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INMOBILIARIA DEL SUR

Q3 results above estimates

- Q3 results above. Revenues (including JVs) fell by 17% YoY to €62.2m (in line), EBITDA rose to €14.3m vs. €2.5m in 3Q19 and 10% above our €13m estimate, net profit increased to €9.1m vs. loss-making in 3Q19, above our €7.8m estimate.
- Development sales above. Sales (including JVs) reached €53m in Q3 (above our €47m), implying a 20% YoY jump, mainly explained by the delivery of the Madrid Rio building. With this, sales reached €81m in 9M, on track to reach our c.€110m FY20 estimate. Pre-sales stood at €11.8m vs. €10.2m in 2Q20, somewhat below our c.€17m due to higher contribution from JVs and lower ASP. As a result, pre-sales backlog decreased QoQ from €121m to c.€80m.
- Rentals in line. The occupancy rate decreased by 60bps QoQ to 88.3% (vs. 88.9% in 2Q20), whilst revenues grew by 12% QoQ (in line). Going forward, the group has anticipated the loss of three tenants in 2021, amounting to 8.8k sqm (6% of total), equivalent to €1.3m annualised rents (€14.3m in 2021). The loss should be offset by the contribution from Madrid Rio (recently delivered), which we expect to add >€2m incremental rents in 2021. As a reminder, this will start to be reported at the consolidated level as of late October after closing the acquisition of a 40% stake in the building (to 90%) for €8.9m.
- NAV & debt update. GAV (including JVs) fell 4% QoQ to €524m due to the high level of deliveries during 3Q20. However, net debt decreased QoQ from c.€214m to c.€190m, with LTV decreasing by 280pp to 36.2%, as expected. As a result, NAV was flat QoQ, sitting at €334m.
- Fine-tuning estimates. In view of this set of results, we are fine-tuning our estimates for 2020, trimming revenues and EBITDA by c.2% (on lower development & construction), but leaving our €14m net profit unchanged (on slightly lower D&A and financial expenses). That said, we feel comfortable with our 2021-23 estimates, which already reflect our expected cycle downturn.
- Our view. Insur currently trades at a 69% discount to the last reported NAV vs.
 the 57% average discount for both REITs & listed developers. We do not see
 fundamental reasons for Insur to trade at such a high discount, both in absolute
 (we rule out a crash in prices or debt problems) and relative terms (small &
 well-located land bank, less exposed to holiday homes).

Financial Ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23E
EBITDA (€m)	30	31	30	23	21	25
Net profit (€m)	10	9	14	9	7	11
EPS (€)	0.59	0.52	0.80	0.55	0.43	0.63
Adj. EPS (*) (€)	0.59	0.52	0.80	0.55	0.43	0.63
P/E (x)	17.4	20.1	8.5	12.5	16.0	10.8
P/E Adj. (x)	17.4	20.1	8.5	12.5	16.0	10.8
EV/EBITDA (x)	11.4	11.4	9.4	12.0	13.3	10.4
Debt/EBITDA (x)	0.4	0.4	0.3	0.3	0.3	0.2
P/BV (x)	1.6	1.5	1.0	0.9	0.9	0.9
ROE (%)	11.1	9.2	13.4	8.6	6.3	9.0
DPS (€)	0.27	0.17	0.37	0.25	0.20	0.29
Dividend yield (%)	2.6	1.6	5.4	3.7	2.9	4.3
(*) Historical multiples bas	ed on average sl	hare price of the	e year			

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Share Price € 6.08

ISUR.MC/ ISUR SM	
Market Cap	€ 107 m
Enterprise Value	€ 287 m
Free Float	€ 39 m
Nº Shares	17 m
Average Daily Volume	€ 11 k

Performance

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Absolute %	-9.5	-7.6	-40.2
Relative %	-8.6	0.6	-13.3
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INSUR: QUARTERLY PRE-SALES EVOLUTION										
€m	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20				
Backlog BoP	127.4	129.2	148.5	121.1	126.2	121.1				
New Pre-Sales	11.7	21.1	16.7	17.7	10.2	11.8				
Deliveries	9.9	1.8	(67.4)	(12.6)	(15.3)	(53.1)				
Backlog EoP	129.2	148.5	121.1	126.2	121.1	79.8				

Source: Alantra Equities

INSUR: QUARTERLY P	&L REVIEW							
(€ m)	3Q19	4Q19	1Q20	2Q20	3Q20	% YoY	3Q20E	Dif. Est
Revenues	74.9	1.0	20.6	22.6	62.2	(17%)	62.9	(1%)
Development	44.1	2.5	12.6	15.3	53.1	20%	47.1	13%
Rental Property	13.6	(6.6)	3.4	3.0	3.3	(75%)	3.2	5%
Construction	(9.7)	29.9	4.0	3.6	4.7	n.m.	12.0	(61%)
Asset Management	26.8	(24.7)	0.6	0.7	1.0	(96%)	0.6	64%
Equity method	(0.0)	_	(0.0)	0.0	_	(100%)	_	n.m.
EBITDA	2.5	16.1	4.3	3.4	14.3	n.m.	13.0	10%
Sale of assets	2.1	2.0	_	_	0.1	(95%)	_	n.m.
EBITDA Adj.	2.5	16.1	4.3	3.4	14.3	n.m.	13.0	10%
D&A and provisions	(0.6)	(0.5)	(0.8)	(0.8)	(8.0)	29%	(0.9)	(10%)
EBIT	1.9	15.6	3.5	2.6	13.6	n.m.	12.2	11%
Net financials	(7.1)	(2.5)	(1.4)	(1.4)	(1.5)	(80%)	(1.8)	(19%)
EBT	(5.2)	13.1	2.2	1.2	12.1	n.m.	10.4	17%
Income taxes	(0.0)	(0.0)	(0.5)	(0.3)	(3.0)	n.m.	(2.6)	17%
Net Profit	(5.2)	13.1	1.6	0.9	9.1	n.m.	7.8	17%

Source: Alantra Equities

(€ m)	3Q19	4Q19	1Q20	2Q20	3Q20	% YoY	% QoQ
GAV	543.3	537.6	538.9	547.5	524.2	(4%)	(4%)
Development	249.9	241.9	237.1	246.4	178.2	(29%)	(28%)
Rental Property	293.4	295.7	301.8	301.1	346.0	18%	15%
Net debt	219.9	196.4	208.1	213.7	189.9	(14%)	(11%)
NAV	323.4	341.2	330.8	333.8	334.3	3%	0%
LTV	543.3	537.6	538.9	547.5	524.2	(4%)	(4%)

Source: Alantra Equities

INSUR: 1H20 NAV V	S. PEERS					
Company	GAV (€m)	NAV (€m)	Market Cap (€m)	NAV p.s. (€)	Share price (€)	Disc./prem. to NAV (%)
Colonial	12,164	5,697	3,059	11.21	6.02	(46%)
Merlin Properties	12,193	7,365	2,657	15.89	5.73	(64%)
Lar España	1,506	905	270	10.64	3.17	(70%)
REITs	25,863	13,967	5,985			(57%)
Metrovacesa	2,626	2,589	745	17.07	4.91	(71%)
Aedas Homes	1,962	1,578	815	32.90	17	(48%)
Neinor Homes	1,650	1,246	789	16.74	10.6	(37%)
Developers	6,238	5,413	2,349			(57%)
Grupo Insur	547.5	334.3	103	19.70	6.08	(69%)

Source: Alantra Equities

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KEY DATA													
P&L account (€m)	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Cash flow (€m) (*)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Sales	114	123	142	123	100	122	Net profit	17	13	14	9	7	11
Cost of sales	(65)	(127)	(102)	(117)	(93)	(106)	Depreciation	2	2	3	4	4	4
Gross margin	49	(5)	40	6	6	16	Minorities	_	_	_	_	_	_
Opex	(10)	(15)	(8)	(9)	(9)	(13)	Non-cash adjustments	(7)	(12)	(9)	(4)	(5)	(6)
Associates	1	4	9	4	5	6	Total cash-flow (CF)	12	3	7	9	6	9
EBITDA	30	31	30	23	21	25	Capex	(48)	(53)	(44)	(18)	(18)	(17)
EBITDA adjusted	23	27	30	23	21	25	Deliveries	53	18	37	29	3	17
Depreciation & Amortization	(2)	(2)	(3)	(4)	(4)	(4)	Working capital	7	(12)	(5)	(11)	13	2
EBIT	28	28	27	20	17	21	Operating FCF	24	(43)	(4)	9	4	11
Financial costs							-		(43)	(-)		7	
	(7)	(12)	(6)	(6)	(6)	(5)	Financial investments	-		_	-	_	_
Ordinary profit	21	16	21	14	11	16	Disposals/(acquisitions)	9	7	_	_	_	_
Extraordinary items	-	-	-	-	-	-	Rights issues	-	-	_	_	_	_
Pre-tax Profit	21	16	21	14	11	16	Other	_	14	_	_	_	_
Taxes	(4)	(3)	(7)	(4)	(4)	(5)	Dividends from JVs	_	4	9	4	5	6
Discontinued activities	-	-	-	-	-	-	FCF before dividends	34	(17)	6	13	9	17
Minorities	-	-	-	_	-	-	Dividends	(2)	(5)	(3)	(6)	(4)	(3)
Net profit, reported	17	13	14	9	7	11	Free-cash-flow (FCF)	32	(21)	3	6	5	13
Adjustments	(6)	(4)	-	_	-	-							
Net profit adjusted	11	9	14	9	7	11							
							Balance sheet (€m) (*)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Nº of shares (m)	17	17	17	17	17	17	Equity	107	118	121	124	131	136
Nº of shares adjusted (m)	17	17	17	17	17	17	Minority interests	-	-	-	-	-	-
Treasury stock (m)	0	0	0	0	0	0	Provisions & others	7	(3)	5	5	1	3
							Net debt [cash]	163	172	169	163	158	145
YoY Growth	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Capital invested	278	287	295	292	290	284
Sales	n.m	8%	16%	(14%)	(19%)	22%							
EBITDA	n.m	4%	(1%)	(23%)	(11%)	21%	Goodw ill	4	4	4	4	4	4
Net profit	n.m	(21%)	53%	(32%)	(22%)	48%	Intangible assets	0	1	(3)	(6)	(10)	(14)
							Tangible assets	141	149	157	157	157	157
Sales by division	FY18	FY19	FY20E	FY21E	FY22E	FY23E	DTAs	13	12	12	12	12	12
Development	76.6	65.1	109.5	67.7	47.5	69.4	Associates	34	43	43	43	43	43
Rental assets	12.2	13.7	14.3	14.3	15.4	16.4	Working capital	85	79	82	83	84	82
Construction	21.6	39.6	17.5	39.0	34.5	32.3	Capital employed	278	287	295	292	290	284
Asset Management	3.5	4.5	1.0	1.8	2.5	3.9	Working capital/sales	75%	65%	58%	67%	84%	67%
NAV	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Financial ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23I
GAV	510	538	542	524	532	526	Net debt/EBITDA	6.3X	6.4X	6.0X	7.3X	6.7X	4.6
Net debt	(185)	(196)	(181)	(170)	(139)	(116)	Net debt/GAV (LTV)	36%	37%	33%	32%	26%	22%
Minorities & Other	-	-	-	-	-	-	Gearing (*)	152 %	146 %	140 %	132 %	120 %	106 %
NNAV	326	341	361	354	392	410	Interest cover (*)	4.2X	2.3X	4.3X	3.2X	3.0X	4.1>
Per share data (€)	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Margins & ratios	FY18	FY19	FY20E	FY21E	FY22E	FY23E
EPS	1.02	0.77	0.80	0.55	0.43	0.63	EBITDA margin	25.9%	25.0%	21.3%	18.9%	20.8%	20.7%
EPS adjusted	0.66	0.52	0.80	0.55	0.43	0.63	EBIT margin	24.3%	23.2%	19.0%	16.0%	17.0%	17.5%
CFPS	0.69	0.20	0.44	0.54	0.34	0.52	Reported tax rate	17.8%	18.5%	34.9%	31.7%	36.6%	33.8%
FCFPS	1.42	(2.53)	(0.22)	0.53	0.25	0.65	Pay-out	26.5%	22.2%	46.0%	46.0%	46.0%	46.0%
BVPS	6.32	6.95	7.13	7.30	7.74	8.02	ROCE (EBIT/CE)	10.0%	9.9%	9.2%	6.7%	5.8%	7.5%
													9.0%
DPS	0.27	0.17	0.37	0.25	0.20	0.29	ROE	11.1%	9.2%	13.4%	8.6%	6.3%	

(*) Excludes JVs contribution

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