INMOBILIARIA DEL SUR

An ambitious growth plan

- **The 2021-25 Strategic Plan.** InSur has recently presented a new Strategic Plan for the 2021-25 period, preserving its balanced business model (property & development accounting for c.70%/30% of GAV) and a low-risk strategy (low gearing, fully permitted land sourcing, development JVs with financial partners, in-house construction), but aiming to leverage on the strong prospects for the RE cycle. In particular, Insur is targeting average revenues, EBITDA & net profit over 2021-25 almost doubling vs. 2016-20. Andalucía (home region) and Madrid are the growth markets, and both regions are investor friendly (low regulatory risk) and enjoy above-average demand prospects.

- **Development & Rentals.** In development, pre-sales and active units are already well above pre-Covid, and we expect 2020 record sales to be sustained in 2021-22 & a 10-15% jump in 2023-24 (sales +40% in 2021-25 vs. 2016-20). Cost inflation should be manageable thanks to InSur's vertical integration and room to raise prices. In fact, margins are seen on the rise (>20% vs 15-20% currently). In rentals, Insur has maintained occupancy at 88-89% in 2020-21 and we now expect strong GRI growth (+40% vs. 2016-20) on a mix of pre-let assets entering into operation & reversionary potential (5-10% uplift in rental prices).

- **Financials & Funding.** Insur is targeting average annual revenues (€170m), EBITDA (€37m) & net profit (€20m) over 2021-25 almost doubling vs. 2016-20. Our estimates sit 20% below guidance, as we do not factor in cap gains from rotating the rental portfolio, and on more conservative assumptions in development. The plan is self-funded organically (c.40% LTV), but Insur is open to issue debt (€30m) & equity (€60m, 40% of current market cap) to tap further growth opportunities.

- **Substantial discount to NAV & peers.** Insur shares have been left behind in this RE cycle upturn and are still 25% below pre-Covid levels vs. peers (Aedas & Neinor) already 10- 20% above, and despite management looking to double EBITDA over the next few years. In our estimates, the shares are trading at just 10XP/E & 1.1XBV over 2022-24 vs. >25X & 1.7X respectively in 2016-19. In addition, Insur is trading at a 51% discount to NAV, the upper range of the historical average, and vs. the 35% average discount for listed peers (both developers & REITs). 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 and free float.

Financial Ratios	FY19	FY20	FY21E	FY22E	FY23E	FY24E
EBITDA (€m)	26.5	19.7	24.6	25.3	28.7	37.6
Net profit (€m)	8.8	21.1	10.8	11.6	14.2	21.0
EPS (€)	0.52	1.24	0.61	0.62	0.76	1.13
Adj. EPS (€)	0.70	0.72	0.61	0.62	0.76	1.13
P/E (x)	20.1	7.9	13.2	12.9	10.6	7.1
P/E Adj. (x)	15.0	13.5	13.2	12.9	10.6	7.1
EV/EBITDA (x)	14.1	19.1	14.9	14.6	13.0	9.2
Debt/EBITDA (x)	7.4	10.7	8.8	8.7	7.8	5.2
P/BV (x)	1.7	1.4	1.2	1.1	1.1	1.0
ROE (%)	8.2	16.8	8.3	8.5	9.8	13.3
DPS (€)	0.3	0.4	0.3	0.3	0.4	0.6
Dividend yield (%)	3.0	4.1	3.6	3.8	4.7	7.0

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

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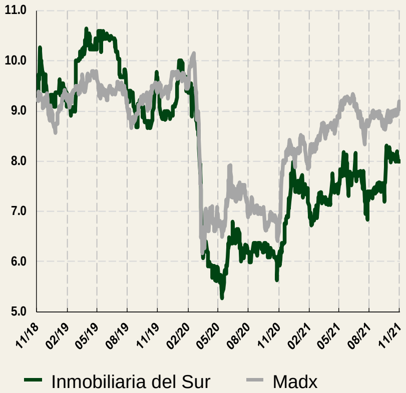
Target Price	N/A
Share Price	€ 8.00
Upside / Downside	N/A

ISUR.MC/ ISUR SM	
Market Cap	€ 149 m
Enterprise Value	€ 371 m
Free Float	€ 55 m
Nº Shares	19 m
Average Daily Volume	14 k

Performance	1m	3m	12m
Absolute %	-3.6	9.6	49.3
Relative %	-6.9	6.5	11.6



Shareholders

Family and other BoD members 63.2%, Free float 36.8%

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Key Data

P&L account (€m)	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Sales	114	123	133	123	132	148	193
Cost of sales	(88)	(88)	(95)	(89)	(95)	(107)	(142)
Gross margin	**26**	**35**	**38**	**34**	**37**	**41**	**51**
Opex	(9)	(13)	(18)	(11)	(11)	(12)	(14)
Adj. EBITDA	**17**	**22**	**19**	**23**	**25**	**29**	**38**
Adjustments	6	4	0	2	–	–	–
EBITDA	**23**	**27**	**20**	**25**	**25**	**29**	**38**
Depreciation & Amortization	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Changes in provisions & Other	(1)	1	19	–	–	–	–
EBIT	**20**	**23**	**35**	**21**	**22**	**25**	**34**
Financial costs	(7)	(12)	(6)	(6)	(6)	(6)	(6)
Associates	–	–	–	–	–	–	–
Ordinary profit	**13**	**10**	**29**	**14**	**15**	**19**	**28**
Extraordinary items	-	-	-	-	-	-	-
Pre-tax Profit	**13**	**10**	**29**	**14**	**15**	**19**	**28**
Taxes	(3)	(1)	(8)	(4)	(4)	(5)	(7)
Discontinued activities	–	–	–	–	–	–	–
Minorities	–	–	–	–	–	–	–
Net profit, reported	**10**	**9**	**21**	**11**	**12**	**14**	**21**
Adjustments	–	3	(9)	–	–	–	–
Net profit adjusted	10	12	12	11	12	14	21
Nº of shares	17	17	17	19	19	19	19
Nº of shares adjusted (m)	17	17	17	18	19	19	19
Treasury stock (m)	0	0	0	0	0	0	0

YoY Growth	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Sales		8%	8%	(7%)	7%	12%	31%
Adj. EBITDA		29%	(13%)	16%	12%	13%	31%
Net profit		(12%)	139%	(49%)	8%	22%	49%
Adjusted net profit		(12%)	139%	(49%)	8%	22%	49%

EBITDA by division	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Development	37%	36%	43%	44%	45%	48%	58%
Servicing	52%	46%	53%	51%	48%	45%	36%
Rental and legacy	10%	18%	4%	5%	6%	7%	6%

NAV	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
GAV	511	538	526	525	536	550	530
Net debt	185	196	210	216	221	224	195
Minorities & Other	–	–	–	–	–	–	–
NNAV	326	341	317	310	316	327	337

Per share data (€)	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
EPS	0.59	0.52	1.24	0.61	0.62	0.76	1.13
EPS adjusted	0.59	0.70	0.72	0.61	0.62	0.76	1.13
CFPS	1.35	0.18	0.93	0.83	0.82	0.95	1.32
FCFPS	0.64	(0.85)	1.37	(0.24)	0.01	0.18	1.93
BVPS	6.12	6.32	7.21	7.08	7.09	7.53	8.28
DPS	0.27	0.32	0.40	0.29	0.31	0.38	0.56

Cash flow (€m)	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Net profit	10	9	21	11	12	14	21
Depreciation	3	4	4	4	4	4	4
Minorities	–	–	–	–	–	–	–
Non-cash adjustments	10	(10)	(9)	0	–	(0)	–
Total cash-flow (CF)	**23**	**3**	**16**	**15**	**15**	**18**	**25**
Capex	(70)	(78)	(71)	(80)	(73)	(83)	(87)
Deliveries	65	48	75	59	60	67	97
Working capital	(7)	12	4	2	(2)	2	1
Operating FCF	**11**	**(15)**	**23**	**(4)**	**0**	**3**	**36**
Financial investments	–	–	–	–	–	–	–
Disposals/(acquisitions)	2	7	(31)	5	–	–	–
Rights issues	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–
FCF before dividends	**12**	**(7)**	**(8)**	**1**	**0**	**3**	**36**
Dividends	(2)	(5)	(5)	(7)	(5)	(6)	(7)
Free-cash-flow (FCF)	**10**	**(12)**	**(13)**	**(6)**	**(5)**	**(2)**	**29**
Buy-backs	–	–	–	–	–	–	–
FCF after buy backs	**10**	**(12)**	**(13)**	**(6)**	**(5)**	**(2)**	**29**

Balance sheet (€m)	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Equity	104	107	122	126	132	141	155
Minority interests	–	–	3	3	3	3	3
Provisions & others	21	32	21	21	21	21	21
Net debt [cash] (*)	185	196	210	216	221	224	195
Capital invested	**309**	**336**	**356**	**366**	**378**	**389**	**373**
Goodwill	–	–	–	–	–	–	–
Intangible assets	0	1	1	1	1	1	1
Tangible assets	141	149	217	217	218	219	221
Financial assets	24	31	25	25	25	25	25
Associates	2	2	1	1	1	1	1
Working capital	142	154	113	123	133	143	126
Capital employed	**309**	**336**	**356**	**366**	**378**	**389**	**373**
Working capital/sales	124%	125%	85%	100%	101%	97%	65%

(*) Excluding trapped cash pped cash

Financial ratios	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Net debt/EBITDA	7.9X	7.4X	10.7X	8.8X	8.7X	7.8X	5.2X
Net debt/GAV (LTV)	36%	37%	40%	41%	41%	41%	37%
Gearing	178.0%	183.2%	167.2%	166.8%	163.1%	155.4%	123.3%
Interest cover	3.0X	1.8X	6.0X	3.3X	3.5X	4.0X	5.7X

Margins & ratios	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
EBITDA margin	20.6%	21.6%	14.8%	20.0%	19.2%	19.5%	19.4%
EBIT margin	17.4%	18.6%	26.6%	16.7%	16.4%	17.0%	17.5%
Reported tax rate	23.9%	14.3%	28.2%	25.0%	25.0%	25.0%	25.0%
Pay-out	45.5%	45.9%	55.2%	47.2%	49.5%	49.5%	49.7%
ROCE (EBIT/CE)	6.4%	6.8%	9.9%	5.6%	5.7%	6.5%	9.1%
ROE	9.7%	8.2%	16.8%	8.3%	8.5%	9.8%	13.3%

Summary & Investment Case

A strong residential cycle ahead. InSur markets are well positioned

The Covid outbreak has led to an improved residential market dynamic: a) new home demand accelerating vs. used, now accounting for c.22% of total transactions (vs. 18.5% pre-Covid); b) single-family homes and average size near all-time highs; c) demand for homes in suburbs has increased. This, combined with macro tailwinds (we expect GDP up by 4.7% in 2021 and by 5.7% in 2022, broadly recovering pre-pandemic GDP in 1H23), very limited new supply (<70k housing starts p.a. L10Y avg. vs. >500k p.a. over 2001-09) and low interest rates (which we expect to remain mid-term) imply very appealing prospects for developers. We see demand recovering pre-pandemic levels already in 2021 and remaining at these positive levels in 2022-23, with new homes gaining share and new home prices increasing by 8% in 2021-23. The new residential law that will include (among others) rental caps in tensioned zones and a 30% allocation to social housing is bad news for the sector from a qualitative standpoint (uncertain regulatory framework) but should have a limited quantitative impact. InSur's land is located in Andalucía (home region) and Madrid. Both regions enjoy above-average demand prospects and low regulatory risk (investor-friendly).

An ambitious and self-funded Strategic Plan

In mid-September, InSur presented an ambitious new Strategic Plan for the 2021-25 period. The company aims to maintain the balanced business model (property/development) and a low-risk strategy (comfortable LTV, fully permitted land sourcing, development JVs with financial partners, in-house construction) and to foster further growth leveraging on strong prospects for the RE cycle. The company targets average group revenues, EBITDA and net profit of €170m, €37m and €20m, respectively p.a. in the period. These targets imply nearly doubling 2016-20 numbers. Our estimates sit 20% below guidance, as we do not factor in cap gains from rotating the rental portfolio, and on more conservative assumptions. The plan is self-funded organically (c.40% LTV), but Insur is open to issue debt (€30m) and equity (€60m, 40% of current market cap) to tap further growth opportunities.

Development: sector tailwinds and the pick-up in activity should drive up growth

InSur is taking advantage of the current strong residential dynamics, to post record pre-sales (up 70% YTD vs. 2019-20) and record volume of active units (2.6k as of 9M21, 25% & 40% above 2020 & 2019). We estimate pure residential development sales to be at 2020 record levels in 2021-22 and to jump by >10-15% in 2023-24 thanks to the pick-up in activity. Our 2021-25 avg. development sales stand 15% below targets on a mix of lower delivery volumes (we estimate 2.4k aggregate deliveries in 2021-25, c.10% below group forecast) and lower tertiary development (we are not including the development of the hotel land plot in Cádiz due to a lack of visibility).

Rental: in good shape to deliver strong GRI growth

InSur has been able to weather the Covid storm, keeping occupancy stable at 88-89% (vs. 67% in 2016). The company is now in good shape to deliver strong GRI growth on a mix of pre-let assets entering in operation & reversionary potential (5-10% uplift in rental prices). We expect GRI to grow by >10% (21) to c.€15m and by c.5% p.a. onwards, reaching €18m by 2025 (+30% vs. 2019 record levels). Our 2021-25 GRI estimates sit 5% below guidance, but roughly in line ex perimeter changes.

Our 2021-24 estimates

We expect EBITDA going from €19m (20) to €23 (21), €25m (22), €29m (23), €38m (24). As mentioned, our 2021-25 EBITDA estimates are 20% below guidance, 1/3 of the difference is because we are not including cap. gains and the rest on lower residential & commercial development. 2021-22 profits should be similar to those of 2019-20 (which benefited on extraordinary effects) and should materially jump in 2023-24. We expect LTV stable at 40-41% in 2021-23 with investment efforts supporting the mid-term growth ambitions and to fall rapidly by 2024-25 towards c.35%.

Discounted valuation.

Insur shares have been left behind in this RE cycle upturn and are still 25% below pre-Covid levels vs. peers (Aedas & Neinor) already 10-20% above, and despite management looking to double EBITDA over the next few years. In our estimates, the shares trade on just 10XP/E & 1.1XBV over 2022-24 vs. >25X & 1.7X respectively in 2016-19. On the other hand, Insur trades at a 51% discount to NAV, the upper range of the historical average and vs. the 35% average discount for listed peers (both developers & REITs). 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 and free float.

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Valuation

1) €16.34p.s. NAV, >50% discount to current market prices

Inmobiliaria del Sur has two main businesses: its rental CRE portfolio and its development business. The latest appraisal valuation (September-2021) of these two businesses was:

€527m GAV, c.70% rental and c.30% development

- €365m GAV for the **rental** portfolio (equivalent to c.70% of total GAV), of which 82% are offices, 10% retail and the remaining, hotels. In terms of locations, the bulk (c.2/3) is in Seville, while 18% is in Madrid and the rest (c.15%) is in Huelva and Córdoba.

- €162m GAV (c.30% of total) for the **development** business, which mainly comprises 3k home units, of which c.2k are active (either in WIP or under commercialisation). It is worth highlighting that c.90% of the active units are held through JVs in which InSur has 50-70% controlling stakes. The €162m GAV is adjusted by InSur's attributable stakes, and we estimate that c.45% is located in Seville, c.15% in Madrid and Málaga, c.10% in Cádiz, and the rest in other Andalusia regions as well as in Cáceres.

Insur shares trade at >50% discount to NAV…

Each of the above-mentioned GAVs total €528m, which combined with the group's net debt as of September (€219m) and negative WC (€3m) lead to €305m NAV, equivalent to €16.34p.s. Current market prices (€8.00p.s.) imply a 50% discount to the group's latest NAV. It is worth highlighting that the group's NAV gives 0 value to the other two business, construction and services. We estimate that these businesses account for 6-7% of group EBITDA in 2022-23.

INMOBILIARIA DEL SUR: GAV AND NAV AS OF SEP-21

	€ m	€ p.s.
Total GAV	528	28.26
o/w rental	365	19.57
o/w development	162	8.69
Net debt	(219)	(11.74)
WC & others	(3)	(0.17)
NAV	**305**	**16.34**
Share price		8.00
Premium / (discount)		**(51%)**

Source: Alantra Equities

Looking deeper into each of the two core businesses, we find that: 1) the rental portfolio is valued at >4.5% implicit gross yield in 2022-24. This is similar to Merlin Properties' (considering only its portfolio under operation), and above that of Colonial (<4%) which we think is reasonable considering the latter's high exposure to CBD (>75%) and to Paris' premium market, as well as the former's asset mix (55% in offices, of which 50% is in BD and periphery areas and 20% in retail); 2) the residential business value is equivalent to c.11.5X EV/EBITDA in 2022-24, somewhat below Aedas' c.12.5X (implicit GAV/EBITDA) and Neinor's c.12X. We also find this reasonable, as we estimate InSur's gross margins to be 2-3pp below that of Aedas and in line with Neinor's.

INMOBILIARIA DEL SUR: IMPLICIT VALUATION METRICS

	Rental					Development			
	2022E	2023E	2024E	22-24E		2022E	2023E	2024E	22-24E
Gross yield	4.3%	4.6%	4.8%	4.6%	EV/EBITDA	14.5X	12.0X	7.6X	11.4X

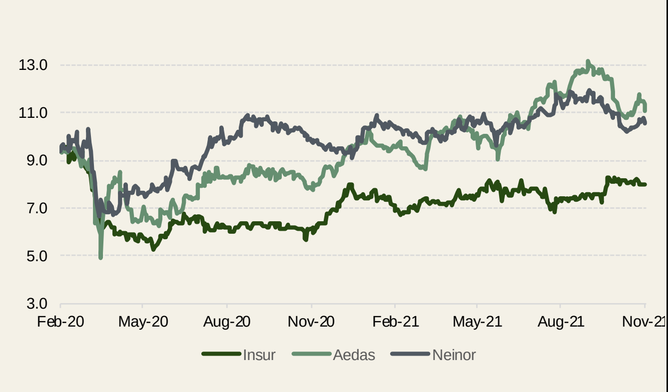
Source: Alantra Equities

2) Discount to NAV and shares derating look excessive

…and have underperformed peers & Ibex 35 since the Covid-19 outbreak

In the three years before the Covid-19 outbreak, InSur shares had a strong performance, both in absolute (up c.20% from Feb-17 to Feb-20) and relative (+15pp vs. Ibex35) terms. At the same time, during the same period, the shares traded at a 35-40% average discount to the company's reported NAV. However, since the pandemic kicked in, the shares have performed poorly, down 25% (vs. +10% for Neinor and +20% for Aedas), leaving them trading at a c.50% discount to NAV; in the upper range of the historical discount.

INMOBILIARIA DEL SUR: SHARE PRICE PERFORMANCE…



…AND HISTORIC DISCOUNT TO NAV

Source: Alantra Equities

In addition to the above, the shares have also derated with historic P/E and P/BV (which we think best represent the mix of the businesses) going from >25X and 1.7X in 2015-19 to the current 7-13X and 1.0-1.1X, respectively in 2022-24.

INMOBILIARIA DEL SUR: IMPLICIT MARKET MULTIPLES

	2015-19	2022E	2023E	2024E
P/E	27.5X	12.9X	10.6X	7.1X
P/BV	1.7X	1.1X	1.1X	1.0X

Source: Alantra Equities

Compared to peers, the shares are currently trading well below both REITs and developers.

INMOBILIARIA DEL SUR: DISCOUNT TO NAV OF LISTED PEERS

Company	NAV p.s. (€)	Share price (€)	Discount to NAV	Company	NAV p.s. (€)	Share price (€)	Discount to NAV
Colonial	11.36	8.41	(26%)	Neinor Homes	17.74	11.40	(36%)
Merlin Prop.	15.75	9.45	(40%)	Aedas Homes	31.33	24.50	(22%)
Lar España	10.36	5.25	(49%)	Metrovacesa	16.05	7.60	(53%)
REITs			**(34%)**	**Developers**			**(36%)**

(*) NAV p.s. as of June-21; Source: Alantra Equities

We think the de-rating of the shares is excessive

We think the discount is excessive for the following reasons:

1) **Strong earnings growth ahead.** We expect the company to benefit from both the strong residential momentum and pick-up in activity, as well as from the good portfolio positioning in order to nearly double group net profits, from <€8m average in 2016-19 to c.€14m over 2021-24 (or to €17-18m if the company delivers on its strategic plan).

2) **Comfortable B/S.** Despite the increase seen in LTV in L2Y (by 5pp, due to a mix of a small fall in LFL, GAV, and rising net debt), InSur is still comfortable at 41% (in the upper range of REITs), and has been driven by an increase in investments efforts that will deliver the abovementioned strong growth and deleverage. In fact, we estimate a group LTV of <36% by 2024.

3) **Good management track record.** The group's asset mix that combines the development and rental property businesses, as well as its historical financial prudency, have allowed InSur to survive to the different ups and downs in the sector, building a strong management track record and deep local know-how.

Below we show the sensitivity of upside potential to current market prices according to different valuation discount scenarios to current reported NAV.

INMOBILIARIA DEL SUR: UPSIDE POTENTIAL TO DIFFERENT VALUATION DISCOUNT SCENARIOS

NAV discount	0%	10%	20%	30%	40%	50%
NAV p.s.	16.34	14.71	13.07	11.44	9.81	8.17
vs. current prices	+104%	+84%	+63%	+43%	+23%	+2%

Source: Alantra Equities

I. Strong residential cycle ahead

Sector tailwinds are leading developers to raise prices and to post record pre-sales

We have a very positive view on the residential cycle in Spain thanks to: 1) favourable changes in home demand preferences (bigger and up-to-date houses, located in suburban areas) that fit well with developers' products; 2) a low-interest-rates environment; 3) record-high household savings; and 4) limited supply. This is translating into a strong recovery in home transactions (already above pre-Covid) and new price increases. Homebuilders also posted record pre-sales during 1H21.

DEMAND AND PRICES EVOLUTION

	1H19	1H20	1H21	19/21	Jul-Aug 21	19/21		1H19	1H20	1H21	Cum. 19/21
Transactions	263,557	200,494	267,715	1.6%	100,142	20%	Prices	5.3%	2.1%	3.3%	5.4%
o/w new	49,291	37,790	55,777	13.2%	19,119	28%	o/w new	7.2%	4.2%	6.0%	10.4%
o/w used	214,266	162,704	211,938	(1.1%)	81,023	19%	o/w used	5.0%	1.8%	2.9%	4.7%

Source: INE

We believe the recent upturn is not just driven by pent-up demand, but that this RE cycle will remain strong through 2023: strong growth ahead in GDP and employment, lower-for-longer Euribor rates, a shift in new home demand preferences likely to be structural and to grow from build-to-rent projects, foreign demand yet to recover, new supply likely to remain disciplined. With this in mind, we expect total transactions to jump by 24% in 2021 to 520k, surpassing 2019 levels by c.5%, and to be at 515-525k in 2022-23. As for new home prices, we expect them to increase by 8% cumulative until 2023, which should mostly compensate the rising construction costs.

DEMAND AND PRICES AS OF 1H21

	2019	% YoY	2020	% YoY	2021E	% YoY	2022E	% YoY	2023E
Total transactions	501,085	(17.0%)	415,748	25.0%	519,685	0.8%	523,831	(1.6%)	515,471
o/w new homes	92,844	(11.1%)	82,543	25.0%	103,179	2.0%	105,242	2.0%	107,347
New home prices	96.3	8.2%	104.2	4.0%	108.4	3.0%	111.7	1.0%	112.8

Source: Alantra Equities

1) V-shaped recovery in demand

We estimate that demand in 2021 will already be above 2019

Home transactions have rebounded very strongly throughout 2021 going from -17% vs. 2019 in January to +40% in August (levels unseen since 2007). We expect demand to be fully recovered and exceed 2019 levels already in 2021, and to be broadly stable at this sound level in 2022-23.

DEMAND AND PRICES AS OF 1H21

	2019	% YoY	2020	% YoY	2021E	% YoY	2022E	% YoY	2023E
Total transactions	501,085	(17.0%)	415,748	25.0%	519,685	0.8%	523,831	(1.6%)	515,471
o/w new homes	92,844	(11.1%)	82,543	25.0%	103,179	2.0%	105,242	2.0%	107,347
o/w used homes	408,241	(18.4%)	333,205	25.0%	416,506	0.5%	418,589	(2.5%)	408,124

Source: Alantra Equities

The reasons behind this strong surge in demand and our positive mid-term forecasts are:

The Covid has triggered favourable changes in home-buying preferences

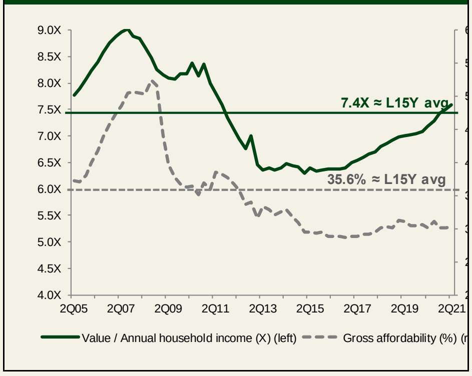
a) **Favourable changes in home-buying preferences:** The Covid-19 massive lockdowns and confinement measures have generated big changes in home-buying preferences. This has been characterised by: i) a higher preference for single-family housing, which is nearly at peak levels, exceeding the 20% threshold for three consecutive quarters; ii) a higher average surface area per home in closed transactions, which is up 2% YoY in 1H21, reaching a new all-time high; and iii) a flight to suburbs, as buyers seek more space (indoor and outdoor) and accessible green spaces to improve quality of life.

b) **Strong GDP growth.** The Spanish economy was highly impacted by the pandemic, both in absolute (-10.8% in 2020) and relative terms. This was due to its above-average exposure to services and tourism, the high weight of temporary jobs and the greater weight of SMEs and self-employed individuals (more vulnerable to crises than large corporations). That said, the economy is strongly recovering and we expect +4.7% in 2021, +5.7% (2022) and +2.5% (2023), leading GDP to recover pre-pandemic levels by 1H23. Employment has also recovered very fast, and is now approaching the pre-pandemic levels of February 2020, whereas temporary layoffs now account for 2.5% of the total (vs. 25% at the peak of the pandemic).

c) **Favourable interest rate & healthy affordable ratios.** Interest rates were already low before the pandemic and are now even lower after it. This has driven mortgage rates to historical lows (2.3% in June). Our view is that the ECB is unlikely to increase interest rates before 2024-25. This should support both private and institutional demand for RE assets, especially residential ones (offices & retail are increasingly threatened by changes in consumer & corporate habits).

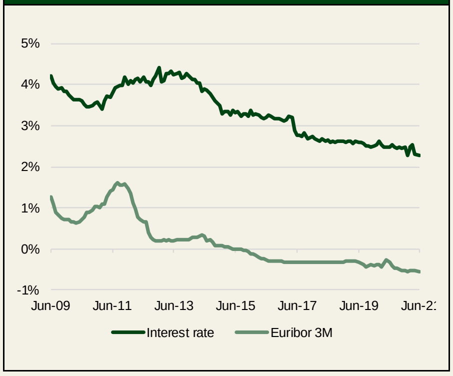
On another note, affordability (home value vs. household gross income) and effort rate ratios (mortgages costs vs. household income) remain at healthy levels despite the hike in total demand and mortgage usage, and sit at 7.4X and 30%, at similar rates to L15Y in the former and well below L15Y in the latter. In addition, during the pandemic, household savings jumped from 6.4% L5Y avg. to >14% in 2020 (record high) as the lockdowns and mobility restrictions caused consumption to slump. This is helping to reach the minimum upfront equity thresholds.

AFFORDABILITY RATIOS



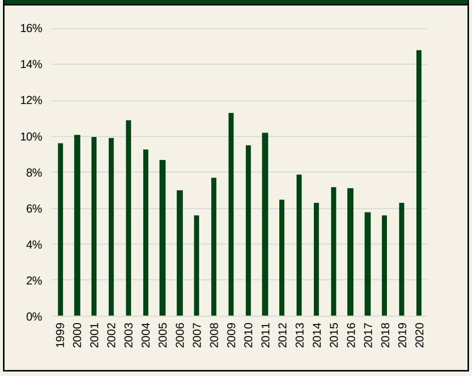
Source: Bank of Spain

EURIBOR 3M AND MORTGAGE COSTS



Source: INE

HOUSEHOLD SAVINGS



Source: INE

d) **Positive population dynamics in tier-1 cities.** By location however, it is expected that Madrid, Barcelona, Málaga, and the Balearic and Canary Islands grow by 0.5% CAGR in detriment of tier-3 cities and rural areas, which are expected to fall.

e) **Foreign demand still lagging behind.** Foreign housing demand represented c.13% of total demand over 2014-19. In 2020, the massive travel restrictions and lockdowns led foreign demand to plummet to 10.7% of the total (implying a c.40% fall in absolute terms) in 2020. This is still well below average as of 1H21 (10.0%). We understand that once normalisation takes place, foreign demand recovery will contribute to new upside from current demand levels mid-term. Moreover, we also think that second residences for nationals have also been affected by Covid restrictions and could also add upside to current demand levels mid-term.

f) **Built-to-Rent: another mid-term growth lever.** Build-to-rent (BtR) is also emerging strongly in Spain. In 2019 it reached a €1bn investment (vs. negligible previously). The current ultra-low interest environment combined with a better relative positioning of the residential segment vs. other RE segments (retail, offices) lead us to expect further institutional investors to enter the business. Aedas and Metrovacesa have already benefited from this (>1.5k units combined already signed in 2019-21) but we see room for further growth in the future.

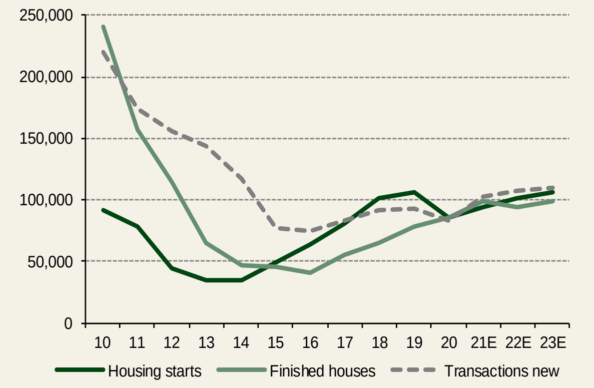
2) New supply likely to remain disciplined

Housing starts YTD (in Jan-Aug) are still >10% below 2019 levels

Housing starts went from a record high of 865k in 2006 to a trough of 34k in 2013. Since then, they have recovered gradually and reached 100k and 106k in 2018 and 2019, respectively. These levels were already healthy thanks to a more restrained lending approach from the banks and the low availability of ready-to-build land plots. In 2020, housing starts fell by c.20% to c.85k units and, as of Jul-21, they remained >10% below 2019 levels. Meanwhile, the stock of unsold units has remained broadly stable over the L3Y, despite the rising demand. We think that this represents a structural stock of low-quality units that will likely remain unsold in the long run.

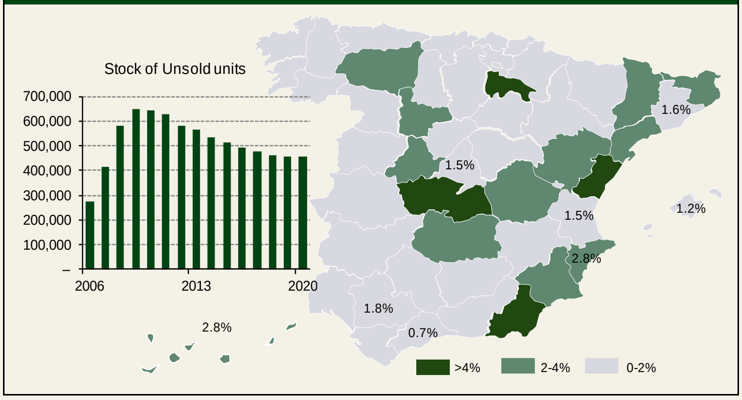
Going forward, we expect new supply to remain disciplined in the healthy 95-105k levels over 2021-23 given: 1) a lower number of smaller/local developers that have not survived the crisis; 2) tighter financial conditions (pre-sales thresholds up to which banks grant developer loans are being raised from 30-40% to >50%) that limit developers' room for maneuver; and 3) a scarcity of RtB land plots.

NEW SUPPLY VS. DEMAND



Source: Ministry of Works and Alantra Equities

STOCK OF UNSOLD UNITS



Source: Ministry of Works

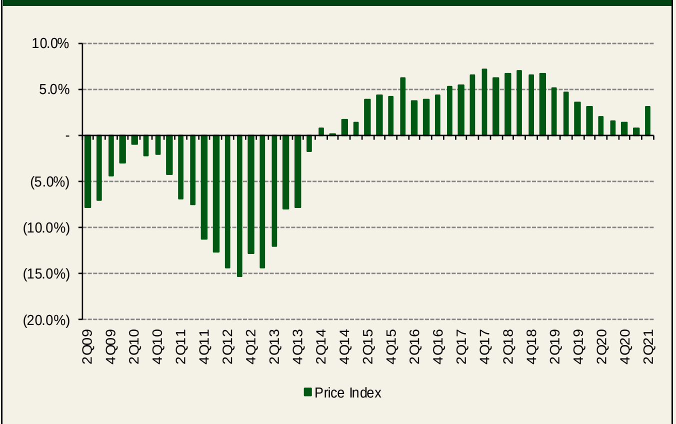
3) There is room for further price increases

The Covid crisis led home prices growth to decelerate from +6.6% YoY (2018) and +3.6% (2019) to +1.5% (2020). This moderated growth has been fully driven by used homes, as new homes prices have instead accelerated to +8.2% (highest growth in L5Y).

Q2 prices have rebounded strongly

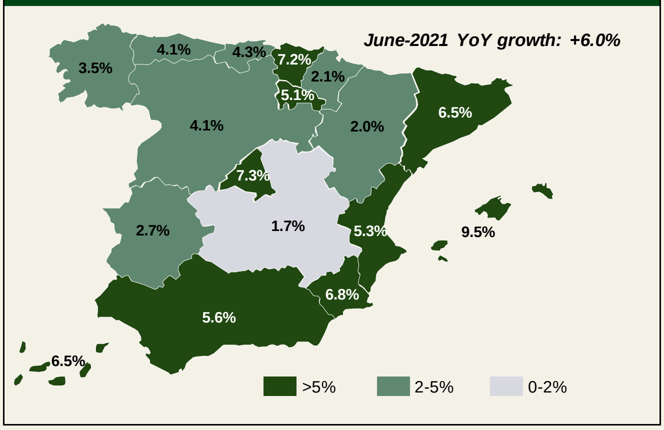
After a “mute” Q1 (with prices in both new and used homes decelerating vs. 2020), Q2 has improved again, leading home prices to jump to +3.3% YoY (largest growth since 2019), with new homes up +6% and used homes by 3%. A thorough look at price evolution in new homes broken down by geography reveals that tier-1 regions (Madrid, Cataluña) as well as coastal regions and the islands have led growth once again.

HOME PRICES YOY GROWTH



Source: INE

NEW HOME PRICES YOY GROWTH AS OF 2Q21



Source: INE

With the above and the good housing prospects in mind, we are now forecasting home prices up by 6% cumulative in 2021-23 (vs. +2% previously), with new homes up 8% (vs. +4% previously) and used up by 2% (vs. -1% previously). As a result of this, we see home prices sitting 10% below previous peak levels **(in nominal terms)**, with new homes 12% above and used homes 21% below. It is worth highlighting that, in real terms, new home prices will still sit >10% below peak levels (2008).

4) We expect limited impact from the new residential law

We expect the new residential law to have a limited quantitative impact

A few weeks ago, the Government presented a new residential law that included: 1) rental price controls in “stressed” zones; 2) a 50-150% hike in property taxes on empty houses; and 3) the obligation to allocate 30% of the new developments to subsidised homes (VPOs) and half of them to social housing. The approval of the new law is not expected before 2H22 and will be carried out by the regional governments, which are free to choose whether to implement the new measures or not.

We do not expect the new measures to have a relevant quantitative impact for developers: a) the cap in rental prices, as well as the property tax hike, will likely take a small toll on build-to-rent (BtR) business appetite from institutional investors; and b) the 30% obligation allocation for subsidised homes and social housing will (apparently) only apply for non-fully permitted land, and developers will be compensated by the Government for any economic impact it may cause.

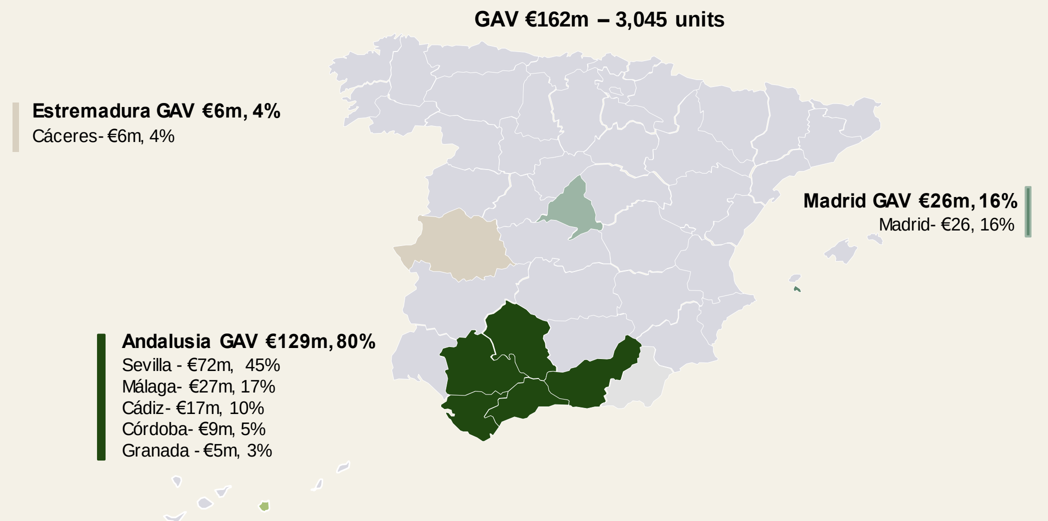
We think that the new law is only bad news for the sector from a qualitative standpoint, as it creates an uncertain regulatory framework that could affect market dynamics.

5) InSur geographical mix is well positioned

Insur´s footprint is located on markets that should enjoy better than average residential dynamics

As we will comment later on, c.95% of Inmobiliaria del Sur residential GAV is located in Andalusia (c.80%) and Madrid (c.15%). These geographies should enjoy better than average residential dynamics on the back of: 1) better macro prospects, with population also having above average disposable income; 2) better population trends; and 3) higher new home demand forecasts. According to INE, Andalucia and Madrid are expected to absorb 45% of new homes in Spain by 20235, with an annual average of 33.5k units.

INMOBILIARIA DEL SUR: DEVELOPMENT GAV BY REGION AS OF SEPTEMBER 2021



Source: InSur

In addition to the above, both Andalucia and Madrid regions are governed by right wing parties, which have already advanced to be reluctant of applying any of the new measures. In this sense, and not withstanding that this may change in the future, the regions are currently more investor "friendly" and dynamics should remain more unaffected, or could even improve on detriment of other impacted areas.

II. An ambitious 2021-25 strategic plan

Insur is targeting average revenues, EBITDA & net profit over 2021-25 almost doubling vs. 2016-20

In mid-September, Inmobiliaria del Sur launched a very ambitious Strategic Plan for 2021-25 maintaining the balanced business model (property/development) and a low-risk strategy (low gearing, fully permitted land sourcing, development JVs with financial partners, in-house construction), but aiming to leverage on the strong prospects for the RE cycle. The company targets average group revenues, EBITDA and net profit of €170m, €37m and €20m, respectively per annum in the period. These targets imply nearly doubling 2016-20 numbers.

Details on the two core segments were the following: 1) in **development** the goal is to increase project sizes, ASP and presence in Madrid, targeting €110m yearly sales on average in the period (c.2/3 of group) and >25% gross margins; and 2) in **rentals**, InSur aims to increase scale and to strengthen its presence in Madrid via asset rotation. It has also targeted a €17.4m annual GRI.

Following a 5-10% EBITDA raise in 2022-23 (mainly to include commercial sales and additional deliveries), our estimates sit c.20-25% below company targets at EBITDA and net profit levels. There are three reasons that explain the difference: 1) we are not including capital gains on asset disposals, which we estimate explain c.1/3 of the difference (€3-4m at EBITDA level p.a. and €2-3 at net profit); 2) we are not including the development of the hotel land plot in Huelva (30k sqm GLA) due to the lack of visibility, explaining €35-40m lower development revenues, c.1/3 of the difference; and 3) more prudent delivery (which sit below 10% company guidance in aggregate) and occupancy ratios (peaking at 91%) estimates. In any case, our estimates also imply a material earnings growth, going from group records of €12m in 2019-20 to €14m (23) and €18-20m in 2024-25.

INMOBILIARIA DEL SUR: GROUP TARGETS VS. ALANTRA ESTIMATES

(€ m)	Accumulated	Average 21-25	Alantra	Diff
Sales	**849**	**169.9**	**152.8**	**(10%)**
o/w development	552	110.5	94.2	(15%)
o/w rentals	87	17.4	16.5	(5%)
o/w construction	184	36.7	36.7	(0%)
o/w services	26	5.2	5.4	2%
EBITDA	**186**	**37.3**	**29.6**	**(20%)**
Net Profit	**100**	**20.0**	**15.2**	**(24%)**

Source: Alantra Equities

The above-mentioned strategic plan is self-funded. That being said, and in parallel to it, InSur also aims to access the capital market via the combination of a €30m corporate bond issue and a capital increase of up to €60m. The latter would be done via a rights issue and is envisaged to be executed by the end of the plan without having any impact on the referred operating targets. Assuming the €60m equity raised takes place, InSur targets reaching GAV of €725m, LTV of 32.5% and NAV of €489m (+60% vs. current NAV) by 2025. We think it is the right time to be ambitious (we are very supportive on the residential cycle) and welcome any increase in the company's size.

1) Development: in good shape for faster growth

a) A strong pick-up in pre-sales & activity

The development business is the main growth driver

The main source of growth of the new strategic plan comes from the development business. As we commented, the company aims to reach €110m annual sales in the period. This is c.65% above the previous 5Y plan. Over the last quarters, InSur has gradually scaled up its development activity. As of 9M21 active units stand at 2.6k, +40% & +25% vs. 2019 & 2020 (peak) levels. Of these, 1.7k are in the development phase, of which 70% are expected to initiate constructions in 2021-22.

INMOBILIARIA DEL SUR: LAND BANK STATUS

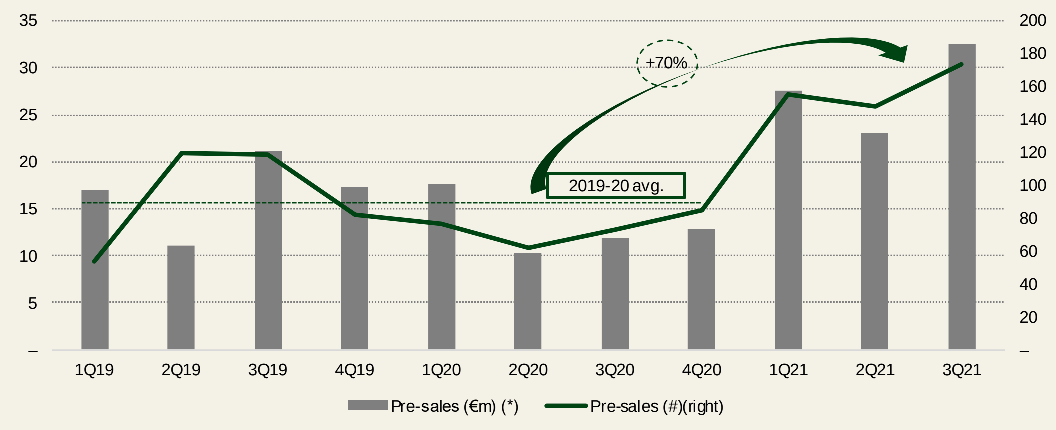
	2019	2020	9M21 (*)
Total	**2,742**	**2,843**	**3,474**
Active	1,822	2,027	2,556
o/w WIP	748	451	652
o/w completed	150	224	213
o/w under development (*)	924	1,352	1,691
Land plots	**920**	**816**	**918**

(*) Includes land plots with purchase options; Source: InSur

The pick-up in activity and the sector tailwinds have driven up pre-sales to record levels…

The abovementioned increase in activity combined with the current strong demand tailwinds have led the group to post record pre-sales in the first nine months of 2021: 160 units and €28m avg. pre-sales per quarter, equivalent to >600 units and >€100m sales on annual basis. This implies a significant jump (+70%) vs. 2019-20. Order book as of September stands at €110m and 687 units.

INMOBILIARIA DEL SUR: PRE-SALES AND BACKLOG EVOLUTION



Source: Alantra Equities

In parallel, with the above, the company has also increased its weight of Madrid in the portfolio, now amounting to #234 units and €26m GAV (16% of development GAV, third largest region), only behind Sevilla (#2.0k units, €75m, 45%) and Málaga (#386, €27m, 16%).

INMOBILIARIA DEL SUR: DEVELOPMENT GAV BREAKDOWN AS OF 9M21

	GAV (€m)	% of total	Units (#)	% of total	Tertiary (k sqm)
Sevilla	75	45%	1,963	64%	18.7
Madrid	26	16%	234	8%	–
Málaga	27	16%	386	13%	9.5
Rest (*)	38	23%	462	15%	33.9
Total (**)	165	100%	3,045	100%	62.1

(*) Mainly Cádiz 10% and Córdoba 5%; (**) Excludes land plots with purchase options; Source: Alantra Equities

b) … that should translate into strong mid-term sales growth

…which should lead to a strong mid-term sales growth

Although the pre-sales activity is going above the €100m annual sales pace, we do not expect InSur to report >€100m sales before 2024, as we expect the necessary construction hike to take place by the end of 2021/beginning of 2022. As a result, we expect pure residential sales (under the proportionate method) broadly stable in €75-80m in 2021-22 (with an incremental contribution from JVs, c.55% avg. ownership) and then to jump to €87m (23) and €100-105m (24-25). We are also including the sale of the Málaga office building (€26m), to take place in 2024. Our average sales per annum sit c.15% below guidance, which is half due to lower delivery volumes (awaiting more visibility on the group's operating ramp-up) and half due to the fact that we are not including the development of the hotel land plot in Cádiz (30k sqm GLA).

INMOBILIARIA DEL SUR: DEVELOPMENT SALES ESTIMATES 2019-25E

(€ m)	2019	% YoY	2020	% YoY	2021E	% YoY	2022E	% YoY	2023E	% YoY	2024E	% YoY	2025E
Dev. sales	**65**	**51%**	**98**	**(23%)**	**75**	**3%**	**77**	**12%**	**87**	**46%**	**127**	**(18%)**	**104**
Residential	65	20%	78	(3%)	75	3%	77	12%	87	17%	101	3%	104
Deliveries (#)	347	2%	355	11%	395	20%	475	(1%)	470	15%	540	4%	560
o/w JV	253	(1%)	250	28%	320	41%	450	(11%)	400	13%	450	4%	470
o/w owned	94	12%	105	(29%)	75	(67%)	25	180%	70	29%	90	-	90
ASP	309	11%	342	(12%)	301	(6%)	283	2%	289	0%	289	(0%)	289
Commercial	–	n.a	20	(100%)	–	n.a	–	n.a	–	n.a	26	(100%)	–

Source: Alantra Equities

c) Construction cost inflation: a manageable risk

Construction cost inflation should be manageable

Beyond the execution risk arising from the major growth plans, which we have tried to reflect into our estimates, the construction cost inflation has also emerged as a new risk. Especially with regard to raw materials: according to industry sources, steel & copper prices are rising by >20% whereas concrete, brick and block prices (more common materials in housing construction) are up by mid-single-digit. Raw materials make up c.30% of total development CoGS, and thus, 20-25% of sales.

Without underestimating the potential negative effects, we highlight the following two factors that should allow InSur to partly sidestep the challenges:

1) The quality locations and product positioning of InSur (towards the mid-to-high-end segment) combined with the strong sector trends and positive outlook should allow the company to continue raising home prices, mitigating the cost pressure. As a reference, for every 10% raw material cost increase, InSur would have to raise prices by 2-3% to mitigate the impact.

2) Unlike peers, InSur is vertically integrated, i.e., construction is mostly insourced. We believe this business model should allow for higher cost flexibility and better management of inflationary environments.

In any case, our c.23% gross margin forecast for the development business throughout the 2021-25 period is 2pp lower than the group target, to reflect a prudent scenario.

2) Rental: narrowing gap vs. passing rents should boost growth

InSur delivered on its former strategic plan (2016-20) extremely well re the rental segment. Rents and occupancy went from €10.6m and 67%, respectively to c.€13m (+25%) and 89.4% in 2020. This was thanks to a mix of: 1) successful tenant rotations (from public to private clients) with double-digit release spreads; 2) an ambitious refurbishment plan (with €35m cumulative capex over 2016-20, 10% of portfolio GAV); and 3) a supportive CRE cycle. It is worth remembering that GRI fell in 2020 due to the severe Covid impact on parking revenues (c.10% of total).

INMOBILIARIA DEL SUR: RENTAL EVOLUTION

	2016	2017	2018	2019	2020	9M21 (*)
Rental	10.5	10.4	12.1	13.6	12.8	14.8
GLA	115,821	118,240	115,864	120,544	135,243	132791
Occupancy	67.1%	76.2%	82.4%	88.4%	89.4%	88.3%

Source: Alantra Equities

Over the last years, Insur has improved its asset quality mix

In addition to the positive operational performance, InSur has also improved its asset quality mix with two fully new buildings: 1) Norte Río 55 office building (14k sqm) located in Madrid (the first one in the), which, despite it was initially planned to be sold upon the completion, InSur acquired a 40% stake (reaching 90%) upon the delivery in late 2020, after it was fully let to BNP. The building now accounts for c.20% of group rental GAV and 15% of rents; 2) in 2019, InSur also initiated a full refurbishment of an asset in the Sevilla city centre (c.8k sqm GLA) and transformed it into a hotel (€12m capex). This was delivered in 2021 and let to Hotusa. The combination of these two buildings, as well as 2019 parking revenues, have led InSur to post a record-high passing rent of €17.3m as of 9M21, which represents a 65% increase vs. 2016 GRI.

Now the company has set an ambitious €20m GRI target by 2025 (+c.15% vs. current passing rent), with a mix of: 1) rising occupancy (towards the 95% levels) and prices (we estimate there is a 5-10% reversionary potential still); 2) the asset rotation strategy, with the divestment of buildings (likely offices & retail) worth €27m and the acquisition or development of buildings (likely offices) worth €70m. At the same time, the company aims to continue increasing the weight of Madrid, from a current 18% of GAV to 25% by 2025, which implies a c.€35m net investment in the period.

INMOBILIARIA DEL SUR: ASSET ROTATION TARGETS

	9M21	Divestments	Investments	PF 2025
GLA (sqm)	132,791	(8,400)	30,609	155,000
GAV (€m)	365	(27)	70	408
o/w Madrid (€m)	66	-	36	102

Source: Alantra Equities

While the company has not announced any potential opportunity in Madrid, it has announced the acquisition of a land plot in Malaga (c.10k sqm GLA) for the development of an office building (through a JV) with a planned investment of €29m. We are including this building under the development activity. That said, we think that InSur could pursue the acquisition of the 50% it does not own once it is built and pre-let, and include it as part of its rental portfolio.

We expect GRI to reach a new high in 2021 (c.€15m) and to grow by mid-single digit p.a. onwards

In Q3, InSur reported €3.8m, equivalent to >€15m annualised. With this in mind, as well as the ramp-up of the hotel asset (delivered in 2Q21), the recovery in parking revenues and some positive release spreads & inflation, we expect GRI to go from €13.3m in 2020 to €14.8m (2021), €15.7m (2022) and €16.7m (2023). By 2025, we expect €18m GRI, 10% below guidance mainly reflecting the absence of any inorganic move in our forecasts.

INMOBILIARIA DEL SUR: RENTAL SEGMENT ESTIMATES 2019-25E

(€ m)	2019	% YoY	2020	% YoY	2021E	% YoY	2022E	% YoY	2023E	% YoY	2024E	% YoY	2025E
GRI	**13.7**	**(3%)**	**13.3**	**11%**	**14.8**	**6%**	**15.7**	**6%**	**16.7**	**5%**	**17.6**	**3%**	**18.0**
GLA (sqm)	120,544	12%	135,243	(2%)	132,791	-	132,791	-	132,791	-	132,791	-	132,791
Occupancy (%)	88.4%	1%	89.4%	(3%)	86.4%	2%	88.2%	2%	89.7%	1%	90.7%	-	90.7%
Rent (€/sqm)	11.2	(8%)	10.3	0%	10.3	8%	11.1	4%	11.6	4%	12.0	2%	12.3

Source: Alantra Equities

3) Looking to access capital markets to tap further growth options

Insur is open to access capital markets to tap further growth opportunities

Beyond these ambitious operating targets, and even more surprisingly, InSur would be willing to access the capital market via a combination of a €30m corporate bond issue and a capital increase of up to €60m. The latter is equivalent to c.40% of current market cap.

The proceeds planned to be raised would be used to further increase operational targets (which are self-funded) and would have the following allocation:

1) As for the €60m equity raise, 1/3 is expected to be allocated to broadening the rental portfolio (i.e., €20-25m) and the rest to fostering the growth of the development business.

2) As for the €30m bond issuance, the company would plan to allocate it entirely to the development business (new land plot purchases).

Although we think the company has sufficient firepower to significantly scale up the business organically (we estimate the company will be able to raise earnings by >50% from the 2019-20 record levels by 2024-25), we would welcome the move for the following three main reasons:

1) It would gain size, which is increasingly important in the current environment, as it would allow for: a) higher bargaining power with construction companies and brokers; b) commercial flexibility; c) financial advantages, with both a lower minimum level of pre-sales and better conditions (costs and maturities).

2) A higher liquidity would also allow InSur to accelerate project execution (construction could be initiated with own equity) speeding up land monetisation and driving up ROCE.

3) It has a strong track record, focus and deep local know-how which, from our viewpoint, would limit the execution risk. The group has a good track record in offering superior and growing returns, and we understand that the proceeds aimed to be raised would be well allocated.

4) It would increase the company's free float, a move that we think would lead to a more attractive InSur from an investor perspective, as the company is currently suffering from very low liquidity (<€0.1m daily volume), which we believe is triggering a significant valuation discount (both in absolute and relative terms). As a reminder, the €60m planned equity raised would imply c.40% of current market cap. The shareholder structure is as follows: 63% is controlled by the family and other board members, and the remaining 37% is free float.

INMOBILIARIA DEL SUR: SHAREHOLDER STRUCTURE

	Shares (m)	% of total
BoD and family members	11.8	63.2%
Free Float	6.9	36.8%

Source: InSur

III. Our 2021-24 P&L estimates

We are raising our 2022-23 EBITDA estimates by 5% and 10% in 2022 and 2023, respectively to reflect 5% and 10% higher deliveries, a faster contribution of new assets in the rental platform and +1-2p.p. average group margin enhancement (from both core businesses).

INMOBILIARIA DEL SUR: CHANGES IN ESTIMATES 2021-23E

	2021E			2022E			2023E		
(€ m)	Prev.	New	% Chg.	Prev.	New	% Chg.	Prev.	New	% Chg.
Total sales	127	123	(4%)	129	132	2%	144	148	3%
Adj. EBITDA	22.2	22.6	1%	24.5	25.3	3%	26.2	28.7	9%
Net Profit	9.1	10.8	19%	11.1	11.6	5%	12.8	14.2	11%

Source: Alantra Equities

1) Strong earnings growth in 2023-24

We expect EBITDA to go from €19m (20) to €23-25m (21-22) and €29-38m (23-24)

We expect 16% EBITDA growth in 2021 to €23m (recovering 2019 record levels), half due to higher average margins in development and half due to a higher contribution from the rental business. Going forward, the ramp-up in the development and rental businesses, as well as the gradual contribution of construction and services (as the bulk growth in development is via JV to which InSur provides these services) should drive EBITDA to double digit figures per annum, from €22m (2021) to €29m (2023) and >€35m (2024). As a reminder, InSur aims to reach €37m average EBITDA throughout the 2021-25 period.

Below EBITDA, we expect broadly stable D&A (€3-4m p.a.), as well as financial expenses (€6m p.a.). All this combined should lead adjusted profits (i.e., including cap. gains but excluding non-recurring items) to fall by 12% in 2021 (off a high base) to €10.8m, and then to strongly recover by 8% (2022), 22% (2023) and c.50% (2024), along with the EBITDA growth. On a per share basis, it is worth remembering that the company carried out a 10% bonus issue in mid-2021, raising the total shares to 18.7m (thus having a greater impact on 2021 earnings on a per share basis).

It is worth highlighting that the reason why we do not expect earnings in 2021-22 to be significantly different from those of the 2019-20 record levels, is that the latter were positively impacted by extraordinary items: 2019 enjoyed lower taxes and €4m cap. gains, whereas 2020 benefitted from the positive one-off in the delivery of the Madrid Rio building. Moreover, the company's strong uptick in the development activity seen in 2021 takes time (c.2Y) to be apparent at the P&L level.

INMOBILIARIA DEL SUR: P&L ESTIMATES 2019-24E

(€ m)	2019	% YoY	2020	% YoY	2021E	% YoY	2022E	% YoY	2023E	% YoY	2024E
Total sales	**123**	**8%**	**133**	**(7%)**	**123**	**7%**	**132**	**12%**	**148**	**31%**	**193**
Adj. EBITDA	**22.4**	**(13%)**	**19.4**	**16%**	**22.6**	**12%**	**25.3**	**13%**	**28.7**	**31%**	**37.6**
Adj. EBITDA Margin	*18.2%*		*14.6%*		*18.4%*		*19.2%*		*19.5%*		*19.4%*
Capital Gains & Other	4.1	(94%)	0.3	675%	2.0	(100%)	-	n.a	-	n.a	-
EBITDA	**26.5**	**(26%)**	**19.7**	**25%**	**24.6**	**3%**	**25.3**	**13%**	**28.7**	**31%**	**37.6**
D&A	(4.4)	(19%)	(3.6)	13%	(4.0)	(10%)	(3.6)	0%	(3.6)	-	(3.6)
Provisions & other	0.7	n.a.	19.2	(100%)	-	n.a	-	n.a	-	n.a	-
EBIT	**22.8**	**55%**	**35.3**	**(42%)**	**20.5**	**6%**	**21.7**	**16%**	**25.1**	**35%**	**33.9**
Net financial expenses	(12.5)	(53%)	(5.9)	4%	(6.1)	1%	(6.2)	0%	(6.2)	(5%)	(5.9)
EBT	**10.3**	**185%**	**29.4**	**(51%)**	**14.4**	**8%**	**15.5**	**22%**	**18.9**	**49%**	**28.0**
Tax	(1.5)	461%	(8.3)	(56%)	(3.6)	8%	(3.9)	22%	(4.7)	49%	(7.0)
Net Profit	**8.8**	**139%**	**21.1**	**(49%)**	**10.8**	**8%**	**11.6**	**22%**	**14.2**	**49%**	**21.0**
Adj. Net Profit	**11.8**	**4%**	**12.3**	**(12%)**	**10.8**	**8%**	**11.6**	**22%**	**14.2**	**49%**	**21.0**
Nº of shares (m)	17.0	-	17.0	10%	18.7	-	18.7	-	18.7	-	18.7
Adj EPS (€)	**0.70**	**4%**	**0.72**	**(20%)**	**0.58**	**8%**	**0.62**	**22%**	**0.76**	**49%**	**1.13**

(*) EBITDA adjusted by capital gains and net profit adjusted by non-recurring effects; Source: Alantra Equities

2) Revenue growth and margin expansion across the board

By business, we expect:

- In **development**, a c.20% sales fall in 2021 due to an absence of commercial land sales (in 2020 InSur delivered the Sur Río 55 building in Madrid for c.€20m), stable in 2022, and then a 10% jump in 2023 and 50% in 2024, or +15% ex-commercial, on higher delivery volumes

- In **rental**, we expect double-digit growth in 2021 thanks to the contribution of the assets entering into operation (Norte Rio 55 and Eurostars Guadalquivir), and then to grow by mid-single digit p.a. due to a mix of rising occupancy, positive release spreads & parking revenues recovery.

- In **construction**, we expect a strong pick-up in activity driven by the increased weight of deliveries developed through JVs for which InSur's construction company manages the project developments.

- Regarding **services**, linked to the above, and given that we expect a higher weight of projects developed through JVs to which InSur provides management services, this business should grow accordingly.

INMOBILIARIA DEL SUR: SALES BREAKDOWN 2019-24E

(€ m)	2019	% YoY	2020	% YoY	2021E	% YoY	2022E	% YoY	2023E	% YoY	2024E
Total sales	**123**	**8%**	**133**	**(7%)**	**123**	**7%**	**132**	**12%**	**148**	**31%**	**193**
o/w Development	65	51%	98	(23%)	75	3%	77	12%	87	46%	127
o/w Rental assets	14	(3%)	13	11%	15	6%	16	6%	17	5%	18
o/w Construction	40	(53%)	19	55%	29	19%	34	14%	39	11%	43
o/w Services	4	(33%)	3	37%	4	20%	5	10%	5	10%	6

Source: Alantra Equities

We expect group margins to go from 18% in 2020 to c.20% in 2024 on higher profitability in development and better sales mix

Although the company does not break down EBITDA by business segment, we have estimated it to better asses profitability. By business:

- In **development**, we expect 2019 margins (c.12.5%) to be recovered in 2021 and to grow by 1.5-2pp p.a. on a mix of: 1) a higher contribution from Madrid (which enjoys higher ASP and margins); and 2) the lack of legacy assets (land plots acquired in the previous residential cycle) in the sales mix. As a reference, our 2024 margin estimate sits 4pp below Aedas' c.20% margin estimate

- In **rental** we expect margins to grow from 75-77% in 2019-20 to 78% thanks to the higher occupancy levels that should allow InSur to increase the volume of property expenses recharged to tenants

- In **construction** & **services** we expect stable margins of 2-3% & 15%, respectively.

All this should drive group margins from 18% in 2021 to 19.5% by 2024, standing c.2-3pp below group targets.

INMOBILIARIA DEL SUR: EBITDA BREAKDOWN 2019-24E

(€ m)	2019	% YoY	2020	% YoY	2021E	% YoY	2022E	% YoY	2023E
Total sales	**122.8**	**8%**	**132.8**	**(7%)**	**122.9**	**7%**	**132.0**	**12%**	**147.6**
EBITDA	**22.4**	**(13%)**	**19.4**	**16%**	**22.6**	**12%**	**25.3**	**13%**	**28.7**
o/w Development	8.1	4%	8.4	17%	9.8	17%	11.5	21%	13.9
o/w Rental assets	10.3	(0%)	10.2	13%	11.5	6%	12.3	6%	13.0
o/w Construction	1.4	(86%)	0.2	198%	0.6	48%	0.8	25%	1.1
o/w Services	2.7	(79%)	0.6	6%	0.6	20%	0.7	10%	0.8
% Group margin	**18.2%**	**(20%)**	**14.6%**	**26%**	**18.4%**	**5%**	**19.2%**	**1%**	**19.5%**
% Develop. margin	12.4%	(31%)	8.6%	52%	13.0%	14%	14.8%	8%	16.0%
% Rental margin	75.0%	3%	77.0%	1%	78.0%	(0%)	78.0%	0%	78.0%

Source: Alantra Equities

IV. LTV stable at c.40% despite investment efforts

The company maintained broadly stable net debt levels until 2020, when it acquired a 40% stake in Madrid's office building (c.€25m). It has also carried out investments in 2021 (>€20m land plots purchases) in recent times to reload growth for the 2021-25 period. As such, debt has gone from €195m in 2017 to €220m as of 9M21, with LTV going from c.39% to a peak of 42%. As for the group's debt structure, it is worth highlighting that the group has a c.4Y avg. debt maturity.

LTV has peaked in 9M21 at c.41% on recent investment efforts…

INMOBILIARIA DEL SUR: NET DEBT AND LTV EVOLUTION

(€ m)	2017	2018	2019	2020	9M21
Net debt (*)	195	185	196	210	219
LTV	38.9%	36.2%	36.5%	39.7%	41.6%

(*) Including JVs net debt; Source: Alantra Equities

Although this could be seen as an optically high leverage (somewhat above Spanish REITs' c.40% and developers' 25-30%), we understand that this is temporary, and due to investment efforts that will translate into high FCF onwards.

In this sense, we expect construction capex to rise from €45m to >€60m in 2023-24, with land purchases peaking at c.€25m in 2021, and then stabilising at €15m p.a. The expected back-ended rise in deliveries should lead to a broadly breakeven FCF before shareholder remuneration to turn positive in 2023 and then to a material hike in 2024 to c.€35m CF generation. It is worth remembering that we expect >€40m YoY development sales growth that year.

As for the dividends, we are assuming that the company will maintain its current policy (45-50% of net profit) unchanged throughout the period, leading dividends to recover the 2019 record (paid in 2020) by 2023 (paid in 2024).

INMOBILIARIA DEL SUR: CASH FLOW ESTIMATES 2019-24E

(€ m)	2019	2020	2021E	2022E	2023E	2024E
Operating cash flow	**3**	**15**	**15**	**15**	**18**	**25**
Capex	(78)	(71)	(80)	(73)	(83)	(87)
o/w land	(20)	(7)	(26)	(16)	(15)	(15)
o/w construction	(52)	(60)	(45)	(51)	(62)	(66)
o/w transf. & refurb.	(5)	(5)	(9)	(5)	(5)	(5)
Deliveries	48	75	59	60	67	97
Change in WK	12	4	2	(2)	2	1
Operating FCF	**(15)**	**23**	**(4)**	**0**	**3**	**36**
Disposals (acquisitions)	7	(31)	5	–	–	–
FCF before distributions	**(7)**	**(8)**	**1**	**0**	**3**	**36**
Dividends paid	(5)	(5)	(7)	(5)	(6)	(7)
Decrease (increase) in net debt	**(12)**	**(13)**	**(6)**	**(5)**	**(2)**	**29**

Source: Alantra Equities

…and we expect to remain at 40-41% levels over 2021-23 to support strong mid-term growth

With the above in mind, we expect the company's net debt to grow by €4-5m p.a. over 2021-23, peaking at c.€225m in 2023 and then to fall below €200m in 2024. Our estimates do not include any perimeter changes on the company's rental platform. This is what mainly explains why our net debt estimate sits c.€35m below the company guidance of €235m by 2025, as InSur is already assuming investments (in the region of €40m) in the rental portfolio. Our net debt evolution should also lead to a stable LTV in 2021-23 at c.40% and then to a fall by 4pp to a healthier 36.5% in 2024 (and to c.35% in 2025).

INMOBILIARIA DEL SUR: NET DEBT AND LTV ESTIMATES 2019-24E

(€ m)	2019	2020	2021E	2022E	2023E	2024E
Net debt (JV)	196	210	216	221	224	195
LTV	36.5%	39.7%	40.9%	41.1%	40.5%	36.5%
EBITDA	8.8X	10.8X	9.6X	8.7X	7.8X	5.2X

Source: Alantra Equities

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