CFA SOCIETY OF BRAZIL

MRV Engenharia

Investment Research CHALLENGE™

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FEA-USP Team:

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2008

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Presentation Index:

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INVESTMENT SUMMARY

Target Price: R$ 27,36 – BUY

1. target price based on the multiple method
2. R$ 27.36 for the end of 2008, revealing a 186.16% upside potential

Homebuilding sector

1. restrained demand of the low-income segment (homeownership deficit and financing funding)
2. less impacted by monetary policy and financial crisis

MRV risks

1. Difficulty in obtaining credit among the financial system
2. Increasing civil construction costs (tight business margins and sales)
3. Possible decrease in sales, generated by a decrease in consumer confidence

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BUSINESS DESCRIPTION

MRV:

- *Headquarted in Belo Horizonte – MG, Brazil*
- *Homebuilder and Developer focused in the low-income segment*
- *Present in 63 cities in 13 estates, with land bank in capitals (50,3%) and other cities (49,7%)*
- *Standardized products – Parque, Spazio e Village*
- *Standardized business model (with partnership and outsourcing)*

BUSINESS DESCRIPTION

Business model:

- *Begins its expansion in 1994, always selling to the low-income segment*

Products:

- *Parque (40 to 45%)*
- *Spazio (50%)*
- *Village (5%)*

Operation:

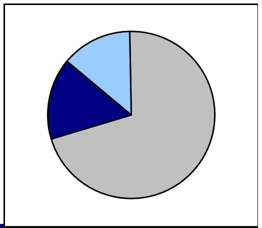
- *land bank: R$ 9,5 bi*

Land acquisition → *Project* → *Approval* → *Sale*

- *location*
- *demand*
- *competitors*

Sales channels:

- *own representatives (16%)*
- *partners (70%)*
- *internet (14%)*



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BUSINESS DESCRIPTION

Business Model:

- *Operating cycle:*

3 to 15 months → 3 months → 6 to 15 months → *MRV*

6 to 18 months → 6 months → 18 to 36 months → *Traditional period*

pre-launching — *launching* — *construction*

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BUSINESS DESCRIPTION

Business model:

- *Operating cycle:*

3 to 15 months → 3 months → 6 to 15 months *MRV*

- 50% sold
- 17% of revenue appropriated

Standardization and short cycle:

- speed
- quality control
- cost control

↓

- high margins
- less cash need
- higher returns

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BUSINESS DESCRIPTION

Credit:

- *Credit is necessary to buy (financing) and to operate (working capital):*

MRV	Clients
• *credit need for working capital* • *SBPE: 10.5% + TR (2%yoy)*	• *importance of credit to buy, funding and conditions* • *Approved commercial banks and CEF* • *"Crédito Associativo"*

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BUSINESS DESCRIPTION

Geographic diversification:

- *Present in 63 cities in 13 estates + DF*
- *Land Bank with 97.400 unities or selling potential of R$ 9,5 bi*
- *Distribution amid capitals (50,3%) and other cities (49,7%)*
- *Higher concentration in SP (50%) and MG (25%)*
- *Land bank is present in regions where the home ownership deficit is mainly concentred*

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BUSINESS DESCRIPTION

Competitive advantages:

- *Well placed in a high potential sector*

Low-income segment:

- *where the home ownership is concentrated*
- *New financial and funding rules*
- *Real income is growing*

MRV Position:

- *Experience in the sector (29 years)*
- *Production style*
- *partnership with CEF*

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INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Norms and Regulation:

- SFH: CMN, BACEN, CEF and SEDU/PR
- SBPE and FGTS
- 65% of the SBPE to the real-estate sector, 80% of which by SFH tax
- New legal instruments: SPE and enforcement of insolvent's expropriation
- Government actions toward the sector

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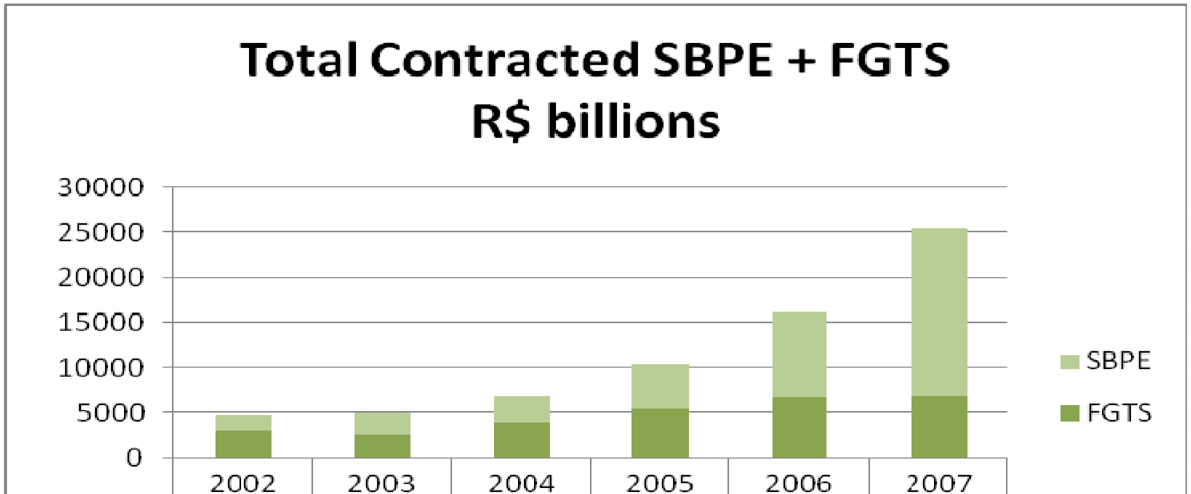
INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING



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

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INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Main Indicators:

- *Turmoil and changing indicators*
- *INCC: cement and work-force*
- *INCC: prediction of low growth*
- *GDP of Construction: growth higher than the GDP*

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INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The importance of credit:

- *Great demand for working capital vs. Liquidity restrictions*
- *Land plots: selling in a rush, buying bargain*
- *Leverage capability and size of equity*

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INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The emerging low-income class:

- *46% of Brazilian's population*
- *Consume potential of ¼ of urban population; and at the homebuilder sector it is ½ of future buyers*
- *Growth: credit facility, price stability, government transfers and decrease of unemployment*

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Competitive positioning:

- *MRV: pioneer to deliver to the low-income segment; good amount of equity and leverage capability; scale production; minimization of costs and good relationship with CEF*
- *Cyrella: greater growth velocity; greater cost of capital and financing; short cash-flow*
- *Gafisa: increase of PSV; Tenda's acquisition does not change expectations; increase in the cost of capital*

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INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Competitive positioning:

- *PDG: increase in selling, general and administrative expenses; a little deceleration in growth*

- *Rossi: higher financial costs, especially in financing costs; long cash-flow*

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VALUATION AND FINANCIAL ANALYSIS

Valuation method:

We used the multiple method because we believe that these indicators measure the investors expectations in relation to the stock price.

We believe that this is the only variable which cannot be quantified in a safe method, hence we fixed these indicators and verified how the stock price varied given the profit variation of the enterprise.

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VALUATION AND FINANCIAL ANALYSIS

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
# 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

* discount rate (WACC):

Valuation method:

Spreadsheet with the used method and obtained values

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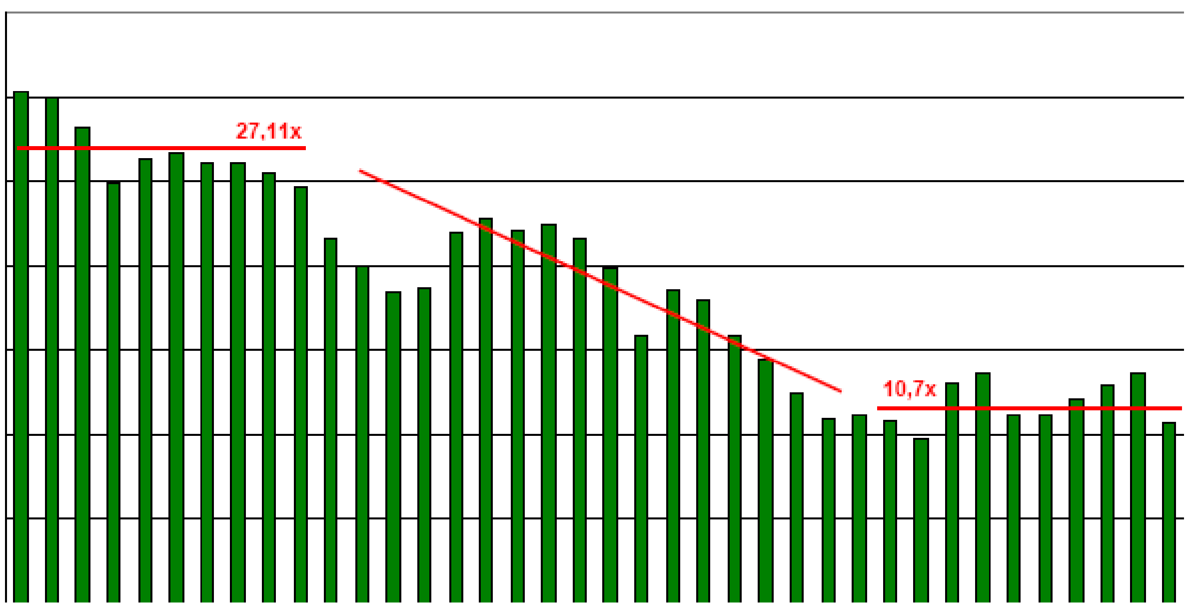
VALUATION AND FINANCIAL ANALYSIS

Level of negotiation based on the Price-to-Earn method:



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VALUATION AND FINANCIAL ANALYSIS

Financial Analysis:

Our financial analysis is totally described by the attached spreadsheets in the report.

The growth of revenue was obtained by the historic relation between growth of number of launches and the growth of revenue. We have estimated only the number of future launches and maintained the historic relation.

The future growth of launches was estimated based in our macroeconomics and sector researches.

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VALUATION AND FINANCIAL ANALYSIS

Revenue growth:

	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			

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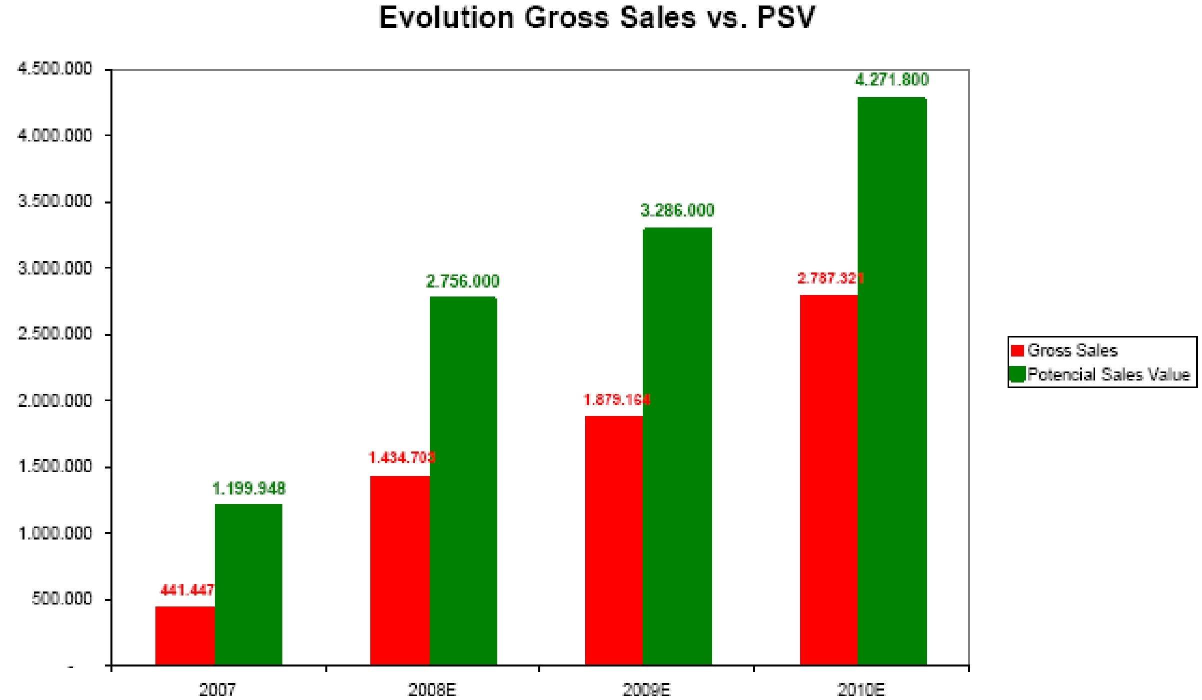
VALUATION AND FINANCIAL ANALYSIS

Evolution gross sales vs. PSV:



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VALUATION AND FINANCIAL ANALYSIS

Why didn't us use DCF:

By analyzing the Cash Flow through our premises, there is no space to DCF due to the strong investment periods by which MRV is passing through; and, especially due to the high needs of working capital, characteristic of this sector. These factors would hinder the analysis, not only of MRV, but of any Real Estate which is passing through such a business phase.

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VALUATION AND FINANCIAL ANALYSIS

Cash Flow:

Cash Flow (In R$ milion)	2.007,00	2008E	2009E	2010E
Operational Profit	30.481,00	322.716,38	422.453,44	696.652,04
(+) Depreciation/Amortization	1.231,00	9.239,86	8.284,78	9.239,86
EBITDA	31.712,00	331.956,23	430.738,22	705.891,90
(+ -) Changes in Working Capital	-499.140,00	-325.238,56	-236.738,33	-372.491,64
(+ -)Non- Operational Profits	2.214,00	5.254,87	6.882,80	10.209,10
(-) Capex	-16.281,00	-42.161,82	-14.765,38	-8.682,51
(-) Income taxes and profit sharing	-41.937,47	-136.296,76	-178.520,57	-264.795,51
(-) Net Financial Expense	36.681,00	28.325,79	37.100,92	-55.030,96
(+ -) Extraordinary itens	-	-	-	-
(+) Dividend Received from subsidiaries	-	-	-	-
(-) Minorities	-2.719,00	-8.836,75	-11.574,31	-17.167,92
Free Cash Flow	**-489.470,47**	**-146.996,99**	**33.123,34**	**-2.067,53**
(+ -) Increase in Cash position	595.860,00	-433.220,02	41.945,31	24.665,15
(+ -) Investments/Divestments	-	-	-	-
Free Cash Flow to Equity Holders	**106.389,54**	**-580.217,02**	**75.068,65**	**22.597,62**
(-) Dividends	-10.700,75	-74.894,55	-98.036,81	-135.409,41
(+ -) Share Buyback/Subscription	-	-	-	-
Change in debt position	**95.688,79**	**-655.111,57**	**-22.968,16**	**-112.811,79**

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RISKS

This part of the report tries to show the main risks related to MRV and how it is positioned to face them.

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5 RISKS

Main risks:

- *Decrease of credit availability;*
- *Retreat of demand;*
- *Raw material and work force inflation;*
- *Land inflation;*

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RISKS

- *Decrease of credit availability;*

The main effect of the credit crisis is the great increase in the cost of capital, a problem which is worsened when the company is growing, with a great land bank and needing working capital to sustain and expand its production.

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RISKS

MRV is well positioned to face 2009 without financing problems, the successful debentures emission obtained R$ 300 m., which alleviates the company's cash need and guarantee the continuity of the launches. Moreover, the company has access to SBPE's resources, which are focused in financing construction.

- ***Retreat of demand;***

We verified that the growth of MRV’ sales will decrease due to some key factors, such as the decrease of the growth of the income, the increase of unemployment and the scarcity of credit to the final consumers

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5 RISKS

We believe that MRV is well positioned in relation to its competitors, due to:

- *High exposure to the low-income segment: This segment of the Brazilian population concentrates 40% of Brazilian households, and has been the protagonist of the income growth in Brazil. We have also observed that this is an actual government strategic sector.*

- *Good relationship with CEF: MRV' experience with "crédito-associativo" has made the consumers chose this financing type*

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RISKS

Raw materials and work force inflation

In 2008 the main construction materials and the work force have had great price increases, these are essential resources responsible for almost 30% of the construction cost. For instance, the cement had to be imported because of its scarcity in the domestic market.

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RISKS

We believe that this pressure will decrease, especially in 2009. The demand for materials will retreat because of some companies lack of working capital. This will diminish inflation. Within this context, MRV differentiates itself by its more efficient production process and its concentrated cost's structure, what made the company less vulnerable to increases of price and more prepared to succeed after the global turmoil.

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RISKS

- ***Land inflation;***

In 2007, the great amount of IPOs in the homebuilding sector increased the demand, and, consequently the costs of land in some estates such as São Paulo, Minas Gerais and in the south of Brazil in general. These are places where the income grows more than the average and are preferred by the homebuilding companies.

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RISKS

MRV is well positioned in relation to its competitors, its land bank is well positioned and has, according to the company, a land bank which can sustain 3 years of launches. This position in addition to the fact that the company will not have to sell lands to generate cash puts the company in a good place.

Due to the prices of land the demand will retreat, especially because of the lack of credit observed among MRV' competitors. Some companies are selling their lands, what helps to decrease costs.

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Q&A

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Thank You