

EQUITY - SPAIN

Sector: Real Estate

Closing price: EUR 7.30 (28 Feb 2023)
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12m Results 2022
Independent Equity Research

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Opinion ⁽¹⁾: In line

Impact ⁽¹⁾: We will maintain our estimates

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Business description

Inmobiliaria del Sur (ISUR), is a property company with headquarters in Seville and a presence in Andalusia and Madrid, whose business model combines a development activity (residential and tertiary) with a property management business, that has a portfolio of rental assets (mainly offices), both activities having a significant weighting in terms of GAV. The board directly and indirectly controls c. 64% of capital.

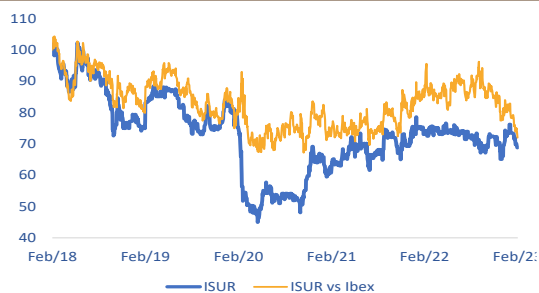
Market Data

Market Cap (Mn EUR and USD)	136.3	144.5
EV (Mn EUR and USD) ⁽²⁾	376.1	398.8
Shares Outstanding (Mn)	18.7	
-12m (Max/Med/Mín EUR)	8.14 / 7.69 / 6.91	
Daily Avg volume (-12m Mn EUR)	0.05	
Rotation ⁽³⁾	10.1	
Factset / Bloomberg	ISUR-ES / ISUR SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Board of Directors	64.4
Free Float	35.6

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-9.9	-5.0	-6.5	-31.3
vs Ibex 35	-13.1	-15.8	-15.6	-28.0
vs Ibex Small Cap Index	-10.6	-16.6	-9.2	-42.9
vs Eurostoxx 50	-11.2	-11.8	-13.4	-44.3
vs Sector benchmark ⁽⁴⁾	-5.8	-7.9	35.5	-8.9

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Stoxx Europe 600 Real State.

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

2022 results: expectations met and a good starting point for 2023e

THE DEVELOPMENT BUSINESS MAINTAINS ITS LEVEL OF ACTIVITY, ALTHOUGH THE CHANGE IN THE DELIVERIES MIX HAS SLIGHTLY REDUCED THE MARGIN. ISUR ended 2022 with the delivery of 384 homes (vs 380 in 2021 and our estimate of 370) with an average sale price (ASP) of EUR 269k (vs EUR 320k in 2021 and our estimate of EUR 305k). This translates to revenue for the development activity of EUR 82Mn (-1.9% vs 2021) although the change in the deliveries mix and the circumstantial increase in costs have reduced the gross margin to 21.6% (-2p.p. vs 2021 and -0.4p.p. vs our estimates). The good news is provided by the pre-sales portfolio that ended 2022 at 608 units for EUR 202.1Mn (+15.7% vs 2021).

VERY GOOD PERFORMANCE BY THE PROPERTY MANAGEMENT BUSINESS. Revenue from rents of the property management business grew to EUR 17.5Mn (+13.6% vs 2021; fully in line with our estimates) driven by a higher occupancy rate, that reached 90.4% (+2.7p.p. vs 2021). Very good performance by the EBITDA margin/sales of the property management business, that is now 80.6% (+3.9p.p. vs 2021 and 6.2p.p. vs 2020). EBITDA of the property management business: +19.2% vs 2021.

EBITDA IN LINE (EUR 21.2MN; -5.8% VS 2021). ISUR ended 2022 with EBITDA of EUR 21.2Mn (-5.8% vs 2021). This implies an EBITDA margin/sales of 18% (in line with 2021 and our estimates), confirming the idea of a developer with a “safety net”, as the good performance by the property management business (that provides resilience in this context) offsets the significant (although circumstantial) decline in the development business (development EBITDA: -21% vs 2021).

AT THE 2022 CLOSE GEARING WAS 40.5% OF THE GAV (+2.6P.P. VS 2021). ISUR ended 2022 with net debt of EUR 237Mn (+20% vs 2021). This implies an LTV of 40.5% (vs 37.9% in 2021). An increase in gearing explained mainly by: i) the purchase of land (c. EUR 36.8Mn in 2022) and ii) the acquisition of 50% of DMS (EUR 13.7Mn).

INCREASED SHAREHOLDER REMUNERATION (DIVIDEND YIELD 4.4%) ISUR proposes paying a dividend of EUR 5.9Mn (€0.32/share; +6.7% vs -1y). This represents a payout of c. 40% (yield of 4.4% on yesterday's closing price).

EXPECTATIONS MET. WE MAINTAIN ESTIMATES. Based on a conservative scenario, we estimate deliveries of, at least, 450 homes in 2023e and 2024e (vs c. 380 in 2021 and 2022). So in 2024e the company should have sales of EUR 180Mn and EBITDA of EUR 30Mn (+18% CAGR 22-24e).

WELL PLACED TO DEAL WITH THE CHALLENGES OF THE SECTOR. In our opinion, ISUR is well positioned to tackle the challenges faced by the sector: 1) good pre-sales figure (the level of pre-sales represents coverage of 89% and 36% of deliveries envisaged in 2023e and 2024, respectively, 2) a healthy balance sheet position and 3) the high visibility in terms of revenue and margins provided by the property management business (with a portfolio of quality assets).

TRADING AT A 61% DISCOUNT TO ITS 2022 NAV (NAV €18.6/SHARE IN 2022). The NAV has increased to EUR 347.4Mn (+6.9% vs 2021) putting the NAV per share at €18.6. A wake-up call: this being in a real estate business with (objectively) low risk (with a “safety net”) and trading at a discount of c. 61% vs NAV 2022. This combination (value and risk) has gone unnoticed by the market (relative performance vs Ibex 35 of -15.6%)...ISUR demands (at least) attention.

Appendix 1. Results table (proportional consolidation)

EUR Mn	12m22		12m22 Real		12m22 Real	
	Real	12m21	vs 12m21	2022e	vs 2022e	
Total Revenues	117.9	125.3	-5.9%	127.1	-7.2%	
Property development business	82.0	83.6	-1.9%	90.3	-9.2%	
Rental Revenue	17.5	15.4	13.6%	17.3	1.4%	
Construction	15.1	22.7	-33.5%	15.8	-4.3%	
Administration and marketing	3.3	3.6	-8.3%	3.7	-12.0%	
Recurrent EBITDA	21.2	22.5	-5.8%	22.9	-7.2%	
<i>Rec. EBITDA/Revenues</i>	<i>18.0%</i>	<i>18.0%</i>	<i>0.0 p.p.</i>	<i>18.0%</i>	<i>0.0 p.p.</i>	
EBITDA	23.2	26.2	-11.5%	22.9	1.5%	
<i>EBITDA/Revenues</i>	<i>19.7%</i>	<i>20.9%</i>	<i>-1.2 p.p.</i>	<i>18.0%</i>	<i>1.7 p.p.</i>	
EBIT	22.1	21.9	0.9%	19.5	13.2%	
PBT	16.9	16.4	3.0%	20.0	-15.3%	
NP	15.1	12.1	24.8%	15.0	0.9%	
GAV	584.4	522.9	11.8%			
<i>Rental business GAV</i>	<i>366.2</i>	<i>370.1</i>	<i>-1.1%</i>			
<i>GAV Property development business</i>	<i>218.2</i>	<i>152.8</i>	<i>42.8%</i>			
NAV	347.4	325.0	6.9%			
Net Debt	237.0	197.9	19.8%	241.9	-2.0%	
LTV	40.5%	37.9%	2.6 p.p.	41.4%	-0.9 p.p.	

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	136.3	
+ Minority Interests	3.1	12m Results 2022
+ Provisions & Other L/T Liabilities	-	12m Results 2022
+ Net financial debt	237.0	12m Results 2022
- Financial Investments	0.3	12m Results 2022
+/- Others		
Enterprise Value (EV)	376.1	

LIGHTHOUSE

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
01-Mar-2023	n.a.	7.30	n.a.	n.a.	12m Results 2022	David López Sánchez
22-Dec-2022	n.a.	7.19	n.a.	n.a.	Initiation of Coverage	David López Sánchez

