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INMOBILIARIA DEL SUR

Q2 review: strong pre-sales, rising occupancy

- **Q2 results in line.** Revenues (including JVs) reached €21.7m, down 4% YoY, in line, with development marginally below, construction above and rentals in line. EBITDA fell by c.25% to €2.5m, in line despite the worse sales mix. At the bottom line, the company reported a break-even net profit, also in line.

- **Record high pre-sales.** Development sales fell QoQ from >€20m to €10m in Q2 (4% below our estimate) due to scheduled deliveries. However, new pre-sales are booming and reached 197 units, well above the 155 of Q1 and pre-Covid levels (c.100 per quarter). This came better than our 170 estimates (although in line in EUR terms). The increase in the number of pre-sales is also allowing InSur to reach minimum pre-sales thresholds and to accelerate construction starts. Orderbook stands at €93m (adjusted by JV participation).

- **Strong commercial activity in rentals.** Although GRI stood broadly flat QoQ at €3.6m and in line with estimates, the commercial activity has surprised us positively: GLA signed tripled to c.4.5k sqm (above the average pre-Covid lettings levels of 3.5k sqm) and led occupancy to grow by 2.5pp to 88.3% QoQ. This is much better than our broadly flat estimate and leaves upside risk to our c.84.5% occupancy estimate for year end. In addition, in July, the company delivered a hotel to Hotusa in Seville (8k sqm), which we estimate could add €1m additional annual rents (c.8% of current group rents).

- **NAV and debt update.** Net debt increased by c.€20m to €224.5m (above) due to a high investment activity in the period (>€15m in new land purchases). This, combined with a €20m GAV increase (to €535m), led NAV to remain stable QoQ at €307m, equivalent to €16.5p.s. (post 10% share count increase following the bonus issue).

- **Our view.** Both developments and rentals had a good performance in the quarter: development is enjoying quite compelling industry tailwinds (secular demand trends, low supply and low interest rates) and is on record pre-sales levels, whilst commercial activity has materially picked up in the rental division, improving group profitability and CF visibility. We think the company is in a good position (good asset base and track record) to benefit from current positive trends, whilst the shares remain undervalued: >50% discount to NAV, vs. c.30% and c.35% of listed the REITs and developers, respectively.

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	0.53	0.65	0.71
Adj. EPS (*) (€)	0.66	0.78	0.68	0.53	0.65	0.71
P/E (x)	15.6	20.1	7.9	14.9	12.1	11.2
P/E Adj. (x)	15.6	13.5	14.3	14.9	12.1	11.2
EV/EBITDA (x)	15.3	14.1	19.0	14.6	13.3	12.9
Debt/GAV (x)	36.2	36.5	39.7	41.6	41.3	41.4
P/BV (x)	1.7	1.7	1.3	1.1	1.1	1.0
ROE (%)	11.1	9.2	21.1	9.3	10.6	11.0
DPS (€)	0.27	0.32	0.40	0.31	0.37	0.40
Dividend yield (%)	2.6	3.0	4.1	4.0	4.6	5.0

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

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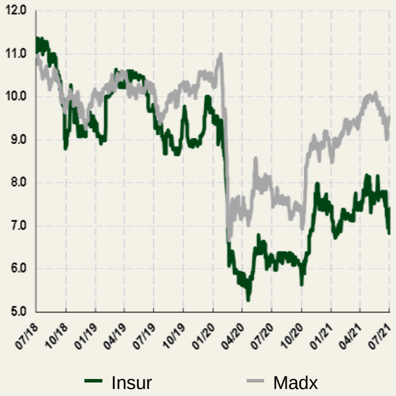
Share Price	€ 7.22

ISUR.MC/ ISUR SM	
Market Cap	€ 126 m
Enterprise Value	€ 326 m
Free Float	€ 46 m
Nº Shares	17 m
Average Daily Volume	€ 200 k

Performance	1m	3m	12m
Absolute %	-5.4	2.57	26.75
Relative %	-4.3	1.7	1.5



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