INMOBILIARIA DEL SUR

Well positioned for the cycle downturn

- **The cycle downturn.** 2022 has been another good year for the residential sector, with prices and demand up 8% & 20%. We expect the macro downturn to take a manageable toll in 2023-24, as: 1) we expect a limited & temporary shock in GDP (employment expected to hold up), 2) structural demand tailwinds for new homes remain in place (rising BtR, changes in consumer habits); 3) scarce supply, and 4) rising rental prices. In this context, we expect: 1) demand to fall by 25% from 650k units in 2022 to 495k by 2024, back to 2017-18 levels, but just -10/-15% for new homes (with a balance between demand & new supply); 2) housing starts will also fall slightly (from c.108k in 2021-22 to 95k in 2023, 3) after +5.5% in 2022E, we expect prices for new homes to remain flat in 2023 and then fall -4/-5% in 2024.

- **Well positioned in development.** InSur's main markets (Sevilla, Madrid, Malaga, 80% of GAV) enjoy better macro, market & regulatory dynamics than the Spanish average. This is reflected on the group's backlog (which sits at record-high levels of €180m, c.800 units as of 9M22), although we highlight that execution is still impaired by construction & permitting bottlenecks. InSur expects to launch >800 new WIPs before 1Q23, leading to strong sales growth in 2025, to which we should add the three office projects (30k sqm GLA) to be delivered that same year. We also feel that the worst of the construction cost inflation has been seen in 2022.

- **Rentals (>60% of GAV) also strong.** Pricing (release spread+CPI) is strong and has led to record GRI (+20% YoY) and passing rents (€18.6m) in 9M. Occupancy is up 70bps to 88.4%, and we expect levels close to 90% over 2022-25.

- **Our 2022-25 estimates.** Insur's Strategic Plan aims to double sales, EBITDA & EPS in 2021-25 vs. 2016-20. Insur is delivering in terms of land investments, rentals and pre-sales, but WIP execution is slower, while debt costs have risen & the macro has deteriorated. Our estimates sit 15%, 30% & 35% below targets respectively and are back-end loaded into 2025. We estimate a flat EBITDA & EPS in '22 at €22m & €0.55, €25m & €0.50 (23), €28m & €0.62 (24) and >€40m & >€1.20 (25). LTV should rise from 38% (21) to 49% (24), then fall <40% (25).

- **c.60% discount to NAV.** In our estimates, Insur trades at just 11XP/E & 1XBV over 2023-25 vs. >25X & 1.7X over 2016-19. In addition, it trades at a c.60% discount to the latest reported NAV, well above the c.40% historical average and peers (c.50% for listed REITs & developers), which reflects a much deeper cycle downturn than we expect and the shares' thin liquidity.

Financial Ratios	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA (€m)	22.4	19.4	22.4	21.7	25.3	28.3
Net profit (€m)	8.8	21.1	12.1	16.2	7.9	11.5
EPS (€)	0.52	1.24	0.68	0.87	0.42	0.62
Adj. EPS (€)	0.70	0.73	0.58	0.55	0.50	0.62
P/E (x)	20.1	7.9	11.2	9.0	18.5	12.7
P/E Adj. (x)	15.0	13.5	13.1	14.3	15.5	12.7
EV/EBITDA (x)	16.7	19.3	15.1	17.9	15.7	15.2
Debt/EBITDA (x)	8.8	10.8	8.8	11.1	9.9	10.0
P/BV (x)	1.7	1.4	1.1	1.0	1.0	1.0
ROE (%)	8.2	16.8	9.2	11.4	5.4	7.5
DPS (€)	0.32	0.40	0.30	0.29	0.27	0.32
Dividend yield (%)	3.0	4.1	4.0	3.7	3.4	4.1

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

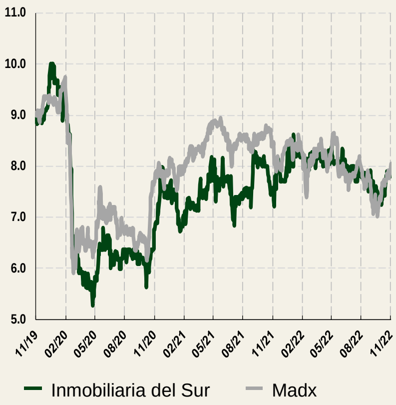
SPONSORED RESEARCH

Share Price (*)	€ 7.82

*Share price at the close of 25 November 2022

ISUR.MC/ ISUR SM	
Market Cap	€ 146 m
Enterprise Value	€ 389 m
Free Float	€ 53 m
Nº Shares	19 m
Average Daily Volume	€ 22 k

Performance	1m	3m	12m
Absolute %	6.3	-1.5	9.1
Relative %	0.0	-4.0	9.6



Shareholders

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

Analyst

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Key Data

P&L account (€m)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Sales	123	133	125	111	130	155	282
Cost of sales	(88)	(95)	(89)	(77)	(91)	(110)	(216)
Gross margin	**35**	**38**	**37**	**34**	**39**	**44**	**66**
Opex	(13)	(18)	(14)	(13)	(13)	(16)	(22)
Adj. EBITDA	**22**	**19**	**22**	**22**	**25**	**28**	**44**
Adjustments	4	0	4	1	–	–	–
EBITDA	**27**	**20**	**26**	**23**	**25**	**28**	**44**
Depreciation & Amortization	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Changes in provisions & Other	1	19	0	8	(2)	–	–
EBIT	**23**	**35**	**22**	**27**	**19**	**24**	**40**
Financial costs	(12)	(6)	(5)	(5)	(9)	(9)	(9)
Associates	–	–	–	–	–	–	–
Ordinary profit	**10**	**29**	**16**	**22**	**11**	**15**	**31**
Extraordinary items	-	-	-	-	-	-	-
Pre-tax Profit	**10**	**29**	**16**	**22**	**11**	**15**	**31**
Taxes	(1)	(8)	(4)	(5)	(3)	(4)	(8)
Discontinued activities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Minorities	–	–	–	–	–	–	–
Net profit, reported	**9**	**21**	**12**	**16**	**8**	**11**	**23**
Adjustments	3	(9)	(2)	(6)	2	–	–
Net profit adjusted	**12**	**12**	**10**	**10**	**9**	**11**	**23**
Nº of shares	17	17	19	19	19	19	19
Nº of shares adjusted (m)	17	17	18	19	19	19	19
Treasury stock (m)	0	0	0	0	0	0	0

YoY Growth	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Sales	8%	8%	(6%)	(11%)	17%	19%	82%
Adj. EBITDA	29%	(13%)	15%	(3%)	17%	12%	55%
Net profit	(12%)	139%	(43%)	34%	(51%)	46%	100%
Adjusted net profit	18%	4%	(16%)	(1%)	(8%)	22%	100%

EBITDA by division	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Development	36%	71%	72%	62%	62%	59%	70%
Servicing	46%	51%	53%	62%	55%	51%	34%
Rental and legacy	18%	(22%)	(25%)	(24%)	(17%)	(10%)	(4%)

NAV	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
GAV	538	526	523	571	550	583	519
Net debt	196	209	198	241	250	283	202
Minorities & Other	–	–	–	–	–	–	–
NNAV	341	317	325	330	301	300	317

Per share data (€)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
EPS	0.52	1.24	0.68	0.87	0.42	0.62	1.23
EPS adjusted	0.70	0.73	0.58	0.55	0.50	0.62	1.23
CFPS	0.17	0.36	1.16	0.65	0.74	0.83	1.44
FCFPS	(0.85)	0.91	0.49	(1.02)	(0.17)	(1.49)	4.62
BVPS	6.32	7.21	7.20	7.47	7.64	8.01	8.94
DPS	0.32	0.40	0.30	0.29	0.27	0.32	0.62

Cash flow (€m)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Net profit	9	21	12	16	8	11	23
Depreciation	4	4	4	4	4	4	4
Minorities	–	–	–	–	–	–	–
Non-cash adjustments	(10)	(19)	4	(8)	2	–	–
Total cash-flow (CF)	**3**	**6**	**21**	**12**	**14**	**15**	**27**
Capex	(67)	(69)	(81)	(91)	(94)	(117)	(122)
Deliveries	48	75	64	61	70	72	172
Working capital	2	4	5	(1)	7	2	9
Operating FCF	**(15)**	**15**	**9**	**(19)**	**(3)**	**(28)**	**86**
Financial investments	–	–	–	–	–	–	–
Disposals/(acquisitions)	7	(22)	9	(19)	–	–	–
Rights issues	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–
FCF before dividends	**(7)**	**(7)**	**18**	**(38)**	**(3)**	**(28)**	**86**
Dividends	(5)	(5)	(7)	(6)	(5)	(5)	(6)
Free-cash-flow (FCF)	**(12)**	**(12)**	**11**	**(43)**	**(9)**	**(33)**	**80**
Buy-backs	–	–	–	–	–	–	–
FCF after buy backs	**(12)**	**(12)**	**11**	**(43)**	**(9)**	**(33)**	**80**

Balance sheet (€m)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Equity	107	122	128	140	143	150	167
Minority interests	–	3	3	3	3	3	3
Provisions & others	32	21	48	52	39	22	35
Net debt [cash] (*)	196	209	198	241	250	283	202
Capital invested	**336**	**355**	**378**	**436**	**435**	**458**	**407**
Goodwill	–	–	–	–	–	–	–
Intangible assets	1	1	0	0	0	0	0
Tangible assets	149	217	218	243	239	237	235
Financial assets	31	25	47	47	47	47	47
Associates	2	1	0	12	11	7	(12)
Working capital	154	112	112	133	138	165	136
Capital employed	**336**	**355**	**378**	**436**	**435**	**458**	**407**
Working capital/sales	125%	84%	90%	119%	106%	107%	48%

(*) Excluding trapped cash ped cash

Financial ratios	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Net debt/EBITDA	7.4X	10.6X	7.6X	10.5X	9.9X	10.0X	4.6X
Net debt/GAV (LTV)	37%	40%	38%	42%	45%	48%	39%
Gearing	183.2%	166.4%	150.6%	169.0%	171.4%	185.0%	119.0%
Interest cover	1.8X	6.0X	4.0X	5.0X	2.2X	2.7X	4.4X

Margins & ratios	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
EBITDA margin	21.6%	14.8%	20.9%	20.7%	19.4%	18.3%	15.5%
EBIT margin	18.6%	26.6%	17.4%	24.3%	14.8%	15.7%	14.1%
Reported tax rate	14.3%	28.2%	26.1%	25.0%	25.0%	25.0%	25.0%
Pay-out	45.9%	55.2%	51.8%	53.0%	53.0%	52.0%	50.8%
ROCE (EBIT/CE)	6.8%	9.9%	5.8%	6.2%	4.4%	5.3%	9.7%
ROE	8.2%	16.8%	9.2%	11.4%	5.4%	7.5%	13.5%

I. The residential cycle downturn should be manageable

We expect the macro downturn & rising rates to take a toll in 2023-24 but this should be manageable for developers

The strong inertia of the residential cycle over the past quarters has continued into 2022 (demand sat at >10Y highs as of September whilst prices increased by a strong +8% as of 1H22), showing little (if any) deterioration in fundamentals despite the weakening economic environment and rising interest rates. However, as cycle changes typically become apparent with some sort of lag in RE, we expect these headwinds to be seen in 2023-24.

While we expect trends to cool down, we have reasons to believe that they should be manageable for developers thanks to: 1) a weak but still manageable flat to slightly positive GDP & stable employment rate; 2) structural tailwinds for new homes (rising Build-to-Rent -BtR- demand in the product mix, positive changes in consumer habits); 3) a continued low and disciplined new supply; and 4) rising home rental prices, especially in the "scarce" new homes segment, which should also help to mitigate falling asset prices on rising yields. In this context, we expect: a) total demand to fall from c.650k in 2022E to 495k (-25% cumulative), back to 2017-18 levels but just -10/-15% for new homes; b) housing starts to fall to c.95k in 2023 (vs. 108k in 2021), with an increased share of medium/big developers and BtR; c) new home prices to remain stable in 2023 (units are mostly pre-sold), and to fall by 4-5% in 2024.

HOME DEMAND AND PRICE ESTIMATES

	2019	% YoY	2020	% YoY	2021	% YoY	2022E	% YoY	2023E	% YoY	2024E
Total transactions	501	(17%)	416	36%	566	15%	649	(16%)	547	(9%)	496
o/w new homes	93	(11%)	83	39%	115	3%	119	(10%)	107	(2%)	105
New home prices	+5.3%		+8.2%		+6.1%		+5.5%		+1.0%		-4.5%

Source: Alantra Equities

1) We expect new home demand to fall by 10-15% during 2022-24

Home transactions in the first 9M of 2022 remained very stong and reached c.500k units, which translates to 18% YoY growth and +30% vs. same period of 2019 (+6% and +28% in new homes).

DEMAND AS OF SEPTEMBER 2022

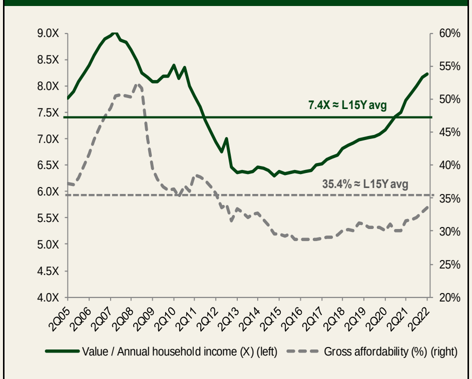
(000s)	2017	% YoY	2018	% YoY	2019	% YoY	2020	% YoY	2021	22 YTD	22/21	22/19
Total transactions	468	11%	518	(3%)	501	(17%)	416	36%	566	499	18%	30%
o/w used	384	11%	426	(4%)	408	(18%)	333	35%	451	409	22%	30%
o/w new	83	10%	92	1%	93	(11%)	83	39%	115	91	6%	28%

Source: Alantra Equities

The change in the interest rate cycle should deteriorate affordability and effort rates...

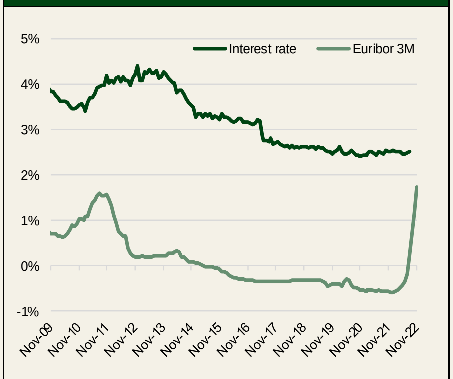
The sector concerns are the macro downturn and rising interest rates which we expect will take a toll on sector demand in 2023-24. The magnitude of the downturn is the big question mark. One of our main concerns is weakening affordability (home value vs. household gross income) and effort (mortgage costs vs. household income) ratios. In fact, the former has already surpassed the L15Y avg. (7.4X), yet remains below the 9.0x peak (2008), whilst the latter (33.6%) is still below the L15Y avg. (35.4%) and far from the >50% peak. Another headwind is the rapid erosion in household savings accumulated from the pandemic, as they decreased from a historical peak of 19% to the historical avg. (7%) in just 2Y.

AFFORDABILITY RATIOS



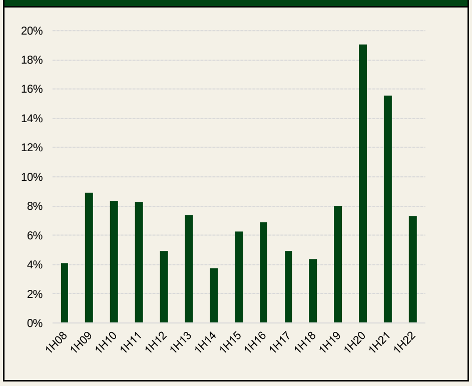
Source: Bank of Spain

EURIBOR 3M AND MORTGAGE COSTS



Source: INE

HOUSEHOLD SAVINGS



Source: INE

On the **positive** side we find:

...but we expect a resilient GDP & employment rate...

a) **A weaker but still flat to slightly positive GDP growth.** Following +6.7% (1H22) & +3.8% (3Q22) GDP growth, we expect Q4 to continue to slow down to +1.3%, leading to a +4.6% blended growth in 2022, 1 p.p. below 2019 and our initial forecast for the year. Our 2023 and 2024 GDP estimates point towards a growth rate of 0.7% and 1.5%, respectively, which is weak but still manageable. This equates into 2024 GDP at 2019 levels, and c.5% above 2017's.

b) **Resilient employment.** The unemployment rate in October came in at 12.7%, down 1pp YoY & -1.2pp vs. Oct-19, prior to the pandemic. We have the impression that companies are still not resorting to lay-offs but reducing work hours instead, and thus expect the situation to deteriorate over the coming months. Notwithstanding, we expect the unemployment rate to reach a new 10Y low by year end (<13%, vs. 15% in 2019), and to remain broadly stable in 2023-24 12.6-13.0%).

GDP AND UNEMPLOYMENT RATE ESTIMATES

						Alantra			Bank of Spain		
	2017	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**	**2022E**	**2023E**	**2024E**
GDP growth	+3.0%	+2.3%	+2.0%	-11.3%	+5.5%	+4.6%	+0.7%	+1.5%	+4.5%	+1.4%	+2.9%
Unemployment rate	17.2%	15.3%	14.1%	15.5%	14.8%	12.8%	13.0%	12.6%	12.8%	12.9%	12.4%

Source: Alantra Equities

...plus structural tailwinds from BtR

c) **Continued growth in Build-to-Rent (BtR).** Driven by its promising outlook, the four largest Spanish developers have already allocated part of their production into BtR. In 2021, c.24% of Spain's population lived in rental units, up from c.20% in 2011 but still below the EU average of c.30%. We see room for additional growth in rental demand, especially given the current loss of purchasing power and rising mortgage costs. According to industry sources, BtR demand is expected to average 9k homes p.a. in 2022-23 and >13k p.a. onwards, representing 10-15% of total housing starts in Spain vs. 1-2% in 2015-20.

d) **Foreign demand to remain supportive.** Foreign demand averaged c.13% throughout FY14-19, falling to c.10.5% in 2020-21 due to Covid restrictions. As of 3Q22, foreign demand has jumped to a new record high of 14.6%. Going forward, we expect it to remain above the historical average for two main reasons: 1) the largest foreign home buyers (UK, France, Germany) are now wealthier relative to Spaniards in the post-Covid world; and 2) housing prices in most of Europe have undergone greater inflation than Spain, making Spanish RE assets more attractive.

Overall, we expect demand of new homes to fall by 10-15%, yet representing 100% of finished houses

All in all, we expect total demand to fall from the >10Y highs of 2022E of c.650k units to c.490k units in 2024, implying a c.25% cumulative fall, to return to approx. 2017-18 levels (when GDP and unemployment rates were weaker, but when affordability and effort ratios were stronger). We expect trends for new home to outperform those of used homes, backed by: 1) BtR dynamics; 2) structural changes in consumer habits; and 3) a much easier comparison base. The latter is a key point to highlight: the lack of available product should lead to limited growth in 2022 (+3% vs. +18% used), which does not reflect the underlying demand (which we believe would have been much stronger). In addition, our base case implies that demand for new homes going forward will meet the new supply entering the market (i.e. no increase in stock) given our belief that supply will remain tight.

DEMAND ESTIMATES 2017-24E

	2017	**18/17**	**2018**	**19/18**	**2019**	**20/19**	**2020**	**21/20**	**2021**	**22/21**	**2022E**	**23/22**	**2023E**	**24/23**	**2024E**
Total transactions	468	11%	518	(3%)	501	(17%)	416	36%	566	15%	649	(16%)	547	(9%)	496
o/w used	384	11%	426	(4%)	408	(18%)	333	35%	451	18%	530	(17%)	440	(11%)	391
o/w new	83	10%	92	1%	93	(11%)	83	39%	115	3%	119	(10%)	107	(2%)	105
% of total	17.8%		17.7%		18.5%		19.9%		20.3%		18.3%		19.6%		21.1%

Source: INE and Alantra Equities

2) We expect the market to remain in tight supply

For years supply has been below demand…

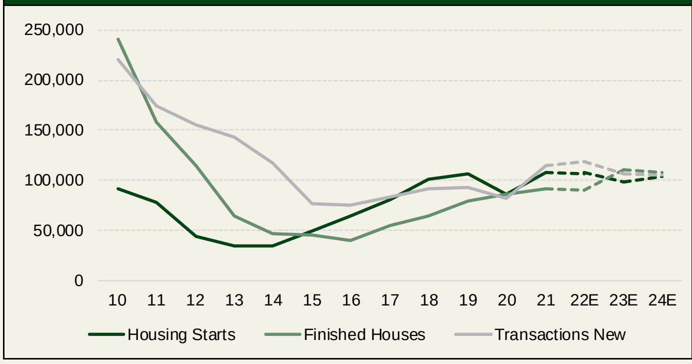
Housing starts have struggled over the years to meet demand (this being one of the main home price appreciation drivers), due to a lack of ready-to-build land, a slow permit process and difficult access to financing from developers. This has been aggravated in 2022 due to interest rate hikes (which led banks to further tighten financial conditions) and inflation in raw materials costs (which prompted new delays in construction works and project launches). In fact, housing starts fell by 10% YoY between April-August, despite a very strong underlying demand.

The above-mentioned lack of housing starts together with the strong demand also explains the continued fall of stock of unsold units: in 2021 it reached a new 11Y low of c.450k units, which we believe to be structural stock of low-quality.

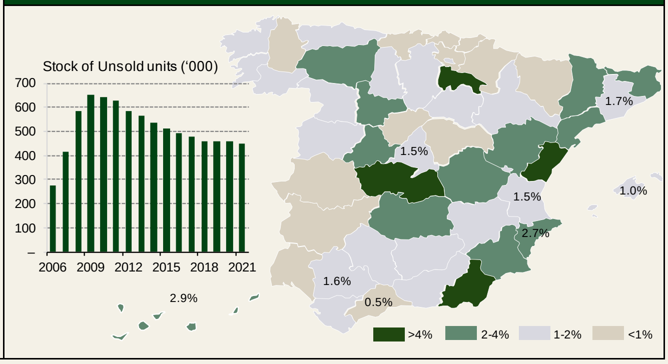
... and we expect supply to remain limited, with larger players gaining market share

Therefore, we believe that if developers, especially the smaller ones, would have had greater regulatory and financing support, strong demand could have resulted in annual housing starts of 120-130k (versus the actual 108k in 2021 and flat in 8M22). In this sense, and considering a deteriorating but manageable fall in new home demand, we expect housing starts to trough at c.95k units in 2023 (15-20% below our 115-120k units forecast made a year ago) and to recover by 5% in 2024 to c.103k units p.a., having a greater share of larger versus smaller players, given the former's higher financial flexibility, and increased BtR in the mix. It is worth highlighting that our 2022-24 scenario implies that new supply (90-110k finished houses p.a.) should meet new home demand over the period.

NEW SUPPLY VS. DEMAND



STOCK OF UNSOLD UNITS



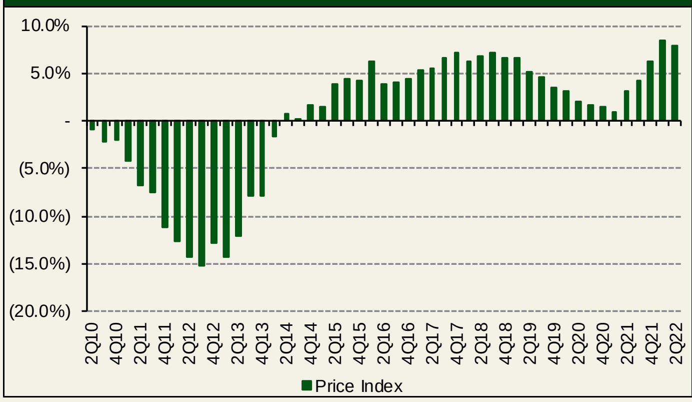
Source: Ministry of Works, INE and Alantra Equities

3) We do not expect a major price fall in new homes

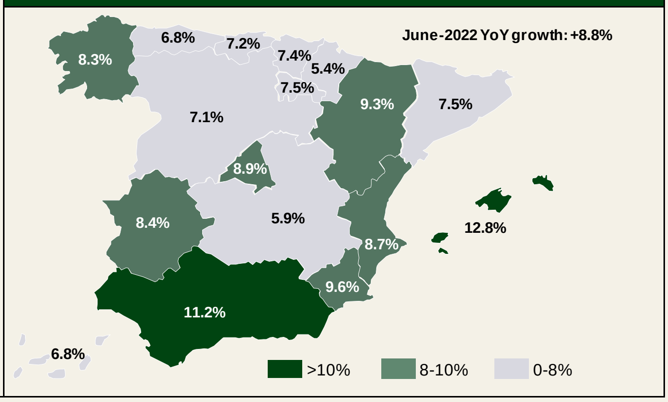
Home prices remained strong in 1H22 …

Home prices have accelerated to +8% YoY in June-22, after a +3-5% consistent price increase p.a. over 2018-21, with new home prices outpacing those of used by 2pp in the period due to a widened demand-supply imbalance. Growth was led once again by the Tier-1 regions (Madrid, Cataluña) as well as by the coastal regions and the Islands.

HOME PRICE GROWTH (YoY)



NEW HOME PRICE GROWTH AS OF 6M22 (YoY)



Source: INE and Alantra Equities

… and we expect them to remain stable in 2023 and to fall by 4-5% in 2024

Going forward, it is clear that the combination of: 1) a weakening demand, and thus a healthier-balanced supply-demand curve; and 2) rising interest rates, and thus residential yields, should exert downward pressure on home prices. Nevertheless, we find several reasons to believe that home prices should be far more resilient than in the past crisis collapse:

1) There is no stock, and housing starts over L10Y are 1/6 of those of 2006-08 and come with high pre-sales ratios.

2) Banks have learnt the lesson and have not allowed developers to leverage. This has left the latter with very healthy B/Ss, and are therefore not in a rush to cut prices and accelerate sales.

3) Rental prices are also on the rise due to inflation and scarce supply, especially in Tier-1 regions and new homes. This should partly mitigate the impact of yield expansion.

4) Prices are far lower than during the past crisis, especially in real terms: in 2021, homes prices sat 10% below those of the 2008 peak and 25% below in real terms; while new home prices were 10% above the former peak but yet c.10% below in real terms.

As a result, we expect home prices to slow down to +5% (total) and +5.5% in new homes in 2022 (+8% as of 1H22), and to be flat (-1/+1%) in 2023 and to fall by 8% and 4-5% in new homes in 2024.

HOME PRICES ESTIMATES

	2007-13	2013-16	2017	2018	2019	2020	2021	21/07 (nom)	21/07 (real)	2022E	2023E	2024E
Home prices growth	-36.6%	+10.8%	+7.2%	+6.6%	+3.6%	+1.5%	+6.4%	-10.2%	-25.4%	+5.1%	-0.9%	-7.9%
o/w new	-29.8%	+12.4%	+7.4%	+8.0%	+5.3%	+8.2%	+6.1%	10.6%	-8.2%	+5.5%	+1.0%	-4.5%
o/w used	-42.0%	+10.5%	+7.2%	+6.4%	+3.4%	+0.4%	+6.4%	-19.2%	-32.9%	+5.0%	-2.0%	-10.0%

Source: INE and Alantra Equities

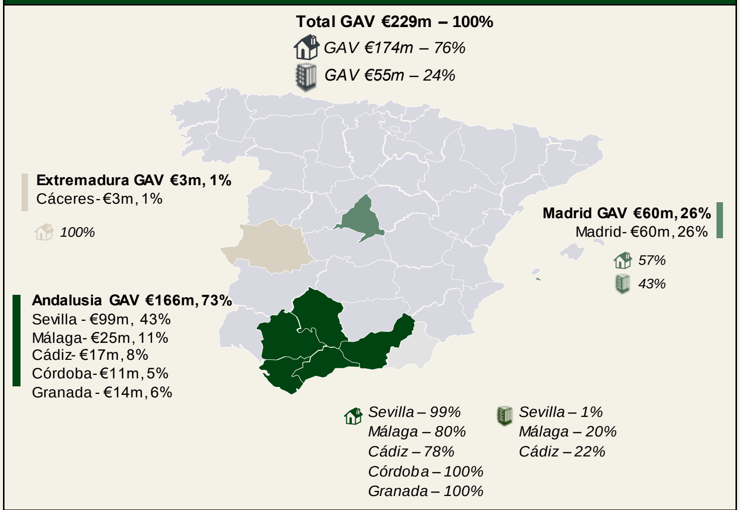
4) InSur should benefit from positive regional mix

InSur is mainly present in Tier-1 regions

InSur development assets (both residential & commercial) are worth c.€230m (proportional GAV as of 9M22) and are located in Tier-1 regions, these being Seville (c.€100m, 43% of total), Madrid (€60m, 26%) and Malaga (€25m, 11%). These three represent 80% of group's development GAV.

These three regions enjoy positive demand trends (within the top 6 more dynamic/liquid markets in terms of housing transactions in Spain) and pricing momentum, and are growing above the Spanish average due to better macro prospects (Madrid and Andalucía are the fastest growing regions in Spain) and underlying market fundamentals (stock of unsold units are also below Spanish average, whilst population forecasts are also more favourable). Moreover, these regions are also market friendly with low regulatory risk.

INMOBILIARIA DEL SUR REGIONAL MIX (DEVELOPMENT BUSINESS)



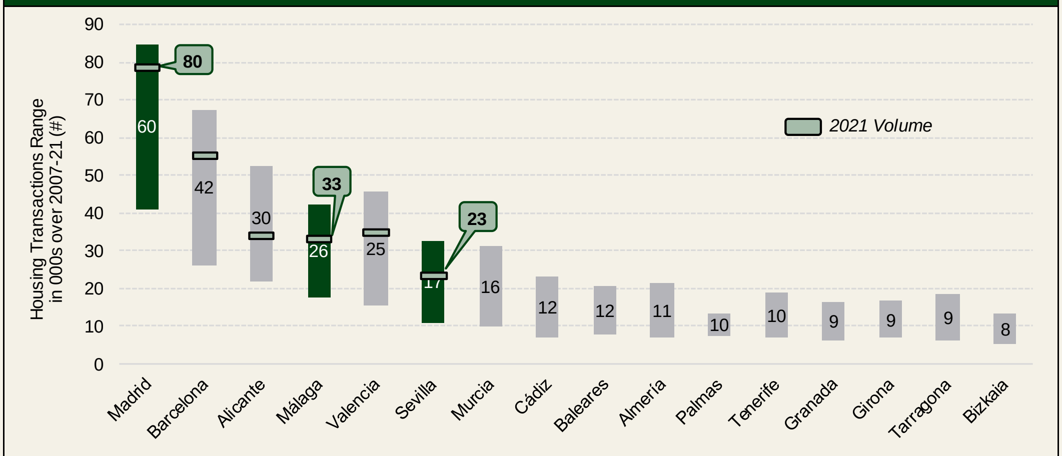
Source: InSur and Alantra Equities

KPIs IN TOP REGIONS

CAGR	Stock Unsold FY10	Stock Unsold FY21	Population 08-22	Population 22-30E
Sevilla	2.13%	1.59%	0.66%	0.22%
Málaga	2.22%	0.49%	1.42%	1.30%
Madrid	1.58%	1.48%	1.05%	1.21%
Spain	2.56%	1.73%	0.47%	0.74%

Source: INE

HOUSING TRANSACTION RANGE IN SPAIN 2007-21



Source: INE and Alantra Equities

II. How is the ambitious plan progressing?

1) 2022: laying the foundations for LT growth

Despite being a challenging year for the development business, InSur has made good progress in securing investment targets and deliver strong growth in rentals

In late 2021, InSur presented its 2021-25 Strategic Plan in which it aimed to double revenues, EBITDA and net profit for the period vs. 2016-20 while maintaining its balanced business model (property & development accounting for 70/30% GAV) and limited risk profile (development JVs with financial partners, in-house construction, comfortable LTV). This ambitious plan sought to lever on the very strong prospects of the RE and quality land bank.

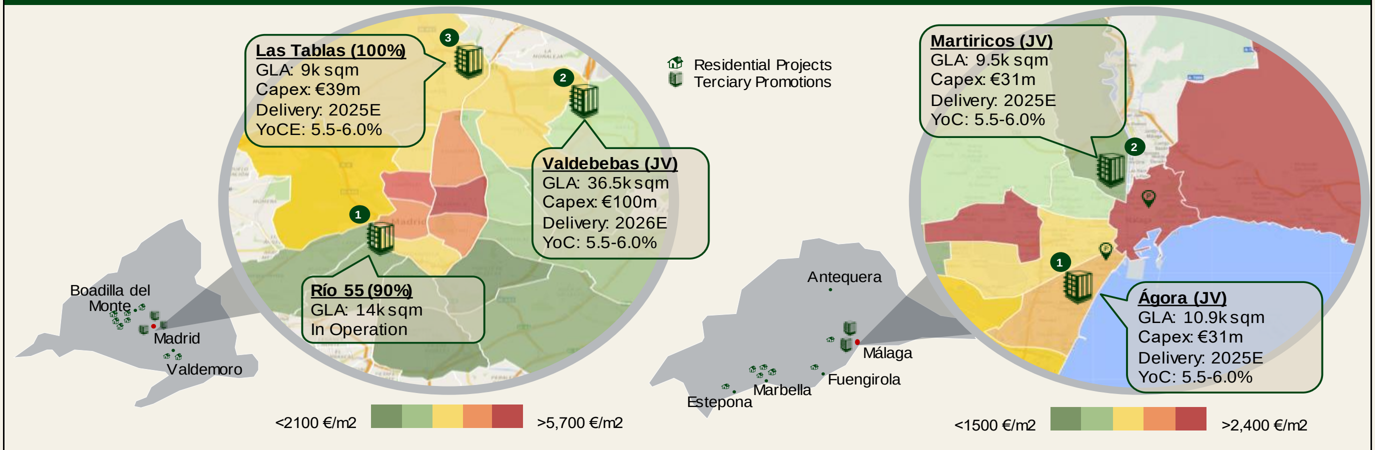
One year later, the reality has been more challenging than anticipated: 1) macro prospects are not as supportive as initially expected; 2) rising interest rates have hampered the needed re-leverage of the company; 3) the temporary sharp increase in raw materials prices led to construction delays over Apr-Aug. and also added margin pressure.

InSur has not been immune to the above challenges (more apparent in the lower than forecasted construction starts), but we still believe it has made good progress on its ambitious growth plans whilst the rental business has delivered a stronger than forecasted growth:

1) **Strong bet on commercial development.** In late 2021 InSur issued a 5Y bond for €30m with a 4% fixed coupon rate. The proceeds raised were quickly used in the 100% purchase of a land plot in Las Tablas in Center North of Madrid for an office development. The acquisition led InSur to raise 2021-25 cum. EBITDA and net profit guidance by 3%.

   In parallel, InSur acquired three more land plots through JVs: two in Malaga (c.20k sqm & €62m combined GLA & investment) and one in Madrid (€36.5k sqm and €100m). As a result, the company has successfully fulfilled its acquisitions target set at an attractive YoC (>5.5%).

INMOBILIARIA DEL SUR: COMMERCIAL PROJECTS



Source: Idealista, InSur and Alantra Equities

2) **The acquisition of DMS.** In June it acquired the 50% outstanding in Desarrollos Metropolitanos del Sur (DMS) from BBVA. The DMS JV was created in 2015 with the aim to co-develop a large landbank mainly located in the Entrenucleos sector (South East of Seville) and owned by BBVA. Insur contributed its industrial know-how (permitting, construction works, and commercialisation) to the JV. Since 2015, the JV has developed 17 projects with 1.47k home units, and has now a portfolio of 1.8k units, of which 832 were under development (either in WIP or launched). DMS accounted for c.40% of Insur's portfolio as of March, and we estimate >20% on adjusted terms (i.e., under the proportionate method).

   We think the deal made strategic sense for InSur because: 1) it acquired full control of a land bank that it knows well, located in a region with strong demand; 2) it secured most of the land purchase targets set in the 2021-25 plan in an environment where fully-permitted land is very scarce; and 3) the price paid was reasonable and implied 4% NAV accretion.

3) **Tailwinds in rental.** The rental business is benefitting from higher than anticipated inflation tailwinds. Average inflation in Spain is expected to be at >8% in 2022 and 5% in 2023. This offsets the weaker than expected occupancy as it only improved by 0.7pp in 9M22 to 88.4%, still below the >90% target set by year end.

Our estimates sit below the 2021-25 group's ambitious targets reflecting a weakening macro and execution risks

Despite what we believe to be positive moves, our current estimates are more prudent than those made by InSur a year ago especially in the development business and reflect: 1) a more challenging environment re demand; 2) longer lead times; 3) prudent margins on cost inflation; and 4) high execution risk, as 40% of planned profits are expected to come at the very end of the strategic plan period (2025). As a result, our revenues and EBITDA estimates sit c.15% & c.30% below targets and >35% in profits which factor in higher financial costs and no capital gains on asset sales.

INMOBILIARIA DEL SUR: 2021-25 TARGETS VS. ALANTRA ESTIMATES

(€ m)	Average 11-15	Average 16-20	Average 21-25	Alantra	Diff
Sales	**48**	**101**	**191**	**161**	**(16%)**
o/w development		66	131	113	(14%)
o/w rentals		12	17	18	2%
o/w construction		20	37	26	(30%)
o/w services		3	5	5	(11%)
EBITDA	**7**	**16**	**41**	**28**	**(31%)**
Net Profit	**(0)**	**8**	**23**	**14**	**(37%)**

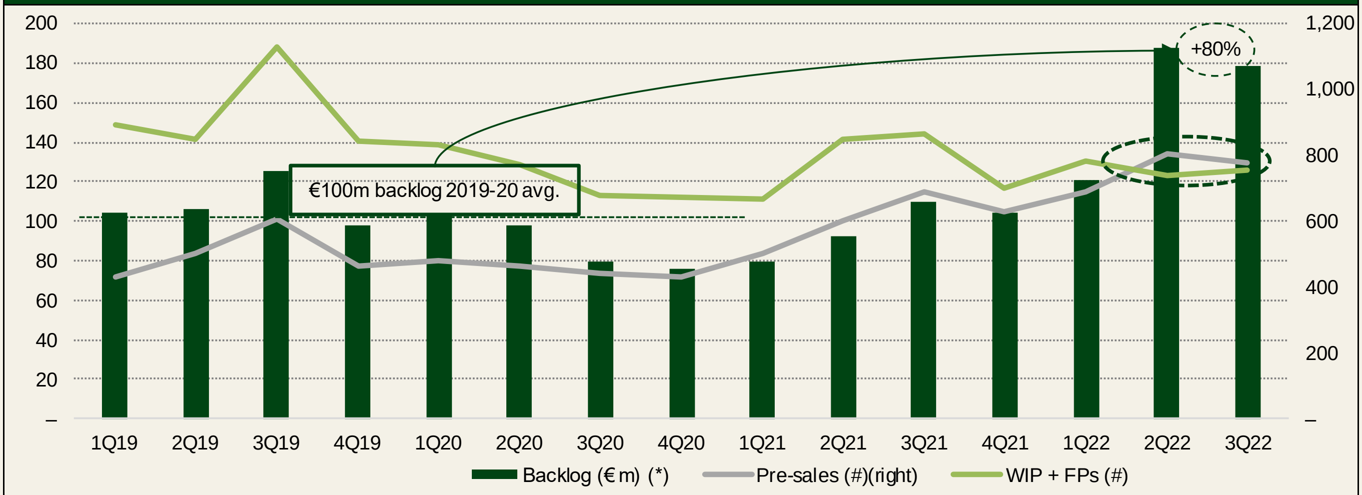
Source: Alantra Equities

2) Backlog at record levels but construction starts must pick up

Record backlog offers good CF visibility but construction works have lagged behind

The **residential** development business recovered strongly since the 4Q20 trough, both in terms of pre-sales (units) and backlog and the acquisition of the unowned DMS stake led to a new record high backlog (c.€180m, c.800 units). This has been due to expected slower construction activity on the mentioned sector issues (project delays), and, in fact, the number of pre-sold units is already higher than the number of WIP or FP (finished product) units. InSur expects to initiate construction of >800 units before 1Q23, doubling existing WIP and further improving visibility for its 2025 deliveries (which should grow significantly vs. previous years).

INMOBILIARIA DEL SUR: 2021-25 TARGETS VS. ALANTRA ESTIMATES



Source: Alantra Equities

In the **commercial** business, the land plots acquired have been in the quality locations of Madrid and Malaga. The latter has become one of the most dynamic markets in Spain in offices, with an increased number of big companies landing (e.g. Google, Citygroup, etc.). One of the two Malaga projects has already received a construction license. The other one and that of Las Tablas are expected to receive licenses before mid-2023. Assuming 2.0-2.5Y lead time, we expect these three projects to be delivered by 2025 with sales amounting to >€110m sales, or a proportional €77m.

GM should hold well as we think that the likely weaker demand & ASP should be offset with a more favourable CCI

In terms of gross margins (GM), InSur reported a 3pp YoY fall to 21.5% as of 9M22 off of a high base and affected by a temporary lower margin sales mix (on a higher weight of DMS) and targeted 24-25% for the 2021-25 period (21.6% net margin in owned units and >25% net in JVs). We have forecasted c.23% GM in 2023-25. This is c.2pp below the group's targets as we factor in a small fall in home prices and rising cost of debt, partly mitigated by softer construction costs (especially at the end of the period). In the commercial business, we have assumed a 10-15% average gross margin (somewhat below its historical >20% to reflect lower asset prices on rising yields).

The record backlog, rise in WIP, & commercial growth should lead development sales to go from €80m (22) to €90-95m (23-24) & €215m (25)

As a result of the above, we expect development sales and gross profit to fall by 5-10% in 2022 driven by lower ASP and GM in the product mix, to then grow by c.15% in 2023 (much higher owned units in the mix), by 4-7% in 2024 (on volumes), and to jump by c.130% and c.90% in 2025 thanks to the delivery of the commercial projects (representing 2/3 of the sales growth but c.50% of the GP) and the growth in residential development (again, on volumes). It is worth highlighting that by YE 2022 we expect InSur to have >50% of 2023-25 cumulative deliveries pre-sold and >65% in WIP (3Y in advance). This provides a cushion against macro headwinds.

INMOBILIARIA DEL SUR: DEVELOPMENT ESTIMATES

(€ m)	2020	% YoY	2021	% YoY	2022E	% YoY	2023E	% YoY	2024E	% YoY	2025E
Dev. sales	**98**	**(15%)**	**84**	**(6%)**	**78**	**16%**	**91**	**4%**	**94**	**128%**	**215**
Residential	75	11%	84	(6%)	78	16%	91	4%	94	46%	138
Deliveries (#)	355	7%	380	(1%)	375	(7%)	350	11%	390	67%	650
o/w JV	250	24%	309	(27%)	225	(47%)	120	58%	190	97%	375
o/w owned	105	(32%)	71	111%	150	53%	230	(13%)	200	38%	275
ASP	326	0%	326	(9%)	298	1%	301	1%	304	(2%)	298
Commercial	23	n.a	–		–		–		–		77
Gross profit	**23**	**(15%)**	**20**	**(11%)**	**18**	**17%**	**21**	**7%**	**22**	**91%**	**42**
Gross margin	*23.6%*		*23.7%*		*22.5%*		*22.8%*		*23.5%*		*19.7%*

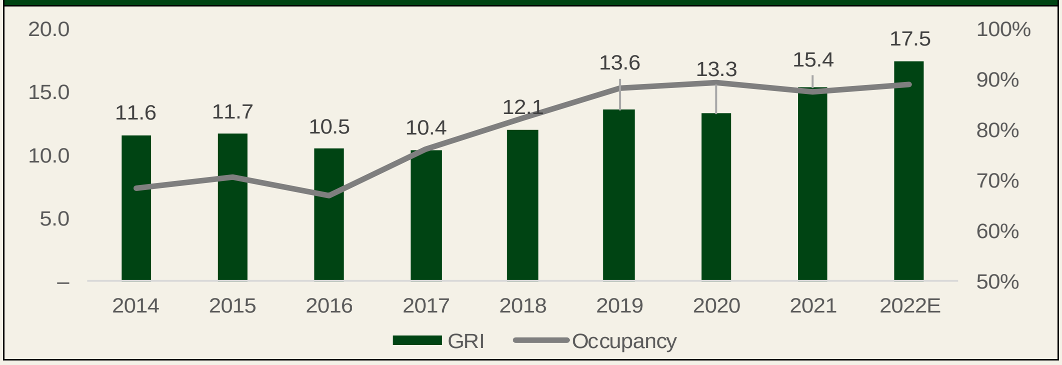
Source: Alantra Equities

3) Rentals: tailwinds in prices and stable occupancy

GRI is at record levels thanks to a strong pricing momentum and stable occupancy...

The deceleration in the Spanish economy has been translated into lower than anticipated commercial activity and hence occupancy improvement (+0.7pp YTD to 88.4%, below the 90% target). Despite this, the company is delivering a very strong growth in prices (up by double digits) thanks to both refurbishment efforts made in L5Y (>€30m capex which is allowing to post strong release spreads), and the inflation tailwinds. As a result, InSur reported €13m GRI in 9M22, the highest rentals on record, up c.20% YoY, and we expect the full year to end at €17.5m (+14%).

INMOBILIARIA DEL SUR: GRI AND OCCUPANCY ESTIMATES



Source: Alantra Equities

...and we expect to continue growing by low-single digit being fully driven by prices

Beyond 2022, we expect broadly stable occupancies at 89-90% in 2022-25 and prices to increase by 2% on average p.a. (we are assuming 70-80% of inflation pass through to clients). As for margins, we expect them to be broadly stable at c.77%, somewhat below the 80% company target. Should occupancy rates beat estimates, margins should also be closer to group targets (more property expenses would be passed through to clients).

INMOBILIARIA DEL SUR: RENTAL BUSINESS ESTIMATES

(€ m)	2020	% YoY	2021	% YoY	2022E	% YoY	2023E	% YoY	2024E	% YoY	2025E
GRI	**13.3**	**16%**	**15.4**	**13%**	**17.5**	**3%**	**18.0**	**3%**	**18.5**	**3%**	**19.1**
GLA (sqm)	135,243	(3%)	130,945	(0%)	130,880	-	130,880	-	130,880	-	130,880
Occupancy (%)	89.4%	(170bps)	87.7%	150bps	89.2%	(50bps)	88.7%	-	88.7%	100bps	89.7%
Rent (€/sqm)	10.3	11%	11.5	10%	12.6	2%	12.9	3%	13.3	3%	13.7
EBITDA	9.9	19%	11.8	13%	13.4	4%	13.9	3%	14.3	4%	14.8
EBITDA margin	74.4%	225bps	76.7%	(10bps)	76.6%	50bps	77.1%	20bps	77.3%	20bps	77.5%

Source: Alantra Equities

III. Strong earnings growth in 2021-25

1) Strong earnings growth over 2021-25

The strong investment efforts made in 2022 (€60m between land purchases and DMS), the solid commercial momentum (backlog at record levels) and the pickup in construction activity (especially at the end of the year and early 2023), should mostly be seen in the P&L at the very end of the 2021-25 period, when the vast majority of deliveries will take place. This is why we expect moderate group sales and EBITDA growth in 2022-23, double digit growth in 2024 and a skyrocketed growth in 2025. Meanwhile the rental business continues to reap the benefits from the investment efforts made in L5Y and maintain healthy occupancy levels while significantly rising prices (release spreads plus inflation led to double digit price hike in 2022).

By business, we expect: a) development sales to trough in 2022 at €78m and to peak in 2025 at €215m, of which €138m from residential and the rest (€77m) in commercial sales (two office buildings in Malaga and one in Madrid); b) rentals to jump by +13% in 2022 and then grow by c.3% p.a., mostly coming from prices; c) construction activity and asset management (fees charged to the development business made through JVs) to grow in line with development sales although 1-2Y in advance.

We expect adj. EBITDA of €22m (22), €25-28m (23-24) and >€40m (25)

As a result, we expect sales and adj. EBITDA to fall by c.10% and 3% in 2022 (higher GRI and lower construction contribution results in a more profitable sales mix and thus limited operating deleverage) and to increase by >15% in 2023, by 12-19% in 2024 and by 55-82% in 2025.

Below adj. EBITDA we reflect: 1) a broadly stable D&A at -€4m p.a., and non-cash impacts from the DMS acquisition (positive in 2022 and small negative in 2023); 2) growth in financial expenses from <€5.5m in 2022 to €8.5-9.0m p.a. in 2023-25 to reflect the increase in the cost of debt (c.80% of debt is under variable costs); and 3) a 25% flat tax rate.

As a result of this, we expect adjusted net profit (i.e. ex capital gains and the non-cash impacts of DMS acquisition) to be stable in 2022 at >€10m, to fall by >5% in 2023, impacted by higher financial expenses, to jump by >20% in 2024, and to double in 2025 to €23m.

INMOBILIARIA DEL SUR: P&L ESTIMATES 2020-25E

(€ m)	2020	% YoY	2021	% YoY	2022E	% YoY	2023E	% YoY	2024E	% YoY	2025E
Total sales	**133**	**(6%)**	**125**	**(11%)**	**111**	**17%**	**130**	**19%**	**155**	**82%**	**282**
o/w Development	98	(15%)	84	(6%)	78	16%	91	4%	94	128%	215
o/w Rental assets	13	16%	15	13%	17	3%	18	3%	18	3%	19
o/w Construction	19	22%	23	(44%)	13	41%	18	97%	35	14%	40
o/w Services	3	21%	4	(24%)	3	20%	3	97%	6	14%	7
Adj. EBITDA (*)	**19.4**	**15%**	**22.4**	**(3%)**	**21.7**	**17%**	**25.3**	**12%**	**28.3**	**55%**	**43.7**
Adj. EBITDA Margin	*14.6%*		*17.9%*		*19.5%*		*19.4%*		*18.3%*		*15.5%*
Capital Gains & Other	0.3	n.a.	3.8	(66%)	1.3	(100%)	-	n.a	-	n.a	-
EBITDA	**19.7**	**33%**	**26.2**	**(12%)**	**23.0**	**10%**	**25.3**	**12%**	**28.3**	**55%**	**43.7**
D&A	(3.5)	24%	(4.4)	(9%)	(4.0)	-	(4.0)	-	(4.0)	-	(4.0)
Provisions & other	19.2	(100%)	0.1	n.a.	8.0	(125%)	(2.0)	(100%)	-	n.a	-
EBIT	**35.3**	**(38%)**	**21.9**	**23%**	**27.0**	**(29%)**	**19.3**	**26%**	**24.3**	**64%**	**39.7**
Net financial expenses	(5.9)	(7%)	(5.5)	(3%)	(5.3)	63%	(8.7)	2%	(8.9)	2%	(9.1)
EBT	**29.4**	**(44%)**	**16.4**	**32%**	**21.6**	**(51%)**	**10.5**	**46%**	**15.3**	**100%**	**30.6**
Tax	(8.3)	(48%)	(4.3)	27%	(5.4)	(51%)	(2.6)	46%	(3.8)	100%	(7.7)
Net Profit	**21.1**	**(43%)**	**12.1**	**34%**	**16.2**	**(51%)**	**7.9**	**46%**	**11.5**	**100%**	**23.0**
Adj. Net Profit (*)	**12.3**	**(16%)**	**10.3**	**(1%)**	**10.2**	**(8%)**	**9.4**	**22%**	**11.5**	**100%**	**23.0**
Nº of shares (m)	**17.0**	**10%**	**18.7**	**-**	**18.7**	**-**	**18.7**	**-**	**18.7**	**-**	**18.7**
Adj EPS (€) (*)	**0.73**	**(24%)**	**0.55**	**(1%)**	**0.55**	**(8%)**	**0.50**	**22%**	**0.62**	**100%**	**1.23**

(*) Excluding non-cash and one-offs impacts; Source: Alantra Equities

2) LTV to temporary rise >45%

The group's financial debt has jumped by c.30% in 9M22 to a record of c.€260m (proportionate) mainly due to its sizeable investment activity, consisting in the >€30m land purchases and >€20m acquisition of DMS. This has driven LTV up by 5pp to c.43%.

INMOBILIARIA DEL SUR: NET DEBT AND LTV EVOLUTION

(€ m)	2017	2018	2019	2020	2021	9M22
Net debt (prop.)	195	185	196	209	198	259
LTV	39.0%	36.2%	36.5%	39.7%	37.8%	42.9%

Source: Alantra Equities

The sizeable increase in residential and commercial projects should lead construction capex to double, from c.€50m in 2020-21 to >€100m in 2024-25. On the other hand, we expect more moderate land purchases in 2023-25 (to the tune of €10-15m p.a.), as the vast majority have been acquired in 2022 (also backed by the acquisition of DMS) and also low refurbishment capex.

The construction ramp-up and yield expansion should lead LTV to go from <38% (21) to a peak of <49% (24) and then fall to <39% (25) thanks to the large delivery volumes

The above all combined with the €19m net acquisition made in 2022 (€23m of DMS minus €4m of asset disposals) and the very back end loaded delivery schedule, should lead to €25m avg. negative FCF in 2022-24 and to a +>€90m FCF generation in 2025.

As a result, we expect net debt and LTV to go from <€200m and <38% in 2021 to a peak of >€280m and >48% in 2024, and then to sharply fall to c.€200m and 39% in 2025. It is worth highlighting that our LTV estimates already include c.100bps of yield expansion over 2023-24, explaining a c.5pp increase in LTV.

INMOBILIARIA DEL SUR: CASH FLOW ESTIMATES

(€ m)	2019	2020	2021	2022E	2023E	2024E	2025E
Operating cash flow	**3**	**6**	**20**	**12**	**14**	**16**	**27**
Capex	(67)	(69)	(80)	(91)	(95)	(119)	(124)
o/w land	(20)	(7)	(22)	(30)	(9)	(12)	(15)
o/w construction	(42)	(51)	(49)	(58)	(83)	(104)	(107)
o/w transf. & refurb.	(5)	(11)	(9)	(3)	(2)	(2)	(2)
Deliveries	48	75	64	61	70	72	175
Change in WK	2	4	5	(1)	7	2	9
Operating FCF	**(15)**	**15**	**9**	**(19)**	**(3)**	**(29)**	**88**
Disposals (acquisitions)	7	(22)	9	(19)	–	–	–
FCF before distributions	**(7)**	**(7)**	**18**	**(38)**	**(3)**	**(29)**	**88**
Dividends paid	(5)	(5)	(7)	(6)	(5)	(5)	(6)
Decrease (increase) in ND	**(12)**	**(12)**	**11**	**(43)**	**(9)**	**(34)**	**82**
Net debt (prop.)	196	209	198	241	250	284	202
LTV	36.5%	39.7%	37.8%	42.2%	45.4%	48.5%	38.9%
x EBITDA	8.8X	10.8X	8.8X	11.1X	9.9X	10.0X	4.6X

Source: Alantra Equities

3) c.50% DPS payout

As for the dividends, we assume that the company will maintain its current policy throughout the period of 45-55% adj. net profit (i.e ex capital gains and non-cash impacts). This should see dividends at €5-6m in 2022-24 and jump to >€11m in 2025 (paid in 2026).

INMOBILIARIA DEL SUR: DIVIDEND ESTIMATES

(€ m)	2019	2020	2021	2022E	2023E	2024E	2025E
Dividend	5.4	6.8	5.6	5.3	5.0	6.0	11.8
DPS (€)	0.32	0.40	0.30	0.29	0.27	0.32	0.63
Payout	46%	55%	54%	50%	50%	50%	50%

Source: Alantra Equities

IV. Trading at c.60% discount to latest NAV

1) €18.42p.s. NAV, c.60% discount to current market prices

€527m GAV, of which >60% rental and <40% development...

Inmobiliaria del Sur has two main businesses: its rental CRE portfolio and its development business. The latest appraisal valuation at September-2022 was:

1) €373m GAV for the **rental** portfolio (equivalent to 62% of total GAV), of which 80% are offices, 10% retail and 10% hotels. In terms of locations, the bulk (c.65%) is in Seville, 20% in Madrid and the rest (c.15%) in Huelva, Cadiz and Cordoba.

2) €229m GAV (38% of total) for the **development** business, which is mainly comprised of 4k home units, of which 1.8k are active (either in WIP or under commercialisation). It is worth highlighting that c.50% of the active units are held through JVs in which InSur has a 50-70% controlling stake. The €229m GAV is adjusted by InSur's attributable stakes, and we estimate that c.45% is located in Seville, c.20% in Madrid and Málaga, c.10% in Cádiz, and the rest in other Andalusia regions as well as in Cáceres.

...and NAV of €18.42p.s. as of 9M22, new record high

Each of the above-mentioned GAVs total €603m, which combined with the group's net debt as of September (€259m) lead to €344m NAV (the highest ever), equivalent to €18.42p.s. Current market prices (€7.82p.s.) imply a c.60% discount to the group's latest NAV.

INMOBILIARIA DEL SUR: NAV AS OF 9M22

	9M22	
	€ m	**€ p.s.**
Total GAV	603	32.28
o/w rental	373	20.00
o/w development	229	12.28
Net debt	(259)	(13.86)
WC & others	–	–
NAV	**344**	**18.42**
Share price		7.82
Premium / (discount)		**(58%)**

Source: Alantra Equities

Looking deeper into each of the two core businesses, we find that:

1) The rental portfolio is valued at a 5% implicit gross yield in 2022-24. This is above both Merlin Properties (4.5%) and Colonial (<4%). This provides a cushion against rising yields and leads to higher GRI volume linked to CPI tailwinds.

2) The value of the residential business is equivalent to <11.5X GAV/EBITDA in 2023-25, which is below Neinor at c.15X and Aedas at c.12X.

INMOBILIARIA DEL SUR: IMPLICIT VALUATION METRICS

	Rental					Development			
	2023E	**2024E**	**2025E**	**2023-25E**		**2023E**	**2024E**	**2025E**	**2023-25E**
Gross yield	4.8%	5.0%	5.1%	5.0%	GAV/EBITDA	14.5X	13.7X	7.4X	11.9X

Source: Alantra Equities

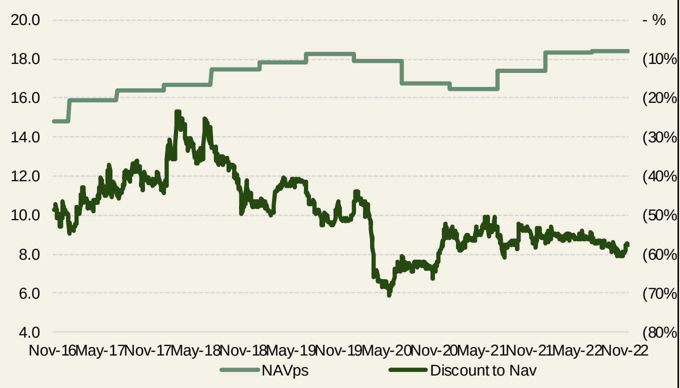
2) Discount to NAV and shares derating look excessive

The shares trade at c.60% discount to NAV and trade below peers' c.50%

Prior to the Covid-19 outbreak, InSur was outperforming the Ibex35 thanks to its positive NAV and EBITDA growth prospects, and traded at a c.40% average discount to NAV. Since then, and despite expected solid EBITDA growth over 2021-25 and NAV at a new all-time high, the shares have performed poorly and now trade at a c.60% discount to NAV, which is well above the peer group.

INMOBILIARIA DEL SUR: SHARE PRICE PERFORMANCE…

…AND HISTORIC DISCOUNT TO NAV



Source: Alantra Equities

In addition, the shares have also derated with historic P/E and P/BV (which we think bests represent the business mix) decreasing from >25X and 1.7X in 2015-19 to the current 11X and 1.0X, respectively in 2023-25. It is worth highlighting that: 1) the group's equity value includes a book value of the rental assets of €220m, which is well below market value (i.e. €373m GAV); and 2) InSur has a strong track record in disposals, having sold >€15m in L12m at a 15% premium to GAV. Both effects therefore, render the discount to BV even less justifiable.

INMOBILIARIA DEL SUR: IMPLICIT MARKET MULTIPLES

	2015-19	2023E	2024E	2025E	2023-25E
P/E	27.5X	15.5X	12.7X	6.4X	11.5X
P/BV	1.7X	1.0X	1.0X	0.9X	1.0X

Source: Alantra Equities

Compared to peers, the shares are currently trading well below both REITs and developers in terms of NAV discount.

INMOBILIARIA DEL SUR: DISCOUNT TO NAV OF LISTED PEERS (AS OF 1H22)

Company	NAV p.s. (€)	Share price (€)	Discount to NAV	Company	NAV p.s. (€)	Share price (€)	Discount to NAV
Colonial	9.17	16.15	(43%)	Neinor Homes	8.21	15.35	(47%)
Merlin Prop.	6.05	12.29	(51%)	Aedas Homes	14.00	33.25	(58%)
Lar España	4.50	10.72	(58%)	Metrovacesa	7.14	15.52	(54%)
REITs			**(48%)**	**Developers**			**(52%)**

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

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