

INMOBILIARIA DEL SUR

Q2 results review: 65% discount to NAV

- **Q2 results in line.** Revenues (including JVs) fell 6% YoY to €22.7m (vs. our €21.5m), EBITDA fell 14% to €3.4m (as expected), net profit fell 42% to €0.9m & Insur managed to remain in profit-making territory during the Covid-19 crisis.
- **Development above.** Sales reached €15.3m in Q2 (vs. our €10.3m) on higher housing deliveries once the lockdown restrictions have been lifted, even exceeding €12.6m in Q1. With this, sales reached €28m in H1, on track to reach our €50m FY estimate. On the other hand, pre-sales fell from €17.7m in Q1 to €10.2m in Q2, and the backlog reached €121m (-4%). Insur pre sold just 10 units in Apr-May, jumping to c.40 units in June (vs. 30-35 pre-Covid levels).
- **Rentals slightly below.** The 9% YoY fall in revenues to €3m in Q2 is explained by: a) refurbishments; b) some incentives (€0.2-0.3m) granted to customers (retail & hotel, which combined represent c.25% of total GRI); and c) the lack of trade fairs in Seville which impacted parking fees. These negative impacts were partly mitigated by the LFL growth on its portfolio (mid-single digit inflation on rentals). The group managed to increase occupancy rate by 40bps QoQ to 88.9%. For H2, we expect rents to grow >10%, driven by the ramp-up of the "Madrid Río 55" office building, and which is fully pre let.
- **Net debt** rose QoQ from €208m to €214m in Q2, and the LTV was largely stable at 39%. Excluding opportunistic land acquisitions, we expect a positive working capital generation during H2, reflecting the pipeline of housing deliveries, and we expect net debt to end the year at levels around €195m.
- **NAV update.** GAV (including JVs) grew by 2% QoQ to €547.5m, and NAV did so by 1% to €333.8m (€19.67 per share). Similar to other listed developers and REIT peers, appraisal valuations have not been updated vs. FY19 levels.
- **Our view.** We have updated our model after the Q2 release (small upgrades in development, trimming our rental forecasts), but we have not made material changes to our group estimates. Insur currently trades at 65% discount to NAV which compares to a 45% average discount for listed REITs (Merlin & Colonial) and 53% for listed developers (Neinor, Aedas & Metrovacesa). As we explained in our recent report, we do not see fundamental reasons for Insur to trade at such a high discount, both in absolute (we rule out a crash in prices or debt problems) & relative terms (less exposed to holiday homes & small land bank).

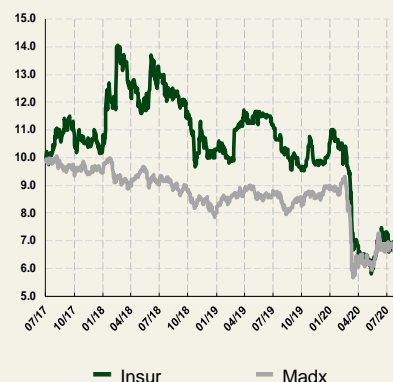
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Target Price	N/A
Share Price	€ 6.82
Upside	N/A

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Market Cap	€ 116 m
Enterprise Value	€ 296 m
Free Float	€ 42 m
Nº Shares	17 m
Average Daily Volume	€ 8.68 k

Performance	1m	3m	12m
Absolute %	-5.8	7.2	-31.0
Relative %	-0.5	1.6	-13.0



Financial Ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23E
EBITDA (€m)	22	25	27	22	19	23
Net profit (€m)	10	9	13	9	7	9
EPS (€)	0.59	0.52	0.75	0.53	0.39	0.55
Adj. EPS (*) (€)	0.59	0.78	0.75	0.53	0.39	0.55
P/E (x)	17.4	20.1	9.1	12.9	17.5	12.5
P/E Adj. (x)	17.4	13.4	9.1	12.9	17.5	12.5
EV/EBITDA (x)	15.4	14.2	11.1	14.0	16.4	13.4
Debt/EBITDA (x)	36.2	36.5	36.7	40.5	38.8	36.6
P/BV (x)	1.9	1.8	1.1	1.0	1.0	1.0
ROE (%)	11.1	9.2	12.6	8.3	5.8	7.9
DPS (€)	0.27	0.17	0.35	0.24	0.18	0.25
Dividend yield (%)	2.62	1.62	5.1	3.6	2.6	3.7

(*) Historical multiples based on average share price of the year

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INSUR: QUARTERLY PRE-SALES EVOLUTION

€m	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Backlog BoP	119.6	127.4	129.2	148.5	121.1	126.2
New Pre-Sales	17.1	11.7	21.1	16.7	17.7	10.2
Deliveries	9.3	9.9	1.8	44.1	12.6	15.3
Backlog EoP	127.4	129.2	148.5	121.1	126.2	121.1

Source: Alantra Equities

INSUR: QUARTERLY P&L REVIEW

(€ m)	2Q19	3Q19	4Q19	1Q20	2Q20	% YoY	2Q20E	Dif. Est
Revenues	24.1	74.9	1.0	20.6	22.7	(6%)	21.5	6%
Development	9.2	44.1	2.5	12.6	15.3	66%	10.1	51%
Rental Property	3.3	13.6	(6.6)	3.4	3.0	(9%)	3.3	(10%)
Construction	10.7	(9.7)	29.9	4.0	3.6	(66%)	7.0	(48%)
Asset Management	0.9	26.8	(24.7)	0.6	0.7	(18%)	1.0	(28%)
Equity method	0.0	(0.0)	–	–	(0.0)	n.m.	0.0	n.m.
EBITDA	4.0	2.5	16.1	4.3	3.4	(14%)	3.4	1%
Sale of assets	–	2.1	2.0	–	–	n.m.	–	n.m.
EBITDA Adj.	4.0	0.4	14.1	4.3	3.4	(14%)	3.4	1%
D&A and provisions	(0.7)	(0.6)	(0.5)	(0.8)	(0.8)	12%	(0.8)	n.m.
EBIT	3.3	1.9	15.6	3.5	2.6	(21%)	2.6	0%
Net financials	(1.2)	(7.1)	(2.5)	(1.4)	(1.4)	16%	(1.5)	(8%)
EBT	2.1	(5.2)	13.1	2.2	1.2	(41%)	1.1	10%
Income taxes	(0.0)	(0.0)	(0.0)	(0.5)	(0.3)	6,385%	(0.3)	11%
Net Profit	1.6	(3.9)	10.0	1.6	0.9	(42%)	0.8	10%

Source: Alantra Equities

INSUR: GAV, NAV AND LEVERAGE RATIOS

(€ m)	2Q19	3Q19	4Q19	1Q20	2Q20	% YoY	% QoQ
GAV	531.4	543.3	537.6	538.9	547.5	3%	2%
Development	233.8	249.9	241.9	237.1	246.4	5%	4%
Rental Property	297.6	293.4	295.7	301.8	301.1	1%	(0%)
Net debt	198.9	219.9	196.4	208.1	213.7	7%	3%
NAV	332.5	323.4	341.2	330.8	333.8	0%	1%
LTV	37%	41%	37%	39%	39%	2%	(39%)

Source: Alantra Equities

INSUR: 1H20 NAV VS. PEERS

Company	GAV (€m)	NAV (€m)	Market Cap (€m)	NAV p.s. (€)	Share price (€)	Disc./prem. to NAV (%)
Colonial	12,164	5,697	3,770	11.21	7.42	(34%)
Merlin Properties	12,193	7,365	3,537	15.89	7.63	(52%)
Lar España	1,506	905	390	10.64	4.58	(57%)
REITs	25,863	13,967	7,697			(45%)
Metrovacesa	2,626	2,589	921	17.07	6.07	(64%)
Aedas Homes	1,962	1,578	863	32.90	18.00	(45%)
Neinor Homes	1,650	1,246	761	16.74	10.22	(39%)
Developers	6,238	5,413	2,545			(53%)
Grupo Insur	547.5	333.8	116	19.67	6.82	(65%)

(*)1H20 data except FY19 for Aedas & Neinor Source: Alantra Equities

KEY DATA

P&L account (€m)	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Cash flow (€m)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Sales	120	122	124	120	95	112	Net profit	10	9	13	9	7	9
Cost of sales	(97)	(93)	(96)	(94)	(73)	(83)	Depreciation	3	2	3	4	4	4
Gross margin	24	29	28	26	22	29	Minorities	–	–	–	–	–	–
Opex	(9)	(12)	(10)	(7)	(8)	(12)	Non-cash adjustments	(0)	(6)	(9)	(4)	(5)	(5)
Associates	1	4	9	4	5	5	Total cash-flow (CF)	12	5	7	9	5	8
EBITDA	22	25	27	22	19	23	Capex	(49)	(41)	(44)	(35)	(27)	(30)
EBITDA adjusted	16	20	27	22	19	23	Deliveries	53	18	40	29	3	17
Depreciation & Amortization	(3)	(2)	(3)	(4)	(4)	(4)	Working capital	7	(12)	(17)	(14)	14	12
EBIT	19	22	23	18	15	19	Operating FCF	24	(30)	(13)	(11)	(4)	6
Financial costs	(6)	(12)	(6)	(6)	(6)	(6)	Financial investments	–	–	–	–	–	–
Ordinary profit	13	10	17	12	9	12	Disposals/(acquisitions)	9	7	–	–	–	–
Extraordinary items	–	–	–	–	–	–	Rights issues	–	–	–	–	–	–
Pre-tax Profit	13	10	17	12	9	12	Other	(17)	13	–	–	–	–
Taxes	(3)	(1)	(4)	(3)	(2)	(3)	Dividends from JVs	–	4	9	4	5	5
Discontinued activities	–	–	–	–	–	–	FCF before dividends	16	(4)	(5)	(7)	1	12
Minorities	–	–	–	–	–	–	Dividends	(2)	(5)	(3)	(6)	(4)	(3)
Net profit, reported	10	9	13	9	7	9	Free-cash-flow (FCF)	14	(9)	(8)	(13)	(3)	9
Adjustments	–	4	–	–	–	–							
Net profit adjusted	10	13	13	9	7	9							
N° of shares (m)	17	17	17	17	17	17	Balance sheet (€m)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
N° of shares adjusted (m)	17	17	17	17	17	17	Equity	94	98	104	111	116	120
Treasury stock (m)	0	0	0	0	0	0	Minority interests	–	–	–	–	–	–
							Provisions & others	21	18	23	20	19	22
YoY Growth	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Net debt [cash]	163	172	180	193	196	188
Sales	42%	1%	2%	(3%)	(21%)	18%	Capital invested	278	288	307	324	331	330
EBITDA	67%	12%	9%	(17%)	(13%)	19%	Goodwill	4	5	6	7	8	9
Net profit	142%	(12%)	44%	(29%)	(27%)	41%	Intangible assets	0	1	1	1	1	1
							Tangible assets	141	149	153	149	145	141
Sales by division	FY18	FY19	FY20E	FY21E	FY22E	FY23E	DTAs	13	12	12	12	12	12
Development	62.9	23.1	50.9	36.1	4.3	24.5	Associates	34	43	58	71	81	91
Rental assets	12.1	13.6	13.0	14.2	15.4	16.4	Working capital	85	79	77	84	83	75
Construction	41.1	77.4	55.7	65.0	69.0	64.6	Capital employed	278	288	307	324	331	330
Asset Management	4.3	7.5	4.4	4.5	6.2	6.5	Working capital/sales	71%	65%	62%	70%	88%	67%
NAV	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Financial ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23E
GAV (*)	401	392	412	404	426	439	Net debt/EBITDA (*)	7.4X	7.0X	6.7X	8.7X	10.3X	8.2X
Net debt (*)	(163)	(172)	(180)	(193)	(196)	(188)	Net debt/GAV (LTV) (*)	41%	44%	44%	48%	46%	43%
Minorities & Other	(20)	(16)	(17)	(11)	(15)	(19)	Gearing	174 %	175 %	172 %	173 %	169 %	157 %
NNAV	217	203	215	201	215	233	Interest cover	3.1X	1.8X	3.7X	2.9X	2.4X	2.9X
Per share data (€)	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Margins & ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23E
EPS	0.59	0.52	0.75	0.53	0.39	0.55	EBITDA margin	18.2%	20.2%	21.6%	18.5%	20.2%	20.4%
EPS adjusted	0.59	0.78	0.75	0.53	0.39	0.55	EBIT margin	15.9%	18.5%	18.8%	15.3%	16.0%	16.8%
CFPS	0.73	0.32	0.44	0.54	0.32	0.46	Reported tax rate	22.7%	13.0%	25.0%	25.0%	25.0%	25.0%
FCFPS	1.42	(1.74)	(0.79)	(0.64)	(0.25)	0.37	Pay-out	45.5%	32.6%	46.0%	46.0%	46.0%	46.0%
BVPS	5.52	5.80	6.15	6.55	6.84	7.05	ROCE (EBIT/CE)	6.9%	7.8%	7.6%	5.7%	4.6%	5.7%
DPS	0.27	0.17	0.35	0.24	0.18	0.25	ROE	11.1%	9.2%	12.6%	8.3%	5.8%	7.9%

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