

Brazilian Homebuilders

Still Lowering Estimates – On Margin Pressure and Capital Raises

- **Revisions reflect continued margin pressure and new capital raises** — in this report, we revise estimates for the Brazilian homebuilders primarily to reflect continued margin pressure, recent capital raises and the sluggish pace of new launches. We maintain our Buy (1H) ratings on PDGR3 (based on valuation, recovery potential) and MRVE3 for superior profitability and reasonable valuation. We reinstate coverage of GFSA3 with a Neutral (2H) rating, and maintain Neutral (2H) on RSID3 and Sell (3H) on CYRE3 (on valuation).
- **3Q12 prelim operating results reflect sluggish launches, decent pre-sales** — Overall, builders accomplished only 61% of expected 2012E launches in 9M12 due in part to a more difficult permitting process. Cyrela already lowered its guidance and we expect others to follow by year-end. While aggregate launches for the 5 companies in this report declined 38% YoY in 9M12, contracted sales declined by only 11% YoY as inventories are drawn down, implying mild revision to revenues. We view this positively as leaner inventories favors cash generation without dramatically altering the size of the business in the near term.
- **Gafisa: reinstating coverage with a Neutral (2H) rating, R\$4.60 12M PT** — We view Gafisa's investment case as heavily dependent on its ability to monetize receivables and deleverage its capital structure. At 119% net debt/equity level, we believe the risk of a dilutive equity issue remains high. And while a possible sale of its AlphaVille subsidiary could be an alternative to generate liquidity, we are not convinced GFSA3 could monetize this asset at the same valuation it is being asked to pay for acquisition of the remaining 20% stake.
- **PDG and Rossi revised to reflect capital increases** — We revise our RSID3 estimates for the company's R\$600m capital increase underway in 4Q12, a 57% increase in shares. EPS is lowered -40% and -33% in 2012 and 2013, due to dilution and reduced launches. For PDGR3, we include the R\$800m capital increase in 3Q12, adding 17% to total shares. EPS is revised -156% and -43% in 2012 and 2013 due to a sharp 2Q12 loss, share dilution and lowered launches.
- **Maintain Buy on MRV** — Despite lowering estimates to reflect moderately higher costs, we expect MRVE3 to maintain well above industry average profitability. We maintain our target P/BV multiple of 1.6x and reiterate our Buy (1H) rating.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Cyrela Braz Rlty	CYRE3.SA	3H	3H	R\$14.40	R\$14.40	R\$1.49	R\$1.58
Gafisa	GFSA3.SA	1H	2H	R\$12.90	R\$4.60	R\$1.04	R\$0.03
MRV Engenharia	MRVE3.SA	1H	1H	R\$13.20	R\$13.60	R\$1.71	R\$1.36
PDG Realty	PDGR3.SA	1H	1H	R\$5.40	R\$4.90	R\$0.39	R\$-0.22
Rossi Resid	RSID3.SA	2H	2H	R\$6.40	R\$4.80	R\$0.96	R\$0.58

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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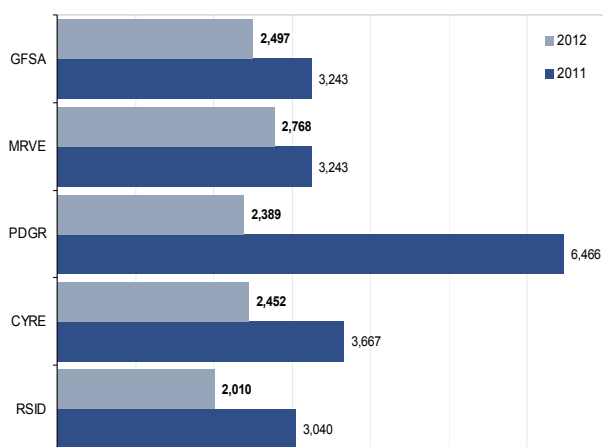
Sluggish 9M12 launches, but contracted sales on pace for FY ests.

The preliminary operating results reported by most Brazilian homebuilders show that companies are struggling to meet launch guidance or expectations. As of September, companies under our coverage had accomplished, on average, 61% of launches estimated for the year, as opposed to 68% for the same period last year.

According to most builders, the main bottleneck is the permitting and approvals process. Municipal elections, recent corruption scandals and the concentration of most homebuilders in traditional markets (such as São Paulo and Rio de Janeiro) among other factors contributed to a slower permits environment.

Figure 1. Considerable deceleration in launches YoY...

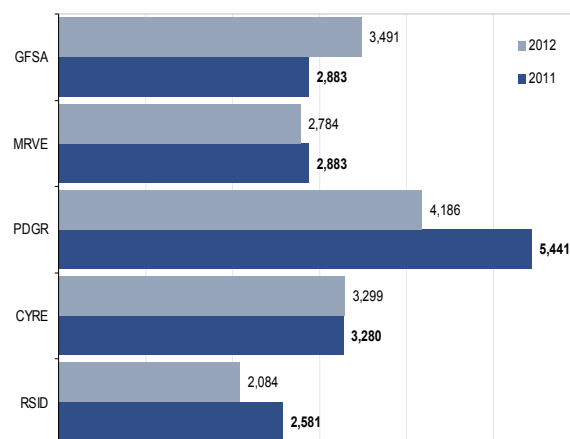
Launches for 9M12 vs. 9M11, R\$ million



Source: Company reports and Citi Research

Figure 2. ... while sales remained relatively flat

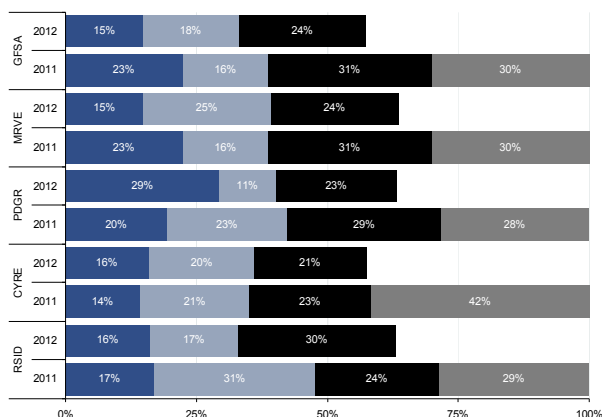
Sales for 9M12 vs. 9M11, R\$ million



Source: Company reports and Citi Research

Figure 3. Launches will likely not reach guidance

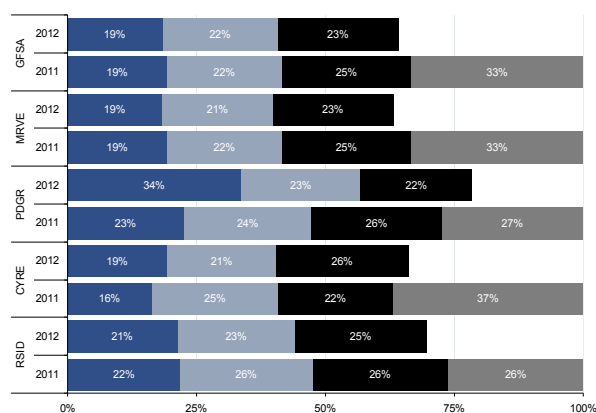
Quarterly share of full year completion (2011/12)



Source: Company reports and Citi Research

Figure 4. But contracted sales should meet estimates

Quarterly share of full year completion (2011/12)



Source: Company reports and Citi Research

While launches for our covered companies dropped 38% YoY in 9M12, sales are down only 11%. This reinforces our view that industry fundamentals, particularly demand for housing, remains mostly solid and the market is still posting healthy absorption rates.

Despite the sharp decline in launches, we do not expect a materially negative impact on revenues as companies emphasize sales of inventories (off-plan, not finished units) and real estate prices still appreciating – albeit at a slower pace than previous years.

In fact, we view the combination of lower launches with relatively flat sales as positive, as it reduces working capital requirements by monetizing inventory. This initiative should favor cash generation, and consequently contribute to deleveraging.

Lowering estimates to reflect deceleration, margin pressure, dilution

We're updating our forecasts for Brazilian homebuilders to reflect our updated financial outlook, including 3Q12 preliminary operational results, margin expectations and recent capital increases.

Figure 5. Launches and contracted sales revision

New (R\$ million)	Launches			Contracted Sales		
	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	4,263	4,308	4,686	4,981	5,395	4,896
Gafisa	2,541	3,139	3,453	2,607	3,620	3,348
MRV	4,350	4,493	4,853	4,400	4,752	5,132
PDG	3,783	4,086	4,413	5,341	5,403	5,188
Rossi	3,194	3,450	3,726	2,994	3,511	3,392

Old (R\$ million)	Launches			Contracted Sales		
	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	5,474	5,911	6,419	5,225	5,652	6,063
Gafisa	N/A	N/A	N/A	N/A	N/A	N/A
MRV	4,646	5,037	5,340	4,545	4,772	5,059
PDG	4,300	4,300	4,730	5,530	4,864	5,093
Rossi	3,791	3,705	3,900	3,274	3,751	3,600

% Revision						
Cyrela	-22%	-27%	-27%	-5%	-5%	-19%
Gafisa	N/A	N/A	N/A	N/A	N/A	N/A
MRV	-6%	-11%	-9%	-3%	0%	1%
PDG	-12%	-5%	-7%	-3%	11%	2%
Rossi	-16%	-7%	-4%	-9%	-6%	-6%

Source: Citi Research

Figure 6. Summary 2012-14E estimate revisions

	Revenue			Adj. EBITDA			Adj. EBITDA Margin			EPS		
New estimates, R\$ mn	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	6,439	6,548	5,606	1,273	1,318	1,156	20%	20%	21%	1.58	1.46	1.29
Gafisa	3,805	3,544	3,340	580	555	478	15%	16%	14%	0.03	0.43	0.65
MRV	4,441	4,850	5,262	875	1,002	1,160	20%	21%	22%	1.36	1.54	1.84
PDG	5,582	5,308	4,701	374	860	840	7%	16%	18%	-0.22	0.30	0.39
Rossi	3,172	3,175	3,288	620	626	658	20%	20%	20%	0.58	0.67	0.78
Old estimates, R\$ mn	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	6,396	6,382	6,711	1,197	1,256	1,428	19%	20%	21%	1.49	1.64	1.86
Gafisa	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
MRV	4,776	5,003	5,183	1,103	1,173	1,280	23%	23%	25%	1.71	1.85	2.12
PDG	6,367	5,245	4,432	1,158	1,036	828	18%	20%	19%	0.39	0.52	0.55
Rossi	3,198	3,356	3,512	531	579	608	17%	17%	17%	0.96	1.00	1.20
% Revision	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	1%	3%	-16%	6%	5%	-19%	1%	0%	-1%	6%	-11%	-31%
Gafisa	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
MRV	-7%	-3%	2%	-21%	-15%	-9%	-3%	-3%	-3%	-20%	-16%	-13%
PDG	-12%	1%	6%	-68%	-17%	1%	-11%	-4%	-1%	-156%	-43%	-29%
Rossi	-1%	-5%	-6%	17%	8%	8%	3%	2%	3%	-40%	-33%	-35%
Growth % YoY	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	5%	2%	-14%	23%	4%	-12%	3%	0%	1%	34%	-8%	-11%
Gafisa	29%	-7%	-6%	-271%	-4%	-14%	-232%	3%	-9%	-101%	1262%	51%
MRV	11%	9%	8%	-16%	15%	16%	-6%	1%	1%	-14%	13%	19%
PDG	-19%	-5%	-11%	-75%	130%	-2%	-15%	10%	2%	-129%	-238%	31%
Rossi	12%	0%	4%	63%	1%	5%	6%	0%	0%	96%	17%	17%
Consensus estimates, R\$ mn	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	6,377	7,019	7,605	1,128	1,361	1,498	18%	19%	20%	1.717	2.127	2.455
Gafisa	3,797	3,631	3,559	455	554	565	12%	15%	16%	0.011	0.361	0.515
MRV	4,493	4,925	5,234	910	1,064	1,129	20%	22%	22%	1.365	1.608	1.819
PDG	5,800	6,140	5,909	581	1,081	1,192	10%	18%	20%	-0.051	0.439	0.514
Rossi	3,366	3,566	3,650	543	653	670	16%	18%	18%	0.852	1.156	1.35
% Consensus	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Cyrela	1%	-7%	-26%	15%	13%	-12%	3%	4%	4%	-5%	-13%	-28%
Gafisa	0%	-2%	-6%	28%	0%	-15%	27%	3%	-10%	187%	19%	26%
MRV	-1%	-2%	1%	-4%	-6%	1%	-1%	-1%	0%	0%	-4%	1%
PDG	-4%	-14%	-20%	-35%	-14%	-29%	-3%	0%	-2%	347%	-6%	7%
Rossi	-6%	-11%	-10%	15%	2%	-4%	4%	3%	1%	-29%	-31%	-36%

Source: IBES, Citi Research

In the figure below, we have summarized our revised 12M PT and the valuation assumptions underlying each. Details are featured on each company's individual section along this report.

Figure 7. Summary 12M PT valuation framework

Company	Rating	Target Price	ETR	Recurring ROE	Cost of Equity	Current P/BV	Target P/BV
PDGR3	Buy	4.90	42%	14.5%	14.50%	0.7x	1.0x
MRVE3	Buy	13.60	32%	20.0%	14.50%	1.4x	1.6x
GFSA3	Neutral	4.60	22%	12.0%	14.50%	0.6x	0.7x
RSID3	Neutral	4.80	12%	12.0%	14.50%	0.7x	0.7x
CYRE3	Sell	14.40	-15%	16.0%	14.50%	1.4x	1.2x
Average				14.9%	14.5%	1.0x	1.0x

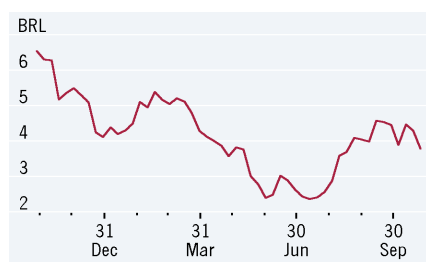
Source: Citi Research

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Neutral/High Risk	2H
<i>from Buy/High Risk</i>	
Price (26 Oct 12)	R\$3.79
Target price	R\$4.60
<i>from R\$12.90</i>	
Expected share price return	21.4%
Expected dividend yield	0.3%
Expected total return	21.6%
Market Cap	R\$1,641M
	US\$809M

Price Performance
(RIC: GFSA3.SA, BB: GFSA3 BZ)



Gafisa, S.A. (GFSA3.SA)

Reinstating coverage with a Neutral (2H) rating

- **Revised estimates suggest a TP of R\$4.60** — While GFSA3's discounted P/BV catches the eye as does prospects for emergence from what has been a long road to financial recovery, we are unconvinced profitability is moving high enough to produce positive cash flow, leaving little room for GFSA3 to successfully monetize Alphaville at the valuation it is being asked to pay for the remaining 20% stake. We reinstate coverage of GFSA3 with a 12M PT of R\$4.60, based on a normalized ROE of 12.0% and a target P/BV of 0.7x.
- **Alphaville is a star but may not find another bid at proposed valuation** — GFSA3 shares have caught a bounce recently based on a possible sale or IPO of its most profitable subsidiary. While possible, we are skeptical that Alphaville would be sold at the R\$1.8b implied by the R\$359m GFSA3 must pay for the remaining 20% stake it does not own. If that speculation cools, the shares could be pressured on renewed concerns about the company's high leverage.
- **On track to deliver main goals** — After recent changes in the Board of Directors and also in senior management, Gafisa announced earlier this year a new organizational structure and growth strategy focused on restoring profitability. At the same time, the company established goals for cash generation from operations, project delivery and launches. So far, the company is confident on the first 2 initiatives, while launches are still lagging.
- **Relevant project deliveries contribute to cash generation** — As of 3Q12, Gafisa delivered 17.7K units, or 74% of its full year guidance, allowing the company to generate R\$250 mn in cash flow in 9M12. Maintenance of this trend is critical to assure that the company doesn't face any liquidity problems ahead.
- **Chronic low profitability warrants discounted valuation** — Despite Alphaville's above-average profitability with >30% EBITDA margins, Gafisa has demonstrated a poor -2% ROE over the last 3 years. Our assumed 12.0% ROE going forward is already generous relative to the company's track record and relies on an at least partially effective turnaround. We believe further progress in earnings ex-Alphaville is needed to narrow the book value discount further. Neutral.

Estimates	2011A	2012E	2013E	2014E	Q112A	Q212A	Q312E	Q412E
Sales (R\$M)	2,941	3,805	3,544	3,340	928	1,041	931	906
EBITDA adj (R\$M)	-339	580	555	478	105	149	153	163
EBITDA margin adj (%)	-11.5	15.2	15.7	14.3	11.3	14.3	16.5	17.9
Net income adj (R\$M)	-945	14	186	280	-32	1	18	26
EPS (R\$)	-2.19	0.03	0.43	0.65	-0.07	0.01	0.05	0.07
Valuation	Ratios				2011A		2012E	
EV/EBITDA adj	-13.0	8.6	8.3	8.3	ROE adj (%)		-29.7	0.5
PE	-1.7	120.0	8.8	5.8	ROIC adj (%)		-10.6	3.6
FCF (%)	-72.1	2.2	41.3	50.2	Debt to Capital (%)		60.6	59.9

Source: Company Reports and dataCentral, Citi Research.

GFSA3.SA: Fiscal year end 31-Dec						Price: R\$3.79; TP: R\$4.60; Market Cap: R\$1,641m; Recomm: Neutral/High Risk					
Profit & Loss (R\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	3,403	2,941	3,805	3,544	3,340	PE (x)	6.1	-1.7	nm	8.8	5.8
Cost of sales	-2,495	-2,762	-2,836	-2,551	-2,349	PB (x)	0.4	0.6	0.6	0.6	0.5
Gross profit	908	179	969	993	991	EV/EBITDA (x)	6.2	-13.0	8.6	8.3	8.3
Gross Margin (%)	26.7	6.1	25.5	28.0	29.7	FCF yield (%)	-84.2	-72.1	2.2	41.3	50.2
EBITDA (Adj)	578	-339	580	555	478	Dividend yield (%)	3.3	4.0	0	0.2	2.8
EBITDA Margin (Adj) (%)	17.0	-11.5	15.2	15.7	14.3	Payout ratio (%)	20	-7	0	2	17
Depreciation	-34	-83	-63	-24	-28	ROE (%)	8.7	-29.7	0.5	6.7	9.4
Amortisation	0	0	0	0	0	Cashflow (R\$m)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	393	-603	285	398	450	EBITDA	427	-519	348	422	478
EBIT Margin (Adj) (%)	11.5	-20.5	7.5	11.2	13.5	Working capital	-1,630	-301	-25	448	515
Net interest	-82	-160	-206	-145	-39	Other	-104	-302	-242	-180	-140
Associates	0	0	0	0	0	Operating cashflow	-1,307	-1,123	82	690	853
Non-op/Except	0	0	0	0	0	Capex	-58	-55	-45	-14	-32
Pre-tax profit	311	-763	80	253	411	Net acq/disposals	0	0	0	0	0
Tax	-22	-142	-36	-35	-100	Other	-174	244	35	0	0
Extraord./Min.Int./Pref.div.	-24	-40	-30	-32	-30	Investing cashflow	-233	189	-10	-14	-32
Reported net profit	265	-945	14	186	280	Dividends paid	-2	-91	-12	-3	-46
Net Margin (%)	7.8	-32.1	0.4	5.2	8.4	Financing cashflow	1,315	717	-41	-639	-474
Core NPAT	265	-945	14	186	280	Net change in cash	-225	-217	31	36	346
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	-1,366	-1,178	37	676	821
Reported EPS (\$)	0.62	-2.19	0.03	0.43	0.65						
Core EPS (\$)	0.62	-2.19	0.03	0.43	0.65						
DPS (\$)	0.12	0.15	0	0.01	0.11						
CFPS (\$)	-3.06	-2.60	0.19	1.60	1.98						
FCFPS (\$)	-3.19	-2.73	0.09	1.57	1.90						
BVPS (\$)	8.63	6.14	6.20	6.63	7.17						
Wtd avg ord shares (m)	428	432	432	432	432						
Wtd avg diluted shares (m)	428	432	432	432	432						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	12.6	-13.6	29.4	-6.9	-5.8						
EBIT (Adj) (%)	-14.8	-253.5	147.3	39.3	13.2						
Core NPAT (%)	23.9	-457.1	101.4	nm	51.1						
Core EPS (%)	-21.1	-454.0	101.4	nm	51.1						
Balance Sheet (R\$m)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	1,201	984	1,015	1,033	1,380						
Accounts receivables	3,158	3,963	2,854	2,953	2,783						
Inventory	1,569	2,142	1,978	1,593	1,599						
Net fixed & other tangibles	3,422	2,200	3,093	2,909	2,799						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	200	218	381	315	390						
Total assets	9,550	9,507	9,321	8,804	8,951						
Accounts payable	611	746	717	491	700						
Short-term debt	824	3,255	1,704	1,704	1,704						
Long-term debt	2,466	974	2,481	1,881	1,481						
Provisions & other liab	1,865	1,784	1,613	1,744	1,846						
Total liabilities	5,766	6,760	6,516	5,820	5,732						
Shareholders' equity	3,722	2,648	2,674	2,859	3,093						
Minority interests	61	99	131	124	126						
Total equity	3,784	2,747	2,805	2,983	3,219						
Net debt	2,089	3,245	3,171	2,552	1,806						
Net debt to equity (%)	55.2	118.1	113.0	85.6	56.1						

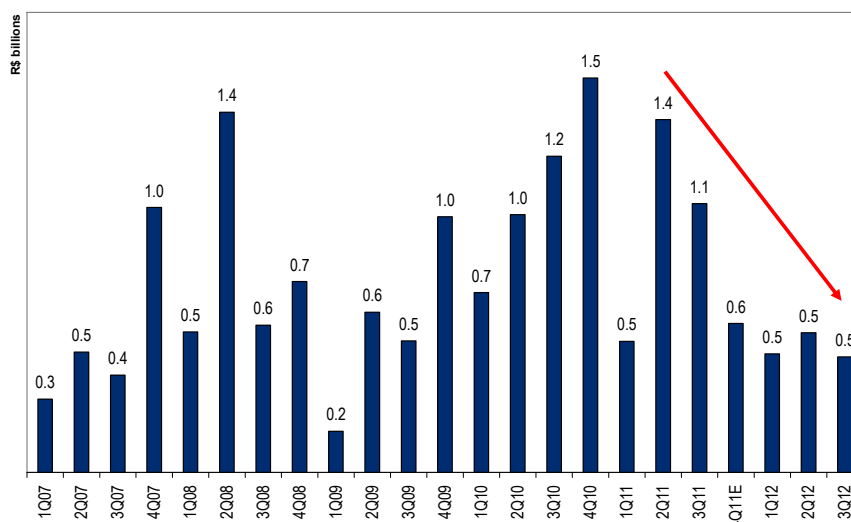
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For definitions of the items in this table, please click [here](#).

Reinstating coverage with Neutral

Reduced operations to get back to basics

Gafisa has drastically reduced its operations (9M12 launches down 53% YoY), concentrating on brands 'Gafisa' and 'AlphaVille' and on core markets such as São Paulo and Rio de Janeiro metropolitan regions in a back to basics approach. After its IPO, the company pursued a nationwide growth expansion which, combined with the acquisition of Tenda, eroded its profitability and increased considerably its level of indebtedness.

Figure 8. Launches for 9M12 reached R\$1.5bn, 50% lower than the same period in 2011
Quarterly earnings (R\$ billion)



Source: Company reports, Citi Research

Monetizing receivables and inventory

Gafisa's investment case relies heavily on its capability of monetizing assets and deleveraging. Receivables peaked at 485 days in 4Q11 (Figure 8), followed by a marginal improvement driven by higher deliveries, but still far above the industry average (approx. 260 days).

As of September 2012, the company transferred 9.6k 'Tenda' units to banks, accomplishing 80% of the guidance for 2012.

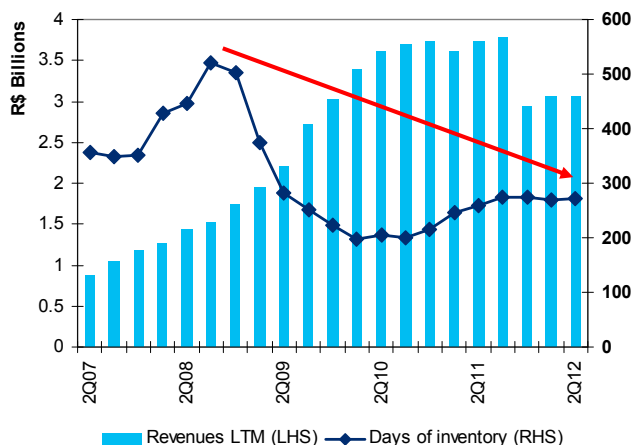
A relevant portion of the problem can be attributed to Tenda's acquisition in 2 main aspects:

In our view, risks of bad receivables are gradually being mitigated as Tenda's units under development are approximately 70% executed. The majority should be concluded and delivered by 2013. When units approach delivery clients start to be transferred to banks for the mortgage takeout process, if the client does not qualify, their contract will be cancelled adding the unit back to inventory and cleaning the receivables portfolio.

Gafisa's inventory is another important source of liquidity, as concluded units are monetized, they are transferred to banks, these represent R\$380mn, or 12% of total inventory.

Figure 9. Reduction of days on inventory

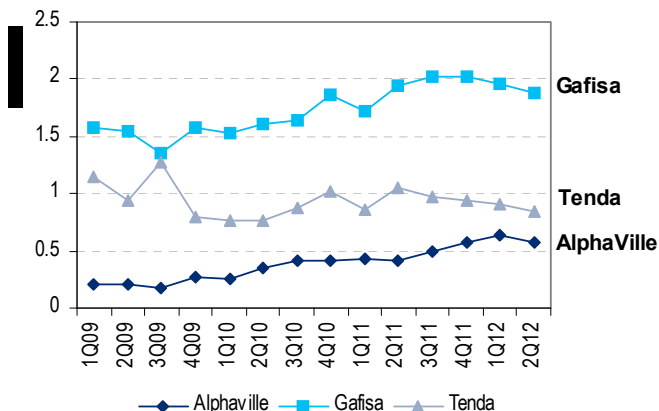
Days of inventories receivables vs. revenues (last 12 months)



Source: Company reports and Citi Research

Figure 10. Tenda inventory has been reduced

Inventory at market value per brand



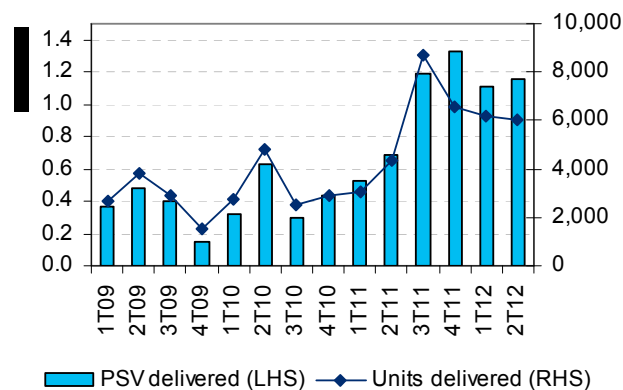
Source: Company reports and Citi Research

Deleveraging process started, but still a long way to go

Net debt reduction is a consequence of receivables being monetized, as project deliveries continue to advance, as seen in Figures 11 and 12.

Figure 11. As deliveries increased...

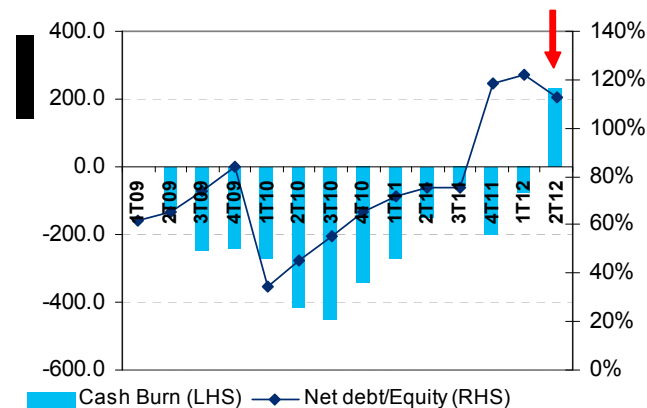
Homes delivered (units and potential sales value – R\$ billion)



Source: Company reports and Citi Research

Figure 12. ... cash generation raised

Net debt/equity vs. cash burn before dividends and capital increase



Source: Company reports and Citi Research

Gafisa released guidance of generating between R\$500mn and R\$700mn of cash flow from operations. This target is not comparable to the most commonly used cash burn metric, but the company seems to be on track, according to preliminary operational data released for 3Q12. Potential sale of landbank in non-core regions is being considered to achieve this goal.

Proposed value for AlphaVille is 98% of Gafisa's market cap

Gafisa acquired lot developer AlphaVille Urbanismo S.A. (AUSA) back in 2006, in a 3-step deal (Figure 13): the initial 60% stake was acquired in the same year (2006), 20% was due in 2009 and the remaining 20% in 2012. Payments could be in cash or in GFSA3 shares, based upon the buyers' sole discretion, as long as a third party DCF valuation was used to calculate the number of shares correctly.

Figure 13. Alphaville's acquisition phases

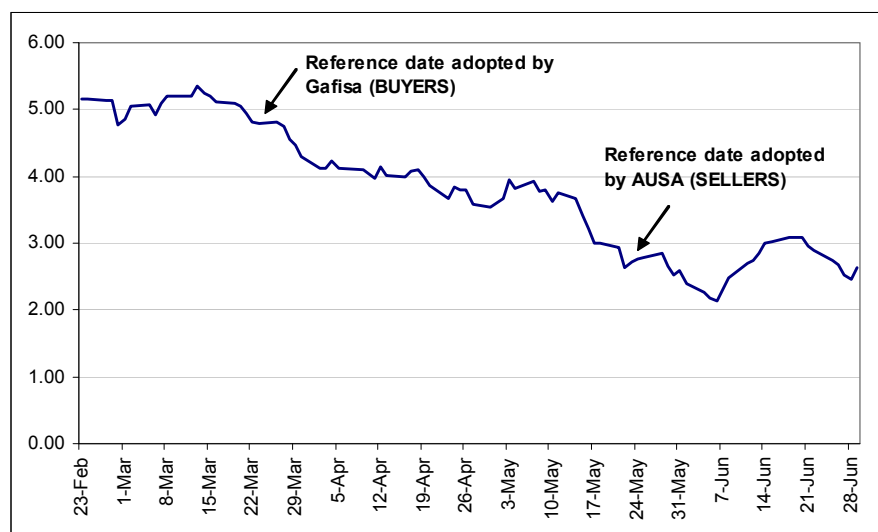
Year	Valuation for 100% of AUSA (R\$ mn)	Stake Acquired	Price Paid (R\$ mn)	Payment method	AUSA % of Gafisa's Launches
2006	336	60%	201.7	R\$20 mn cash + R\$180 mn in shares	0%
2009	632	20%	126.5	100% in shares	18%
2012	1,795	20%	359	100% in shares	46%
Total		100%	687.2	Total deal valuation = 1.6x P/BV	

Source: Company reports, Citi Research

Completion of the remaining 20% stake is presently in arbitration between AlphaVille's partners (AUSA) and Gafisa. There is disagreement about the correct GFSA3 share price that should be used to satisfy the R\$359 mn amount (Figure 14), which may vary from 70 to 97 mn shares depending on the reference date chosen, meaning a 14% to 18% stake in Gafisa's capital structure. In either case, once granted the shares, AUSA will become Gafisa's largest shareholders.

Figure 14. The number of shares to be issued to AUSA is in arbitration

GFSA3 daily stock price (Feb '12 to Jun '12)



Source: Company reports, Citi Research

Risks

- (i) The undergoing arbitrage may settle a Gafisa issue of 97mn shares to AUSA, leading to higher dilution to minority shareholders.
- (ii) Gafisa may decide upon a sale or IPO of part of AlphaVille in disadvantageous conditions due to liquidity constraints.
- (iii) Lack of capacity of monetizing receivables and inventory leading to liquidity pressure, especially on debt amortization events

Gafisa, S.A.

Company description

Gafisa is one of Brazil's leading residential real estate companies, with a diversified range of products spanning a full spectrum of price ranges from luxury homes to affordable housing. Traditionally focused on the high end, Gafisa diversified into the land parcel business in 2006 with its acquisition of Alphaville. The company also expanded into affordable housing in 2006 with its start-up of subsidiary FIT and 2008 acquisition of low-income housing developer Tenda. Gafisa is headquartered in the state of Sao Paulo and operates in over 99 cities in 20 states in Brazil.

Investment strategy

Our recommendation on Gafisa is Neutral/High Risk (2H). We believe the homebuilding industry in Brazil represents a compelling growth investment opportunity, led by a favorable demographic profile, strong pent-up demand for housing, and growing access to affordable mortgage credit. While GFSa's discounted P/BV may still afford upside potential, there is added concern over its ability to monetize receivables and deleverage capacity, combined with uncertainty regarding the future of one of its subsidiaries.

Valuation

Our 12-month target price for Gafisa of R\$4.60 is based on a P/BV of 0.7x, derived using a long-run average ROE of 12%, a CoE of 14.5% and stabilized growth of 5%. We assume a 12% ROE going forward as it more accurately reflects true profitability and stabilized future ROE than present ROE of 0.5%, which reflects the cumulative effect of cost overruns in the construction cycle which lasts 2-3 years on average.

Risks

We assign Gafisa a High Risk rating because of Brazil's relatively short track record of mortgage credit availability, a shorter tenure of current management navigating the industry, and ambitious EPS growth estimates based on our top-line growth and margin improvement assumptions.

Risks include the ongoing arbitrage may settle a Gafisa issue of 97mn shares to AUSA, leading to higher dilution to minority shareholders. Gafisa may decide upon a sale or IPO of part of AlphaVille in disadvantageous conditions due to liquidity constraints. Lack of capacity of monetizing receivables and inventory leading to liquidity pressure, especially on debt amortization events. Other risks include management's ability to execute its growth strategy, including the company's expansion into new operating regions and the company's ability to successfully execute their low income strategy with 'FIT/Tenda'. Other potential upside risks include higher-than-anticipated growth and improved profit margins.

Key industry risks include credit accessibility, including the reliance on government regulations which obligate specified levels of mortgage lending, as well as the potential for oversupply in homes in select markets and price points.

If the impact from the above risk factors turns out to be greater/less than we anticipate, the shares could fail to achieve our target price.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy/High Risk	1H
Price (26 Oct 12)	R\$3.46
Target price	R\$4.90
from R\$5.40	
Expected share price return	41.6%
Expected dividend yield	0.0%
Expected total return	41.6%
Market Cap	R\$4,635M
	US\$2,287M

Price Performance (RIC: PDGR3.SA, BB: PDGR3 BZ)



PDG Realty (PDGR3.SA)

Recapitalized and shrinking to favor cash flow; maintain Buy

- **Maintain Buy on attractive valuation and prospects for cash generation** — Despite poor recent financial performance and low visibility on PDG's earnings, particularly given the recent change in management, we like the fact that PDG already recently recapitalized and is shrinking the business which, in our view, should make for the quickest path to free cash generation. We view PDGR3's current P/BV of 0.7x as attractive assuming a reasonable 14.5% normalized ROE, in line with the company's cost of equity. This leads us to a target P/BV multiple of 1.0x and 42% potential upside for the shares.
- **Material reduction on launches should accelerate cash generation** — During 2Q12, PDG announced a sharp reduction to its 2012E launch guidance, from the initial R\$8-9 bn range to R\$4-5 bn, roughly a 50% cut. While this revision had already been reflected in our numbers, we are revising estimates to incorporate the larger than expected R\$450m net loss reported in 2Q12 as well as the company's recent R\$800m capital increase. Accordingly, we cut our EPS to a loss of R\$(0.22)/shr in 2012E (vs. R\$0.39 prior) and by 43% and 29% in 2013 and 2014, respectively.
- **Recent R\$800m capital increase adds to substantial balance sheet liquidity** — PDGR3 completed an R\$800m capital increase in Sep 2012, with investment firm Vinci subscribing to 61% of the rights issue to become a 9% shareholder in the company. We incorporate the 17% increase in shares and capital infusion into our estimates, reducing leverage from 91% in 2Q12 to 42% by 2012E and adding to an already strong cash balance of R\$4.3b as of 3Q12.
- **Cost overruns remain chief risk but valuation discounts a good deal of it** — PDG has already made two substantial upward revisions to its cost budget in 4Q11 (R\$140m) and 2Q12 (R\$478m). A chief risk to earnings and book value of equity is if further cost revisions loom. However, the discounted valuation absorbs some of this risk and despite recent poor financial performance, we believe a smaller well-managed PDG should be able to achieve a normalized ROE of 14.5%, underpinning our target 1.0x P/BV multiple.

Estimates	2011A	2012E	2013E	2014E	Q112A	Q212A	Q312E	Q412E
Sales (R\$M)	6,877	5,582	5,308	4,701	1,476	1,060	1,233	1,812
EBITDA adj (R\$M)	1,519	374	860	840	222	-264	197	230
EBITDA margin adj (%)	22.1	6.7	16.2	17.9	15.0	-24.9	15.9	12.7
Net income adj (R\$M)	877	-225	402	528	32	-450	82	110
EPS (R\$)	0.75	-0.22	0.30	0.39	0.03	-0.40	0.07	0.08
Valuation	Ratios				2011A			
EV/EBITDA adj	5.6	22.6	8.3	7.3	ROE adj (%)	14.3	-3.3	
PE	4.6	-15.8	11.5	8.8	ROIC adj (%)	7.8	-1.5	
FCF (%)	-33.2	32.9	12.3	25.5	Debt to Capital (%)	50.8	50.0	

Source: Company Reports and dataCentral, Citi Research.

PDGR3.SA: Fiscal year end 31-Dec						Price: R\$3.46; TP: R\$4.90; Market Cap: R\$4,635m; Recomm: Buy/High Risk					
Profit & Loss (R\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	5,296.9	6,877.4	5,581.9	5,308.1	4,700.9	PE (x)	3.7	4.6	-15.8	11.5	8.8
Cost of sales	-3,699.2	-5,083.6	-4,847.5	-4,034.1	-3,484.8	PB (x)	0.7	0.6	0.7	0.6	0.6
Gross profit	1,597.7	1,793.8	734.3	1,274.1	1,216.1	EV/EBITDA (x)	5.0	5.6	22.6	8.3	7.3
Gross Margin (%)	30.2	26.1	13.2	24.0	25.9	FCF yield (%)	-117.0	-33.2	32.9	12.3	25.5
EBITDA (Adj)	1,297.7	1,519.2	374.2	860.3	839.9	Dividend yield (%)	2.2	0	0	5.0	5.8
EBITDA Margin (Adj) (%)	24.5	22.1	6.7	16.2	17.9	Payout ratio (%)	8	0	0	57	51
Depreciation	-25.0	-37.2	-69.1	-85.1	-85.1	ROE (%)	21.5	14.3	-3.3	5.5	6.8
Amortisation	0	0	0	0	0	Cashflow (R\$m)					
EBIT (Adj)	950.0	907.4	-73.5	568.3	565.1	EBITDA	975.0	944.6	-4.5	653.3	650.1
EBIT Margin (Adj) (%)	17.9	13.2	-1.3	10.7	12.0	Working capital	-5,342.9	-2,276.6	1,336.3	154.4	714.4
Net interest	20.5	-37.4	-75.3	-112.1	21.9	Other	350.8	77.3	-99.3	-180.0	-125.3
Associates	0	0	0	0	0	Operating cashflow	-4,017.2	-1,254.7	1,232.5	627.7	1,239.2
Non-op/Except	0	0	0.0	0.0	0.0	Capex	-122.6	-91.5	-59.3	-56.8	-56.8
Pre-tax profit	970.6	870.0	-148.8	456.2	587.0	Net acq/disposals	-7.7	-87.3	33.2	-6.2	39.3
Tax	-11.3	3.6	-96.3	-80.9	-82.2	Other	-658.3	120.5	-92.1	-1.5	7.7
Extraord./Min.Int./Pref.div.	-11.3	3.6	19.8	27.1	23.5	Investing cashflow	-788.6	-58.3	-118.2	-64.5	-9.8
Reported net profit	948.0	877.1	-225.2	402.4	528.3	Dividends paid	-84.5	0	0	-230.6	-270.4
Net Margin (%)	17.9	12.8	-4.0	7.6	11.2	Financing cashflow	5,525.4	1,395.5	1,261.8	107.3	-3.6
Core NPAT	948.0	877.1	-225.2	402.4	528.3	Net change in cash	719.6	82.4	2,376.1	670.5	1,225.8
Per share data						Free cashflow to s/holders	-4,139.8	-1,346.3	1,173.3	571.0	1,182.5
Reported EPS (\$)	0.93	0.75	-0.22	0.30	0.39						
Core EPS (\$)	0.93	0.75	-0.22	0.30	0.39						
DPS (\$)	0.08	0	0	0.17	0.20						
CFPS (\$)	-3.93	-1.07	1.19	0.47	0.93						
FCFPS (\$)	-4.05	-1.15	1.14	0.43	0.88						
BVPS (\$)	5.32	5.80	5.25	5.64	6.04						
Wtd avg ord shares (m)	1,023	1,173	1,031	1,340	1,340						
Wtd avg diluted shares (m)	1,023	1,173	1,031	1,340	1,340						
Growth rates											
Sales revenue (%)	167.0	29.8	-18.8	-4.9	-11.4						
EBIT (Adj) (%)	173.9	-4.5	-108.1	872.9	-0.6						
Core NPAT (%)	149.7	-7.5	-125.7	278.7	31.3						
Core EPS (%)	51.4	-19.3	-129.2	237.6	31.3						
Balance Sheet (R\$m)											
Cash & cash equiv.	1,786.7	1,722.3	4,064.9	4,776.6	4,053.1						
Accounts receivables	6,892.8	8,889.2	7,976.2	7,758.9	7,234.1						
Inventory	3,316.8	3,706.2	3,281.6	3,227.3	2,865.2						
Net fixed & other tangibles	1,796.3	1,523.5	1,500.6	1,510.6	1,347.4						
Goodwill & intangibles	827.2	669.5	619.9	534.8	449.7						
Financial & other assets	766.5	742.3	747.1	765.2	704.6						
Total assets	15,386.4	17,253.1	18,190.3	18,573.4	16,654.2						
Accounts payable	411.6	445.1	636.7	650.1	582.9						
Short-term debt	1,626.6	1,872.5	1,567.9	1,567.9	1,567.9						
Long-term debt	3,171.7	4,782.4	5,452.7	5,452.7	3,452.7						
Provisions & other liab	4,211.7	3,716.2	3,503.6	3,349.4	2,968.6						
Total liabilities	9,421.6	10,816.2	11,160.9	11,020.0	8,572.1						
Shareholders' equity	5,887.7	6,419.8	7,032.9	7,557.0	8,085.3						
Minority interests	77.2	17.1	-3.5	-3.6	-3.2						
Total equity	5,964.8	6,436.9	7,029.4	7,553.4	8,082.1						
Net debt	3,011.5	4,932.7	2,955.6	2,244.0	967.5						
Net debt to equity (%)	50.5	76.6	42.0	29.7	12.0						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click [here](#).

PDG Realty

Company description

PDG Realty is one of Brazil's leading residential real estate companies, focused primarily on the affordable housing sector. The company also has stake holdings in operations in luxury residential, commercial property and real estate brokerage and finance. PDG is headquartered in Rio de Janeiro and its holdings have operations in 65 cities in 11 states in Brazil as well as in Argentina. Residential revenues represent approx. 95% of sales and the company's residential product lines range in price from less than R\$100k to well over R\$500k per home.

Investment strategy

We rate the shares of PDG Realty Buy/High Risk (1H). We believe the homebuilding industry in Brazil represents a compelling growth investment opportunity, led by a favorable demographic profile, strong pent-up demand for housing and growing access to affordable mortgage credit. While the company's profitability has suffered in recent periods, primarily as a consequence of trying to grow too fast, we believe the share valuation below 1.0x P/BV excessively discounts the risk of impairment to book value.

Valuation

Our 12-month TP for PDG Realty of R\$4.90 is based on a P/BV of 1.0x, derived using a long-run average ROE of 14.5%, a CoE of 14.5% and stabilized growth of 5%. With ROE equaling the cost of equity, we assume that returns should not be inferior to the cost of capital. Also, this rate more accurately reflects true profitability and stabilized future ROE than peak levels of 19% in 2010 or the present ROE of -3.3%, which has suffered significantly from the cumulative effect of cost overruns in the construction cycle (2-3 years).

Risks

We rate PDG Realty High Risk because of a relatively short industry track record for mortgage credit and publicly-traded homebuilders in Brazil, low investor confidence in percentage of completion accounting, frequent earnings disappointments, exceptionally high share price volatility, high balance sheet leverage, corporate governance concerns and a potential substantial capital increase in the near future.

Key industry risks include credit accessibility, including the reliance on government regulations which obligate specified levels of mortgage lending, as well as the potential for oversupply in homes in select markets and price points. Additional downside risks specific to PDG Realty relate to corporate governance, recent disappointing financial control and reporting and mismanagement of investor expectations. The company's private-equity-like business model, which introduces an additional level of management to formerly privately-held portfolio companies that are responsible for the operational execution can be an asset or a liability. Outcome of a pending substantial combined 35% capital increase (upfront rights issue and warrant issue) is also a risk. Upside risks primarily include a recovery of profitability and restoration of investor confidence.

If the impact from these risk factors turns out to be greater/less than we anticipate, the shares could fail to achieve our target price.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy/High Risk	1H
Price (26 Oct 12)	R\$10.60
Target price	R\$13.60
from R\$13.20	
Expected share price return	28.3%
Expected dividend yield	3.4%
Expected total return	31.7%
Market Cap	R\$5,117M
	US\$2,524M

Price Performance (RIC: MRVE3.SA, BB: MRVE3 BZ)



MRV Engenharia e Particip (MRVE3.SA) Attractive valuation, superior profitability – maintain Buy

- **Continued superior profitability warrants a premium** — Despite moderately lowering our estimates due to added cost pressures in 2012 and a slower than expected launch/sales pace, our 12M PT for MRVE3 inches higher to R\$13.6 (from R\$13.2) based on equity accrual in 2Q12 and our unchanged target P/BV of 1.6x. With an ETR of 32%, we reiterate our Buy (1H) rating on the recent pullback in shares.
- **Estimates lowered to reflect slower sales, higher costs** — We revise our revenue estimates due to slower than anticipated sales in 9M12 and lower our EBITDA margins further to reflect increased costs associated with the company's new quality assurance program, which is designed to help smooth home titling & collections. Accordingly, we lower our EPS estimates by 20%, 16% and 13% in 2012E-2014E, respectively. Our revised estimates are in line with consensus.
- **Lagging launches make 2012 sales guidance look challenging** — In 9M12 MRV accomplished only 62% of the lower range of its sales guidance (R\$4.5- R\$5.5 bn). We attribute this performance partially to lower launches volume in 3Q, but it will make reaching guidance a stretch in 4Q. Therefore, we factor contracted sales of R\$4.4 bn into our model for 2012, slightly below the low-end of the company's range.
- **'MCMV' program enhancements contribute to sentiment** — In October, the FGTS board announced increases to ceiling prices, subsidies and income brackets eligible for the 'Minha Casa Minha Vida' program. Currently, 75% of MRV's revenues qualify for the program and landbank eligibility has increased from 79% to 97% on the larger addressable market. Continued strong government support remains a positive for MRV, as margins stand to benefit from increased price caps and projects developed under the MCMV program have a better cash flow profile.

Estimates	2011A	2012E	2013E	2014E	Q112A	Q212A	Q312E	Q412E
Sales (R\$M)	4,015	4,441	4,850	5,262	1,007	1,091	1,273	1,070
EBITDA adj (R\$M)	1,045	875	1,002	1,160	154	178	271	256
EBITDA margin adj (%)	26.0	19.7	20.7	22.1	15.3	16.3	21.3	23.9
Net income adj (R\$M)	760	657	745	887	116	145	204	188
EPS (R\$)	1.58	1.36	1.54	1.84	0.24	0.30	0.42	0.39
Valuation	Ratios				2011A			
EV/EBITDA adj	6.3	8.2	7.3	6.4	ROE adj (%)	24.1	16.7	
PE	6.7	7.8	6.9	5.8	ROIC adj (%)	15.7	11.6	
FCF (%)	-22.9	-8.7	2.1	1.5	Debt to Capital (%)	42.2	41.1	

Source: Company Reports and dataCentral, Citi Research.

MRVE3.SA: Fiscal year end 31-Dec						Price: R\$10.60; TP: R\$13.60; Market Cap: R\$5,117m; Recomm: Buy/High Risk					
Profit & Loss (R\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	3,021	4,015	4,441	4,850	5,262	PE (x)	8.1	6.7	7.8	6.9	5.8
Cost of sales	-2,044	-2,768	-3,111	-3,386	-3,626	PB (x)	1.8	1.5	1.1	1.0	0.9
Gross profit	977	1,247	1,330	1,465	1,637	EV/EBITDA (x)	8.0	6.3	8.2	7.3	6.4
Gross Margin (%)	32.3	31.1	29.9	30.2	31.1	FCF yield (%)	-26.5	-22.9	-8.7	2.1	1.5
EBITDA (Adj)	719	1,045	875	1,002	1,160	Dividend yield (%)	3.4	3.9	3.4	3.9	4.7
EBITDA Margin (Adj) (%)	23.8	26.0	19.7	20.7	22.1	Payout ratio (%)	27	26	27	27	27
Depreciation	-14	-19	-22	-24	-26	ROE (%)	24.1	24.1	16.7	15.8	16.7
Amortisation	0	0	0	0	0	Cashflow (R\$m)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	670	893	852	977	1,134	EBITDA	684	912	875	1,002	1,160
EBIT Margin (Adj) (%)	22.2	22.2	19.2	20.2	21.6	Working capital	-1,664	-1,575	-1,101	-502	-667
Net interest	91	-14	-47	-100	-93	Other	5	-77	-136	-204	-216
Associates	0	0	0	0	0	Operating cashflow	-975	-740	-362	296	278
Non-op/Except	0	23	8	0	0	Capex	-380	-431	-83	-187	-203
Pre-tax profit	760	902	813	877	1,041	Net acq/disposals	119	119	0	0	0
Tax	-85	-86	-96	-104	-123	Other	38	38	0	0	0
Extraord./Min.Int./Pref.div.	-41	-56	-60	-29	-32	Investing cashflow	-223	-274	-83	-187	-203
Reported net profit	634	760	657	745	887	Dividends paid	0	0	0	-152	0
Net Margin (%)	21.0	18.9	14.8	15.4	16.8	Financing cashflow	1,508	1,288	995	-261	-75
Core NPAT	634	760	657	745	887	Net change in cash	310	274	549	-152	0
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	-1,356	-1,171	-445	109	75
Reported EPS (\$)	1.32	1.58	1.36	1.54	1.84						
Core EPS (\$)	1.32	1.58	1.36	1.54	1.84						
DPS (\$)	0.36	0.42	0.36	0.42	0.50						
CFPS (\$)	-2.02	-1.53	-0.75	0.61	0.58						
FCFPS (\$)	-2.81	-2.43	-0.92	0.23	0.16						
BVPS (\$)	5.97	7.10	9.22	10.35	11.70						
Wtd avg ord shares (m)	482	482	482	482	482						
Wtd avg diluted shares (m)	482	482	482	482	482						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	83.4	32.9	10.6	9.2	8.5						
EBIT (Adj) (%)	74.3	33.3	-4.6	14.7	16.0						
Core NPAT (%)	82.6	19.8	-13.6	13.4	19.1						
Core EPS (%)	68.5	19.8	-13.6	13.4	19.1						
Balance Sheet (R\$m)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	1,167	1,117	1,666	1,666	1,666						
Accounts receivables	1,955	2,858	3,081	2,923	2,871						
Inventory	1,361	1,856	2,389	2,663	2,932						
Net fixed & other tangibles	2,206	3,162	3,706	4,420	5,225						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	102	168	187	204	221						
Total assets	6,791	9,161	11,029	11,876	12,915						
Accounts payable	228	250	254	285	329						
Short-term debt	545	532	532	532	532						
Long-term debt	1,395	2,144	2,783	2,885	3,058						
Provisions & other liab	1,572	2,565	2,709	2,848	2,988						
Total liabilities	3,739	5,491	6,278	6,551	6,907						
Shareholders' equity	2,875	3,423	4,444	4,989	5,641						
Minority interests	178	247	307	336	368						
Total equity	3,053	3,670	4,751	5,325	6,008						
Net debt	772	1,559	1,649	1,750	1,923						
Net debt to equity (%)	25.3	42.5	34.7	32.9	32.0						

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MRV Engenharia e Participações

Company description

MRV Engenharia is one of Brazil's leading residential construction companies, focused exclusively on the affordable housing sector. The company is headquartered in the State of Minas Gerais and operates in over 74 cities in 13 states. The company's product range includes three lines directed to low-income customers: Parque line, Spazio line and Village line ranging in price from less than R\$100k to about R\$220k per home.

Investment strategy

We believe the homebuilding industry in Brazil represents a compelling growth investment opportunity, led by a favorable demographic profile, strong pent-up demand for housing and growing access to affordable mortgage credit. Moreover, we believe MRV is uniquely positioned with its exclusive focus on affordable housing to capitalize on growth within the sector in Brazil. With industry-leading profitability and superior track record of management execution, we rate the shares Buy/High Risk (1H).

Valuation

Our 12-month TP for MRV Engenharia of R\$13.60 is based on a P/BV of 1.6x, derived using a long-run average ROE of 20%, a CoE of 14.5% and stabilized growth of 5%. The 20% ROE was achieved by the company over the last 3 years, which we believe more accurately reflects true profitability and stabilized future ROE than peak levels of 23% in 2010 and the '12 ROE of 17%.

Risks

We assign MRV a risk rating of High (H) because of a relatively short industry track record for mortgage credit and publicly-traded homebuilders in Brazil, low investor confidence in percentage of completion accounting, recurring earnings disappointments and exceptionally high share price volatility.

Key industry risks include credit accessibility, including the reliance on government regulations which obligate specified levels of mortgage lending, as well as the potential for oversupply in homes in select markets and price points. Downside risks specific to MRV include the company's ambitious growth plans and limited operating track record executing such aggressive growth, expansion into new operating regions and high net working capital requirements resulting in negative free cash flow. Upside risks primarily include greater than anticipated top-line growth.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral/High Risk	2H
Price (26 Oct 12)	R\$4.54
Target price	R\$4.80
	from R\$6.40
Expected share price return	5.7%
Expected dividend yield	6.6%
Expected total return	12.3%
Market Cap	R\$1,256M
	US\$620M

Price Performance (RIC: RSID3.SA, BB: RSID3 BZ)



Rossi Residencial (RSID3.SA)

Restated financials reflect chronic low profitability; Neutral

- **Maintain Neutral as dilution from outsized capital increase progresses** — With recent restatement of prior year financials demonstrating a continued pattern of below-average profitability as well as uniquely aggressive accounting practices in an industry already suffering from low confidence in earnings, we maintain our Neutral (2H) rating on RSID3 despite a seemingly low P/BV multiple. Our 12M PT of R\$4.80 is calculated over a target P/BV of 0.7x, implying 12% ETR.
- **Estimates reduced to reflect restated financials, lower profitability** — We revise our estimates to incorporate the late release of 2Q12 earnings and financial restatements back to 2009 as well as dilution from the capital increase underway. Our 2012E-14E EBITDA is revised up given the substantial transference of costs to restated past financials; however, we still lower our EPS by 30-40% due to both earnings and dilution. Our EPS estimates are now well below consensus (IBES) by 29%, 31% and 36% in 2012E-14E, respectively.
- **Large-scale, dilutive capital increase factored into our estimates** — On October 22nd, Rossi announced a R\$600 mn rights offering at a discount R\$4.00/shr to be completed in 4Q12. The 57% increase in shares takes a substantial toll on earnings and book value per share. The operation, however, will help reduce leverage from 167% net debt/equity as of 2Q12 to an estimated 93% as of 4Q12

Estimates	2011A	2012E	2013E	2014E	Q112A	Q212A	Q312E	Q412E
Sales (R\$M)	2,837	3,172	3,175	3,288	831	795	789	756
EBITDA adj (R\$M)	380	620	626	658	155	166	156	174
EBITDA margin adj (%)	13.4	19.5	19.7	20.0	18.7	20.9	19.8	23.0
Net income adj (R\$M)	79	197	279	326	63	51	45	38
EPS (R\$)	0.29	0.58	0.67	0.78	0.23	0.19	0.17	0.11
Valuation	Ratios				2011A		2012E	
EV/EBITDA adj	9.3	6.4	6.0	5.5	ROE adj (%)	4.0	8.3	
PE	15.4	7.9	6.8	5.8	ROIC adj (%)	1.5	5.6	
FCF (%)	-73.2	-21.3	1.5	10.5	Debt to Capital (%)	65.9	61.7	

Source: Company Reports and dataCentral, Citi Research.

RSID3.SA: Fiscal year end 31-Dec						Price: R\$4.54; TP: R\$4.80; Market Cap: R\$1,256m; Recomm: Neutral/High Risk					
Profit & Loss (R\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	2,349	2,837	3,172	3,175	3,288	PE (x)	6.7	15.4	7.9	6.8	5.8
Cost of sales	-1,723	-2,152	-2,250	-2,246	-2,325	PB (x)	0.6	0.6	0.7	0.6	0.6
Gross profit	626	685	922	930	963	EV/EBITDA (x)	6.0	9.3	6.4	6.0	5.5
Gross Margin (%)	26.7	24.1	29.1	29.3	29.3	FCF yield (%)	-114.2	-73.2	-21.3	1.5	10.5
EBITDA (Adj)	370	380	620	626	658	Dividend yield (%)	4.3	6.8	6.6	2.6	7.4
EBITDA Margin (Adj) (%)	15.7	13.4	19.5	19.7	20.0	Payout ratio (%)	29	105	52	18	43
Depreciation	-10	-6	-18	0	0	ROE (%)	9.4	4.0	8.3	9.7	10.2
Amortisation	0	0	0	0	0	Cashflow (R\$m)					
EBIT (Adj)	206	150	408	436	547	EBITDA	216	157	427	436	547
EBIT Margin (Adj) (%)	8.8	5.3	12.9	13.7	16.6	Working capital	-1,539	-931	-444	-85	48
Net interest	55	16	-102	-107	-147	Other	-25	-72	-211	-157	-221
Associates	0	0	0	0	0	Operating cashflow	-1,348	-846	-228	194	374
Non-op/Except	0	0	0	0	-16	Capex	-33	-42	-103	-166	-176
Pre-tax profit	262	166	306	328	383	Net acq/disposals	0	0	0	0	0
Tax	-76	-83	-109	-49	-57	Other	-2	-51	23	0	-1
Extraord./Min.Int./Pref.div.	-4	-5	0	0	0	Investing cashflow	-36	-93	-80	-166	-177
Reported net profit	181	79	197	279	326	Dividends paid	0	-2	-31	0	0
Net Margin (%)	7.7	2.8	6.2	8.8	9.9	Financing cashflow	851	1,496	1,194	90	23
Core NPAT	181	79	197	279	326	Net change in cash	-532	556	886	118	220
Per share data						Free cashflow to s/holders					
Reported EPS (\$)	0.68	0.29	0.58	0.67	0.78		-1,381	-888	-331	28	198
Core EPS (\$)	0.68	0.29	0.58	0.67	0.78						
DPS (\$)	0.19	0.31	0.30	0.12	0.34						
CFPS (\$)	-5.06	-3.16	-0.67	0.47	0.90						
FCFPS (\$)	-5.18	-3.32	-0.97	0.07	0.48						
BVPS (\$)	7.45	7.40	6.63	7.30	8.09						
Wtd avg ord shares (m)	266	267	342	415	415						
Wtd avg diluted shares (m)	266	267	342	415	415						
Growth rates											
Sales revenue (%)	70.1	20.8	11.8	0.1	3.5						
EBIT (Adj) (%)	806.9	-27.2	171.6	6.7	25.4						
Core NPAT (%)	nm	-56.6	150.7	41.6	16.7						
Core EPS (%)	nm	-56.8	96.1	16.5	16.7						
Balance Sheet (R\$m)											
Cash & cash equiv.	444	1,001	1,887	2,005	2,225						
Accounts receivables	1,923	2,342	2,643	2,426	2,283						
Inventory	1,050	1,606	1,788	1,799	1,863						
Net fixed & other tangibles	1,380	1,569	1,629	2,417	2,651						
Goodwill & intangibles	7	58	35	35	36						
Financial & other assets	310	559	753	753	753						
Total assets	5,114	7,134	8,734	9,434	9,811						
Accounts payable	426	551	843	1,017	1,030						
Short-term debt	781	1,352	1,650	1,650	1,650						
Long-term debt	1,330	2,486	2,788	2,789	2,792						
Provisions & other liab	593	762	700	946	981						
Total liabilities	3,130	5,150	5,981	6,402	6,453						
Shareholders' equity	1,984	1,985	2,753	3,032	3,358						
Minority interests	0	0	0	0	0						
Total equity	1,984	1,985	2,753	3,032	3,358						
Net debt	1,666	2,837	2,551	2,434	2,217						
Net debt to equity (%)	84.0	142.9	92.7	80.3	66.0						

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Rossi Residencial

Company description

Rossi is one of Brazil's leading residential real estate companies, with a diversified range of products spanning a full spectrum of price ranges from luxury homes to affordable housing. Rossi homes range in price from less than R\$100k to more than R\$500k. The company was an early entrant into the affordable housing segment in 1992 with its Plano 100 product which offered builder financing for affordable homes. Rossi is headquartered in the State of Sao Paulo and operates in 63 cities in 12 states in Brazil.

Investment strategy

Our recommendation on Rossi is Neutral/High Risk (2H). We believe the homebuilding industry in Brazil represents a compelling growth investment opportunity, led by a favorable demographic profile, strong pent-up demand for housing, and growing access to affordable mortgage credit. While RSID3's heavily discounted P/BV may still afford material upside potential, we think investors should maintain a Neutral stance amid considerable uncertainty.

Valuation

Our 12-month TP for Rossi of R\$4.80 is based on a target P/BV of 0.7x, derived using a long-run average ROE of 12%, a CoE of 14.5% and stabilized growth of 5%. After the restatement of financials from 2009-2Q12, we identified an upward trend in ROE, and in our view 12% more accurately reflects true profitability and stabilized future ROE than past average of 5% or the present ROE of 11%.

Risks

We have assigned Rossi a risk rating of High (H) because of a relatively short industry track record for mortgage credit and publicly-traded homebuilders in Brazil, low investor confidence in percentage of completion accounting, frequent earnings disappointments and exceptionally high share price volatility.

Key industry risks include credit accessibility, including the reliance on government regulations that obligate specified levels of mortgage lending, as well as the potential for oversupply in homes in select markets and price points.

Upside/downside risks specific to Rossi include the company's historical track record of subpar operational execution, below average profit margins and material negative earnings surprises and a number of capital structure and debt covenant negotiations underway. Upside risks primarily include better than anticipated profitability and top-line growth.

If the impact from these risk factors turns out to be greater/less than we anticipate, the shares could fail to achieve our target price.

Company Focus

- Company Update
- Estimate Change

Sell/High Risk	3H
Price (26 Oct 12)	R\$17.20
Target price	R\$14.40
Expected share price return	-16.3%
Expected dividend yield	1.6%
Expected total return	-14.7%
Market Cap	R\$7,167M
	US\$3,536M

Price Performance (RIC: CYRE3.SA, BB: CYRE3 BZ)



Cyrela Brazil Realty (CYRE3.SA) Improving results more than fairly priced; maintain Sell

- **We maintain our Sell rating mostly on rich valuation** — Our target price for Cyrela remains R\$14.40, implying 16% downside and is calculated over a target P/BV of 1.2x. In our view, the good momentum on margin improvement and cash generation is more than fairly priced at the current premium valuation of 1.4x P/BV, above the industry average of 0.9x.
- **Reduced sales guidance on tough approvals environment** — The company recently reduced sales guidance to the range of R\$ 6.0 bn to R\$7.0 bn (from previous R\$6.9 bn to R\$8.0 bn), on the more challenging than usual approval processes, particularly in main metropolitan regions such as São Paulo and Rio de Janeiro, both accounting for a relevant portion of Cyrela's launches.
- **Fine-tuning estimates, factoring in lower growth ahead** — We update our models with 2Q12 results and new sales guidance recently announced. While the impact on our 2012 estimates is less relevant, we reduce our EPS for 2013E and 2014E by 11% and 31%, respectively. Despite considering a gradual improvement in margins as Cyrela phases out lower-margin projects, our estimates are materially more conservative than consensus.

Estimates	2011A	2012E	2013E	2014E	Q112A	Q212A	Q312E	Q412E
Sales (R\$M)	6,127	6,439	6,548	5,606	1,443	1,478	1,751	1,768
EBITDA adj (R\$M)	1,039	1,273	1,318	1,156	254	263	384	372
EBITDA margin adj (%)	17.0	19.8	20.1	20.6	17.6	17.8	21.9	21.0
Net income adj (R\$M)	498	668	616	545	118	143	209	198
EPS (R\$)	1.18	1.58	1.46	1.29	0.28	0.34	0.49	0.47
Valuation					Ratios		2011A	2012E
EV/EBITDA adj	9.7	8.2	7.9	8.6	ROE adj (%)		11.2	13.6
PE	14.6	10.9	11.8	13.4	ROIC adj (%)		6.7	7.7
FCF (%)	-8.4	11.7	4.9	16.0	Debt to Capital (%)		48.2	44.2

Source: Company Reports and dataCentral, Citi Research.

CYRE3.SA: Fiscal year end 31-Dec						Price: R\$17.20; TP: R\$14.40; Market Cap: R\$7,167m; Recomm: Sell/High Risk					
Profit & Loss (R\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	4,890	6,127	6,439	6,548	5,606	PE (x)	12.1	14.6	10.9	11.8	13.4
Cost of sales	-3,353	-4,393	-4,473	-4,492	-3,807	PB (x)	1.7	1.6	1.4	1.3	1.2
Gross profit	1,537	1,733	1,966	2,057	1,798	EV/EBITDA (x)	11.2	9.7	8.2	7.9	8.6
Gross Margin (%)	31.4	28.3	30.5	31.4	32.1	FCF yield (%)	-25.6	-8.4	11.7	4.9	16.0
EBITDA (Adj)	808	1,039	1,273	1,318	1,156	Dividend yield (%)	5.5	2.0	1.6	0	0
EBITDA Margin (Adj) (%)	16.5	17.0	19.8	20.1	20.6	Payout ratio (%)	66	29	18	0	0
Depreciation	-9	-18	-21	-21	-18	ROE (%)	14.7	11.2	13.6	11.2	9.4
Amortisation	-51	-19	-4	-7	-6	Cashflow (R\$m)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	762	731	971	1,026	907	EBITDA	822	768	996	1,054	930
EBIT Margin (Adj) (%)	15.6	11.9	15.1	15.7	16.2	Working capital	-2,580	-1,201	35	-395	507
Net interest	65	50	52	-77	-69	Other	-55	-129	-180	-289	-256
Associates	0	0	0	0	0	Operating cashflow	-1,814	-562	851	370	1,181
Non-op/Except	-14	0	0	0	0	Capex	-44	-46	-1	-16	-16
Pre-tax profit	814	780	1,024	949	837	Net acq/disposals	0	0	0	0	0
Tax	-129	-188	-287	-268	-237	Other	-27	-17	2	0	0
Extraord./Min.Int./Pref.div.	-85	-94	-68	-65	-56	Investing cashflow	-72	-62	2	-16	-16
Reported net profit	600	498	668	616	545	Dividends paid	-56	-25	0	0	0
Net Margin (%)	12.3	8.1	10.4	9.4	9.7	Financing cashflow	563	591	231	-151	-287
Core NPAT	600	498	668	616	545	Net change in cash	-1,322	-34	1,083	203	878
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	-1,858	-608	850	354	1,165
Reported EPS (\$)	1.42	1.18	1.58	1.46	1.29						
Core EPS (\$)	1.42	1.18	1.58	1.46	1.29						
DPS (\$)	0.94	0.34	0.28	0	0						
CFPS (\$)	-4.29	-1.33	2.01	0.87	2.79						
FCFPS (\$)	-4.40	-1.44	2.01	0.84	2.75						
BVPS (\$)	10.23	10.74	12.42	13.47	14.00						
Wtd avg ord shares (m)	423	423	423	423	423						
Wtd avg diluted shares (m)	423	423	423	423	423						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	19.6	25.3	5.1	1.7	-14.4						
EBIT (Adj) (%)	-22.7	-4.1	32.9	5.7	-11.7						
Core NPAT (%)	-17.7	-17.0	34.1	-7.8	-11.5						
Core EPS (%)	-24.3	-17.1	34.1	-7.8	-11.5						
Balance Sheet (R\$m)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	850	858	1,423	1,562	2,518						
Accounts receivables	3,891	4,660	4,114	4,002	3,893						
Inventory	3,077	3,024	3,884	4,292	3,638						
Net fixed & other tangibles	3,542	3,346	4,261	3,924	3,323						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	684	1,529	591	564	488						
Total assets	12,043	13,417	14,272	14,345	13,861						
Accounts payable	529	752	695	955	767						
Short-term debt	878	1,143	1,331	1,331	1,331						
Long-term debt	2,555	3,445	3,135	3,135	3,135						
Provisions & other liab	3,399	3,154	3,479	2,783	2,203						
Total liabilities	7,361	8,494	8,641	8,205	7,437						
Shareholders' equity	4,326	4,545	5,253	5,696	5,924						
Minority interests	355	378	379	444	500						
Total equity	4,682	4,923	5,632	6,140	6,424						
Net debt	2,583	3,730	3,043	2,904	1,948						
Net debt to equity (%)	55.2	75.8	54.0	47.3	30.3						

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Cyrela Brazil Realty

Company description

Cyrela Brazil Realty is Brazil's largest residential real estate company, with a diversified range of products spanning a full spectrum of price ranges from luxury homes to affordable housing. Traditionally focused on the high end, Cyrela created the brand "Living" in 2006 to attend the affordable housing market, which now represents about 25% of sales. The company is headquartered in the State of Sao Paulo and operates in over 55 cities in 17 states in Brazil as well as in Argentina.

Investment strategy

Our recommendation on Cyrela is Sell/High Risk (3H). We believe the homebuilding industry in Brazil represents a compelling growth investment opportunity, led by a favorable demographic profile, strong pent-up demand for housing, and growing access to affordable mortgage credit. While we view Cyrela as one of the industry leaders in real estate in Brazil, we believe the current share price more than fully reflects an appropriate risk/reward trade-off for investors.

Valuation

Our 12-month PT for Cyrela of R\$14.40 is based on a P/BV of 1.2x, derived using a long-run average ROE of 16%, a CoE of 14.5% and stabilized growth of 5%. The 16% ROE represents the average achieved by the company over the last 3 years and we believe more accurately reflects true profitability and stabilized future ROE than peak levels of 25% in 2010 or the present ROE of 12%, which reflects the cumulative effect of cost overruns in the construction cycle which lasts 2-3 years on average.

Risks

We have assigned Cyrela a risk rating of High (H) because of a relatively short industry track record for mortgage credit and publicly-traded homebuilders in Brazil, low investor confidence in percentage of completion accounting, frequent earnings disappointments and exceptionally high share price volatility.

Key industry risks include credit accessibility, including the reliance on government regulations that obligate specified levels of mortgage lending, as well as the potential for oversupply in homes in select markets and price points. Upside/downside risks specific to Cyrela include management's ability to execute its growth strategy, managing their extensive partnerships and the ability to execute its low income strategy with the 'Living' low income brand. Other potential upside risks include higher-than anticipated growth and recovery in profitability.

If the impact from these risk factors turns out to be greater/less than we anticipate, the shares could fail to achieve our target price.

Figure 15. Latam multiples comparison sheet
EV/EBITDA, PE and PBV

27-Oct-12							EV/EBITDA (x)*			P/E (x)*			P/BV (x)*			Div
Company	Ticker	Rating	Price (Ild \$)	Target Price	Upside (%)	Mkt Cap (US\$)	2011A	2012E	2013E	2011A	2012E	2013E	2011A	2012E	2013E	yld (%)* 2012E
BRAZIL						41,387	15.8x	14.6x	10.9x	26.6x	24.3x	15.2x	2.0x	1.9x	1.7x	1.7%
Homebuilders						9,776	6.0x	11.5x	7.8x	8.9x	12.7x	9.9x	1.2x	1.0x	1.0x	1.9%
Cyrela Brazil Realty	CYRE3.SA	3H	17.2	14.4	-16%	3,536	9.7x	8.2x	7.9x	14.6x	10.9x	11.8x	1.6x	1.4x	1.3x	1.6%
PDG Realty	PDGR3.SA	1H	3.5	4.9	42%	2,287	5.6x	22.6x	8.3x	4.6x	-15.8x	11.5x	0.6x	0.7x	0.6x	0.0%
MRV Engenharia e Particip	MRVE3.SA	1H	10.6	13.6	28%	2,524	6.3x	8.2x	7.3x	6.7x	7.8x	6.9x	1.5x	1.1x	1.0x	3.4%
Rossi Residencial	RSID3.SA	2H	4.5	4.8	6%	620	9.3x	6.4x	6.0x	15.4x	7.9x	6.8x	0.6x	0.7x	0.6x	6.6%
Gafisa, S.A.	GFA3.SA	2H	3.8	4.6	21%	809	-13.0x	8.6x	8.3x	-1.7x	120.0x	8.8x	0.6x	0.6x	0.6x	0.0%
Brookfield	BISA3.SA	n/a	3.6	n/a	n/a	1,011	7.5x	28.7x	8.0x	4.8x	-12.5x	6.6x	0.5x	0.6x	0.6x	5.9%
Even	EVEN3.SA	n/a	7.7	n/a	n/a	884	7.7x	7.8x	6.6x	7.9x	8.1x	6.7x	1.1x	1.0x	0.9x	3.0%
Tecnisa	TCSA3.SA	n/a	8.1	n/a	n/a	743	8.1x	10.0x	6.4x	5.2x	20.8x	5.1x	1.0x	1.0x	0.8x	3.7%
JHSF Participacoes SA	JHSF3.SA	n/a	8.4	n/a	n/a	1,775	12.9x	13.7x	11.0x	16.2x	19.7x	16.5x	3.1x	2.8x	2.4x	2.3%
Rodobens Negocios Imobiliarios SA	RDN3.SA	n/a	13.1	n/a	n/a	314	9.2x	6.5x	6.0x	10.9x	7.3x	7.6x	n/a	n/a	n/a	n/a
Viver Incorporadora e Construtora SA	VIVR3.SA	n/a	1.2	n/a	n/a	202	11.4x	n/a	n/a	-31.3x	-67.8x	9.0x	0.4x	0.3x	0.3x	0.0%
Direcional	DIRR3.SA	n/a	12.4	n/a	n/a	950	8.4x	6.9x	5.6x	9.7x	8.2x	6.9x	1.7x	1.4x	1.2x	2.2%
Trisul SA	TRIS3.SA	n/a	2.4	n/a	n/a	98	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Helbor Empreendimentos SA	HBOR3.SA	n/a	11.2	n/a	n/a	1,077	10.6x	8.2x	6.9x	10.2x	8.6x	7.5x	2.6x	2.2x	1.9x	3.2%
EZ Tec	EZTC3.SA	n/a	26.1	n/a	n/a	1,887	12.4x	10.3x	6.9x	11.6x	10.5x	6.7x	2.7x	2.3x	1.8x	2.0%
Cr2 Empreendimentos Imobiliarios SA	CRDE3.SA	n/a	4.8	n/a	n/a	114	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Commercial Property						16,830	23.9x	17.9x	14.3x	44.7x	36.4x	21.0x	2.2x	2.1x	1.9x	0.8%
BR Malls	BRML3.SA	2	26.8	27	1%	5,994	22.2x	17.7x	14.6x	24.7x	14.9x	21.2x	1.8x	1.7x	1.6x	0.9%
Multipian	MULT3.SA	2	58.5	56	-4%	4,829	23.4x	18.2x	15.0x	35.2x	28.2x	22.6x	3.4x	3.3x	3.0x	0.9%
Iguatemi	IGTA3.SA	1	25.7	29	13%	2,010	17.6x	15.3x	13.6x	26.8x	22.5x	19.1x	2.6x	2.4x	2.2x	1.1%
BR Properties	BRPR3.SA	2	26.0	27	4%	3,997	30.1x	19.0x	13.3x	95.3x	85.4x	19.6x	1.3x	1.1x	1.0x	0.3%
Alianse Shopping Centers SA	ALSC3.SA	n/a	22.5	n/a	n/a	1,550	20.2x	16.6x	13.0x	31.8x	27.6x	25.7x	2.4x	2.7x	2.5x	0.8%
General Shopping Brasil SA	GSHP3.SA	n/a	10.9	n/a	n/a	270	9.1x	7.7x	6.6x	-14.7x	-17.8x	11.2x	1.6x	1.6x	1.6x	0.0%
Cyrela Commercial Properties SA Empreendimento	CCPR3.SA	n/a	26.5	n/a	n/a	1,085	n/a	17.4x	14.0x	27.7x	5.3x	4.7x	n/a	3.7x	3.3x	1.2%
Sao Carlos Empreendimentos e Participacoes SA	SCAR3.SA	n/a	44.7	n/a	n/a	1,273	18.1x	16.9x	14.0x	34.1x	28.9x	25.3x	3.5x	3.0x	2.8x	0.9%
Real Estate Brokerage																
LPS Brasil Consultoria de Imoveis SA	LPSB3.SA	n/a	35.0	n/a	n/a	986	10.7x	9.3x	6.8x	13.9x	15.8x	12.0x	4.6x	3.8x	3.2x	1.7%
Brasil Brokers Participacoes SA	BBRK3.SA	n/a	5.9	n/a	n/a	562	5.6x	5.3x	4.2x	9.9x	10.4x	8.9x	1.6x	1.5x	1.4x	2.4%
MEXICO						2,567	2.1x	-5.9x	4.4x	5.8x	5.2x	4.9x	0.7x	0.6x	0.5x	2.3%
Homebuilders						2,508	4.1x	4.0x	4.2x	6.0x	5.3x	5.3x	0.7x	0.6x	0.5x	0.4%
Homex	HOMEX.MX	1	29.4	39	33%	760	4.9x	3.3x	4.4x	7.8x	3.6x	4.9x	0.7x	0.5x	0.5x	0.0%
Urbí Desarrollos Urbanos	URBI.MX	1	8.5	11.8	39%	638	2.1x	3.5x	3.8x	3.5x	4.0x	4.3x	0.5x	0.4x	0.4x	0.0%
Corporación Geo	GEOB.MX	2	16.5	18	9%	700	4.4x	4.5x	4.3x	6.1x	6.5x	5.4x	1.0x	0.9x	0.8x	0.0%
Consorcio Ara	ARA.MX	2	4.1	4.5	10%	410	5.5x	4.9x	4.4x	6.2x	8.3x	7.6x	0.6x	0.5x	0.5x	2.3%
Sare Holding SAB de CV	SAREB.MX	n/a	1.1	n/a	n/a	60	-85.5x	-411.8x	11.9x	-6.0x	-3.6x	-18.8x	0.3x	0.2x	0.3x	0.0%
Latam overall avg							15.0x	13.4x	10.5x	25.4x	23.2x	14.6x	2.0x	1.8x	1.7x	1.7%
Brazil avg. vs. Latam avg.							5%	9%	4%	5%	5%	4%	4%	4%	4%	-2%
Mexico avg. vs. Latam avg.							-86%	-144%	-58%	-77%	-78%	-67%	-64%	-67%	-67%	36%
Homebuilders coverage avg							5.6x	9.9x	7.0x	8.3x	11.2x	9.0x	1.1x	1.0x	0.9x	1.6%
Brazil avg. vs. Latam avg.							7%	15%	10%	7%	14%	10%	9%	9%	10%	19%
Mexico avg. vs. Latam avg.							-26%	-60%	-40%	-28%	-53%	-41%	-35%	-37%	-37%	-76%

Source: Citi Research, * First Call consensus for non-rated companies

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

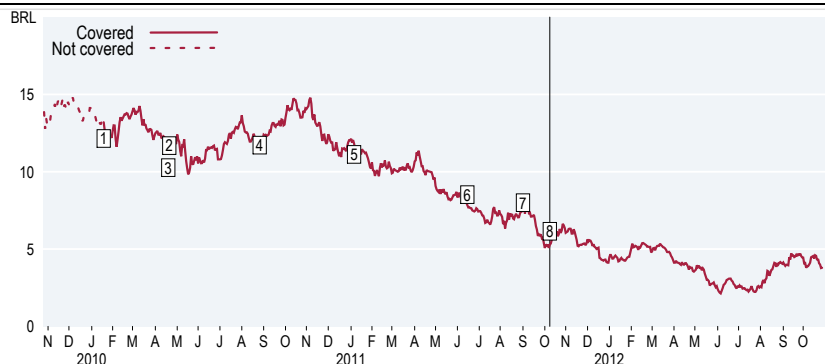
IMPORTANT DISCLOSURES

Gafisa, S.A. (GFSA3.SA)

Ratings and Target Price History

Fundamental Research

Analyst: Dan McGoe, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	19-Jan-10	2H	*15.95	13.20
2	21-Apr-10	2H	*15.90	11.99
3	20-Apr-10	2H	*15.20	11.99

* Indicates change

	Date	Rating	Target Price	Closing Price
4	26-Aug-10	*1H	*16.20	11.72
5	6-Jan-11	1H	*15.80	11.82
6	15-Jun-11	1H	*14.30	7.84

	Date	Rating	Target Price	Closing Price
7	1-Sep-11	1H	*12.90	8.00
8	8-Oct-11	Stock rating system changed		

Rating/target price changes above reflect Eastern Standard Time

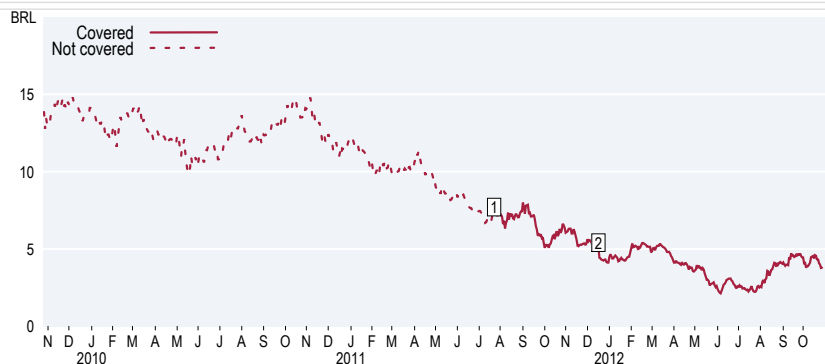
Gafisa, S.A. (GFSA3.SA)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Dan McGoe, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	22-Jul-11	*ADD MP	-	7.71

* Indicates change

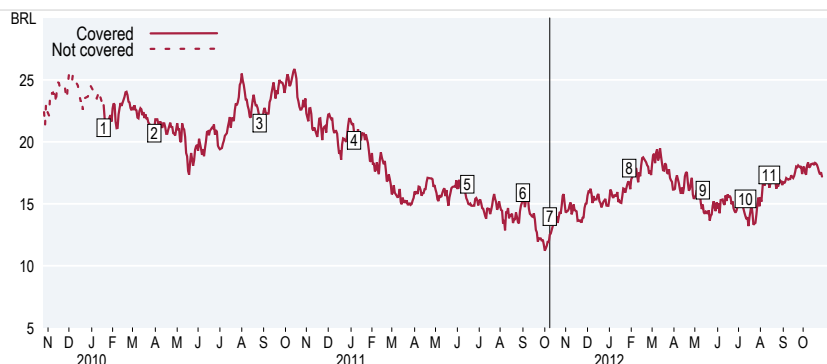
	Date	Rating	Target Price	Closing Price
2	16-Dec-11	*REM MP	-	5.09

Rating/target price changes above reflect Eastern Standard Time

Cyrela Brazil Realty (CYRE3.SA)

Ratings and Target Price History Fundamental Research

Analyst: Dan McGoe, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	19-Jan-10	*2M	*25.40	22.96
2	31-Mar-10	2M	*24.50	21.06
3	26-Aug-10	2M	*23.60	21.51
4	6-Jan-11	2M	*25.10	20.78

* Indicates change

	Date	Rating	Target Price	Closing Price
5	15-Jun-11	*2H	*22.50	15.28
6	1-Sep-11	*1H	*19.60	15.90
7	8-Oct-11	Stock rating system changed		
8	30-Jan-12	*2H	*19.00	16.69

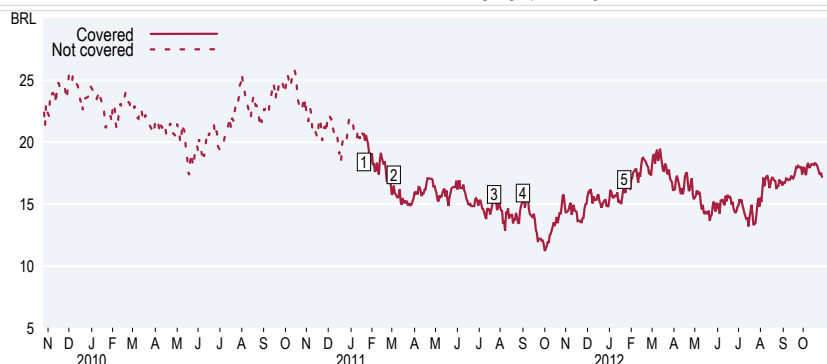
	Date	Rating	Target Price	Closing Price
9	11-May-12	2H	*18.20	14.94
10	11-Jul-12	2H	*14.40	13.99
11	14-Aug-12	*3H	14.40	16.30

Rating/target price changes above reflect Eastern Standard Time

Cyrela Brazil Realty (CYRE3.SA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Dan McGoe, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	20.65
2	3-Mar-11	*REM LP	-	16.50

* Indicates change

	Date	Rating	Target Price	Closing Price
3	22-Jul-11	*ADD LP	-	15.79
4	1-Sep-11	*REM LP	-	15.90

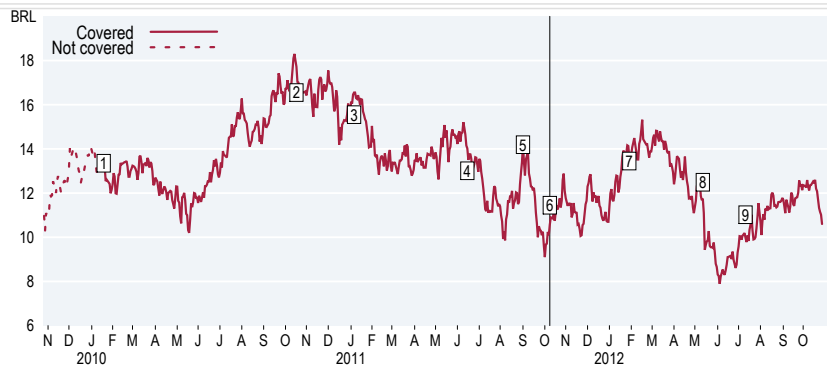
	Date	Rating	Target Price	Closing Price
5	22-Jan-12	*ADD LP	-	16.24

Rating/target price changes above reflect Eastern Standard Time

MRV Engenharia e Particip (MRVE3.SA)

Ratings and Target Price History Fundamental Research

Analyst: Dan McGoe, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	19-Jan-10	*1H	*17.80	13.35
2	18-Oct-10	*2H	17.80	17.72
3	6-Jan-11	*1H	*21.70	16.55

* Indicates change

	Date	Rating	Target Price	Closing Price
4	15-Jun-11	1H	*21.50	14.02
5	1-Sep-11	1H	*20.80	14.19
6	8-Oct-11	Stock rating system changed		

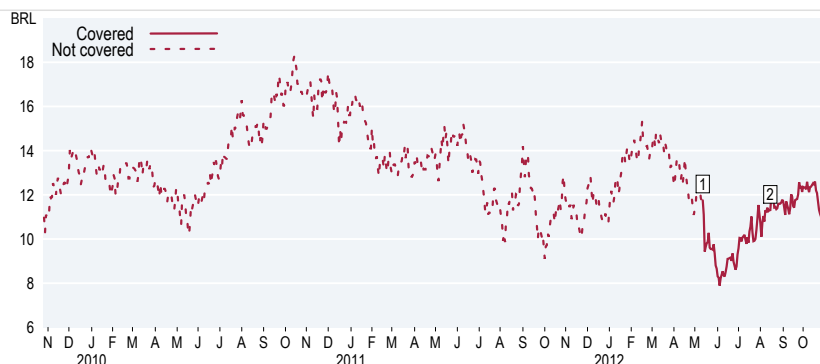
	Date	Rating	Target Price	Closing Price
7	30-Jan-12	1H	*19.70	13.64
8	11-May-12	1H	*18.00	11.75
9	11-Jul-12	1H	*13.20	9.97

Rating/target price changes above reflect Eastern Standard Time

MRV Engenharia e Particip (MRVE3.SA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Dan McGoe, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	11-May-12	*ADD MP	-	11.75

* Indicates change

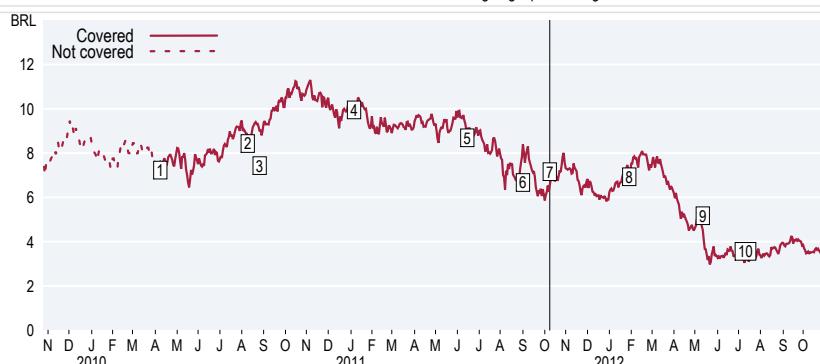
	Date	Rating	Target Price	Closing Price
2	15-Aug-12	*REM MP	-	11.31

Rating/target price changes above reflect Eastern Standard Time

PDG Realty (PDGR3.SA)

Ratings and Target Price History Fundamental Research

Analyst: Dan McGoe, CFA
Covered since April 9 2010



	Date	Rating	Target Price	Closing Price
1	8-Apr-10	*1H	*10.10	7.63
2	10-Aug-10	*2H	10.10	8.70
3	26-Aug-10	2H	*10.15	8.98
4	6-Jan-11	*1H	*13.40	10.09

* Indicates change

	Date	Rating	Target Price	Closing Price
5	15-Jun-11	1H	*13.60	9.14
6	1-Sep-11	1H	*13.40	8.40
7	8-Oct-11	Stock rating system changed		
8	30-Jan-12	1H	*12.60	7.20

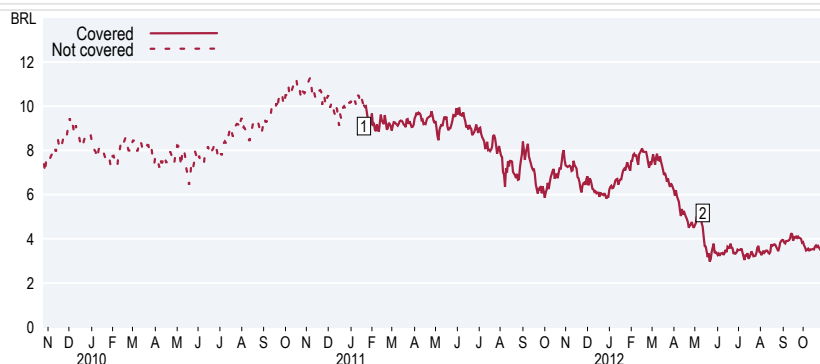
	Date	Rating	Target Price	Closing Price
9	11-May-12	1H	*8.40	4.53
10	11-Jul-12	1H	*5.40	3.28

Rating/target price changes above reflect Eastern Standard Time

PDG Realty (PDGR3.SA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Dan McGoe, CFA
Covered since April 9 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	10.04

* Indicates change

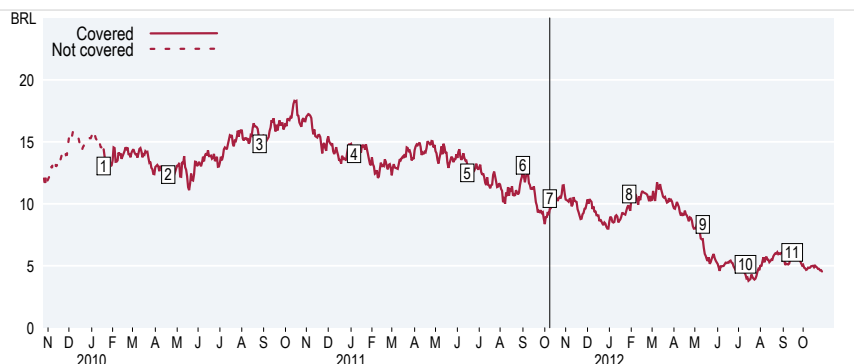
	Date	Rating	Target Price	Closing Price
2	11-May-12	*REM MP	-	4.53

Rating/target price changes above reflect Eastern Standard Time

Rossi Residencial (RSID3.SA)

Ratings and Target Price History Fundamental Research

Analyst: Dan McGoey, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	19-Jan-10	*3S	*15.80	14.40
2	20-Apr-10	*2S	*15.90	12.72
3	26-Aug-10	*2H	*18.40	14.90
4	6-Jan-11	2H	*17.10	14.20

* Indicates change

	Date	Rating	Target Price	Closing Price
5	15-Jun-11	2H	*17.20	13.16
6	1-Sep-11	*1H	*15.60	13.11
7	8-Oct-11	Stock rating system changed		
8	30-Jan-12	1H	*13.20	9.68

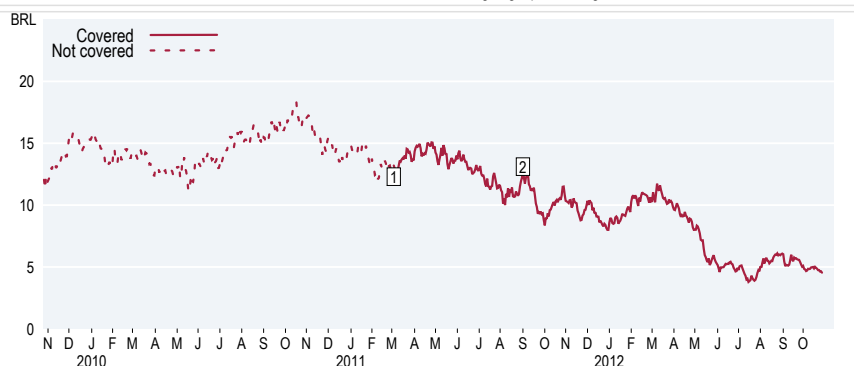
	Date	Rating	Target Price	Closing Price
9	11-May-12	1H	*10.30	7.15
10	11-Jul-12	1H	*8.30	4.29
11	14-Sep-12	*2H	*6.40	5.61

Rating/target price changes above reflect Eastern Standard Time

Rossi Residencial (RSID3.SA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Dan McGoey, CFA
Covered since January 19 2010



	Date	Rating	Target Price	Closing Price
1	3-Mar-11	*ADD LP	-	13.20

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Sep-11	*REM LP	-	13.11

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 5 Oct 2012	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	51%	38%	11%	7%	85%	7%
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Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Citigroup Global Markets Brazil

Dan McGoe, CFA; Paola Mello

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