INMOBILIARIA DEL SUR

Initiating coverage: 64% discount to NAV

- **What is Insur?** Insur is a mid-sized RE company (€538m GAV & €341m NAV 2019), well diversified between rentals (55% of GAV) and homebuilding (45%). Insur is controlled by the founding families and has a leading position in its home region (western Andalusia), and is active also in the Costa del Sol & Madrid. Unlike peers, Insur has navigated through the cycles without major financial problems thanks to the deep knowledge of its markets (prime areas with proven demand), conservative land management & financial strategy, and is, in our view, well prepared to face the new cycle after the Covid-19 outbreak.

- **Positives:** 1) Diversified business model and capital allocation; 2) Local player with deep knowledge of home markets & permitting process; 3) Construction is vertically integrated and adds value; 4) Most of the land bank is fully permitted in prime locations for 1st residences; 5) JVs allow for faster organic growth and risk sharing. **Risks:** 1) Macro & RE slowdown post Covid-19, though Andalusia is not among the hottest regions after L5Y RE cycle upturn, whilst holiday homes (Costa del Sol) account for just 15% of the total; 2) Execution risk in deliveries; 3) Debt at 36% LTV sits in the upper range vs. 39% for listed REITs & c.10% for pure developers; 4) Smaller size & regional focus vs. listed peers.

- **Our estimates.** Unlike in past crises, developers are facing this cycle with low debt & supply, and no bubble in prices. As a result, we expect the macro downturn to affect mostly volumes (demand -40% in 2020) but less so prices, particularly for new homes (5-10% expected cut) vs. used & holiday homes (15-20%). As for Insur, 2020 should still be a good year, thanks to the high level of pre-sales and the ramp up of the Madrid Rio office building. We then expect a 28% cumulative fall in 2021-22 EBITDA and a return to 2019 levels by 2023. We expect Insur to maintain LTV below the 40% threshold.

- **Valuation.** Insur trades at a 64% discount to last reported NAV (€20.1ps). This compares to a 44% avge discount for listed REITs (Colonial, Merlin, Lar) & 58% for listed developers (Neinor, Aedas, MVC). As we explain in this 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). In our view, the excess discount is mainly explained by technical reasons, given the limited liquidity for investors, and we would welcome any initiative from Insur to increase its size & free float.

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	9.6	13.6	18.5	13.1
P/E Adj. (x)	17.4	13.4	9.6	13.6	18.5	13.1
EV/EBITDA (x)	15.4	14.2	11.3	14.3	16.7	13.7
Debt/GAV (%)	36.5	36.6	40.4	38.7	36.5	36.5
P/BV (x)	1.9	1.8	1.2	1.1	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 (%)	2.6	1.6	4.8	3.4	2.5	3.5

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

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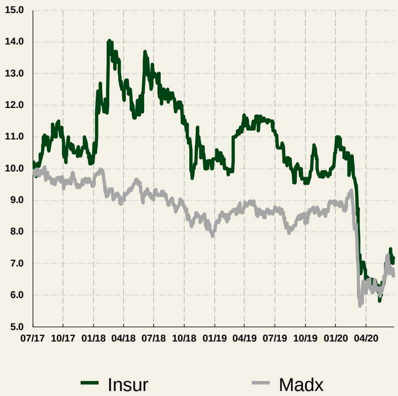
Target Price	N/A
Share Price	€ 7.18
Upside / Downside	N/A

ISUR.MC / ISUR SM	
Market Cap	€ 122 m
Enterprise Value	€ 302 m
Free Float	€ 44 m
Nº Shares	17 m
Average Daily Volume	€ 20.8 k

Performance	1m	3m	12m
Absolute %	12.89	1.13	-34.9
Relative %	11.08	-6.09	-16.2



Shareholders

Board of Directors 62.9%, Treasury shares 0.8%, Free-float 36.3%

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Key Data

P&L account (€m)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Sales	120	122	124	120	95	112
Cost of sales	(97)	(93)	(96)	(94)	(73)	(83)
Gross margin	**24**	**29**	**28**	**26**	**22**	**29**
Opex	(9)	(12)	(10)	(7)	(8)	(12)
Associates	1	4	9	4	5	5
EBITDA	**22**	**25**	**27**	**22**	**19**	**23**
EBITDA adjusted	**16**	**20**	**27**	**22**	**19**	**23**
Depreciation & Amortization	(3)	(2)	(3)	(4)	(4)	(4)
EBIT	**19**	**22**	**23**	**18**	**15**	**19**
Financial costs	(6)	(12)	(6)	(6)	(6)	(6)
Ordinary profit	**13**	**10**	**17**	**12**	**9**	**12**
Extraordinary items	–	–	–	–	–	–
Pre-tax Profit	**13**	**10**	**17**	**12**	**9**	**12**
Taxes	(3)	(1)	(4)	(3)	(2)	(3)
Discontinued activities	–	–	–	–	–	–
Minorities	–	–	–	–	–	–
Net profit, reported	**10**	**9**	**13**	**9**	**7**	**9**
Adjustments	–	4	–	–	–	–
Net profit adjusted	**10**	**13**	**13**	**9**	**7**	**9**
Nº of shares (m)	17	17	17	17	17	17
Nº of shares adjusted (m)	17	17	17	17	17	17
Treasury stock (m)	0	0	0	0	0	0

YoY Growth	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Sales	42%	1%	2%	(3%)	(21%)	18%
EBITDA	67%	12%	9%	(17%)	(13%)	19%
Net profit	142%	(12%)	44%	(29%)	(27%)	41%

Sales by division	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Development	63	23	50	36	4	25
Rental assets	12	14	14	14	15	16
Construction	41	77	56	65	69	65
Asset Management	4	8	4	4	6	6

NAV	FY18	FY19	FY20E	FY21E	FY22E	FY23E
GAV (*)	401	392	413	406	427	441
Net debt (*)	(163)	(172)	(180)	(193)	(196)	(188)
Minorities & Other	(20)	(16)	(17)	(11)	(15)	(19)
NNAV	217	203	216	202	216	234

Per share data (€)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
EPS	0.59	0.52	0.75	0.53	0.39	0.55
EPS adjusted	0.59	0.78	0.75	0.53	0.39	0.55
CFPS	0.73	0.32	0.44	0.54	0.32	0.46
FCFPS	1.42	(1.74)	(0.79)	(0.64)	(0.25)	0.37
BVPS	5.52	5.80	6.15	6.55	6.84	7.05
DPS	0.27	0.17	0.35	0.24	0.18	0.25

Cash flow (€m)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Net profit	10	9	13	9	7	9
Depreciation	(22)	(25)	(27)	(22)	(19)	(23)
Minorities	–	–	–	–	–	–
Non-cash adjustments	24	21	21	22	18	21
Total cash-flow (CF)	**12**	**5**	**7**	**9**	**5**	**8**
Capex	(49)	(41)	(44)	(35)	(27)	(30)
Deliveries	53	18	40	29	3	17
Working capital	7	(12)	(17)	(14)	14	12
Operating FCF	**24**	**(30)**	**(13)**	**(11)**	**(4)**	**6**
Financial investments	–	–	–	–	–	–
Disposals/(acquisitions)	9	7	–	–	–	–
Rights issues	–	–	–	–	–	–
Other	(17)	13	–	–	–	–
Dividends from JVs	–	4	9	4	5	5
FCF before dividends	**16**	**(4)**	**(5)**	**(7)**	**1**	**12**
Dividends	(2)	(5)	(3)	(6)	(4)	(3)
Free-cash-flow (FCF)	**14**	**(9)**	**(8)**	**(13)**	**(3)**	**9**

Balance sheet (€m)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Equity	94	98	104	111	116	120
Minority interests	–	–	–	–	–	–
Provisions & others	21	18	23	20	19	22
Net debt [cash]	163	172	180	193	196	188
Capital invested	**278**	**288**	**307**	**324**	**331**	**330**
Goodwill	4	5	6	7	8	9
Intangible assets	0	1	1	1	1	1
Tangible assets	141	149	153	149	145	141
DTAs	13	12	12	12	12	12
Associates	34	43	58	71	81	91
Working capital	85	79	77	84	83	75
Capital employed	**278**	**288**	**307**	**324**	**331**	**330**
Working capital/sales	71%	65%	62%	70%	88%	67%

Financial ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Net debt/EBITDA (*)	7.4X	7.0X	6.7X	8.7X	10.3X	8.2X
Net debt/GAV (LTV) (*)	41%	44%	44%	48%	46%	43%
Gearing	174 %	175 %	172 %	173 %	169 %	157 %
Interest cover	0.1X	0.1X	0.1X	0.2X	0.3X	0.2X

Margins & ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23E
EBITDA margin	18.2%	20.2%	21.6%	18.5%	20.2%	20.4%
EBIT margin	15.9%	18.5%	18.8%	15.3%	16.0%	16.8%
Reported tax rate	22.7%	13.0%	25.0%	25.0%	25.0%	25.0%
Pay-out	45.5%	32.6%	46.0%	46.0%	46.0%	46.0%
ROCE (EBIT/CE)	6.9%	7.8%	7.6%	5.7%	4.6%	5.7%
ROE	10.7%	9.0%	12.2%	8.1%	5.7%	7.8%

(*) Excludes JVs contribution

Summary & Investment Case

What is Grupo Insur?
Inmobiliaria del Sur is a mid-sized RE company founded in 1945 with €538m GAV & €341m NAV in 2019. Insur is well balanced between homebuilding (45% of GAV) and rental properties (55%), mostly office buildings, and it is vertically integrated (construction is insourced). The company mainly operates in western Andalusia (leader in its home region), Costa del Sol, and Madrid, and mainly in prime areas with proven demand. The Pumar family is the reference shareholder (c.30% stake) and has navigated through the toughest crisis in Spanish RE (2008-13) without major financial trouble (no capital increase & debt restructuring) thanks to its: a) diversified business model; b) reasonable debt (<40% LTV); and c) prudent management & land acquisitions.

Homebuilding and rentals
In homebuilding, Insur is focused on mid and mid to high income clients (€200-300k per house vs. €150k nationwide average). Over the last few years, the group has increased its development activity through JVs with partners in which the company owns 50%, allowing Insur to grow faster while sharing risk and retaining the construction margin. Insur operates with 25-30% gross margin in development, although 2021-22 figures should be impacted (23% GM on average for the period) by land plots acquired before the crisis. In the rental business, Insur has a 134k sqm portfolio mainly consisting of offices (70% of 2019 revenues) in Seville (74% of total sqm). Insur had an implicit 5.8% gross yield in 2019, which we expect to remain at c.5.4% over 2020-23.

Our views on the Spanish RE sector
After the toughest ever crisis in 2008-13, the residential sector has recovered during 2014-19, and is now well positioned to face the new cycle after the Covid-19 outbreak. Unlike in past crises, developers are now well positioned in terms of debt (low gearing), supply (stock of new houses & land bank built over the last few years is limited) & housing prices (no bubble this time), whereas the sector is now much more professional and disciplined. As a result, we expect the macro downturn to affect mostly volumes (demand c.-40% in 2020) but less so on prices, particularly for new homes (5-10% expected cut) vs. used & holiday homes (15-20%). As for the rental business, Insur is well positioned with 75% of buildings in the best locations within its regions, although some impact on occupancy rates is expected in retail assets (25% of the total).

Positives: a) Diversified business model and outstanding track record; b) Vertical integration to capture value throughout the entire development process; c) Local player, with great knowledge of its markets & local administrations (permitting process); d) Most of the land is fully permitted in prime locations; and e) Investing through JVs allows for faster growth, whilst sharing risk.

Negatives: a) Macro risk (Covid-19 crisis), although Andalusia is not among the hottest regions after L5Y RE cycle upturn, whilst holiday homes (Costa del Sol) account for just 15% of the total; b) Execution risk in deliveries & permitting (Covid-19); c) Small size and regional focus relative to nationwide peers; d) Not being a pure player might be unattractive for specialised RE investors; e) The 40% LTV target is in the upper range vs. SOCIMIs (c.39%) & developers (c.10%); f) Potential conflicts of interest with minority shareholders, but controlling families have a good track record.

Our estimates: 2020 will still be a good year, but weaker 2021-22; LTV will remain <40%
Following a weak 2019 in terms of deliveries due to delays after the new mortgage law, and despite the looming economic recession post Covid-19, we believe that 2020 should still be a good year for Insur, thanks to the high level of pre-sales (€126m in 1Q20, o.w. €78m JVs and €48m own developments) and the ramp up of the Madrid Rio office building. We then expect a 28% cumulative fall in 2021-22 EBITDA, and Insur to return to pre-crisis levels of 2019 in our 2023 estimates (>€20m EBITDA). Net debt reached €196m in 2019 (of which €81m development, €115m rental property), implying 36.5% LTV (vs. €538m GAV). We expect net debt to remain broadly flat in 2020 thanks to strong deliveries, and we expect Insur to maintaining LTV below the 40% threshold in 2020-23. We assume dividend payout stable at 45-47%.

64% discount to NAV
Insur is trading at a 64% discount to its latest NAV (€20.10 p.s. as of FY19). This compares to 44% average discount for listed REITs (-31% for Colonial, -52% for Merlin, -60% for Lar) & 58% for listed developers (Neinor, Aedas, Metrovacesa). As we explain in this 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 & debt problems) and relative terms (15% of houses in tourism regions for Insur vs. 40% for Aedas & Metrovacesa, Insur has a relatively smaller land bank). In our view, the excess discount is mainly explained by technical reasons, given the limited liquidity for investors. In this context, we would welcome any initiatives from Insur to increase its size and free float.

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Valuation

Please note that this valuation is based on long-term analysis and that any ranges or discussions below do not constitute a short-term assessment of the likely performance of the securities.

1) 64% discount to NAV

€538m GAV and €341m NAV in FY19 (€20.10 p.s.)

In FY19, Insur reported €392m GAV and €219m NAV (€12.93 NAV p.s.) excluding the contribution from JVs, and €538m GAV and €341m NAV (€20.10 NAV p.s.) including the proportional contribution from the projects developed through JVs (27% of total GAV).

We believe that the most appropriate figures to illustrate the company's fair value are those including the proportional contribution from projects developed through JVs. Insur is in charge of the management of those assets throughout the entire development process, and the company participates in value creation in line with its proportional stake in the respective JVs, whereas downside risk is limited to the equity contribution in each partnership (risk shared with partners, typically banks and private investors). For this reason, throughout this report we will consider these figures when referring to GAV and NAV unless otherwise stated.

Insur trades at a 64% discount to NAV

That said, and given Insur's current €7.18 p.s. share price, the company trades at a 64% discount to FY19 NAV (€20.10 per share). Insur only has its portfolio valued by external advisors at year-end and quarterly reported GAV is the official number corrected by capex and deliveries. If we took 1Q20 reported GAV and NAV of €539m and €331m, discount to NAV would be at 63%.

INSUR: NAV FY19

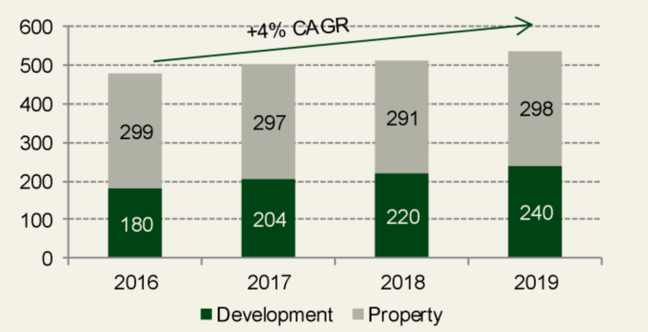
	Excluding JVs			Including JVs		
	Insur	**Development**	**Rental**	**Insur**	**Development**	**Rental**
GAV (€m)	**392**	**98**	**294**	**538**	**237**	**301**
Net Debt (€m)	172	57	115	196	81	115
NAV (€m)	**219**	**41**	**179**	**341**	**155**	**186**
Number of shares (#)	17			17		
NAV p.s. (€)	**12.93**			**20.10**		
Share Price (€)	7.18			7.18		
Discount to NAV (%)	(44%)			(64%)		

Source: Alantra Equities

Downturn expected in 2020, pick-up again in 2021

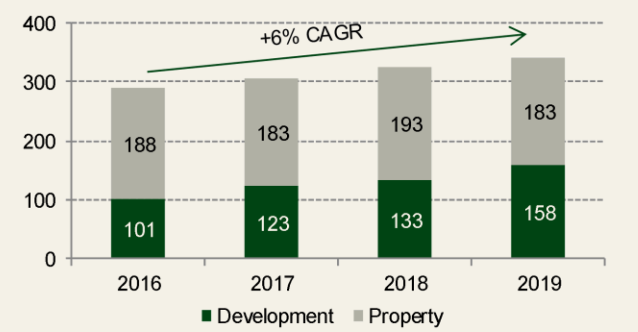
As shown below, over the past 3 years Insur has seen its GAV and NAV grow by a respective 4% and 6% CAGR. In 2020, we expect to see GAV slightly decreasing (-1% YoY), due to the decrease in development GAV (cyclical downturn) partly offset by the inclusion of 90% of the Madrid Rio 55 office building in property GAV. GAV should then increase in 2021 on the back of construction activity going back to normal in the development activity and despite some decreases for rental. We expect GAV growing at 3% per annum on average in 2021-23, as we expect the market environment should start to normalise.

INSUR: GAV EVOLUTION (2016-2019)



Source: Alantra Equities

INSUR: NAV EVOLUTION (2016-2019)



Source: Alantra Equities

2) Discount to NAV closer to pure developers

Insur's 64% discount to NAV compares with the average 58% discount for developers and the 44% discount for REITs

Insur's discount to NAV is higher than both developers and REITs, albeit closer to the average 58% discount for developers than to REITs (44%). We believe that, given Insur's business model, it should trade somewhere between developers and REITs. If we consider Insur's NAV net of taxes, which we believe to be more comparable with REITs (as they do not pay income taxes), the discount to NAV would be at 59%. This is slightly below developers, but still way above REITs. The Covid-19 crisis has led to a widening of the discounts in the sector to unprecedented levels.

High discount is due to lack of liquidity and not fundamentals

We do not see any fundamental reasons for Insur to trade at such a high discount, both in absolute and relative terms. In our view, the deep relative discount is mainly explained by technical reasons given the limited liquidity for investors.

INSUR: NAV 2019 VS. PEERS

Company	GAV (€m)	NAV (€m)	Market Cap (€m)	NAV p.s. (€)	Share price (€)	Disc./prem. to NAV (%)
Colonial	12,196	5,825	4,014	11.46	7.90	(31%)
Merlin Properties	12,751	7,331	3,509	15.61	7.47	(52%)
Lar España	1,552	1,004	401	11.45	4.58	(60%)
REITs	**26,499**	**14,160**	**7,925**	**13.29**	**7.44**	**(44%)**
Metrovacesa	2,706	2,714	928	17.89	6.12	(66%)
Aedas Homes	1,962	1,578	727	34.80	16.02	(54%)
Neinor Homes	1,650	1,249	675	16.85	9.11	(46%)
Developers	**6,318**	**5,541**	**2,330**	**20.44**	**8.59**	**(58%)**
Grupo Insur	**538**	**341**	**122**	**20.10**	**7.18**	**(64%)**

(*) Share prices as 26-June-20. Source: Alantra Equities

Insur trades at a P/E 20E of 9.6X, below both REITs (21.0X) and developers (21.3X), while its EV/EBIT 20E is in the middle of developers and REITs. In terms of dividends, Insur's implicit 4.8% yield is above the 3.5% average for REITs and the 4.4% for developers.

Regarding LTV, Insur's 36.6% as of 2020E is between REITs (38.8%) and developers (10.7%). That said, and unlike pure developers, Insur is protected with the contribution from recurrent rental revenues. In terms of EBITDA margin (22%), it is above developers at 13% and well behind SOCIMIs at 72%.

In our view, Insur also has a lower risk profile than listed developers, with 15% of houses in tourism regions for Insur vs. 40% for Aedas & Metrovacesa, whilst Insur has a relatively smaller land bank (equivalent to 2 years of deliveries vs. 4-20 years for peers).

Lastly, Insur's gross yield (only applicable to its rental business and hence only comparable with SOCIMIs) is above the 3.3% average for peers due to Insur's exposure to secondary cities.

INSUR: FINANCIAL RATIOS VS. PEERS

Company	P/E		EV/EBIT		Dividend payout	Dividend yield	LTV	Gross Yield	EBITDA margin
	2020E	2021E	2020E	2021E	2020E	2020E	2020E	2020E	2020E
Colonial	33.8X	33.0X	n.s.	24.5X	70%	2.1%	36.8%	2.6%	81%
Merlin Properties	15.9X	14.2X	n.s.	27.4X	63%	4.0%	41.4%	3.8%	67%
Lar España	10.3X	8.3X	14.8X	14.0X	147%	13.8%	34.2% (*)	5.4%	70%
Average REITs	**21.0X**	**21.5X**	**14.8X**	**25.0X**	**96%**	**3.5%**	**38.8%**	**3.3%**	**72%**
Metrovacesa	n.s.	n.s.	n.s.	n.s.	n.s.	5.6%	4.1%	n.a.	-1%
Aedas Homes	12.2X	12.7X	11.0X	11.1X	49%	4.0%	15.0%	n.a.	18%
Neinor Homes	13.5X	10.3X	13.2X	10.1X	40%	3.0%	16.5%	n.a.	16%
Average Developers	**21.3X**	**19.0X**	**11.9X**	**15.0X**	**46%**	**4.4%**	**10.7%**	**n.a.**	**13%**
Grupo Insur	**9.6X**	**12.0X**	**12.9X**	**17.2X**	**46%**	**4.8%**	**36.6%**	**5.8%**	**22%**

(*) Reported data as of FY19. Source: Alantra Equities, except for Lar España based on Reuters consensus' forecasts.

3) Sensitivity to rental yields and housing prices

We believe that Insur's GAV is sensitive to: a) gross yields for rental property; and b) units delivered & house prices for development. To illustrate this, we have run a sensitivity analysis on FY19 GAV and NAV figures.

a) Rental property sensitivity to yields

Impact of changes in implicit 5.8% gross yield on 2019 property NAV

Insur's GAV for the rental property business as of FY19 was at €298m, and the division's annualised rental income of €17.2m p.a. has an implicit 5.8% gross yield. The NAV p.s. of the rental property business was at €10.80 as of December 2019.

The variable to which GAV for the rental property business is most sensitive is gross yields. The table below shows a 6-scenario sensitivity analysis to how GAV would react to changes in gross yields (+/-0.5%, +/-1% and +/-1.5%).

INSUR: RENTAL PROPERTY NAV SENSITIVITY TO YIELDS (2019)

	-1.5%	-1.0%	-0.50 %	0.0%	0.50 %	1.0%	1.5 %
Gross yield	4.3%	4.8%	5.3%	5.8%	6.3%	6.8%	7.3%
GAV (€m)	403	361	326	298	274	254	237
NAV p.s. (€)	16.9	14.4	12.4	10.8	9.4	8.2	7.1

Source: Alantra Equities

b) Development sensitivity to prices

Impact of changes in the implicit price on 2019 development NAV

GAV as of FY19 for development was at €240m, with an implicit NAV per share of €9.30. To measure the sensitivity of the development division, we use the implicit price per unit of deliveries, as we believe that, under the current macro scenario, demand is going to decrease but there is a debate about the impact on prices. We show in the table below a 6-scenario sensitivity analysis to how GAV would react to changes in prices for both houses & land (+/-5%, +/-10% and +/-15%).

INSUR: DEVELOPMENT NAV SENSITIVITY TO PRICES (2019)

	-15 %	-10 %	-5 %	0	5 %	10 %	15 %
GAV (€m)	204	216	228	240	252	264	276
NAV p.s. (€)	7.2	7.9	8.6	9.3	10.0	10.7	11.5

Source: Alantra Equities

c) Impacts of both sensitivities at group level

NAV per share for Grupo Insur was €20.10 as of December 2019. The following table shows how both sensitivities shown above would impact this figure.

INSUR NAV AND DISCOUNT TO NAV SENSITIVITY TO YIELDS AND PRICES

Δ in yields / Δ in prices	-15 %	-10 %	-5 %	0	5 %	10 %	15 %
-1.5%	24.2	24.9	25.6	26.3	27.0	27.7	28.4
-1.0%	21.7	22.4	23.1	23.8	24.5	25.2	25.9
-0.5 %	19.7	20.4	21.1	21.8	22.5	23.2	23.9
0 %	18.0	18.7	19.4	**20.1**	20.8	21.5	22.2
0.5 %	16.6	17.3	18.0	18.7	19.4	20.1	20.8
1.0%	15.4	16.1	16.8	17.5	18.2	18.9	19.6
1.5%	14.4	15.1	15.8	16.5	17.2	17.9	18.6

Δ in yields / Δ in prices	-15 %	-10 %	-5 %	0	5 %	10 %	15 %
-1.5%	-71 %	-72 %	-73 %	-74 %	-74 %	-75 %	-75 %
-1.0%	-68 %	-69 %	-70 %	-71 %	-72 %	-72 %	-73 %
-0.5 %	-65 %	-66 %	-67 %	-68 %	-69 %	-70 %	-71 %
0 %	-61 %	-63 %	-64 %	**-65 %**	-67 %	-68 %	-69 %
0.5 %	-58 %	-60 %	-61 %	-63 %	-64 %	-65 %	-67 %
1.0%	-55 %	-57 %	-59 %	-60 %	-62 %	-63 %	-65 %
1.5%	-52 %	-54 %	-56 %	-58 %	-60 %	-61 %	-63 %

Source: Alantra Equities

I. What is Grupo Insur?

1) Brief history and overview of the group

Vertically integrated RE company based in Seville

Inmobiliaria del Sur (Grupo Insur) is a vertically integrated real estate company that was founded in 1945 (Seville) and listed on the Spanish stock market in 1984. Insur is a multi-family company with the Pumar family as reference shareholder (c.30% stake). It currently has c.170 employees and its management team is composed of experienced professionals with an extensive track record in the sector, most of whom have been with the company for more than 10 years.

Diversified business model, with RE development representing 44% of total GAV and rental property 56%

Grupo Insur's business model is based on a combination of its two main business lines: real estate development (44% of total GAV), mainly residential, and rental properties (56% of total GAV), which provides stability against the cyclicality of the development sector. In 2014, Grupo Insur expanded its development business through JVs with banks and private investors (in which it normally holds a 50% stake). This resulted in the creation of two complementary divisions (construction and asset management), in which the group reports the results from the construction and management of the assets developed through the JVs.

INSUR: PROJECTS UNDER DEVELOPMENT KEY DATA (FY19)

	Own developments	Through JVs
Number of units (#)	137	1,535
Revenues expected (€ m)	56	433
Presales (€ m)	43	154

Source: Alantra Equities

INSUR: RENTAL PROPERTY KEY DATA (FY19)

GAV (€ m)	298
GLA (sqm)	120,544
Occupancy rate (%)	88.40%
Annualised rent (€ m)	17.2

Source: Alantra Equities

Main regions are western Andalusia, Costa del Sol and Madrid

The company operates in three main regions (western Andalusia, Costa del Sol, Madrid) and mainly in prime areas with proven demand. Seville has traditionally been Insur's largest market, as reflected in the rental property business, where the region represents 77% of gross leaseable area (GLA). However, the group has made a strong effort to increase its geographic diversification over the last few years, and new investments are mainly focused in Madrid.

2) Resilient through the cycle

Financial discipline allowed Insur to survive the 2008 crisis without having to restructure or cut its debt…

Grupo Insur is one of the very few Spanish real estate players to overcome the 2008 financial crisis, as a result of: a) its business model, which combines the recurrent revenues from the rental property division with the riskier (but more profitable) development line (which is riskier than rental properties due to its higher exposure to the RE cycle); b) maintaining comfortable debt levels (<40% LTV) over the years; c) prudent management, especially with land acquisitions, as main directors share management and ownership in the company; and d) the long-term vision for the business shared by the main shareholders.

All of the above allowed the company to survive the toughest crisis in the Spanish real estate sector (2012) without having to restructure debt or take a haircut, and it has also never been involved in a debt-for-assets swap with the banks (an exception in the industry). Moreover, the company has paid dividends every year for the L30Y, except in 2013 (related to 2012 earnings).

…and to maintain its LTV below the company's 40% maximum target

Although it survived the crisis, Grupo Insur did not emerge unscathed and over 2007-11 the company saw a -21% and -36% CAGR in EBITDA and net profit, respectively. In 2012, the company booked a €25m impairment that resulted in an €18m net loss for the year (the only year with a negative result in the L30Y of its history). Despite the hit, the group made a strong effort to maintain a healthy balance sheet throughout the crisis. It has been able to gradually decrease its debt from the €236m peak in 2009, and has always been below its maximum LTV target (40%).

GRUPO INSUR: MAIN FIGURES 2008-19

(€ m)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	55	61	43	51	32	55	56	57	85	120	122
EBITDA	26	24	17	-12	9	14	16	13	13	22	25
Net profit	10	8	4	-18	3	3	6	4	4	10	9
Net debt	236	213	194	180	166	184	181	190	195	185	196
LTV	35%	33%	32%	35%	36%	39%	37%	40%	39%	36%	37%

Source: Grupo Insur, Alantra Equities

3) The 2016-20 Strategic Plan

When the sector started to show signs of recovery in 2014, Insur reorganised its corporate structure to separate the two main business areas and increase efficiency. In terms of strategy, the weight of the rental property business was increased in order to have higher recurrent revenues, and the number of projects developed through JVs was increased as well. All of this was reflected in the strategic plan presented in 2015 for the 2016-20 period.

€350-375m NAV target for 2020

The main objective of the plan was to have profitable growth in all business areas in order to reach a total NAV of €350-375m by 2020. By business area:

Delivery of 2-2.5k units in 2016-20 with €550-650m in revenues

a) **Development.** The plan targeted the delivery of 2-2.5k units over 2016-20 and cumulative revenues in the €550-650m region, as well as the consolidation of the geographic expansion in Madrid and Costa del Sol in order to maintain balanced volumes across the company's three main regions. The plan also aimed at increasing the number of projects in which Insur invests through 50/50 JVs in order to access to a greater number of projects whilst sharing risk and debt burden. It also targeted a c. 15% project IRR.

90% occupancy rate by 2020, €15.5-16.5m in revenues

b) **Rental property.** The strategic plan aimed for continued growth in the rental property division (with **geographic** diversification especially in Madrid) in order to increase the share of recurrent revenues to provide stability at group level. Diversification in rental property was also aimed at **use** (e.g. transformation of two office buildings into hotels) and **clients** (multi-client offices, not highly dependent on any client). It also targeted a 90% occupancy rate by 2020 with revenues in the region of €15.5-16.5m.

c) **Construction and asset management.** The objective was to increase revenues in the construction and asset management divisions together with the increased activity in JV development activity. The company set a €220m target in construction output and €15m in revenues from asset management for the entire 2016-20 period.

INSUR: KEY TARGETS OF 2016-20 STRATEGIC PLAN

Group	Development	Rental Property
- Reach a NAV of €350-375m by 2020	- Delivery of 2-2.5k units in the period	- Reach a 90% occupancy rate by 2020
	- Cumulative revenues of €550-650m	- Reach annual revenues of €15.5-16.5mn by 2020

Source: Alantra Equities

We expect both rental property and development targets to be missed in 2020

In 2019, Insur had an 88.4% occupancy rate and €17.2m annualised rent, but given the turnaround in the market we now believe it will not be able to reach the 90% occupancy target, although it will remain close. Moreover, the development business has only delivered 1,088 units over 2016-19, which represents a 44-54% of the total 2.0-2.5k target for 2016-20. We expect Insur to deliver 355 units in 2020, which added to the 1,088 delivered in 2016-19 amount to 1,443 units (58-72% of target for the period), hence we believe the company will not reach the 2-2.5k target. However, missing this target is mostly explained by the fact that Insur has also developed the Madrid Rio complex comprising two office buildings, one of which Insur will keep for the company's rental business and the other one will be sold in 2020 (contract already signed) and will be included as part of the company's development revenues for the year.

We believe Grupo Insur will present a new strategic plan at some point in 2020, and we do not expect any material changes in the company's strategy or business model. In our view, this new plan should focus on the implementation of appropriate measures to face the new crisis we expect to see in the sector over the next 2-3 years, in order to then be able to focus again on the growth path the company had initiated with Madrid as the main target.

4) Shareholder structure and governance

Insur is a multi-family company with the Pumar family as reference shareholder…

Grupo Insur is a multi-family company that was founded by three partners, which is currently made up of several family groups that have maintained the same vision for the business and joint company project for many years. In addition to the Pumar family, which is the largest shareholder and leads the management of the company with a 31% stake, there are six other family groups represented on the Board. There is no coordination between these shareholders, which together hold <35% of the share capital split into stakes ranging from 3-9%.

Insur's shareholder structure is highly fragmented in the number of significant shareholders (aside from the majority shareholder) and these do not act in a coordinated manner, which results in dispersed capital and greatly reduces conflicts of interest with minority shareholders. This structure, together with the coordination between property and management, has allowed Insur to establish a long-term strategy aimed at the sustainability of the company over time.

Insur's shareholder structure is split into: (i) the Board of directors with a 62.9% stake, (ii) 0.8% treasury shares and (iii) 36.3% free-float. The Board of Directors represent a 36.1% stake in the share capital of the company, but the 62.9% figure of the Board includes the shares owned by significant and non-significant shareholders that have taken part in the designation of dominical directors in the Board. If we did not consider the stakes held by shareholders not in the Board, but that take part in the decision of dominical directors, free-float would be 51.3%

INSUR: SHAREHOLDER STRUCTURE

Shareholder	Stake
Board of Directors	62.9%
Treasury shares	0.8%
Free float	36.3%
Total	**100%**

Source: CNMV, Company data, Alantra Equities

… who also has also a strong presence on the Board of Directors

There are 15 seats on the Board of Directors, which are divided into chairman, vice-chairman, 10 proprietary directors and 3 independent directors. The Pumar family also has a significant presence on the Board, as Ricardo Pumar is the chairman and five other family members are propriety directors (one through the company Inversiones Agrícolas, Industriales y Comerciales).

In addition to the Board of Directors, Grupo Insur also has an audit committee, a strategy and investments committee, and a nomination and remuneration committee that help the company comply with the required standards of corporate governance.

II. SWOT analysis

1) Strengths & Opportunities

The combination of rental property and development provides Insur with a stable business model

a) **Diversified business model & outstanding track record.** The combination of the development (45% of GAV) and rental property (55%) businesses allows Insur to weather the development cycles, which grant higher returns, whilst counting on recurring revenues from the rental assets (with geographic, use and tenant diversification). This, together with its prudent financial approach, is the reason the company has survived the ups and downs in the sector (including the 2012 crisis).

It captures value throughout the entire development process

b) **Vertically integrated.** Controlling the entire development process allows Insur to both capture all the value-added post land classification and better monitor delays in licensing and construction cost inflation, which have recently been the main concerns in the sector.

Deep knowledge of its main markets

c) **Local player.** Being a local player allows the company to have a deep knowledge of its markets (western Andalusia, 80% of WIP units; Malaga, 5%; Costa del Sol, 15%, and Madrid, 11%). It also has an understanding and track record on processes with local administrations, which eases the permitting process.

Acquiring fully permitted land mitigates permitting risks

d) **Most of fully permitted land in prime locations.** Most of Insur's land bank is fully permitted, and the group only acquires land that is fully permitted (or in the final stages of becoming so). This provides higher visibility on the delivery timelines for new developments. Moreover, most of the land is located in prime locations and devoted to primary residences, which experiences more resilient demand than secondary (vacation) residences. Insur currently has 88k sqm available to build c.812 units and purchase options for over 10 land plots with 191k sqm to build 1,670 houses in the next 3-5 years.

JV model provides access to more projects, sharing risk

e) **Investment through JVs mitigates risks.** Insur's strategy of investing in development projects through JVs (normally with 50% ownership) allows the company to have access to a larger number of developments, while sharing risks.

2) Weaknesses & Threats

RE development depends highly on macro variables not controlled by the company

a) **Macro & political risk.** The development business is highly dependent on the evolution of the Spanish economy, and the expected decrease in GDP will put demand for new homes at risk (GDP in Andalusia, Insur's main market, is also falling). In addition, our view is that the new government's measures (including the interventionism in the rental market) will reinforce the economic slowdown, resulting in a more volatile and uncertain environment, thus impacting the real estate sector.

Delays in development seen in 2019 might continue to occur

b) **Execution risk.** The company's growth strategy implies execution risk on several fronts: i) delivery of the product in terms of timing and costs; ii) acquiring new land without damaging margins; iii) maintaining an agile process in obtaining permits. This execution risk could be materialised in 2020 mainly due to the Covid-19 impacts.

RE investors might prefer to do their own diversification

c) **Not a pure player.** Insur's diversified business model might be less attractive for specialist real estate investors vs. splitting their investment in Spanish RE into pure developers and REITs.

LTV should be in the middle of REITs and developers

d) **Slightly high debt levels.** Grupo Insur has a maximum 40% LTV target, which we believe to be slightly high. Our view is that this target should be somewhere between the one for REITs (38%) and pure developers (c.10%) given the dual nature of its business model.

Potential conflicts of interest with minority shareholders

e) **Potential conflicts with minority shareholders.** In family-owned companies, conflicts of interest with minority shareholders may arise, but controlling families have a good track record so far.

Size and local profile might be unattractive for investors

f) **Scale & local presence.** Despite the advantages of being a local player, it (together with the company's relatively small size) can also be an obstacle for investors interested in the entire Spanish real estate sector.

Lack of liquidity prevents share price from reflecting the fair value of the company

g) **Very low liquidity.** Insur has a very low liquidity, reflected in an average daily volume of only a few thousand shares over the L12M. We see this low liquidity as an obstacle for potential investors to enter the share capital and, as a result, the share price does not reflect the fair value of the company (it trades at a 64% discount to FY19 NAV).

III. Deterioration in prospects given tougher macro outlook

The Covid-19 crisis is likely to put an end to the sound (and healthy) recovery seen in the Spanish housing sector over the last 5-6 years. As a result of the pandemic, we expect: 1) housing demand to plummet by c.40% to 290k in 2020 (below the 2013 trough), recovering to 380k (21), 440k (22) and returning to c.500k by 2023; 2) average prices to fall by c.6-7% in both 2020 and 2021, with a better outlook for new vs. used homes, and then to recover by +2-3% p.a.; and 3) supply to moderate from >100k housing starts to barely 55-65k in 2020-21, growing to 80-100k in 2022-23.

SECTOR MAIN KPIs ESTIMATES

	Demand					Prices					Housing starts				
	19	20E	21E	22E	23E	19	20E	21E	22E	23E	19	20E	21E	22E	23E
Total	501k	290k	380k	440k	500k	+3.6%	-7%	-8%	+3%	+2%	106k	55k	65k	80k	100k
New	*93k*	*65k*	*75k*	*85k*	*95k*	*+5.3%*	*-5%*	*-6%*	*+3%*	*+2%*					
Used	*403k*	*225k*	*305k*	*355k*	*405k*	*+4.7%*	*-9%*	*-9%*	*+3%*	*+1%*					

Source: Alantra Equities

1) Demand to tank in 2020 & recover pre-Covid levels by 2023

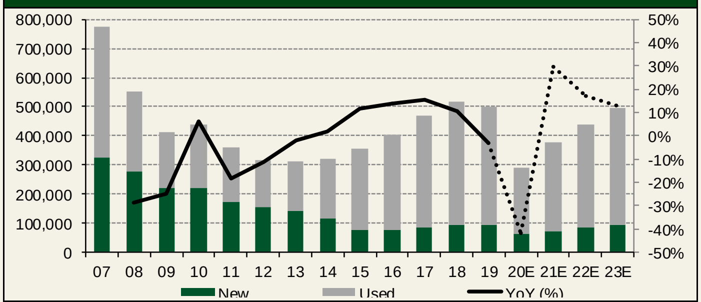
The last trough in housing demand was in 2013: after six years of continuous decline, total housing transactions bottomed out at c.310k units, while in Andalusia the trough was at c.60k This trough also coincided with the c.25% peak in the Spanish unemployment rate (c. 35% rate for Andalusia). Housing demand has steadily recovered since then, reaching c.500k units in 2018-19. Prior to Covid-19, we were expecting stable demand in 2020-21 and a marginal change in the mix of new/used homes, with the former increasing its share from 20% to 25%.

We expect demand to plummet to 290k in 2020 and to recover 2019 levels by 2023

However, the Covid-19 pandemic will now prompt several changes. While housing transactions were flat in January-February (+7% in Andalusia), in March they fell by c.20% (transaction in Andalusia fell in line with national average) to c.35k on only two weeks of lockdown. The imposed confinement measures and restrictions on activity, combined with the likely economic recession and spike in the unemployment rate, will likely lead to a major fall in demand for the rest of the year. We expect 30k total housing transactions in Q2 (-75% YoY), c.50k in Q3 (-60%) and 85K in Q4 (c.-30%). We foresee the fall being less severe for new homes as some were signed during the construction phase (before delivery), thus prior to the outbreak. As a result, we expect c.290k transactions for 2020, below the 2013 trough. However, with the economic recovery and better consumer perception, we expect total transactions to jump by >30% (to c.375k) in 2021, by c.20% (to c.440k) in 2022 and by c.10% (to c.500k) in 2023, reaching levels similar to 2019. In Andalusia, we expect trends in housing demand to be broadly in line with Spain.

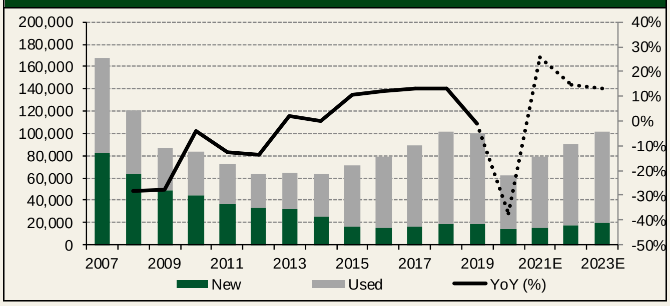
We expect tier 1 cities to continue outperforming secondary cities. Moreover, we think the segment to suffer the most will be vacation homes due to both lower local & foreign demand. In addition, regions exposed to tourism (such as Costa del Sol and eastern Spain) should also be more impacted by the crisis on poorer economic trends.

HOUSING DEMAND IN SPAIN



Source: INE, Alantra Equities

HOUSING DEMAND IN ANDALUSIA



Source: INE, Alantra Equities

2) Prices to decline at a more moderate rate (c.10% until 2021)

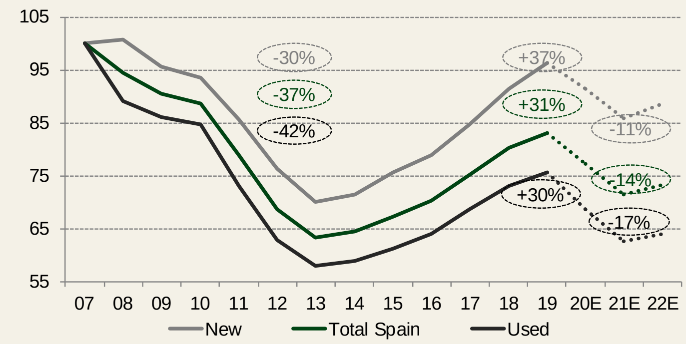
Home prices have steadily increased since the 2013 trough, albeit at different paces for new and used homes. Used homes only recovered half of the fall in prices (and still sat c.25% below peak levels in 2019), whilst new home prices recovered by >85% (leaving them only 5% below peak).

New home prices to fall by c.10% until 2021 and recover thereafter

Prior to Covid-19, we were expecting prices to moderate from mid-single digit growth in 2019 to 1-3% p.a. over 2020-21. However, due to the implications of the pandemic (tougher economic outlook, unemployment rate hike, etc.) we now expect prices to be under pressure. That said, our much lower demand estimates are also explained by our assumption that declines in prices will be limited, particularly for new homes as we believe that the comfortable B/Ss and scarce supply will allow developers to limit discounts in exchange for moderate sales activity, giving things time to recover.

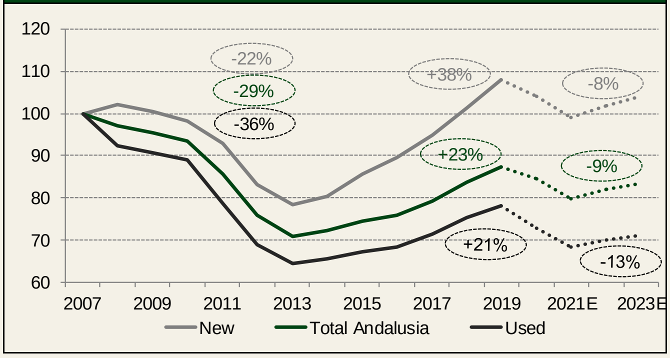
With this in mind, we foresee prices declining by 5-8% in both 2020 and 2021, with total homes falling by c.15% with new homes down c.10% and used -17%. In line with our expectations for demand, we see tier 1 cities outperforming secondary and coastal cities on the above-mentioned higher exposure to tourism (and its weaker economic prospects) and secondary homes. In Andalusia, we expect the evolution of prices to follow the same trends than the national average, although the total drop should be lower at c. 10% (-8% in new houses with a higher fall expected in vacation areas such as Costa del Sol and -13% in used houses).

HOME PRICES IN SPAIN (BASE 100)



Source: INE, Alantra Equities

HOME PRICES IN ANDALUSIA (BASE 100)



Source: INE, Alantra Equities

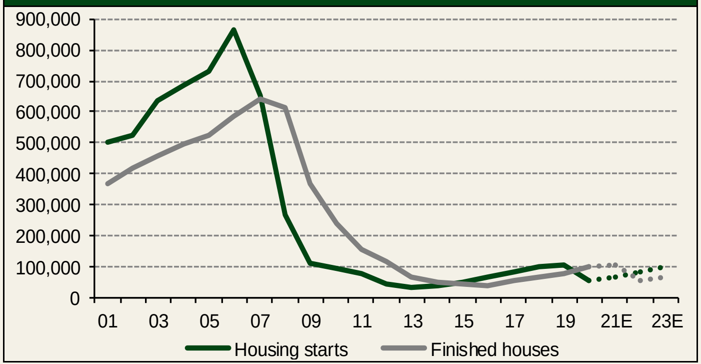
3) Supply to halve (55-65k) in 2020-21

The high volume of unsold units, together with tighter restrictions on developer loans and stricter financial access for individuals, has caused a prudent ramp-up in housing starts over the last few years, from the c.35k trough (2013) to c.106k (2019). This is still below what we considered to be "sustainable" demand (120-140k new homes p.a.), and far below the >600k seen over 2001-08. The stock of unsold units fell to c.440k by 2019 (largely structural), of which c. 70k located in Andalusia, implying 1/3 less than the c.650k peak in 2009.

Housing starts to halve in 2020-21 to adapt to the fall in demand

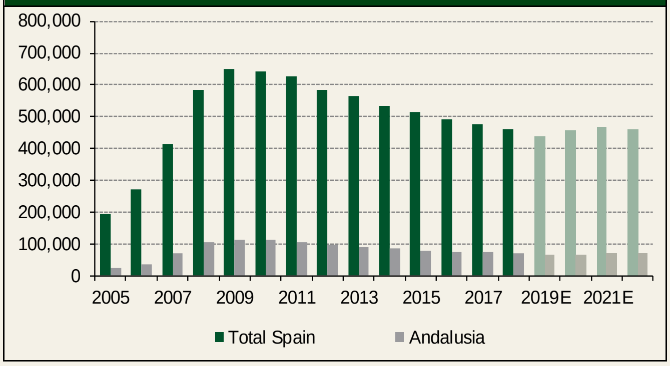
We understand that the current uncertain environment will lead developers to delay new projects until there is more visibility and demand starts to kick in. As such, we expect housing starts to fall by 40% to c.55-65k over 2020-21 and to increase again to c.80k (22) and c.100k (23). As for housing stock, we expect it to slightly increase by c.15k units in both 2020 and 2021 (or 3-4% of total) and then to continue to fall by 10-20k in 2022-23 to reach c.445k, broadly in line with levels seen in 2019 and of which c. 67k will be in Andalusia.

HOUSING STARTS VS FINISHED UNITS



Source: Ministry of Works, Alantra Equities

STOCK OF UNSOLD UNITS IN SPAIN AND ANDALUSIA



Source: Ministry of Works, Alantra Equities

IV. Developer and property manager, a mixed RE player

As mentioned in previous sections, Insur has a mixed business model that combines the residential development division (which is highly exposed to the cyclicality of the sector) and the rental property business (which provides stability through its more recurrent revenues). The company also has the construction and asset management business lines, which allow for higher revenue diversification.

INSUR: GROUP AND DIVISIONS' MAIN FIGURES (2019)

(€ m)	Group	Development	Rental Property
GAV	538	240	298
Net Debt	196	81	115
Revenues	123	65	14
EBITDA	27	13	14

Source: Alantra Equities

1) Real estate development (53% of 2019 revenues inc. JVs)

Insur operates mainly in Seville, Malaga and Costa del Sol, and has extensive knowledge of local market trends

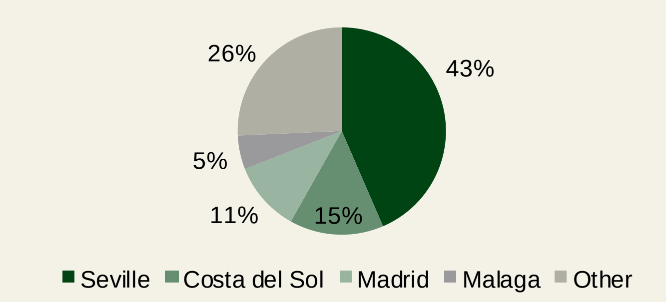
Insur develops residential properties mainly in Seville, Malaga and Costa del Sol, where it has extensive knowledge and expertise of the local land and client demand. It also has a good understanding on processes with regional governments and local councils, which in turn helps to speed up the permitting processes and reduce execution risk. As part of its geographic expansion, Insur has recently started to develop houses in the periphery of Madrid. In addition, the company also has a smaller presence in other geographies on an opportunistic basis through DMS (its JV with BBVA). In terms of client type, Insur is focused on the mid and mid-high end segments, mostly in areas with proven demand.

Insur has also developed a 2-building office complex in Madrid, which we explain in detail later on in this report, although the majority of its development activity is devoted to homebuilding.

Development projects through JVs allow Insur to have access to more projects, whilst sharing the risks with partners

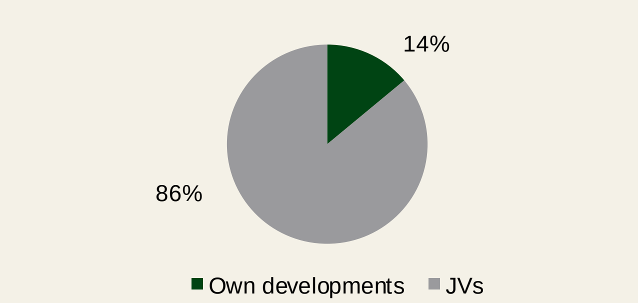
Insur has an increasing number of projects developed through JVs with financial partners. The company normally owns 50% of these JVs, and leads the entire development process as an industrial partner through comprehensive management contracts, marketing and construction, and it takes on all of the inherent functions. Investing through JVs allows Insur to gain access to a higher number of projects, whilst diversifying its risks. One of the JVs through which Insur is developing a significant number of projects is with BBVA (DMS). This JV represents an advantage for both BBVA and Insur as the bank disposes part of its land portfolio, retaining part of the development margin, and Insur has access to a greater number of projects.

INSUR: HOUSES UNDER DEVELOPMENT BY GEOGRAPHY



Source: Grupo Insur, Alantra Equities

INSUR: HOUSES UNDER DEVELOPMENT BY OWNERSHIP



Source: Grupo Insur, Alantra Equities

Available land bank to develop 2,486 additional houses

In addition to the projects that are already under development, Insur also has available land to build an additional 2,486 houses (of which c.200 houses from fully owned developments and the rest to be developed through JVs) in the medium term. Insur has 88k sqm available to build 816 units and purchase options over 10 land plots (for which the company has already paid a small amount), with a total building area of 191,140 sqm to build 1,670 houses. Finally, Insur has 30k sqm available for hotel use and 8.2k sqm for tertiary use.

INSUR: LAND BANK AVAILABLE AS OF 1Q20		
Use	**m2**	**Units**
Residential	87,706	816
Residential (*)	191,140	1,670
	297,986	**2,486**
Hotel	30,000	n.a.
Tertiary	8,238	n.a.

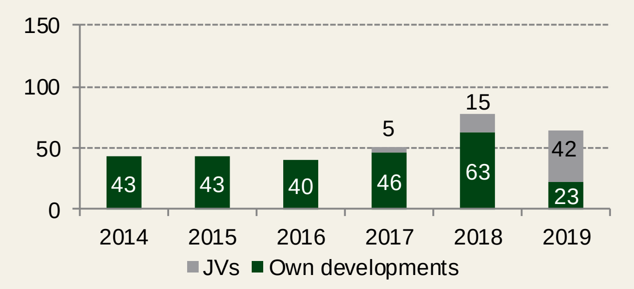
(*) Land plots owned by BBVA over which Insur has purchase options. Source: Alantra Equities

€126m pre-sales reported in 1Q20 cover c.2 years of sales

Pre-sales in March 2020 including the proportional pre-sales from joint businesses) reached €126m, of which €78m stemmed from JVs and €48m from fully owned promotions. When comparing this figure with the €65m revenues for development (at proportional method) as of FY19, we see that pre-sales cover sales for the next c.2 years.

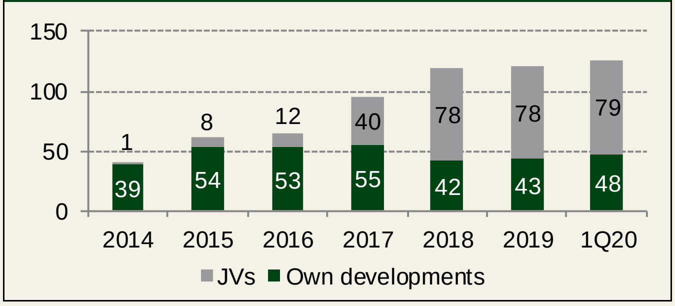
Pre-sales are very important for Insur, as financial institutions only agree to finance projects that have 25-30% of units pre-sold in primary residences and 40-50% in secondary residences. Once that threshold is met, commercial activity is adapted to the pace of construction in order to reach 80-100% of pre-sales when a development is finalised. The company believes that slowing down the pace of commercial activity after pre-selling the required units can make room for price increases, thus obtaining higher margins than initially estimated.

INSUR: DEVELOPMENT SALES EVOLUTION (2014-19)



Source: Grupo Insur, Alantra Equities

INSUR: DEVELOPMENT PRESALES EVOLUTION (2014-1Q20)



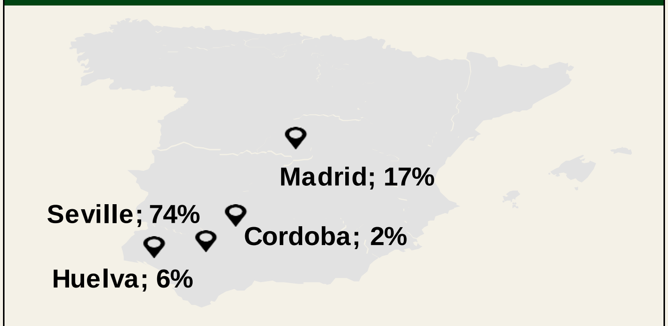
Source: Grupo Insur, Alantra Equities

2) Rental property (11% of revenues)

134k sqm portfolio (74% in Seville), mainly office buildings

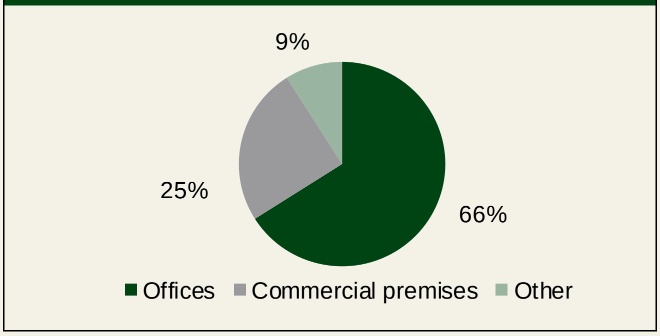
Insur has c.134k sqm of offices and commercial premises, as well as >2.3k parking spots. These assets are distributed across the company's main geographies, although Seville is clearly the main market (74% of total portfolio in terms of GAV). In terms of asset type, the offices sector represents >65% of total rental property revenues as of 2019. Commercial premises (25% of total) are mostly retail businesses, which we expect to be the most impacted by the Covid-19 outbreak and from where most of the occupancy decreases expected in 2020-21 should come. "Other" includes mostly parking slots.

INSUR: PORTFOLIO GEOGRAPHIC BREAKDOWN BY GAV



Source: Grupo Insur, Alantra Equities

INSUR:2019 REVENUES BREAKDOWN BY ASSET TYPE



Source: Grupo Insur, Alantra Equities

Main buildings represent 75% of the total portfolio

Its most significant assets account for 75% of the portfolio in terms of sqm, as shown in the table below. Given the characteristics and privileged locations of these buildings within the respective cities and the fact that Insur was in the process of renegotiating lease contracts, we believe the decrease in rents in the market will not have a strong impact on the company.

INSUR: MOST SIGNIFICANT RENTAL PROPERTY ASSETS

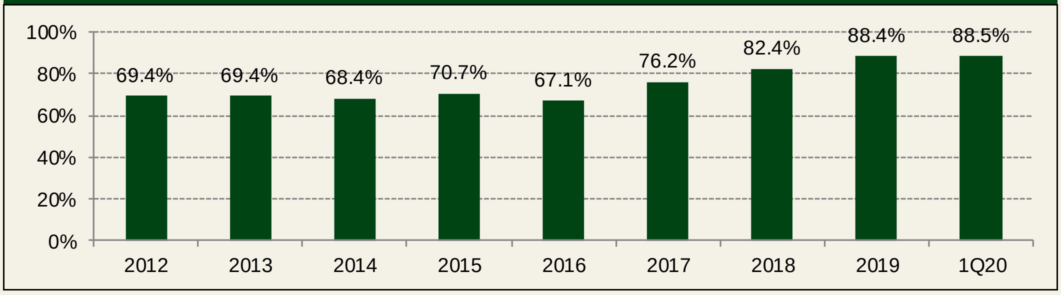
Asset	Asset type	Location	m2	% of total
Buenos Aires	Office	Seville	36,648	27%
Insur	Office	Seville	17,885	13%
Madrid Rio 55 (North) (*)	Office	Madrid	13,672	10%
Centris II	Office	Seville	8,917	7%
Insur Huelva	Office	Huelva	8,880	7%
Insur Cartuja	Office	Seville	8,126	6%
El Mirador	Shopping centre	Seville	6,932	5%
			101,060	75%

(*) Madrid Rio 55 (North) to be included in the portfolio in 3Q20. Source: Alantra Equities

Turnaround in occupancy rates has been achieved: 88.5% in 1Q20 vs. lowest at 67% in 2016

Prior to the financial crisis, the regional government (Junta de Andalucía) was Insur's largest client in office buildings, and it occupied a significant part of the company's portfolio. During the years of economic downturn, this client stopped renewing its leasing contracts and started to vacate Insur's offices. As a result, the company reached its lowest occupancy rate in 2016 at 67%. Grupo Insur initiated the redesign and refurbishment of some of its most significant buildings in order to increase their attractiveness for new clients and diversify its client base, as set out in the 2016-20 Strategic Plan. The group was able to transform its client strategy and now rents its office space to a wide variety of tenants. The office buildings are divided into modules, and the tenant can chose the number of modules to lease depending on its specific needs. This strategic shift has paid off: as of 1Q20, the company had an 88.5% occupancy rate, although we now expect this figure to slightly decrease in the next few years (86% in 2020 and 81% in 2021-22) as a result of the coronavirus crisis.

INSUR: OCCUPANCY RATES EVOLUTION 2012-1Q20



Source: Grupo Insur, Alantra Equities

5.8% gross yield is above 3.6% average for REITs

In 1Q20, Insur reported an annualised rent and GAV for this division of €17.5m and €301.8m, respectively. This entails 5.8% gross yield, which is above the REITs at 2.9% for Colonial, 4.1% for Merlin Properties and 5.2% for Lar España, given Insur's exposure to secondary cities.

As part of the previously mentioned refurbishment process, Grupo Insur completely renovated an office building in Cordoba to transform it into a hotel, and it is now doing the same with a former office building in Seville. These efforts show the company's strong focus on extracting the highest value from its portfolio.

Insur should dispose some of its assets opportunistically to deploy proceeds in further growth

Lastly, the company also carries out asset rotations on an opportunistic basis by disposing assets in which the company believes there is no further potential for value creation, and it uses the proceeds to invest in new rental asset developments. Insur's current growth focus is in Madrid, and it intends to deploy most of its capex for new assets in that region. The company does not intend to operate in Madrid's prime CBD areas, where competition is very high. However, it intends to execute transactions similar to Rio 55, in secondary areas with growth potential, and to invest in the entire development of the project.

Madrid Rio 55 Business Park is proof of Insur's geographic diversification objective

The Rio 55 Business Park is the first office complex that Insur has developed in Madrid, and it has done so through its subsidiary IDS Madrid Manzanares (in which it holds a 50% stake). The project was initiated in 2017 and consists of two office buildings with a total gross leasable area of 28k sqm and 400 parking spaces. The South building was sold (turn-key) to a fund managed by AEW Europe (a real estate investment firm), whilst Insur reached a lease agreement for the North building with Cetelem (BNP Paribas), to be delivered in 1H20. In addition, the company has signed a contract with its partners in the subsidiary to acquire an additional 40% stake, reaching 90% ownership.

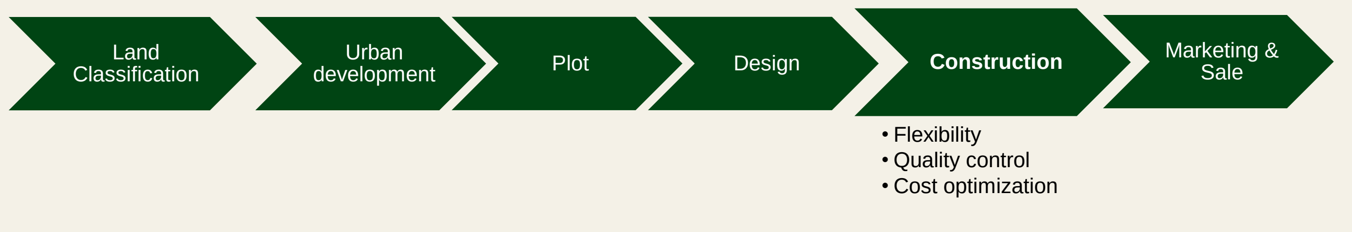
3) Construction (32% of revenues)

In-house construction gives the company higher flexibility and cost control

Grupo Insur is one of the few real estate companies in Spain to have its own construction division within the group, which allows the company to have a higher degree of flexibility and control over the construction works. This advantage becomes especially relevant in periods of construction cost inflation, as we have seen over the last few years. Insur's construction division builds all the projects the company develops and does not work for third parties.

As of March 2020, Insur had 542 units under construction of own developments and developments through JVs that will be delivered between 2020-22. This figure is currently below the company's capacity, as Insur has capacity to deliver c.800 units per year. If the number of units under construction were to increase in the coming years above those 800 units, as a result of the company's intention to continue growing, Grupo Insur would likely have to also increase its construction business.

INSUR: VERTICALLY INTEGRATED BUSINESS MODEL



Source: Grupo Insur, Alantra Equities.

4) Asset management (6% of revenues)

Asset management is an additional source of income generation for Insur

The asset management division has gained relevance since 2015, when the investment in new real estate assets through JVs was boosted. In all JVs, the group is not only in charge of the construction of the projects, but is also in charge of the subsidiary and project management. Insur charges its partners in the JV a fee for these services.

In general terms, the fees for these services account for c.4% of total subsidiary revenues. As of FY19, this activity represented only 6% of total revenues, but we expect revenues from asset management to continue increasing in the coming years due to the rising number of projects developed through JVs. Revenues reported for the asset management division were at €7.5m in FY19, which represents a 75% increase YoY and reflects the previously mentioned trend.

V. Well prepared to face the new cycle

As explained in previous sections of this report, the Covid-19 outbreak is going to have a negative impact on Insur (and the real estate sector in general) over the next 12-18 months. Despite the still high uncertainty, Insur is implementing a series of measures to face this shock.

The first measure taken aimed to protect liquidity, thus Insur decided to postpone the decision on the dividend payment on 2019 results to an extraordinary shareholders meeting that will take place after the summer. We would expect a YoY decrease in total dividend pay-out.

INSUR: MEASURES TAKEN TO FACE COVID-19 IMPACT

Development	Rental Property	Financial
- Finish all ongoing construction	- Re-schedule of capex on current assets	- Cash protection measures:
- Postpone the start of new projects	- Payment flexibility measures granted for affected clients	- Refinancing of MARF notes with bank debt to finance WK
- Divide developments into phases to accelerate financing	- Paralyse investments in new assets until visibility increases	- Postponement of decision on final dividend payment on 2019 results
- Paralyse land acquisitions until visibility increases		

Source: Alantra Equities

1) All developments under construction to be finished

Construction activity has advanced normally over the lock-down, except for the two weeks in April when the Spanish government stopped all non-essential activities (construction was not considered essential). The company plans to finish all developments that are currently under construction and for the projects under development but that have not yet initiated construction, Insur is waiting to see how demand evolves and dividing projects into phases in order to accelerate the needed level of pre-sales (c.30%) to obtain financing from the banks.

20% prepayment limits risk of cancellations

As of 1Q20, Insur had 197 finished units (92 own developments/105 JVs) to be delivered in 2020, of which c.90% were already pre-sold. We do not expect any cancellations of the contracts signed in these developments. In addition, Insur has 542 units under construction (48 own developments/494 JVs), of which 51% are pre-sold. For these units, we expect some very residual cancellations (c.5%), as clients have to pay up-front 15-20% (even 30% in some projects) of the price, which is a relevant amount. In addition, if a contract is finally cancelled Insur has to pay back only half of the amount paid by the client, which grants the company the possibility of decreasing prices on those specific units by c.10% without compromising margins.

Holiday homes in Costa del Sol account for just 15% of the total

From the areas in which Insur operates, we believe the Costa del Sol region will be the most impacted by the shock in the sector in terms of demand and prices, as seen earlier in this report. The company currently has 2 projects under development with 256 units in total (15% of total units under development). Insur has only started constructing 52 if these units and we believe these projects could see the longest delay to start the construction phase.

Land acquisitions halted for now

Regarding land acquisitions, Insur has halted all decisions until visibility on prices and demand in the sector increases. As previously mentioned, Insur has a 15% project IRR target for the development business, and we believe the company will not make any rushed decisions to acquire land plots that may not meet that target. Insur is closely monitoring the evolution of the market as attractive opportunities may arise from this situation. Unlike peers, Insur has a relatively smaller land bank (equivalent to 2-years of deliveries vs. 4-20 years for peers).

2) Occupancy rates to fall, but rents should remain stable

In the property business, Insur is better prepared to face this crisis than it was in the previous one (2008-13) as it has a more diversified client portfolio. We expect 5-6pp decrease in 2020-22 despite the company having awarded payment postponements to some of its clients.

In terms of rents, some of Insur’s lease contracts are close to expiring and currently have rents below market level. Before Covid-19 outbreak we were expecting revenues increasing from contract renegotiations, but we now believe that the general decrease in market rents will result in Insur’s rents remaining broadly flat and being in line with the market over the next 1-2 years.

Capex plans postponed until visibility increases

Regarding capex, the company is still deploying the investments needed for the hotel in Seville, which was included in the syndicated loan signed last year. Insur also has an office building under refurbishment, and the company has decided to continue the works on floors for which lease contracts have already been signed, but to stop works on those without contracts. Finally, Insur has decided to postpone any investment decision in new assets to Q3, when it expects to have higher visibility on the outlook for the sector following the lockdown.

3) LTV to remain below the 40% threshold

<40% LTV policy to be maintained

Insur has a <40% LTV policy which is the level it considers comfortable for the business. Insur has c.€15m recurrent annual revenues from the property business, which allows the company to meet its ST obligations, while the development business has to be monitored more closely. Although we believe that LTV look a bit high considering that Insur's 36.6% 2020 is much closer REITs (38.8%) than to developers (10.7%), in terms of ND/EBITDA (8.0X for 2020 and 9.2X for 2021), Insur is in the middle of developers (3.4X and 2.8X average in 2020 and 2021, respectively) and REITs (17.5X and 16.5X average in 2020 and 2021).

MARF notes refinanced with bank debt

Insur uses the alternative fixed income market in Spain (MARF) to finance its working capital. This market is currently paralysed and Insur has not been able to issue any new notes in the last 2-3 months, so it has refinanced its short-term obligations with bank financing until the debt market returns to normal. This will result in higher cost of debt in 2020, but grants ST liquidity.

4) Better positioned than competitors to face the crisis

In relative terms, we believe Insur is better prepared to face this crisis for two main reason: (i) has the smallest landbank in relative terms, (ii) it is less exposed to tourism regions and (iii) it is vertically integrated, which allows Insur to better control over timings, processes and costs.

Insur has the smallest landbank (c.0.8k) and MVC the largest (c.36k)

Insur has the smallest landbank in relative terms as it has landbank that cover 2-year deliveries, while competitors range from 4 year for Neinor to <20 years for Metrovacesa. In the current circumstances, we prefer smaller vs. larger land banks, as land prices will likely suffer more in a cycle downturn and larger land portfolios will take longer to monetise.

15% exposure to tourism regions, below Neinor's 20% and 40% for Aedas and MVC

As mentioned earlier in this report, in terms of demand evolution we are more concerned about tourism regions (eastern Spain, including the Balearic islands, and Costa del Sol), especially Costa del Sol, which already suffered from over-supply prior to Covid-19 and has a higher exposure to secondary homes. In this sense, we estimate that Insur has the lowest exposure to tourism regions: c.15% vs. 20% for Neinor and c. 40% for Aedas and Metrovacesa.

Pre-sales levels are slightly lower than those of competitors, but close to the 60% average level, and its debt is above developers, but it is due to Insur's combined business model (rental property business typically bears higher debt due to the recurrence of its revenues). That said, Insur has already survived other downturns in the sector, including the one in 2012, at those debt levels and without having to take any haircut or refinancing.

HOUSING SECTOR: KPIs

	Neinor HOMES	AEDAS HOMES	mvc.	Insur GRUPO
Land bank size	11k / <4Y	9.9k / 5-6Y	36k / <20Y	0.8k / c.2Y
WIP units in tourism regions	<20%	c.40%	c.40%	c.15%
Pre-sales	2.83k	2.91k	2.1k	0.5k
Pre-sales / WIP	64%	63%	63%	58%
Debt levels (LTV)	17%	14%	0%	37%
Business mix	Developer	Developer	Developer	Developer / Rental property

Source: Alantra Equities

VI. P&L estimates

Proportional method is a better illustration of the real relevance of business units…

As previously explained, Insur carries out part of its development business through JVs in which it owns a 50% stake. These JVs are consolidated through the equity method, as established in IFRS11, where the contribution to the P&L from JVs is only seen in the equity accounted investments line.

…but we use the equity method in our numbers, in line with audited accounts

We (and the company) believe that the proportional method is a better illustration of the real contribution of each business line to group results. Thus, we include a conciliation table for the 2019 P&L, showing the difference between equity and proportional methods. However, as Insur has to use IFRS11 for its audited accounts, we will use the equity method for our estimates.

INSUR: 2019 P&L CONCILIATION BETWEEN EQUITY METHOD AND PROPORTIONAL METHOD

(€ m)	Equity method	Adjustments	Proportional method
Revenues	**121.6**	**1.1**	**122.8**
o.w. Development	23.1	42.0	65.1
o.w. Rental property	13.6	0.1	13.7
o.w. Construction	77.4	(37.9)	39.6
o.w. Asset management	7.5	(3.1)	4.5
EBITDA	**24.6**	**1.9**	**26.5**
o.w. Development	15.0	-	16.8
o.w. Rental property	13.7	0.1	13.8
o.w. Corporate	(4.1)	-	(4.1)
Cap. gains on sale of assets	4.1	-	4.1
EBITDA adjusted	**20.5**	**1.9**	**22.4**
EBIT	**22.2**	**1.8**	**24.0**
Net financial expenses	(12.0)	(0.5)	(12.5)
EBT	**10.2**	**1.3**	**11.5**
Net Profit	**8.8**	**-**	**8.8**

Source: Alantra Equities

Development revenues increase when using the proportional method, by adding the revenues from the JVs in the stake owned by Insur. Construction revenues are the income generated by work on the JV developments. When consolidating using the proportional method, the incomes corresponding to the stake owned by Insur are eliminated.

1) 2020 saved by presales, weaker 2021-22

We expect results in 2020 to be broadly in line with those reported by the company in 2019 (€13m net profit excluding one-off financial cost) due to the strong amount of presales in 2019 to be delivered in 2020 and despite the Covid-19 outbreak. That said, we expect results to decrease in 2021 and 2022, and to rebound slightly in 2023, mainly driven by construction activity that we expect to be weaker than 2019 over the period. Our main figures are as follows:

Revenues should rise 2% YoY in 2020 due to 2019 presales…

a) **Revenues.** We expect 2020 revenues to increase by 2% YoY to €124m on higher development revenues and despite lower construction activity. We should then see revenues down in 2021 and 2022 due to the company increasing the number of houses developed through JVs (which are not shown in the top line) and still weak construction.

…with an upward trend in gross margins on the evolution of development margins

b) **Gross margin.** Gross margin should increase from 24% in 2019 to 26% in 2023, mainly due to increasing margins in development, as the last few land plots acquired during the previous cycle at high prices (which have been compromising margins over the last few years) have already been developed. For the other divisions, gross margins in rental property (100%) partly compensate for the low margins in construction.

c) **Opex & overheads.** As of 2019, total opex and overheads amounted to €12m. We expect this figure to decrease over the 2020-23 period due to lower personnel needed for the construction activity and some early retirements.

€23m equity accounted results in the period

d) **JV contribution.** Equity accounted results should evolve in line with the performance of the development activity through JVs, with a total €23m contribution over the period.

We forecast €22-29m EBITDA in 2020-23, average 20% margin

e) **EBITDA.** With the above, we reach €27m EBITDA in 2020 (+9% YoY), and expect it to decrease to €26m and €22m in 2021 and 2022, respectively, rebounding in 2023. We expect average EBITDA margin for the period at 20%.

Below EBITDA, we expect depreciation to increase slightly p.a., from €3.1m in 2019 to €4.0m by 2023. Net financial expenses in 2019 were impacted by €5.8m costs from the formalisation of the syndicated loan signed in May last year. In 2020, we expect average cost of debt (ex one-offs) to slightly increase due to Insur refinancing part of its ST notes with bank debt, but financial expenses should remain at c.€6m over the 2020-23 period.

Net profit should be at €13m in 2020 vs. €9m in 2019

The above, combined with a 25% tax rate, leads us to expect 2020 net profit at €13m vs. the €9m reported in 2019 (or €13m excluding one-off financial costs). We then expect it to decrease to €9m in 2021 and €7m in 2022 and then increase again to €9m in 2023.

INSUR: OUR P&L ESTIMATES (2019-2023E)

(€ m)	2019	% YoY	2020E	% YoY	2021E	% YoY	2022E	% YoY	2023E
Total sales	**122**	**2%**	**124**	**(3%)**	**120**	**(21%)**	**95**	**18%**	**112**
o/w Development	23	115%	50	(27%)	36	(88%)	4	474%	25
o/w Rental assets	14	5%	14	(1%)	14	8%	15	6%	16
o/w Construction	77	(28%)	56	17%	65	6%	69	(6%)	65
o/w Asset Management	8	(41%)	4	1%	4	40%	6	4%	6
COGS	(93)	3%	(96)	(2%)	(94)	(22%)	(73)	13%	(83)
Gross Profit	**29**	**(1%)**	**28**	**(9%)**	**26**	**(16%)**	**22**	**34%**	**29**
Opex & overheads	(12)	(17%)	(10)	(29%)	(7)	6%	(8)	53%	(12)
Equity accounted investments	4	106%	9	(58%)	4	41%	5	7%	5
EBITDA	**25**	**9%**	**27**	**(17%)**	**22**	**(13%)**	**19**	**19%**	**23**
EBITDA margin	*20%*		*22%*		*18%*		*20%*		*20%*
Assets disposals	4	(100%)	-	n.a	-	n.a	-	n.a	-
Adj. EBITDA	**20**	**31%**	**27**	**(17%)**	**22**	**(13%)**	**19**	**19%**	**23**
D&A	(2)	59%	(3)	12%	(4)	5%	(4)	-	(4)
EBIT	**22**	**4%**	**23**	**(22%)**	**18**	**(17%)**	**15**	**24%**	**19**
Net financial expenses	(12)	(48%)	(6)	(1%)	(6)	0%	(6)	1%	(6)
EBT	**10**	**67%**	**17**	**(29%)**	**12**	**(27%)**	**9**	**41%**	**12**
Tax	(1)	222%	(4)	(29%)	(3)	(27%)	(2)	41%	(3)
Net Profit	**9**	**44%**	**13**	**(29%)**	**9**	**(27%)**	**7**	**41%**	**9**

(*) Adjusted EBITDA excludes assets sales. Source: Alantra Equities

2) Development activity

Weak deliveries in 2019 due to the new mortgage law…

The development division saw a weak 2019 in terms of deliveries as a result of: a) delivery delays in the second half of the year due to the new mortgage law; and b) the increasing shift to investments in developments through JVs, which are consolidated through the equity method and thus not shown in the revenue figures. The company reported €23m revenues in FY19 (€65m in proportional method), a 63% decrease (-15% including JVs) vs. the previous year.

…to rebound in 2020 (+21% YoY)

2020 should be a stronger year in terms of deliveries and we expect revenues to reach €50m due to delays from 2019 being transferred to this year. Reported revenues should then decrease in 2021 and 2022 due to the decrease in demand and the increasing number of projects developed through JVs, which only contribute to the P&L at EBIT level through equity accounted investments. We then expect revenues to rebound in 2023 to €25m.

If we applied the proportional method to consolidate Insur accounts, development revenues would be at €114m, €68m, €47m and €69m in 2020, 2021, 2022 and 2023 respectively. It should be noted that proportional revenues in 2020 include the sale of the Madrid Rio 55 (South) office building, that we expect will be delivered in July.

We estimate an average 23% gross margin in 2020-23

Over the next 3Y, gross margins in the development division should still be a bit negatively impacted by projects under construction on land plots acquired by Insur at high prices during the previous cycle. We estimate 2020-23 gross margins at an average 23%, slightly below the 25-30% range with which the company is comfortable.

Visibility on 2020 deliveries is high, as 80-90% are pre-sold (€126m in 1Q20 in proportional method, o.w. €78m JVs and €48m own developments; most of them come from the delays in 2019) and we do not expect to see any material amount of cancellations derived from the Covid-19 crisis (<5%). However, estimates for 2021-23 are based on our current assumptions for market evolution, which could change in the following months as visibility increases.

INSUR: DEVELOPMENT BUSINESS ESTIMATES (2019-2023E)

	2019	% YoY	2020E	% YoY	2021E	% YoY	2022E	% YoY	2023E
Fully owned projects									
Units delivered (#)	94	18%	111	(40%)	67	(63%)	25	356%	114
Sales price/unit (€ k)	245	82%	447	21%	539	(68%)	171	26%	215
Development sales (€m)	**23**	**115%**	**50**	**(27%)**	**36**	**(88%)**	**4**	**474%**	**25**
Projects under JVs									
Units delivered (#)	253	(4%)	244	2%	250	26%	316	(3%)	307
Sales price/unit (€ k)	332	59%	528(*)	(52%)	253	8%	273	7%	293
Development sales (€m)	**84**	**53%**	**129**	**(51%)**	**63**	**37%**	**86**	**4%**	**90**
o.w. attributable to Insur	42	53%	64	(51%)	32	37%	43	4%	45
Total sales	**65**	**75%**	**114**	**(41%)**	**68**	**(30%)**	**47**	**46%**	**69**

(*) It includes the sale of the Madrid Rio office building to be delivered in 3Q20. Source: Alantra Equities

3) Rental property business

Insur reported €14m gross rental income in 2019 and annualised rent of €17m, based on lease contracts signed (including Madrid Rio 55 and the hotel in Seville currently being refurbished).

We expect 2020 GRI +5% due to the incorporation of Rio 55 into the portfolio

In 2020, GRI should increase by 5% YoY mainly as a result of the incorporation of the Madrid Rio 55 office building (14k sqm) with an estimated rent of €16/sqm per month based on market sources. We expect the occupancy rate in the overall portfolio to decrease to 84% in 2020 and 81% in 2021 vs. 88% in 2019. 2020 will not show the annualised rent reported in 2019 in full, as Madrid Rio 55 will only contribute for 5 months and the hotel refurbishment will only be finalised by 4Q20.

GRI should remain broadly flat in 2021 on the contribution of Madrid Rio for the full year offsetting the decrease in occupancy rate. In 2022 and 2023, we expect occupancy rates to start increasing again, which with a 4% increase in 2022-23 average rent, should lead to a 8% and 6% increases in 2022 and 2023 GRI, respectively.

INSUR: DEVELOPMENT BUSINESS ESTIMATES (2019-2023E)

(€ m)	2019	% YoY	2020E	% YoY	2021E	% YoY	2022E	% YoY	2023E
GRI	**14**	**5%**	**14**	**(1%)**	**14**	**8%**	**15**	**6%**	**16**
Gross Leasable Area (sqm)	120,542	12%	134,542	-	134,542	-	134,542	-	134,542
Occupancy rate (%)	88 %	(5%)	84 %	(4%)	81 %	3%	84 %	4%	87 %
Average rent (€/sqm/month)	**11**	(1%)	**10**	3%	**11**	5%	**11**	3%	**12**

Source: Alantra Equities

4) Construction & asset management

We expect revenues from the construction activity to be at c.€65m levels in 2020-23 (vs. €77m in 2019)

Construction revenues correspond to the construction costs of the development business through JVs, which we estimate account for 50-60% of sales revenue with 1.5-2 years of delay. Construction revenues in 2019 were at €77m vs. €41m in 2018, given the significant increase in JV deliveries over the next two years. We expect construction revenues in 2020-23 at c.€65m due to our conservative expectations of new developments' starts in the next 2-3 years.

Revenues from the asset management division will also evolve over the coming years, in line with the performance in JV activity. However, the impact at group level should be small as this division represented a mere 6% of 2019 total revenues (4% in proportional method).

VII. Balance sheet analysis

1) Current debt structure

36.5% LTV reported as of FY19

As of FY19, net debt was at €172m (€57m development, €115m rentals) and GAV at €392m, with an implicit 44% LTV, above the company's target of 40% maximum. However, this figure is misleading as net debt includes land acquired by the JVs (equity contributions of the parent company), but GAV does not show its value. For this reason, we think net debt including JVs shows a more realistic image of the company's leverage. In 2019, this was at €196m (€81m development, €115m rentals) and GAV at €538m, implying 36.5% LTV.

INSUR: NET DEBT BREAKDOWN 2019

(€ m)	Excluding JVs	Including JVs
Net Debt	**172**	**196**
o.w. Development	57	81
o.w. Rental property	115	115

Source: Alantra Equities

We expect net debt to remain flat at €195m in 2020 (vs. €196m in 2019) due to strong deliveries expected this year offset by capex…

Our cash flow estimates are based on the equity method, in line with audited accounts. Net debt in 2020 should increase to €180m due to strong deliveries expected in the year offset by capex (some land deferred payments, transformation and construction capex, and some land acquisitions). We are also not including any disposals in our estimates (Madrid Rio is included in development revenues) given their opportunistic nature, although the company plans some asset rotation in the coming years that could slightly reduce debt levels. We assume a 22% dividend payout on 2019 results (paid in 2020) given the uncertainty from the coronavirus crisis and then we expect that the current 45-47% dividend payout will return in 2021, to remain flat in 2022-23.

INSUR: CASH FLOW ESTIMATES (2019-23E)

(€ m)	2019	2020E	2021E	2022E	2023E
Net profit	9	13	9	7	10
D&A	3	3	4	4	4
Equity accounted results	(4)	(9)	(4)	(5)	(5)
Other non-cash adjustments	(2)	–	–	–	–
Operating cash flow	**5**	**7**	**9**	**6**	**8**
Capex	(41)	(44)	(36)	(27)	(30)
Adjustments on deliveries (COGS)	18	40	29	3	17
Change in WK	(12)	(17)	(14)	14	12
Operating FCF	**(30)**	**(13)**	**(12)**	**(4)**	**7**
Disposals (acquisitions)	7	–	–	–	–
Others	13	–	–	–	–
Dividends from JVs	4	9	4	5	5
FCF before distributions	**(4)**	**(5)**	**(8)**	**1**	**12**
Dividends paid	(5)	(3)	(6)	(4)	(3)
Decrease (increase) in net debt	**(9)**	**(8)**	**(14)**	**(3)**	**9**

Source: Alantra Equities

…and should remain close to those levels in 2021-23

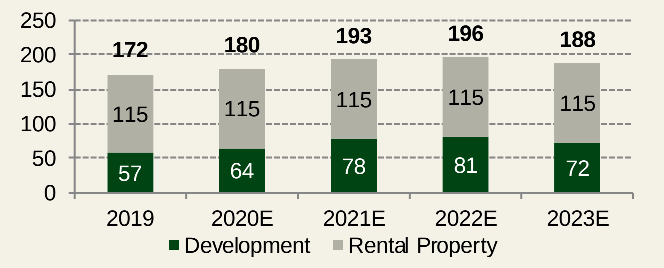
We show below a simplified cash flow for the JVs. When added to our CF statement, this results in net debt remaining broadly stable at €195m in 2020, peaking at €223m in 2021 due to weaker deliveries that year and then slightly decreasing to €219m and €213m in 2022 and 2023, respectively (shown in the charts on the following page).

INSUR: JV CASH FLOW ESTIMATES (2020-23E)

(€ m)	2020E	2021E	2022E	2023E
Net profit	10	4	6	6
Capex	-39	-43	-31	-42
Adjustments on deliveries (COGS)	39	24	32	34
Decrease (increase) in net debt	**9**	**-15**	**8**	**-3**

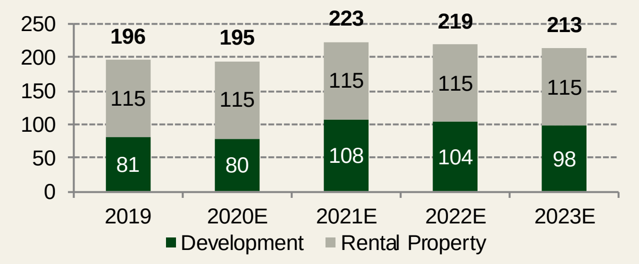
Source: Alantra Equities

INSUR: NET DEBT EVOLUTION EXCLUDING JVS (2019-23E)



Source: Alantra Equities

INSUR: NET DEBT EVOLUTION INCLUDING JVS (2019-23E)



Source: Alantra Equities

2) Leverage ratios

We expect LTV to remain below Insur's maximum 40% target

As previously mentioned, reported LTV was at 36.5% in 2019. We expect LTV to remain below 40% for the 2020-23 period, in line with the company's target, with 2021 having the highest level at 40%. By business, development LTV in 2019 was at 34% and rental property at 39%, but in 2020-23, we expect development LTV to be above that of the rental division. In any case, the gap should be manageable and we do not see any of the business units being over-leveraged or having to depend on the other to be able to meet its financial obligations.

In terms of gearing, Insur had a net debt to equity of 175% in 2019, which we expect to remain at c.170% over the 2020-23 period. This figure is that high due to the company booking its RE investments and properties at book value and not market value. If Insur had booked its properties at market value, ND/Equity in 2019 would have been at a less risky level of 78%.

INSUR: LEVERAGE RATIOS ESTIMATES (2019-23E)

(€ m)	2019	2020E	2021E	2022E	2023E
GAV	**538**	**533**	**553**	**567**	**584**
Development	240	196	219	226	229
Rental property	298	337	333	340	355
Net debt	**196**	**195**	**224**	**220**	**213**
Development	81	80	108	104	98
Rental property	115	115	115	115	115
LTV	**37 %**	**37 %**	**40 %**	**39 %**	**37 %**
Development	34 %	41 %	49 %	46 %	43 %
Rental property	39 %	34 %	35 %	34 %	32 %
Gearing (ND/Equity)	175 %	172 %	173 %	169 %	157 %

Source: Alantra Equities

3) Dividends

45-47% dividend payout to be maintained in 2020-23

Insur does not have a dividend policy in place, although it historically has paid a 45-47% payout ratio. The company paid in January 2020 an interim dividend on 2019 results of €0.17/sh. and has postponed the decision on final dividend payment due to the coronavirus crisis. At this point we believe the final dividend on 2019 results will be cancelled and that the €0.17 DPS will be the total dividend for the year, entailing a 22% payout ratio on adjusted net profit (excluding the one-off financial cost booked in 2019). We then assume a 46% payout over 2020-23, which should lead to DPS of €0.35 in 2020, €0.24 in 2021, €0.18 in 2022 and €0.25 in 2023.

INSUR: EPS, DPS AND PAYOUT ESTIMATES (2019-23E)

	2019	2020E	2021E	2022E	2023E
EPS	0.52	0.75	0.53	0.39	0.55
DPS	0.17	0.35	0.24	0.18	0.25
Dividend payout (%)	22%	46%	46%	46%	46%

Source: Alantra Equities

VIII. Annex: Current projects under development

INSUR: PROJECTS UNDER DEVELOPMENT

FINISHED PROJECTS PENDING DELIVERY

Own developments	Location	LFO(*)	Number of units	Expected revenues (€ m)	Expected delivery	Units sold
Plaza del Teatro Block II	Malaga	In process	21	8.3	2020	21
Plaza del Teatro Block I	Malaga	In process	36	22.6	2020	33
Altos del Retiro	Malaga	Yes	35	8.9	2020	21
			92	**39.8**		**75 (81.5%)**

JV developments	Location	LFO (*)	Number of units	Expected revenues (€ m)	Expected delivery	Units sold
Selecta Costa Conil	Cadiz	In process	73	18.2	2020	72
Boadilla Essences	Madrid	In process	32	19.1	2020	27
			105	**37.3**		**99 (94.3%)**

PROJECTS UNDER CONSTRUCTION

Own developments	Location	Number of units	Expected revenues (€ m)	Expected delivery	Units sold
Residencial 75 Aniversario	Seville	48	33.6	2020	28
		48	**33.6**		**28 (58.3%)**

JV developments	Location	Number of units	Expected revenues (€ m)	Expected delivery	Units sold
Elements I	Marbella (Malaga)	52	18.2	2020/2021	25
Selecta Hermes	Seville	116	22.9	2020/2021	86
Selecta Salobreña I	Granada	37	7.0	2021	17
Pineda Parque II	Seville	80	26.8	2021/2022	17
Selecta Ares	Seville	76	17.8	2021	37
Mirador del Olivar	Madrid	53	13.7	2021	20
Selecta Caceres	Caceres	80	19.4	2021/2022	46
		494	**125.8**		**248 (50.2%)**

PROJECTS UNDER DEVELOPMENT

Own developments	Location	Number of units	Expected start of construction
Santa Aurelia	Seville	104	2020
		104	

JV developments	Location	Number of units	Expected start of construction
Elements II	Marbella (Malaga)	66	2020
QuintEssence I	Marbella (Malaga)	24	2020
Selecta Salobreña II and III	Granada	73	2020
Terrazas de Santa Rosa I	Cordoba	92	2020
Boadilla Essences II	Madrid	16	2020
Selecta Apolo	Seville	106	2020
Selecta Mykonos	Seville	24	2020
BA-2	Seville	108	2021
Monte de la Villa Unique	Madrid	36	2020
Monte de la Villa Exclusive	Madrid	32	2020
Monte de la Villa Unique II	Madrid	22	2020
Elements III	Marbella (Malaga)	34	2021
QuintEssence II	Marbella (Malaga)	32	2021
QuintEssence III	Marbella (Malaga)	24	2021
QuintEssence IV	Marbella (Malaga)	24	2021
Terrazas de Santa Rosa II	Cordoba	95	2021
Calle Juglar	Seville	56	2021
Selecta Avda. Jerez	Seville	44	2021
		908	

(*) License of First Occupancy. Source: Grupo Insur, Alantra Equities

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