------------|--------|--------|--------|----------|----------|----------|----------|----------|----------|----------|
| LAUNCHES                | 133.07 | 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 |
| CONTRACTED              | 101.80 | 112.10 | 212.90 | 783.20   | 1,908.00 | 1,919.93 | 1,986.71 | 2,185.38 | 2,403.91 | 2,488.76 |
| % CONTRACTED / LAUNCHES | 76.50% | 59.16% | 61.41% | 58.59%   | 72.00%   | 69.00%   | 68.00%   | 68.00%   | 68.00%   | 64.00%   |
| NET REVENUE             | 69.49  | 95.20  | 140.30 | 384.12   | 1,092.13 | 1,855.34 | 1,939.36 | 2,042.97 | 2,241.00 | 2,418.44 |
| GROSS MARGIN            | 38.50% | 39.30% | 35.30% | 40.00%   | 40.00%   | 38.00%   | 38.00%   | 39.00%   | 40.00%   | 38.00%   |
| COST OF PRODUCT SOLD    |        |        |        |          | 655.28   | 1,150.31 | 1,202.40 | 1,246.21 | 1,344.60 | 1,499.43 |
| GROSS INCOME            | 85.63  | 111.30 | 159.50 | 441.47   | 436.85   | 705.03   | 736.96   | 796.76   | 896.40   | 919.01   |

| REVENUE APROPRIATION<br>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 | 120.20   |        |
| 2013 - ALONG THE TIME                       |        |        |        |        |        |          |          |          |          | 746.63   | 1,617.69 | 124.44 |
| 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 |        |

### WACC



## TIMELINE



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