ALANTRA Equities

SPANISH EQUITY RESEARCH
PROPERTY
04 May 2021

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INMOBILIARIA DEL SUR

Q1 results slightly above estimates

- **Q1 results slightly above.** Revenues (including JVs) reached €35m (+70%YoY), above our €33m estimate, fully driven by better performance in development business. EBITDA grew by 55% YoY to €6.7m, c.10% (vs. our €6.2m) on better sales mix. Net profit doubled YoY, reaching €3.2m, roughly in line with our €3m.

- **Strong pick-up in pre-sales.** Development sales jumped by 87% to c.€24m in Q1 (10% above our €21m), thanks to the delivery of a key owned project that was delayed from 4Q20. In terms of new demand, the group reached 155 pre-sales (including JVs), or €27.5m (adjusted by JV participation), somewhat better than our 145 and €25m estimates, respectively. This is a new pre-sales record, implying >50 units per month, well above the c.25 seen in 2020 and 30-40 pre-pandemic. This should allow Insur to quickly reach the minimum pre-sales threshold (c.40%), and thus to accelerate construction works.

- **3pp occupancy fall, in line.** Rentals GRI was flat QoQ at €3.7m (in line), and the occupancy rate fell by >3pp to 85.9%. Insur suffered 6k sqm of tenant exits, of which c.4k sqm were already advanced in 2Q20. The company has been able to re-let c.70% of the remaining 2k sqm with new contracts in the quarter. We expect Insur to lose another c.2k sqm (1.5pp) in Q2-Q3, with limited new entries. Despite this, we expect total GRI to grow by c.10% to €14m in 2021 thanks to the full contribution of Madrid Rio and part of the Hotusa hotel.

- **NAV & debt update.** Net debt decreased by €5m QoQ to c.€204m (in line). This, combined with €10m GAV fall (to €515m), led NAV to fall by 2% QoQ (or flat ex-dividend payment) to €307m (€18.1 p.s.). As a reminder, Insur will distribute a €0.20 final DPS in late May and will issue 1.7m new shares (10% of total shares) against reserves, which will be distributed as a bonus issue.

- **Our view.** Q1 results were slightly better than we expected, and confirmed the improving trends we anticipated in the development business. The sector has not only been resilient to Covid, but is emerging stronger from the crisis. The occupancy losses in the rental business were expected and in line. It is worth mentioning that renewals are being done with positive release spread, and we believe the reversionary potential offers a comfortable cushion for the ST headwinds. The shares trade at c.55% discount to NAV, well below both listed developers (>40%) and REITs (35%), a discount we think is excessive considering the company's good track record, quality asset mix (both re offices and development) and comfortable B/S (c.40% LTV).

Financial Ratios	FY18	FY19	FY20	FY21E	FY22E	FY23E
EBITDA (€m)	23	26	20	24	26	27
Net profit (€m)	11	9	21	10	12	13
EPS (€)	0.66	0.52	1.24	0.58	0.72	0.78
Adj. EPS (*) (€)	0.66	0.78	0.68	0.58	0.72	0.78
P/E (x)	15.6	20.1	7.9	14.3	11.6	10.7
P/E Adj. (x)	15.6	13.5	14.3	14.3	11.6	10.7
EV/EBITDA (x)	15.3	14.1	19.0	14.4	13.1	12.7
Debt/GAV (x)	36.2	36.5	39.7	41.6	41.3	41.3
P/BV (x)	1.7	1.7	1.3	1.1	1.0	1.0
ROE (%)	11.1	9.2	21.1	9.3	10.6	10.9
DPS (€)	0.27	0.32	0.40	0.33	0.40	0.44
Dividend yield (%)	2.6	3.0	4.1	3.9	4.8	5.2

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

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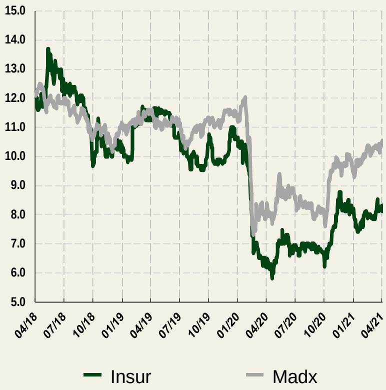
Share Price	€ 8.22

ISUR.MC/ ISUR SM	
Market Cap	€ 140 m
Enterprise Value	€ 349 m
Free Float	€ 50 m
Nº Shares	17 m
Average Daily Volume	€ 200 k

Performance	1m	3m	12m
Absolute %	2.8	2.8	32.4
Relative %	-0.3	-8.7	3.8



Analyst
Fernando Abril-Martorell
+34 91 550 87 19
fabril@alantraequities.com
Beatriz Bernal
+34 91 550 87 15
bbernal@alantraequities.com

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