

## INMOBILIARIA DEL SUR

### Development slows down in Q3. We cut estimates

- Q3 results in the lower range.** Sales reached €28m, +9% YoY, 7% below our €30m estimate due to a weaker construction and lower asset management fees (rentals & development were in line). Adj. EBITDA reached €5m, below our €6m estimate due to lower revenues and weaker than expected development margins. Net profit stood at +€0.4m vs. our +€2m estimate on a bigger than expected non-cash impact from the DMS consolidation (the units sold a few months after its purchase come at fair value and thus, with an extremely low margin).
- The development activity slows down.** Q3 development sales reached €21m, whilst InSur expects sales of €36m in Q4, both in line. New pre-sales decelerated to €12m and 57 units vs. the €25m and 140 units average in Q1 and Q2. This was due to: 1) delays in new launches; 2) the summer seasonality impact; and 3) softened pre-sales pace to capture greater HPA. InSur had €178m order book (779 units). Likewise, construction activity has been weak, as we estimate only c.100 new WIP units in Q3, vs. our c.200 units forecast. InSur aims to start >800 units in the next 6M. The start of construction works in the commercial business (3 office buildings, c.€90m proportional sales) is also taking longer than anticipated.
- GRI jumped >10% YoY, in line.** Q3 GRI reached €4.3m, >10% YoY growth but 2% QoQ fall due to seasonality (Q3 has low parking sales). Occupancy was 88.4% (+20bps QoQ), a bit below. We thus see our 89.5% year-end forecast a bit challenging.
- NAV flat QoQ, +12% YoY.** Net debt was flat QoQ at €259m, implying 43% LTV. NAV was also flat at €344m or €18.4p.s., though 12% above a year ago.
- Cutting estimates post Q3 results.** We are leaving our FY22 EBITDA estimates broadly unchanged but cut our 2023 and 2024 estimates by 5% and 25% respectively to reflect a slower residential development activity as well as the push of two office projects from 2024 to 2025. In view of the macro deterioration and rising interest rates affecting both CFs and asset valuations, we would not rule out InSur somewhat moderating capex investments, DPS or resorting to small asset disposals in order to strengthen the B/S. The company trades at a 60% discount to NAV, which looks high considering the high pre-sales visibility and the company's resilient and quality rental portfolio.

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Share Price (\*) € 7.50

\*Share price at the close of 28 October 2022

### ISUR.MC/ ISUR SM

Market Cap	€ 137 m
Enterprise Value	€ 341 m
Free Float	€ 50 m
Nº Shares	19 m
Average Daily Volume	€ 22 k

### Performance 1m 3m 12m

Absolute %	-4.7	-8.3	-4.8
Relative %	-13.5	-6.9	2.4



Financial Ratios	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA (€m)	22.4	19.4	22.4	22.0	28.2	31.0
Net profit (€m)	8.8	21.1	12.1	15.0	9.8	13.5
EPS (€)	0.52	1.24	0.68	0.80	0.53	0.72
Adj. EPS (*) (€)	0.70	0.73	0.58	0.56	0.61	0.72
P/E (x)	20.1	7.9	11.1	9.3	14.2	10.4
P/E Adj. (x)	15.0	13.5	13.0	13.3	12.4	10.4
EV/EBITDA (x)	16.7	19.3	15.1	17.4	13.5	12.4
Debt/EBITDA (x)	8.8	10.8	8.8	11.0	8.6	7.9
P/BV (x)	1.7	1.4	1.1	1.0	1.0	0.9
ROE (%)	8.2	16.8	9.2	10.6	6.7	8.7
DPS (€)	0.32	0.40	0.30	0.34	0.30	0.35
Dividend yield (%)	3.0	4.1	4.0	4.5	4.1	4.7

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

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**INSUR: QUARTERLY PRE-SALES EVOLUTION**

€m	3Q21	4Q21	1Q22	2Q22	3Q22A	% YoY	3Q22E	Dif. Est
<b>Backlog BoP</b>	<b>92.5</b>	<b>110.1</b>	<b>104.0</b>	<b>120.7</b>	<b>187.8</b>	<b>n.m.</b>	<b>187.8</b>	<b>0%</b>
New Pre-Sales	32.6	28.7	25.9	79.6	11.7	<b>(64%)</b>	14.0	<b>(16%)</b>
Deliveries	(15.0)	(34.8)	(9.2)	(12.5)	(21.2)	<b>41%</b>	(21.0)	<b>1%</b>
<b>Backlog EoP</b>	<b>110.1</b>	<b>104.0</b>	<b>120.7</b>	<b>187.8</b>	<b>178.3</b>	<b>62%</b>	<b>180.8</b>	<b>(1%)</b>

Source: Alantra Equities

**INSUR: QUARTERLY P&L REVIEW**

(€ m)	3Q21	4Q21	1Q22	2Q22	3Q22A	% YoY	3Q22E	Dif. Est
<b>Revenues</b>	<b>25.8</b>	<b>42.8</b>	<b>19.0</b>	<b>22.7</b>	<b>28.1</b>	<b>9%</b>	<b>30.2</b>	<b>(7%)</b>
Development	15.0	34.8	9.2	12.5	21.2	41%	21.0	<b>1%</b>
Rental Property	3.8	4.3	4.3	4.5	4.3	12%	4.4	<b>(2%)</b>
Construction	6.1	2.7	4.7	4.8	2.1	(66%)	4.0	<b>(48%)</b>
Asset Management	0.9	1.0	0.8	0.9	0.5	(44%)	0.8	<b>(38%)</b>
Equity method	–	–	–	–	–	n.m.	–	<b>n.m.</b>
<b>EBITDA</b>	<b>5.7</b>	<b>11.3</b>	<b>4.8</b>	<b>3.2</b>	<b>5.0</b>	<b>(12%)</b>	<b>6.0</b>	<b>(16%)</b>
Sale of assets	(2.0)	(1.7)	(1.2)	(0.1)	–	(100%)	–	<b>n.m.</b>
<b>EBITDA Adj.</b>	<b>3.7</b>	<b>9.6</b>	<b>3.6</b>	<b>3.1</b>	<b>5.0</b>	<b>35%</b>	<b>6.0</b>	<b>(16%)</b>
D&A and provisions	(1.1)	(1.1)	(1.1)	11.0	(3.3)	n.m.	(1.0)	<b>n.m.</b>
<b>EBIT</b>	<b>4.6</b>	<b>10.2</b>	<b>3.7</b>	<b>14.2</b>	<b>1.7</b>	<b>(63%)</b>	<b>5.0</b>	<b>(66%)</b>
Net financials	(1.0)	(1.5)	(1.2)	(1.2)	(1.2)	20%	(1.7)	<b>(29%)</b>
<b>EBT</b>	<b>3.6</b>	<b>8.7</b>	<b>2.5</b>	<b>13.0</b>	<b>0.5</b>	<b>(86%)</b>	<b>3.3</b>	<b>(85%)</b>
Income taxes	(0.9)	(2.4)	(0.7)	(3.3)	(0.1)	(89%)	(1.0)	<b>(90%)</b>
<b>Net Profit</b>	<b>2.7</b>	<b>6.3</b>	<b>1.8</b>	<b>9.7</b>	<b>0.4</b>	<b>(85%)</b>	<b>2.3</b>	<b>(82%)</b>

Source: Alantra Equities

**INSUR: GAV, NAV AND LEVERAGE RATIOS INCLUDING JVS**

(€ m)	3Q21	4Q21	1Q22	2Q22	3Q22A	% YoY	% QoQ
<b>GAV</b>	<b>527.5</b>	<b>522.9</b>	<b>518.9</b>	<b>600.8</b>	<b>602.7</b>	<b>14%</b>	<b>0%</b>
Development	162.2	152.8	152.5	228.5	229.3	41%	<b>0%</b>
Rental Property	365.3	370.1	366.4	372.3	373.4	2%	<b>0%</b>
<b>Net debt</b>	<b>219.2</b>	<b>197.9</b>	<b>195.7</b>	<b>259.0</b>	<b>258.8</b>	<b>18%</b>	<b>(0%)</b>
<b>NAV</b>	<b>308.3</b>	<b>325.0</b>	<b>323.2</b>	<b>341.8</b>	<b>343.9</b>	<b>12%</b>	<b>1%</b>
<b>NAV p.s.</b>	<b>16.5</b>	<b>17.4</b>	<b>17.3</b>	<b>18.3</b>	<b>18.4</b>	<b>12%</b>	<b>1%</b>
LTV	42%	38%	38%	43%	43%		

Source: Alantra Equities

KEY DATA

P&L account (€m)	FY19	FY20	FY21	FY22E	FY23E	FY24E	Cash flow (€m)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales	123	133	125	114	157	168	Net profit	9	21	12	15	10	14
Cost of sales	(88)	(95)	(88)	(79)	(113)	(120)	Depreciation	4	4	4	(2)	6	4
<b>Gross margin</b>	<b>35</b>	<b>38</b>	<b>37</b>	<b>35</b>	<b>44</b>	<b>48</b>	Minorities	-	-	-	-	-	-
Opex	(13)	(18)	(14)	(13)	(16)	(16)	Non-cash adjustments	(11)	(4)	(0)	-	-	-
<b>Adj. EBITDA</b>	<b>22</b>	<b>19</b>	<b>22</b>	<b>22</b>	<b>28</b>	<b>31</b>	<b>Total cash-flow (CF)</b>	<b>2</b>	<b>21</b>	<b>16</b>	<b>13</b>	<b>16</b>	<b>18</b>
Adjustments	4	0	4	1	-	-	Capex	(77)	(75)	(90)	(96)	(103)	(95)
<b>EBITDA</b>	<b>27</b>	<b>20</b>	<b>26</b>	<b>23</b>	<b>28</b>	<b>31</b>	Deliveries	48	75	64	61	86	97
Depreciation & Amortization	(4)	(4)	(4)	2	(6)	(4)	Working capital	12	4	(10)	(5)	5	(1)
Changes in provisions & Other	1	19	0	-	-	-	<b>Operating FCF</b>	<b>(15)</b>	<b>24</b>	<b>(20)</b>	<b>(27)</b>	<b>4</b>	<b>18</b>
<b>EBIT</b>	<b>23</b>	<b>35</b>	<b>22</b>	<b>26</b>	<b>22</b>	<b>27</b>	Financial investments	-	-	-	-	-	-
Financial costs	(12)	(6)	(5)	(6)	(9)	(9)	Disposals/(acquisitions)	7	(31)	9	(19)	-	-
Associates	-	-	-	-	-	-	Rights issues	-	-	-	-	-	-
<b>Ordinary profit</b>	<b>10</b>	<b>29</b>	<b>16</b>	<b>20</b>	<b>13</b>	<b>18</b>	Other	-	-	-	-	-	-
Extraordinary items	-	-	-	-	-	-	<b>FCF before dividends</b>	<b>(7)</b>	<b>(7)</b>	<b>(11)</b>	<b>(46)</b>	<b>4</b>	<b>18</b>
<b>Pre-tax Profit</b>	<b>10</b>	<b>29</b>	<b>16</b>	<b>20</b>	<b>13</b>	<b>18</b>	Dividends	(5)	(5)	(7)	(6)	(6)	(6)
Taxes	(1)	(8)	(4)	(5)	(3)	(5)	<b>Free-cash-flow (FCF)</b>	<b>(12)</b>	<b>(12)</b>	<b>(18)</b>	<b>(51)</b>	<b>(2)</b>	<b>13</b>
Discontinued activities	-	-	-	-	-	-	Buy-backs	-	-	-	-	-	-
Minorities	-	-	-	-	-	-	<b>FCF after buy backs</b>	<b>(12)</b>	<b>(12)</b>	<b>(18)</b>	<b>(51)</b>	<b>(2)</b>	<b>13</b>
<b>Net profit, reported</b>	<b>9</b>	<b>21</b>	<b>12</b>	<b>15</b>	<b>10</b>	<b>14</b>							
Adjustments	3	(9)	(2)	(5)	2	-	<b>Balance sheet (€m)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
<b>Net profit adjusted</b>	<b>12</b>	<b>12</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>14</b>	Equity	107	122	128	139	144	153
							Minority interests	-	3	3	3	3	3
Nº of shares	17	17	19	19	19	19	Provisions & others	32	21	48	48	48	48
Nº of shares adjusted (m)	17	17	18	19	19	19	Net debt [cash] (*)	196	209	198	243	241	245
Treasury stock (m)	0	0	0	0	0	0	<b>Capital invested</b>	<b>336</b>	<b>355</b>	<b>378</b>	<b>434</b>	<b>437</b>	<b>449</b>
							Goodwill	-	-	-	-	-	-
<b>YoY Growth</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	Intangible assets	1	1	0	0	0	0
Sales	8%	8%	(6%)	(9%)	38%	7%	Tangible assets	149	217	218	242	239	238
Adj. EBITDA	29%	(13%)	15%	(2%)	28%	10%	Financial assets	31	25	47	47	47	47
Net profit	(12%)	139%	(43%)	24%	(35%)	37%	Associates	2	1	0	11	2	(11)
Adjusted net profit	18%	4%	(16%)	1%	8%	19%	Working capital	154	112	112	133	148	175
							<b>Capital employed</b>	<b>336</b>	<b>355</b>	<b>378</b>	<b>434</b>	<b>437</b>	<b>449</b>
<b>EBITDA by division</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	Working capital/sales	125%	84%	90%	116%	94%	104%
Development	36%	43%	55%	46%	55%	57%							
Servicing	46%	53%	53%	60%	49%	46%							
Rental and legacy	18%	4%	(8%)	(7%)	(4%)	(3%)							
<b>NAV</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>Financial ratios</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
GAV	538	526	523	564	524	501	Net debt/EBITDA	7.4X	10.6X	7.6X	10.5X	8.6X	7.9X
Net debt	196	209	198	243	241	245	Net debt/GAV (LTV)	37%	40%	38%	43%	46%	49%
Minorities & Other	-	-	-	-	-	-	Gearing	183.2%	166.4%	150.6%	170.8%	164.1%	156.9%
<b>NNAV</b>	<b>341</b>	<b>317</b>	<b>325</b>	<b>314</b>	<b>273</b>	<b>262</b>	Interest cover	1.8X	6.0X	4.0X	4.6X	2.5X	3.0X
<b>Per share data (€)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>Margins &amp; ratios</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EPS	0.52	1.24	0.68	0.80	0.53	0.72	EBITDA margin	21.6%	14.8%	20.9%	20.3%	17.9%	18.5%
EPS adjusted	0.70	0.73	0.58	0.56	0.61	0.72	EBIT margin	18.6%	26.6%	17.4%	22.5%	14.0%	16.1%
CFPS	0.12	1.21	0.92	0.67	0.85	0.94	Reported tax rate	14.3%	28.1%	25.7%	25.0%	25.0%	25.0%
FCFPS	(0.85)	1.43	(1.11)	(1.46)	0.24	0.98	Pay-out	45.9%	55.2%	51.5%	60.5%	50.0%	48.9%
BVPS	6.32	7.21	7.20	7.45	7.71	8.19	ROCE (EBIT/CE)	6.8%	9.9%	5.8%	5.9%	5.1%	6.0%
DPS	0.32	0.40	0.30	0.34	0.30	0.35	ROE	8.2%	16.8%	9.2%	10.6%	6.7%	8.7%

(\*) Excluding trapped cash

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