

12m Results 2023

 Opinion⁽¹⁾: Below expectations

 Impact⁽¹⁾: We will maintain our estimates

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2023 earnings: hurt by delays in deliveries

Business description

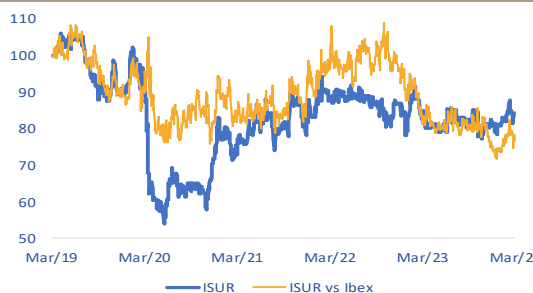
Inmobiliaria del Sur (ISUR), is a property company with headquarters in Seville and a presence in Andalusia and Madrid, whose business model combines a development activity (residential and tertiary) with a property management business, that has a portfolio of rental assets (mainly offices), both activities 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)	133.5	144.6
EV (Mn EUR and USD) ⁽²⁾	379.1	410.8
Shares Outstanding (Mn)	18.7	
-12m (Max/Med/Mín EUR)	7.50 / 6.99 / 6.59	
Daily Avg volume (-12m Mn EUR)	0.02	
Rotation ⁽³⁾	3.7	
Factset / Bloomberg	ISUR-ES / ISUR SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Board of Directors	68.9
Free Float	31.1

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-1.4	2.3	1.5	-16.2
vs Ibex 35	-1.9	3.1	-6.0	-22.8
vs Ibex Small Cap Index	-0.7	4.0	11.5	-25.8
vs Eurostoxx 50	-6.5	-7.6	-12.6	-43.3
vs Sector benchmark ⁽⁴⁾	3.1	3.4	1.3	16.6

(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.

SLOWDOWN IN DELIVERIES OF RESIDENTIAL UNITS IN THE DEVELOPMENT BUSINESS...

ISUR delivered 309 homes in 2023 (vs 380 in 2022 and our estimate of 400), at a stable average selling price (ASP) of EUR 262K (sale of 65 units from an own development at an ASP of EUR 154k vs EUR 269k in 2022). Revenue from the development business totalled EUR 84.7Mn (+3.3% vs 2022; including the sale of two plots through JVs for EUR 12.8Mn). This was 18% below our estimates. The main reason for the underperformance was the delay in the delivery of two developments in Madrid, which will come in 2024e.

... "PENALISING" GROWTH IN CONSOLIDATED REVENUE (-18% VS ESTIMATES).

Property management revenue was largely flat (EUR 17.1Mn; -2.3% vs 2022) owing to the reduction in gross leasable area (GLA) and lower occupancy (87.6% vs 90.4% in 2022). Consolidated revenue was in line with last year (EUR 119.8Mn; +1.7% vs 2022).

HOWEVER, EBITDA IMPROVED (EUR 22.3MN; +6.7% VS 2022).

EBITDA rose for two reasons: i) the property management business, which acts as a network, delivered an EBITDA margin of 75%, and ii) the development business achieved a Gross Margin of 22% (+0.4pp. improvement in gross margin from last year (despite not showing any improvement in its KPIs). This made up for the results from the other business lines (construction and marketing & sale).

FINANCE COSTS WEIGHED DOWN THE BOTTOM LINE...

Below EBITDA, higher interest on borrowings caused finance costs to soar (+75.3% vs 2022), holding back net profit to EUR 11.3Mn (vs EUR 15Mn in 2022).

... AND RESULTED IN A SMALLER DIVIDEND.

ISUR has announced a EUR 0.29 dividend per share out of profit for the year (-9.4% vs 2022). At today's prices, this would give a dividend yield of 3.4%.

LEVERAGE ENDED 2023 AT 40.9% OF GAV (IN LINE WITH 2022).

Asset rotation (c. EUR 13Mn of cash inflows) helped keep ISUR's net debt at EUR 242.5Mn (+2.3% vs 2022). Taking GAV at year-end 2023 (EUR 593Mn), this leaves a leverage ratio of 41% (in line with 2022).

WE KEEP OUR NUMBERS FOR 2024E, EXPECTING DELIVERIES >450 (VS 309 IN 2023).

The bright spot was the resilience of the pre-sales portfolio, at 721 units (coverage of 73.4% and 43.0% of delivery guidance for 2024e and 2025e, respectively). The equity story as things stand now rests essentially on the materialisation of planned deliveries. There is also room to expand development margins (building material prices peaked in 2023), which would automatically boost profitability levels. The company also enjoys strong revenue and margin visibility in the property management business (with a portfolio of quality assets).

ISUR IS STILL TRADING AT A DISCOUNT TO NAV 2023 OF 61.9% (NAV OF EUR 18.7/SHARE IN 2023).

Despite high interest rates and the discount to asset value, ISUR ended 2023 with an NAV of EUR 350.5Mn (+0.9% vs 2022), leaving an NAV/share of EUR 18.7. This reinforces our thesis that ISUR is a low-risk real estate company that (also) is trading at a sharp discount (61.9% to NAV 2023). The current market situation -rate cuts highly likely in 2024- could enable the discount to narrow. The market has yet to consider this, judging by the current share price (+1.5 in the last 12 months).

Appendix 1. Results table

EUR Mn	12m23		12m23 Real		12m23 Real		4Q23 vs	
	Real	12m22	vs 12m22	2023e	vs 2023e	4Q23	4Q22	
Total Revenues	119.8	117.8	1.7%	147.9	-19.0%	50.5	5.0%	
Property development busines:	84.7	82.0	3.3%	103.6	-18.3%	40.2	2.7%	
Rental Revenue	17.1	17.5	-2.3%	18.5	-7.4%	4.0	-11.0%	
Construction	13.7	15.1	-9.0%	20.3	-32.4%	4.8	38.9%	
Administration and marketing	4.3	3.2	33.8%	4.1	3.8%	1.5	47.9%	
Recurrent EBITDA	22.3	20.9	6.7%	28.0	-20.4%	11.3	22.9%	
<i>Rec. EBITDA/Revenues</i>	<i>18.6%</i>	<i>17.7%</i>	<i>0.9 p.p.</i>	<i>18.9%</i>	<i>-0.3 p.p.</i>	<i>22.4%</i>	<i>3.3 p.p.</i>	
EBITDA	22.3	20.9	6.7%	28.0	-20.4%	2.3	-70.8%	
<i>EBITDA/Revenues</i>	<i>18.6%</i>	<i>19.7%</i>	<i>-1.1 p.p.</i>	<i>18.9%</i>	<i>-0.3 p.p.</i>	<i>4.6%</i>	<i>-11.9 p.p.</i>	
EBIT	23.8	18.8	26.3%	24.4	-2.6%	9.6	n.a.	
PBT	14.7	20.0	-26.8%	15.2	-3.5%	6.7	69.8%	
NP	11.3	15.0	-24.8%	11.4	-0.7%	5.3	74.7%	
GAV	593.0	584.4	1.5%					
<i>Rental business GAV</i>	329	366.2	-10.2%					
<i>GAV Property development busi</i>	264	218.2	21.0%					
NAV	350.5	347.4	0.9%					
Net Debt	242.5	237.0	2.3%	212.5				
LTV	40.9%	40.5%	0.4 p.p.	35.8%				

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	133.5	
+ Minority Interests	3.1	12m Results 2023
+ Provisions & Other L/T Liabilities	-	12m Results 2023
+ Net financial debt	242.5	12m Results 2023
- Financial Investments	-	12m Results 2023
+/- Others		
Enterprise Value (EV)	379.1	

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
04-Mar-2024	n.a.	7.15	n.a.	n.a.	12m Results 2023	José Miguel Cabrera van Grieken
30-Oct-2023	n.a.	6.69	n.a.	n.a.	9m Results 2023	José Miguel Cabrera van Grieken
31-Jul-2023	n.a.	6.99	n.a.	n.a.	6m Results 2023	Alfredo Echevarría Otegui
12-Jun-2023	n.a.	7.19	n.a.	n.a.	Small & Micro Caps (Spain)	David López Sánchez
08-May-2023	n.a.	6.85	n.a.	n.a.	3m Results 2023	David López Sánchez
19-Apr-2023	n.a.	6.85	n.a.	n.a.	Estimates upgrade	David López Sánchez
01-Mar-2023	n.a.	7.05	n.a.	n.a.	12m Results 2022	David López Sánchez
22-Dec-2022	n.a.	6.94	n.a.	n.a.	Initiation of Coverage	David López Sánchez

