

9m Results 2023
Opinion ⁽¹⁾: In line

Impact ⁽¹⁾: We will maintain our estimates

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Business description

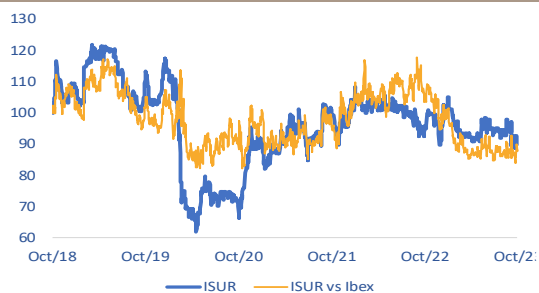
Inmobiliaria del Sur (ISUR), is a property company with headquarters in Seville and a presence in Andalusia and Madrid, whose business model combines a development activity (residential and tertiary) with a property management business, that has a portfolio of rental assets (mainly offices), both activities 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)	126.9	134.3
EV (Mn EUR and USD) ⁽²⁾	380.2	402.3
Shares Outstanding (Mn)	18.7	
-12m (Max/Med/Mín EUR)	7.95 / 7.20 / 6.70	
Daily Avg volume (-12m Mn EUR)	0.02	
Rotation ⁽³⁾	4.1	
Factset / Bloomberg	ISUR-ES / ISUR SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Board of Directors	63.4
Free Float	36.6

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-4.2	-4.2	-4.1	-10.0
vs Ibex 35	0.2	4.1	-14.8	-11.9
vs Ibex Small Cap Index	-0.5	5.8	-12.1	-23.0
vs Eurostoxx 50	-1.4	6.1	-13.9	-29.7
vs Sector benchmark ⁽⁴⁾	0.5	8.0	9.9	45.9

(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.

9M23 earnings: it's all up to 4Q. The real "key" lies in 2024

DEVELOPMENT BUSINESS: SLOWDOWN IN DELIVERIES... ISUR reported low single-digit growth in 9M development revenue vs 2022 (EUR 44.5 Mn; +3.7%). This bucked the trend toward acceleration in deliveries of residential units seen since 6M23. A total of 195 homes were delivered in 9M23 (+3.2% vs 9M22; -10% in revenue), with 57 in 1Q, 85 in 2Q and 53 in 3Q. To reach our estimate for development revenue in 2023e (EUR 103 Mn), the company must meet its target and forecast of executing deeds worth EUR c.60-65 Mn in 4Q23 (c.400 homes in 2023). So, 4Q is what will really count for FY 2023.

...COMPATIBLE WITH THE COMPANY'S COMMERCIAL PROWESS. This is particularly valuable amid a clearly adverse environment for the sector (uncertain macro outlook + rising interest rates). A total of 289 units (EUR 70.2 Mn) were pre-sold in 9M23, taking the cumulative pre-sales portfolio to 774 units (EUR 190 Mn, i.e. 2x estimated development revenue for 2023). The portfolio implies coverage of 96% and 53% of delivery guidance for 2023e and 2024e, respectively.

NO GROWTH AT CONSOLIDATED LEVEL (DUE TO WEAKNESS IN CONSTRUCTION). Consolidated revenue in 9M23 was EUR 69.3 Mn (-0.6%), with growth decelerating vs 1H23 (+10%) on the back of the lower pace of development deliveries and held back by the construction business (still trailing 2022). The construction business (EUR 8.9 Mn; -23.3%) was hurt by delays in project starts and securing permits but fared much better than in 1H23 (EUR 2.1 Mn; -44%) and should reach c. EUR 15 Mn in 2023e (below the EUR 20 Mn estimated). Performance by the property management business (EUR 13.1 Mn; +0.8%) was in line, with occupancy at 88%.

RECURRING EBITDA (EUR 11 MN; -6%) CONSTRAINED BY SLOWDOWN IN REVENUE GROWTH. EBITDA 9m23 fell in the period vs. +26% in 1H23, but this was offset by asset disposals (EBITDA of EUR 20 Mn). The recurring EBITDA margin "held up" reasonably well (15.9%; -2p.p. vs 1H22). The property management business (which lends resilience in the current setting) and the development business sustained the EBITDA margin (despite weakness in construction). Looking ahead to 4Q, the baseline scenario today points to recurring EBITDA of c. EUR 20 Mn, so our estimates are unchanged. Nevertheless, it's all up to the pace of deliveries in the development business in 4Q.

LEVERAGE ENDED SEPTEMBER AT 41% OF GAV (-1.9PP VS. 9M22). ISUR closed 9M23 with net debt of EUR 250Mn (-3.2% vs. 9M 2022). The reduction in leverage is partly due to the decrease in land purchases. It also shows the resilience of the business model, with an ability to maintain positive FCF during slowdowns (development) or contractions (construction).

IN SHORT: A MINOR UNCERTAINTY SHORT TERM, BUT NOTHING THAT JEOPARDISES THE EQUITY STORY. Beyond the company's earnings, the main takeaway is that ISUR is clearly in the ramp-up stage of business activity, underpinned by the level of pre-sales. We are sticking to our estimate for deliveries of 450 homes in 2024e (vs 380 in 2022 and 400 in 2023e). This would imply revenue of EUR c. 200Mn and EBITDA of EUR c. 35Mn, representing a significant step-up in size. There are some question marks regarding the performance of development and construction in 4Q23. In any case, the key still lies in growth as of 2024. This has so far been ignored by the market (ISUR -14.8% vs Ibex 35 in the last 12 months).

Appendix 1. Results table

EUR Mn	9m23	9m22	9m23 Real
	Real		vs 9m22
Total Revenues	69.3	69.7	-0.6%
Property development business	44.5	42.9	3.7%
Rental Revenue	13.1	13.0	0.8%
Construction	8.9	11.6	-23.3%
Administration and marketing	2.8	2.2	27.3%
Recurrent EBITDA	11.0	11.7	-6.0%
<i>Rec. EBITDA/Revenues</i>	<i>15.9%</i>	<i>16.8%</i>	<i>-0.9 p.p.</i>
EBITDA	20.0	13.0	53.8%
<i>EBITDA/Revenues</i>	<i>28.9%</i>	<i>18.7%</i>	<i>10.2 p.p.</i>
EBIT	14.2	19.6	-27.6%
PBT	8.0	16.1	-50.3%
NP	6.0	12.0	-50.0%
GAV	611.0	602.7	1.4%
<i>Rental business GAV</i>	<i>348.3</i>	<i>373.4</i>	<i>-6.7%</i>
<i>GAV Property development busine</i>	<i>262.8</i>	<i>229.3</i>	<i>14.6%</i>
NAV	360.5	343.9	4.8%
Net Debt	250.5	258.8	-3.2%
LTV	41.0%	42.9%	-1.9 p.p.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	126.9	
+ Minority Interests	3.1	9m Results 2023
+ Provisions & Other L/T Liabilities	-	9m Results 2023
+ Net financial debt	250.5	9m Results 2023
- Financial Investments	0.3	9m Results 2023
+/- Others		
Enterprise Value (EV)	380.2	

LIGHTHOUSE

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
30-Oct-2023	n.a.	6.80	n.a.	n.a.	9m Results 2023	José Miguel Cabrera van Grieken
31-Jul-2023	n.a.	7.10	n.a.	n.a.	6m Results 2023	Alfredo Echevarría Otegui
12-Jun-2023	n.a.	7.31	n.a.	n.a.	Small & Micro Caps (Spain)	David López Sánchez
08-May-2023	n.a.	6.96	n.a.	n.a.	3m Results 2023	David López Sánchez
19-Apr-2023	n.a.	6.96	n.a.	n.a.	Estimates upgrade	David López Sánchez
01-Mar-2023	n.a.	7.16	n.a.	n.a.	12m Results 2022	David López Sánchez
22-Dec-2022	n.a.	7.05	n.a.	n.a.	Initiation of Coverage	David López Sánchez

