EthiFinance Ratings

# INMOBILIARIA DEL SUR SA

A41002205 CORPORATE

BB
ISSUER RATING
Long term

OUTLOOK
Stable

BBB-
INSTRUMENT RATING
Senior Secured 30 M €

| | |
|---|---|
| **Initiation date** | 21/10/2021 |
| **Date of Private Rating** | 08/07/2024 |


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## Rating Action and Rationale

- EthiFinance Ratings affirms Inmobiliaria del Sur's long-term rating at "BB" but changes the outlook from Evolving to Stable. In addition, the bond issue rating is affirmed at "BBB-".
- The issuer is *Insur Promoción Integral, S.L.U.* (B91416438), the guarantor being *Inmobiliaria del Sur, S.A.* Given that the latter company (A41002205), parent company of *Grupo Insur*, acts as guarantor of the issue of *Insur Promoción Integral, S.L.U.* (B91416438), the rating of the instrument is based on the consolidated figures of *Grupo Insur* (the rating is equated between the subsidiary issuing the bond and the parent company given the established guarantee).
- The group's rating is supported by several factors, including: i) sector with strong demand and positive profitability levels, ii) solid business model that combines both development and asset management activity, representing a significant competitive advantage in the market, iii) listed group that also has a stable shareholding (greater concentration of the Pumar family) and management with extensive knowledge and expertise in the sector, aligned with the group's strategic objectives, iv) adequate levels of capitalisation in the group, with an Equity/TFD ratio of over 90% (incorporating capital gains from real estate investments), v) recurrent generation of operating and final profits with a high pre-sales portfolio for the coming years, and vi) positive assessment and practices developed at ESG level.
- On the other hand, the rating is limited by the group's high levels of leverage that penalise ratios such as NFD/EBITDA and FFO/NFD as well as an interest coverage ratio that is penalised by the context of rising interest rates. Moreover, it concentrates its business in the domestic market with greater weight in Seville, where greater diversification is desirable (one of its main growth drivers at present, which it is already developing) and which could strengthen its positioning in the market, which is more limited compared to other large players (GAV and revenues).
- The group's outlook has changed from Evolving to Stable, as we believe that Insur's evolution is being favourable, supported by a solid demand for new housing (activity levels at record highs and significant pre-sales figures) that should allow for a higher generation of business and profits in the coming years. In addition, this could also favour a greater control of leverage levels.
- In line with our new methodology, the 'real estate' sector presents a medium ESG risk (sector heatmap between 3 and 3.5) given its impact on the environment. This assessment results in a sector analysis that is not affected by this factor. On the other hand, the company's ESG policies are considered positive, placing it in the best valuation bracket with a score between [0 and 1), which has a positive impact by +1 *notch* within the financial risk profile.
- EthiFinance Ratings has been provided (by Insur) with detailed financial projections for the analysis and valuation, although they are not reflected in the report at the company's request. This rating is conditional upon compliance with the data estimated by the group for the current and coming years.

## Issuer Description

*Grupo Inmobiliaria del Sur* (hereinafter 'Insur' or *'Grupo Insur'*) focuses its activity on the real estate sector through its two main operating lines: development and asset management activity. The group, which has more than 200 employees, concentrates its activity in the domestic market, having closed 2023 (under the consideration of joint ventures by the proportional method) with a turnover and recurring EBITDA of €119.8m and €22.6m (+1.6% and +6.7% YoY) respectively, presenting an LTV of 40.6% and NFD/EBITDA of 10.8x. In addition, Insur's share price has appreciated by around 20% to June 2024, bringing the market capitalisation to €156.8m.

## Fundamentals

### Business Risk Profile

#### Industry Risk Assessment

- **Cyclical and atomised sector that is being affected by the inflationary environment and high interest rates, factors that, however, are starting to stabilise (reaching already maximum figures and under a recovery path), which could have a positive impact on the market.**

The real estate sector in Spain, where Insur operates, is characterised by a high degree of competitiveness, with a large number of players given the limited barriers to entry, positive operating profitability which, nevertheless, presents some volatility in situations of greater stress, and the development of ESG policies, especially by the main groups in the sector. The 2021 and 2022 financial years have been characterised by a high pace of new home sales after the impact of Covid-19 (+25.3% and +22.7% respectively vs 2019). However, aspects such as the war between Russia and Ukraine, with a rise in the price of raw materials and high inflation, together with the sharp increase in interest rates, have had an impact on the sector, which has been evident in a notable reduction in the volume of mortgages granted in 2023 (-17.9%) and also reducing, albeit to a lesser extent, the volume of new home sales (-

5.3%) compared to 2022. In any case, the new housing segment presents a limited supply in relation to the latent structural demand in the market (for the period 2023-2027 an annual average of 100k new building permits is estimated versus a creation of more than 200k homes), which limits the effect of these factors on the sector and keeps the selling price high. Likewise, construction costs are stabilising to a greater extent since 2023 (reaching the peak), estimating a gradual decrease in interest rates (first cut by the ECB in June 2024 from 4.5% to 4.25%, estimated to continue soon with greater emphasis during 2025) which, if it occurs, could again favour the sector (during 1Q2024, the slight increase in the number of new home sales is again highlighted, +3% vs 1Q2023).

- **In line with EthiFinance Ratings' methodology, the real estate sector has a medium ESG risk (sector heatmap between 3 and 3.5). This assessment results in a sector analysis that is not affected by ESG factors.**

The potential risk of ESG factors in companies in the sector in the medium term means that a transition to new practices is required. The industry presents a high risk on environmental factors, arising from: i) carbon emissions generated by the production of materials (bricks, cement, etc.), ii) the intensive use of raw materials, iii) the high generation of waste, with difficulty in recycling, and iv) the impact that may occur on agriculture and biodiversity as a result of land use. With regard to stakeholders, the sector has a fundamentally positive impact, providing numerous jobs and offering a fundamental service to society, such as access to housing. However, the sector's high dependence on land, and the fact that its availability is controlled by local authorities, may limit land use depending on political interest or other factors.

### Competitive Positioning

- **Business model with an appropriate operating mix and a portfolio of assets concentrated in the domestic market.**

Insur's operations stand out for the development of both property and development activities (GAV of 55.3% and 44.7% respectively, including joint ventures at the end of 1Q2024), with the disposal of mainly prime assets (asset management) focused mainly on offices, commercial premises, parking spaces and the entry in recent years with hotel assets. This aspect represents an important competitive advantage in the sector as, in situations of greater stress or volatility in the economy, with more impact on the development area due to its greater cyclicality, it has a more stable segment such as property in terms of revenue generation and recurring profits. It also maintains high occupancy rates in its portfolio of 88.7% at the end of 1Q2024 (+1p YoY). On the other hand, *Grupo Insur* has a small asset portfolio compared to the sector leaders, with a GAV (Gross Asset Value) considering JVs of €595.1m in 1Q2024. It has total exposure to the domestic market (100% of its turnover), concentrating its activity mainly in Andalusia (80% of GAV in property and residential development), although in recent years it has been diversifying (both in the development and property areas), with a greater focus on Madrid (20% of GAV in property and 51% in tertiary development), a line of action that will continue in the coming years.

### Shareholder Structure and Governance

- **Appropriate management focused on the growth and consolidation of the group in the market, supported by its current business plan that favours a better use of the expansion opportunities available.**

Stable shareholding (32.3% controlled by the Pumar family at the end of 2023) which, together with a management with extensive expertise in the sector, favours the achievement of the strategic objectives defined in the plan. The group is currently developing its business plan for the period 2021-2025, which will continue with respect to the previous one, with the main drivers of action being the commitment to maintain the solid position in Andalusia (mainly Seville) for the property development and real estate area, as well as the growth it intends to obtain for these segments in reference areas such as Madrid and Malaga. In addition, greater diversification among its sources of financing is another important pillar of its strategic plan. In terms of its financial policy, although it has high levels of debt, these are tempered by its development and property activity.

- **Positive ESG policy.**

In recent years, the group has been increasing its ESG policies with greater progress in measuring its carbon footprint, sustainable building with BREEAM or LEED certifications in its office buildings and the development of homes with A/B energy ratings. It has a favourable rating by EthiFinance Ratings in its three aspects (Environmental, Social and Governance), highlighting the presence of ISO 9001, 45001 and 14001 certifications covering all its activities, independent members (3) on the board of directors and the separation of the positions of CEO and chairman of the board. This assessment results in a positive impact on the group's financial rating (+1 notch).

## Financial Risk Profile

### Sales and Profitability

- **Positive results and margins achieved, with continuation and growth expected for 2024 and 2025.**

Based on proportional figures, *Grupo Insur* reported a slight increase in revenue and EBITDA for 2023, which stood at €119.8m and €22.6m (+1.6% and +6.7%) respectively. It should be noted that these figures were impacted by the delay in the delivery of 54 homes in Madrid (€25m of revenue on a pro rata basis) which started to be delivered in the first months of 2024. The rise in interest rates also affected the group, with a 35.9% increase in financial expenses in the last year, which led to a reduction in EBT (13.1% YoY), although it maintained positive and high figures (€14.7m). For 2024 and 2025, it is estimated that the group will increase its turnover and results driven by all the development business it is carrying out, with activity figures at record highs and accumulated pre-sales reaching €170.1m on a proportional basis at the end of 1Q2024. Moreover, at the same date, it has a pre-sales coverage (% sold over estimated deliveries) of 79.5% and 52.8% for 2024 and 2025 respectively, figures that reflect revenue visibility for these years.

### Leverage and Coverage

- **High levels of indebtedness, tempered by its business model which combines investments in both property and development**.

Despite having high levels of debt in relation to the operating return generated (recurring NFD/EBITDA of around 10x/11x for the last two years), Insur has a portfolio of assets of significant value that places the LTV (Loan to Value), incorporating joint ventures, at 40.6% by 2023. The group's financing structure has been marked in recent years, among other aspects, by the syndicated loan obtained in 2019 (€110m) which allowed it to cancel most of the debt associated with real estate investments (bilateral bank loans) and the diversification that its sources of financing are achieving through the MARF, with the issue of promissory notes (€16m) and the bond issue in December 2021 (€30m of which €22.3m is invested in 1Q2024). On the other hand, the interest coverage ratio has shown a progressive decline in recent years, with adjusted figures at present (2x in 2023; -1.4x vs 2021), impacted by the rise in interest rates in the economy and the group's mostly floating rate financial debt.

By 2024, Insur is expected to reach the peak in terms of debt volume, however, the higher deliveries expected for these years should allow for a better balance in the leverage ratios. In addition, a notable increase in EBITDA is estimated for 2024 and 2025, which, together with the expected drop in interest rates (which could take effect in 2025), leads to an improvement in interest coverage in the coming years.

### Cash Flow Analysis

- **Positive operating cash flow generation that could be more sustained in the coming years.**

The group generated funds from operations (FFO) of €13.4m in 2023 (+168.6% YoY), with an improvement expected for 2024 and 2025 on the back of the expected delivery figures for the development business (at high levels and at the peak of the company's cycle after the strong investments of the previous years). This could lead to an improvement in the FFO/NFD ratio, which showed a still adjusted value for the last year (6.1%). The positive operating cash generated increased free cash flow to €26.5m, allowing to cover both dividend payments (€6m) and a net debt repayment, mainly bank debt (-€23.6m). Final cash levels ended the year at €29.3m, with a reduction of 11.1%.

### Capitalisation

- **Favourable solvency supported by the market value of its assets**.

Although at the end of 2023, the group had a somewhat tight Equity/TFD ratio (57.8%), it has high unrealised capital gains in its real estate investments (€122.4m) that would boost net assets to levels considered adequate and more solid (above 90% for the latter ratio).

### Liquidity

- **Positive liquidity levels.**

At the end of 1Q2024 on a pro rata basis, the group presented a favourable liquidity position for the next two years, assuming the maintenance of the favourable business performance and all this under the comparison of funds available and generated with the activity versus current commitments at financial level, capexand dividends. This rationale is supported by cash figures of €48.7m, available lines between credit facilities, MARF promissory notes, part of the undrawn bond issued in the MARF, work certifications and subrogations amounting to more than €180m as well as a positive estimate of operating cash. On the liabilities side, the group's debt is mostly long-term (83.3% maturing from 2026 onwards) and with investments in both the property and development areas (new land) estimated to average around €16m per annum by 2024 and 2025.

## Modifiers

### Controversies

- **The group does not present any controversy.**

Our assessment of controversies determines that there are no news or events that constitute a real problem pointing to a weakness in *Grupo Insur's* operations or organisation that require follow-up.

### Country Risk

- **It has not been determined that there is a conditioning country risk and that it would therefore have a negative impact on the rating.**

The group concentrates all of its business in Spain.

## Issue profile

- **Bond issue made in the MARF (December 2021) which has guarantees to cover the debt issued.**

In order to finance the development growth in 2021, *Grupo Insur* (through *Insur Promoción Integral*) issued a €30m bullet secured bond at the end of that year, maturing in 5 years. This bond, of which €5.8m remained available at the end of 1Q2024, has a positive and solid coverage ratio, supported both by the collateral assigned (plots of land acquired) and by the valuation and assets presented by the group (strengthened by the equity area with significant capital gains with respect to the book value shown) which, in the event of greater stress, could cover practically all of *Grupo Insur's* financial debt.

## Main Financial Figures

| Main financial figures (IFRS). Thousands of €. | FY21 | FY22 | FY23 | 22vs21 | 23vs22 |
|---|---|---|---|---|---|
| Turnover | 105,403 | 116,530 | 138,210 | 10.6% | 18.6% |
| EBITDA | 24,305 | 22,345 | 30,483 | -8.1% | 36.4% |
| EBITDA margin | 23.1% | 19.2% | 22.1% | -3.9pp | 2.9pp |
| Recurring EBITDA (1) | 20,552 | 20,298 | 21,582 | -1.2% | 6.3% |
| Recurring EBITDA margin (1) | 19.5% | 17.4% | 15.6% | -2.1pp | -1.8pp |
| EBIT (2) | 20,074 | 21,209 | 22,757 | 5.7% | 7.3% |
| EBIT Margin (2) | 19.0% | 18.2% | 16.5% | -0.8pp | -1.7pp |
| EBT (2) | 14,973 | 16,404 | 15,337 | 9.6% | -6.5% |
| Total Assets | 464,249 | 497,074 | 483,385 | 7.1% | -2.8% |
| Equity | 131,513 | 140,455 | 145,728 | 6.8% | 3.8% |
| Total Financial Debt | 246,842 | 265,454 | 252,342 | 7.5% | -4.9% |
| Net Financial Debt | 194,348 | 229,553 | 221,106 | 18.1% | -3.7% |
| Equity/TFD | 53.3% | 52.9% | 57.8% | -0.4pp | 4.8pp |
| NFD/EBITDA | 8.0x | 10.3x | 7.3x | 2.3x | -3.0x |
| NFD/Recurring EBITDA (1) | 9.5x | 11.3x | 10.2x | 1.9x | -1.1x |
| Funds From Operations | 8,537 | 4,986 | 13,390 | -41.6% | 168.6% |
| FFO/NFD | 4.4% | 2.2% | 6.1% | -2.2pp | 3.9pp |
| Recurring EBITDA/Interests (1) | 3.4x | 2.5x | 2.0x | -0.9x | -0.5x |
| GAV (3) | 522,935 | 584,384 | 593,012 | 11.8% | 1.5% |
| LTV (3) | 37.9% | 40.5% | 40.6% | 2.7pp | 0.0pp |

(1) Recurring EBITDA: EBITDA - Results from disposals of investment property - Results from loss and takeover of consolidated companies - Impairment of inventories, (2) In 2022 includes the profit generated by the takeover of 100% of *Desarrollos Metropolitanos del Sur* amounting to €9.4m (application of IFRS 3 which entails recording assets and liabilities of DMS at fair value), and (3) With the consideration of joint ventures.

## Credit Rating

| Credit Rating | |
|---|---|
| **Business Risk Profile** | **BB+** |
| *Industry risk assessment* | *BBB* |
| Industry's ESG | Neutral |
| *Competitive Positioning* | *BB-* |
| *Governance* | *BB+* |
| **Financial Risk Profile** | **BB-** |
| *Cash flow and leverage* | *B* |
| *Solvency* | *BB* |
| Company's ESG | Positive |
| **Anchor Rating** | **BB** |
| *Modifiers* | *No* |
| **Corporate Rating** | **BB** |
| **Bond Rating** | **BBB-** |

## Rating sensitivity

- **Long-term rating positive factors (↑)**

Maintenance of the strong pace of pre-sales that will favour the increase in revenues, earnings and margins in the coming years, as well as a reduction in leverage levels. Improvement in weighted ratios (in the cycle of years considered for the rating) such as interest coverage, NFD/EBITDA, FFO/NFD and Equity/TFD, depending on the segment treated: (i) asset management activity, with values >2.6x, <6.6x, >10.5% and >70% respectively, and (ii) rest of the segments (developer, construction and management) with ratios presenting values >6.3x, <3.4x, >27% and >70% respectively. In addition, LTV for the consolidated group below 40%.

- **Long-term rating negative factors(↓)**

Reduction of the recovery rate by hedging the market value of the issue's collateral and/or the value of the group's assets in case of higher stress to below 90% of the programme. Failure to meet projections with deviations in revenues, earnings, debt and cash generated. Maintain leverage levels or increase them with weighted ratios (in the cycle of years considered for the rating) such as interest coverage, NFD/EBITDA, FFO/NFD and Equity/TFD, depending on the segment treated: (i) asset management activity, with values <2.2x, >7.3x, <9.3% and <60% respectively, and (ii) rest of the segments (developer, construction and management) with ratios presenting values <5.7x, >3.6x, <24% and <60% respectively. In addition, LTV for the consolidated group above 45%. Significant fall in cumulative pre-sales figures.

## Company Profile

### Business and Scope of Activity

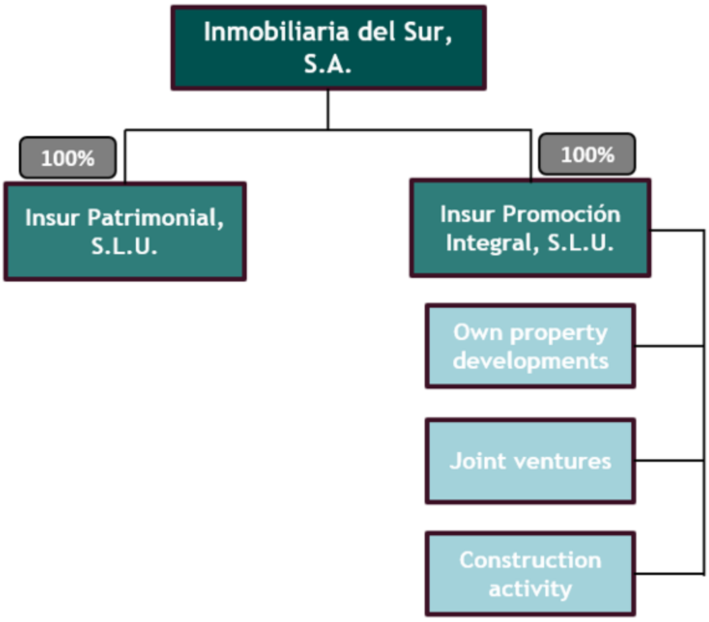
*Grupo Insur*, with its headquarters in Seville, operates as the head of a group of companies that carry out their activity within the real estate sector, with the main areas of business being distinguished:

- Asset management, through the leasing of urban real estate.
- Development of land, mainly for finalist purposes, for the construction and marketing of real estate assets. This segment includes the construction and management of real estate projects for joint ventures, which account for a significant proportion of the company's revenues and provide it with a vertically integrated business structure.

Insur has a track record of more than 75 years and has been listed on the Spanish stock market since 1984 (since 2007 on the continuous market). With a prominent historical position in western Andalusia (mainly Seville and Malaga), since 2007 they are also expanding their geographical area of influence with the development of real estate activities in the Community of Madrid (one of the main strategic focuses of the company at present).

### Corporate Structure

Since June 2018, Insur has completed a corporate restructuring that is still in place today and through which the property business (headed by *Insur Patrimonial* and four other subsidiaries) and the development business are clearly differentiated. In the latter, in addition to its own developments carried out by *Insur Promoción Integral* itself, it has up to 13 investee companies considered joint ventures (together with other investors), with the group carrying out all the construction activity through its subsidiary *IDS Construcción y Desarrollos*.




## Qualitative Analysis

### Industry Assessment

Insur is positioned as a group specialising in both residential housing development and asset management activity (leasing of tertiary assets such as offices, commercial premises, parking spaces and hotels). In general terms, its activity, which is framed within the real estate sector, is mainly characterised by: (i) its cyclical nature and atomised structure which raises its competitive component (limited barriers to entry), despite the progressive concentration of the number of companies in recent years; (ii) positive levels of operating profitability, although conditioned by a volatile industry depending on the situation of the economy of the country or market in question, (iii) growth prospects for coming years which may continue to be conditioned and marked by the current uncertainty of high inflation and interest rates although with a reduced supply of new housing in relation to the necessary demand which partly mitigates this aspect. Furthermore, in June 2024 the ECB made its first cut in interest rates (from 4.5% to 4.25%), although they remain high and condition the sector, it is estimated that a further decrease could be reflected during

2025, an aspect that could favour a greater boost to the real estate market, and iv) a more pronounced trend of the main players in the sector in the implementation of ESG policies (highlighting the construction of more sustainable developments).

The residential segment has undergone a progressive reconversion over the last decade, reducing and boosting the number of current companies, which are characterised by maintaining more efficient processes in their activity and focusing on the development of housing with greater added value (location, energy efficiency, additional services, etc.). In this sense, the impact of Covid-19 has led to a greater importance of housing for families, which translates into a higher quality of services and design (larger and more open spaces, outlets to the exterior, etc.). The changes experienced in this sector give the current residential stock of new-build housing a greater differential component and associated quality, qualifying the presence of a significant second-hand housing market and the rental housing model, which are presented as consolidated alternatives to the new-build segment.

In recent years, several factors have conditioned the evolution of the residential housing market. Firstly, the impact of the health crisis caused by Covid-19 in 2020 led to a drop in the trend in construction and the pace of sales and purchases in that year. However, the cyclical nature of this crisis, together with an improvement in the healthcare situation and laxer containment measures, meant that national GDP in 2021 and 2022 increased by 6.4% and 5.8%, respectively. As a result, there was a revival in most sectors, including the housing market, which also benefited from an improvement in the labour market, higher savings rates and favourable financing conditions. This resulted in a continued increase in the number of new home sales and mortgages granted, as reflected in the end-2022 data (+25.3% and +28.5% respectively, versus 2019, the year before the pandemic).

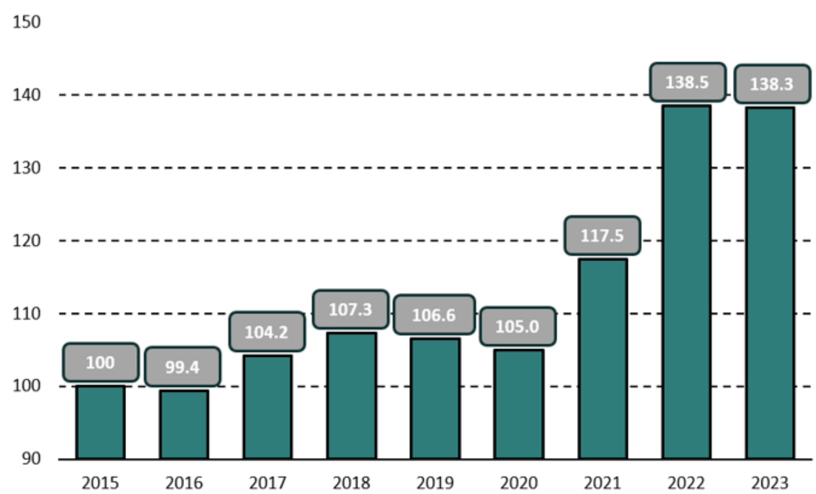
**Trends in the sale and purchase of new housing in Spain (*)**

| *Versus same period* | 2023 | 1Q2024 |
|---|---|---|
| **2023** | - | 3.0% |
| **2022** | -5.3% | -2.8% |
| **2021** | -3.3% | 10.2% |
| **2020** | 32.0% | 29.7% |
| **2019** | 18.7% | 20.4% |

(*) Source: INE. Starting from the year 2023 (2nd column) and first three months of 2024 (3rd column) and compared with the same period (years or months) for the period 2023-2019.

However, in addition to this, it is also worth mentioning the war between Russia and Ukraine, which has impacted, among other aspects, on the increase in the cost of raw materials and high inflation. This has caused construction costs to rise (currently at their highest levels in recent years, although with figures now more stabilised and having peaked) and, consequently, increased selling prices generally to counteract the impact on profitability margins. While inflation is now stabilising at 3.6% headline and 3% core in May 2024 (the peak was reached in July 2021 with a rate of 10.8% and 6.1% respectively), the curve remains unyielding and the ECB's targets have yet to be achieved.

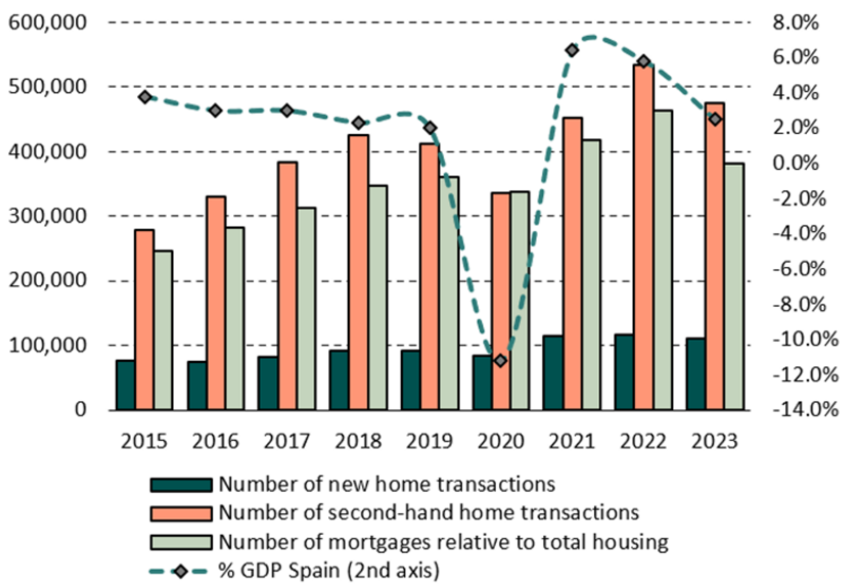
**Weighted index of construction cost evolution. Base 2015=100.**




This inflationary environment also triggered a scenario of rising interest rates from July 2022, currently at 4.25%, which is having an impact on the real estate sector. All these factors together have generated a slowdown in the Spanish economy, although maintaining a year-on-year GDP growth rate of 2.5% in 2023 (INE, data from March 2024).

Consequently, there has been a slowdown in the growth of the sector in 2023, showing, on the one hand, a lower number of new home sales (-5.3% YoY in 2023) and, on the other hand, a fall in the number of mortgages granted, which will stand at 381,063 at the end of 2023 (-17.9% compared to 2022). However, production costs are expected to stabilise and a gradual decline in interest rates that could begin to take effect mainly from 2025. This factor, together with the current imbalance in the sector, which has a higher demand than supply of housing, especially in large cities (stressed areas), will limit, to some extent, the negative impact of the current economic environment. Thus, during 1Q2024, a slight increase in the number of new home sales was recorded, +3% compared to Q12023.

**Number of transactions and mortgages granted vs Evolution of GDP Spain (%)**




Source: INE.

Meanwhile, housing sale prices are experiencing a notable increase due to, on one hand, the rise in construction costs and, on the other, the aforementioned supply-demand imbalance in the sector. From 2020 to 2022 there was a greater creation of homes in Spain in relation to new building permits (144,172 versus 97,951 respectively for the annual average), estimating that these differences will continue over the coming years. Moreover, in the large capital cities, this difference is accentuated, reflecting greater pressure on public entities owning land to increase development. In this regard, the new housing price index (HPI) in recent years has shown a notable rise, with the average standing at 167.3 in 2023 versus 128.8 on average in 2019 (source INE, base 2015). In 2024, prices are still expected to continue to rise, but at a more moderate rate (around 3%-4%), mainly centred on new housing (HPI of 178.9 for 1Q2024).

**New building permits vs Household creation. Annual average (*)**

| | 1997-2007 | 2008-2014 | 2015-2019 | 2020-2022 | 2023-2027 |
|---|---|---|---|---|---|
| **Building permits** | 583,226 | 94,131 | 80,304 | 97,951 | 100,000 |
| **Household creation** | 362,556 | 215,186 | 64,520 | 144,172 | 217,000 |

(*) Source CaixaBank Research, MITMA and INE. Estimated data for the period 2023-2027 are shown.

The sector's insufficient supply to cover latent and structural demand, as well as other market trends such as built to rent or co-living, partially mitigate the current scenario of uncertainty. Factors such as the limited availability of land, slow licensing procedures, labour shortages and the implementation of new technologies, as well as the effect of high production costs and interest rates, will be some of the main challenges that the sector will continue to face in the short/medium term.

In terms of commercial real estate, the office sector experienced a lower demand in the last year, with Madrid standing out with a 20% decline. However, rents continue to rise in nominal terms by around 3.5%, although prime markets are growing more strongly (8% in Madrid). In addition, a repositioning is being reflected in the office segment, with a greater preference for prime areas and where the provision of common spaces, lower employee density per surface area, greater ventilation and natural light are becoming more important. As for commercial premises, this is a segment exposed to the digitalisation and online commerce processes in recent years which, although affecting consumption, the new needs for hybrid premises (combination of physical shopping with e-commerce) should keep this segment active. Likewise, hotel assets have also recovered notably after the impact of the pandemic, leading the investment market within the real estate sector in Spain last year (35% of the total volume invested).

## Competitive Positioning

*Grupo Insur* has a medium positioning in the real estate sector, operating mainly in the western half of Andalusia (Seville, Malaga, Cordoba, Cadiz and Huelva) and in the Community of Madrid, maintaining a leading position in the province of Seville in the real estate sector, with a prime portfolio of commercial premises and offices in the Andalusian capital.

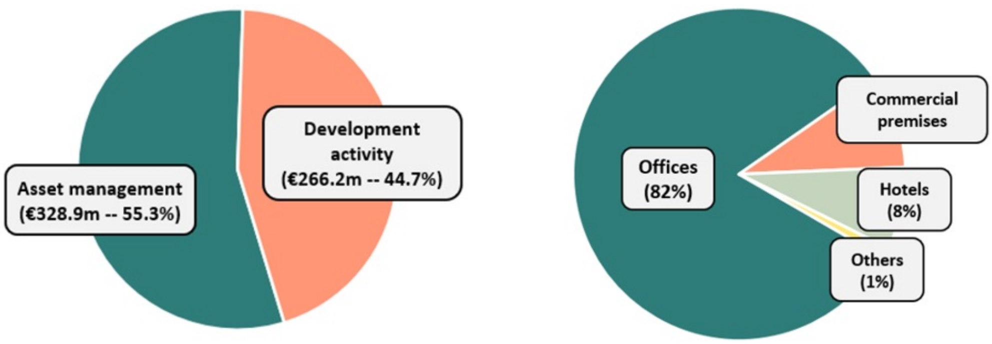
Its geographic positioning is considered limited, with a total concentration in the domestic market, which has prevented it from moderating the negative effects of the evolution of a highly pro-cyclical market.

**GAV distribution by geography and operating segment (proportional). Data at the end of 1Q24.**

| City | Assets | Residential Development | Tertiary Promotion |
|---|---|---|---|
| **Seville** | 71% | 55% | 8% |
| **Madrid** | 20% | 20% | 51% |
| **Malaga** | - | 12% | 23% |
| **Huelva** | 6% | - | - |
| **Cordoba** | 2% | 3% | - |
| **Cadiz** | 1% | 3% | 18% |
| **Granada** | - | 7% | - |

Based on figures using the proportional integration method, given the group's significant activity with joint ventures (companies in which it normally holds a 50% stake), in terms of gross GAV, there continues to be a high concentration in the province of Seville, representing 71% of the segment's valuation in 1Q2024. However, geographic diversification has improved moderately in recent years in line with its business plans (both the 2016-2020 plan and the one currently in force for the period 2021-2025), with Madrid in second place with 20%, driven by the incorporation of the *Río 55* business project (two office buildings) and the entry into the property segment of the *Norte* building (October 2020). In terms of GAV for residential developments, there is a greater concentration in Seville and Madrid with 75% of the total, and for tertiary developments, we highlight the projects currently underway in Madrid (an office building, *Élever*, in *Las Tablas*, and another for various uses in *Valdebebas*) and Malaga (with two office buildings, *Ágora* and *Noa*), which account for 74% of the weighting. These new developments in reference areas are allowing the group to diversify its development business and at the same time could further strengthen the property area if any of the projects developed (as the group did with the *Norte de Río 55* building).

**GAV distribution by operational segment and breakdown of the asset side, proportional (Q1 2024)**




Overall, GAV at the end of 1Q2024 amounted to €595.1m, with a favourable diversification between the assets and development areas (55% vs. 45% respectively). Furthermore, in the property segment, the group's greater presence in office assets stands out, which account for 82% of its GAV (also including the car parks of these buildings), the rest being mainly distributed in commercial premises and hotels.

**Breakdown of real estate portfolio (2023) ***

| COMMERCIAL BUILDINGS | | | | |
|---|---|---|---|---|
| **Assets** | **Total m²** | **Rented m²** | **Occup. %** | **Occup. % 2022** |
| Offices | 83,760 | 71,825 | 85.8% | 90.2% |
| Commercial premises | 24,796 | 22,022 | 88.8% | 87.5% |
| Hotels | 10,411 | 10,411 | 100.0% | 100.0% |
| Archives | 3,116 | 1,468 | 47.1% | 38.8% |

* The group also has 2,964 parking spaces which it manages on a subscription and rotation basis.

In our opinion, Insur's property portfolio maintains an adequate quality, which is reflected in high occupancy rates that reached 88.7% at the end of 1Q2024 (+1pp YoY) with a net increase (new hires - contract terminations) of 1.194 m2 of leased space in the first three months of the year. In addition, it is worth noting that during financial year 2023, although there was a slight decrease in this occupancy rate (-2.8pp; standing at 87.7%), it was mainly due to the sale of assets that were fully occupied (Capitolio building and commercial premises in Seville), as the group even presented a higher contracted surface vs. contract resolutions (2,721m2 vs. 534m2). In general terms for the last few years, the group's evolution has been positive (increasing these rates by +20pp since 2016) and with an improvement in customer diversification. For the latter and at the end of 2023, Insur has reduced the weight of Public Administrations in its assets (5.3%), and currently has a certain concentration in its reference customers (top 5 and top 20 account for 29.8% and 55.7% respectively), although of note is the adequate credit quality of these and the prominent position of some of them in their sector of activity.

Since 2018, it is worth highlighting the group's entry into hotel asset management, having a leased hotel in Cordoba (*Hotusa*) and having carried out the transformation (since the second half of 2019) of another building in Seville that has been delivered and inaugurated by the same hotel chain (August 2021). This operation has allowed for a greater diversification of uses in its portfolio of assets.

The development business, also based on figures using the proportional method (which better reflects the economic reality of the group), represents the majority of Insur's revenues, reflecting the maintenance of the business in the last year, impacted by the delay in the delivery of two developments in Madrid (which are being delivered in the first half of 2024), comprising 54 homes with a value of €25m. In addition, during 1Q2024, the group's performance was favourable, with a greater push in the development, construction and management areas, an aspect that reflects the increased development activity that is being developed and that will have its revenue peak within the group's cycle in 2024 and especially 2025.

**Breakdown of turnover by business line. Thousands of €. (1)**

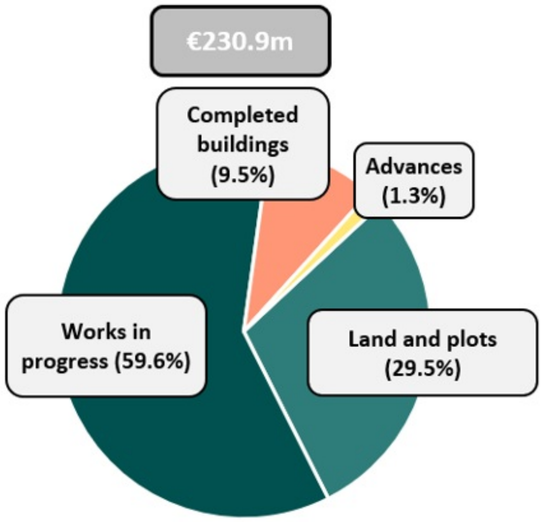
| Segment | 2021 | | 2022 | | 2023 | | 1Q2024 | | 23vs22 |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | Weight | Amount | Weight | Amount | Weight | Amount | Weight | |
| Development | 83,570 | 66.7% | 82,029 | 69.6% | 84,693 | 70.7% | 24,966 | 69.1% | 3.2% |
| Asset management | 15,417 | 12.3% | 17,495 | 14.8% | 17,091 | 14.3% | 4,467 | 12.4% | -2.3% |
| Construction | 22,691 | 18.1% | 15,055 | 12.8% | 13,722 | 11.5% | 5,564 | 15.4% | -8.9% |
| Management | 3,591 | 2.9% | 3,281 | 2.8% | 4,271 | 3.6% | 1,109 | 3.1% | 30.2% |
| **TOTAL** | **125,269** | | **117,860** | | **119,777** | | **36,106** | | **1.6%** |

(1) Figures presented under the proportional integration method.

EthiFinance Ratings views favourably Insur's diversification within its sector, being both a developer and an asset manager, an aspect that gives it an important competitive advantage in terms of providing greater stability and momentum to its results. At the same time, it could also continue to strengthen its property segment with some of the assets developed in its own development area, which reflects a clear synergy and competitive advantage within the sector.

On the other hand, it is worth highlighting the diversification and reinforcement of the rental income generated by the *Río 55* business project carried out by the group in Madrid, which involved the development of two office buildings: the South building sold in March 2018 to the AEW fund and delivered in 3Q2020, and the North building (14,000 m2 and 199 parking spaces), which is intended for leasing (BNP Paribas) with a rental generation date from the last part of 2020. It should be noted that following the execution in October 2020 of the promise contract it held with *IDS Madrid Manzanares* (owner of this North building) to acquire an additional 40% of the capital of this company, Insur has increased its stake in the same to 90%. In addition, with the new strategic plan 2021-2025, the group presents as one of its growth drivers, the continuation and increase of its property activity in Madrid.

Breakdown of NAV of inventory (Q1 2024) *




*Incorporating JV figures adjusted by their ownership percentage.

Most of the assets corresponding to the developer segment are oriented towards residential housing (75% of GAV, with the rest in the tertiary segment). At the end of 1Q2024, taking into account data obtained by the proportional method that incorporates JVs, the group maintained a high level of work in progress (€137.7m, representing 59.6% of the stock), reaching record activity levels for Insur. This is a reflection of the good performance of demand in general, which is reflected in the constant growth of its commercial pre-sales figures (currently, the accumulated figure is at its highest in recent years). In this regard, it is worth mentioning the company's preference for the development of land that is fundamentally for final use and/or urbanised, thus mitigating urban risk.

At the same time, collaboration with family offices and financial institutions for the joint development of real estate businesses (joint ventures in which Insur normally holds a 50% stake), allows it to take on larger projects, as mentioned above. Among the main projects developed and/or currently underway, the following stand out: i) the one carried out with BBVA (subsidiary *Anida*) since 2015 through the incorporation of the company *Desarrollos Metropolitanos del Sur*. By June 2022, the JV had developed 15 developments (with a total of 1,002 homes), being at that date 100% merged with the Insur Group developer, ii) the *Aljarafe* development in Tomares (Seville) where 464 multi-family homes will be built, iii) *Ágora* building with works started in 1Q2023 (9,500m2 of offices and 180 parking spaces) and expected investment of €37m, and Noa building with works started in 1Q2024 (10.900m2 of offices and 328 parking spaces) and expected investment of €37m, both in Málaga city, iv) hotel project in Tarifa (Cádiz) with 30,000m2 buildable and expected investment of €85m, v) *Élever* building in Las Tablas (Madrid) for the construction of an office building (9.000m2, works started in 4Q2023) with an expected investment of €39m, and vi) business campus in Valdebebas (Madrid) with 36,500m2 for various uses (currently being marketed) and an expected investment of €95m.

Considering the portfolio of developments under construction (1,971 homes) and the portfolio of land or optioned properties (1,846 potential homes) at the end of 1Q2024, the group is in a favourable position to continue the growth trend in the coming years, although conditioned by the current economic uncertainty in the markets and the real estate sector, which has been impacted by the sharp rise in interest rates. This aspect will have to be monitored in the coming months to confirm the potential downward trend in interest rates that could favour the sector.

## Shareholder, Management and Financial Profile

Insur's shareholding structure has been stable in general terms over the last few years, being majority controlled by the Pumar family (32.3% at the end of 2023), both through direct and indirect shareholdings (such as that reflected in *Inversiones Agrícolas Industriales y Comerciales, S.L.*). All this, together with the presence also of a significant shareholding by some members of the Board of Directors, reflects the general commitment to the favourable development and achievement of the group's strategic objectives. In addition, since 2022, a new investor shareholder, *Hercalianz*, has entered the company and has been increasing its shareholding since then (7.46%). On the other hand, the company's status as a listed company on the continuous market provides greater access to resources through the capital market (provided that the company's particular conditions are considered favourable), an aspect that is viewed positively by the Rating Agency as potential capital injections could be made to support the group if necessary.

| Insur shareholder structure | | | | |
|---|---|---|---|---|
| **Member (shareholding over 3%)** | **2021** | **2022** | **2023** | **After AGM-'24** |
| Inversiones Agrícolas Industriales y Comerciales, S.L. | 7.42% | 7.42% | 7.42% | 7.42% |
| Increcisa, S.L. | 8.74% | 8.74% | 8.74% | 8.74% |
| Hercalianz, S.L. | - | 6.71% | 7.32% | 7.46% |
| Menezpla, S.L. | 5.09% | 5.09% | 5.09% | 5.09% |
| Bon Natura, S.A. | 5.05% | 5.05% | 5.05% | 5.05% |
| Inverfasur, S.L. | 5.00% | 5.03% | 5.00% | 5.00% |
| Ms. Carmen Pumar Mariño | 6.01% | 6.01% | 6.01% | 6.01% |
| Ms. Gloria Pumar Mariño | 3.44% | 3.44% | 3.44% | 3.44% |
| Mr. Fernando Pumar López (1) | 3.01% | 3.02% | 3.20% | 3.06% |
| Other significant shareholders and/or linked to the Board (2) | 20.67% | 18.40% | 17.62% | 17.78% |
| Treasury stock | 0.45% | 0.51% | 1.19% | 1.28% |
| *Free float* | *35.12%* | *30.57%* | *29.92%* | *29.65%* |
| **TOTAL** | **100%** | **100%** | **100%** | **100%** |

(1) Director until the 2024 AGM, and (2) Includes the rest of the directors (all except Increcisa, Bon Natura and Mr. Fernando Pumar López) and the relatives of directors who support/appoint them.

The presence of the Pumar family in the decision-making process is transferred to the management body, materialised in the figure of Ricardo and Francisco Pumar who act as Chairman of the Board of Directors as well as with executive functions (ratified in April 2024) and General Manager, respectively.

In September 2021, *Grupo Insur* presented its new business plan for the period 2021-2025. This business plan is considered to be a continuation of the previous one (2016-2020), based on the position and higher growth achieved by the group in recent years. This new strategic plan is based on the continuation of the combination model for both assets management and development activity, maintaining for the latter area both the vertical integration model developed and consolidated by Insur in recent years (controlling both residential and tertiary construction activity) and alliances with third parties (joint ventures) in order to tackle larger projects and therefore improve profitability. In addition, the company will continue to develop these lines of action in the coming years and is currently considering the possibility of joint ventures with more partners, which would entail a diversification of risks, a smaller stake in the companies created (around 35-40%), and lower financing needs.

In addition to the above, other drivers within the group's *business plan* include the following: i) increasing residential development activity in Madrid, ii) growing in the tertiary office development segment in both cities of Madrid and Malaga. Both have several important projects that are currently being developed (more details in *"Competitive Positioning"*), iii) increase the profitability of their different business segments and reduce the maturity periods of the developments for greater activity, iv) in the property area, and following the positive results of the *Río 55* project, the aim is to increase the weight of activity in Madrid, and v) continue to make progress in compliance with ESG (Environmental, Social and Governance) criteria, pointing out the progress towards sustainable building supported, among others, by obtaining appropriate energy certifications in residential development (at the end of 2023, 31% have an 'A' rating and the remaining 69% have a 'B' rating) and LEED, BREEAM Very Good and WELL gold in tertiary development. In addition, *Grupo Insur* has a favourable ESG rating, balanced in its three aspects, an aspect that has a positive impact on the rating (+1 notch in the financial aspect).

The group's growth is being developed under a financial policy with high levels of debt, although this is tempered by the nature of its activity, with the combination of a development business and a assets business at the same time. Under the latter, the company has a financial policy that is committed to the continuous diversification of sources, which is reflected in the use of both bank and capital market financing. For the latter, the continuous renewal of the promissory notes programme available to the group (€50m that will be renewed again in July 2024) and the secured bond issue (€30m) carried out in December 2021 in the MARF stand out. In addition, a potential capital increase is under consideration during the life of the plan if the circumstances (price and valuation of the company) are favourable.

## Quantitative analysis

Within the economic-financial analysis of *Grupo Insur*, it is worth mentioning the expansion of the activity that has been carried out in recent years for development, highlighting the increase in the volume of business generated through joint ventures with third parties where the company takes a stake in most cases of 50% (although it fully carries out the construction and management activity of the developments). Given that the group does not have control over these companies considered joint ventures, based on accounting regulations (application of IFRS), these holdings are consolidated using the equity method (the financial statements do not include the proportional part of the group's share in these JVs). Therefore, although the analysis will be based on the data provided in the IFRS, it is additionally advisable to look more closely at the group's situation under a proportional valuation that more accurately reflects Insur's economic and financial dimension.

### Results and Profitability

**Profitability (IFRS). Thousands of €.**

| | FY21 | FY22 | FY23 | 22vs21 | 23vs22 |
|---|---|---|---|---|---|
| Turnover | 105,403 | 116,530 | 138,210 | 10.6% | 18.6% |
| Gross Mg | 31.4% | 27.4% | 30.1% | -3.9pp | 2.7pp |
| EBITDA | 24,305 | 22,345 | 30,483 | -8.1% | 36.4% |
| EBITDA Margin (1) | 23.1% | 19.2% | 22.1% | -3.9pp | 2.9pp |
| Recurring EBITDA (1) | 20,552 | 20,298 | 21,582 | -1.2% | 6.3% |
| Recurring EBITDA margin (1) | 19.5% | 17.4% | 15.6% | -2.1pp | -1.8pp |
| EBIT (2) | 20,074 | 21,209 | 22,757 | 5.7% | 7.3% |
| EBIT Margin (2) | 19.0% | 18.2% | 16.5% | -0.8pp | -1.7pp |
| Financial expenses | -6,080 | -8,047 | -10,621 | -32.4% | -32.0% |
| EBT (2) | 14,973 | 16,404 | 15,337 | 9.6% | -6.5% |

(1) Recurring EBITDA: EBITDA - Profit on disposal of investment property - Profit on loss and takeover of consolidated companies - Impairment of inventories, and (2) 2022 includes the profit generated by the takeover of 100% of *Desarrollos Metropolitanos del Sur* amounting to €9.4m (application of IFRS 3 which entails recording DMS assets and liabilities at fair value).

Based on figures under IFRS, in recent years *Grupo Insur* has presented a positive evolution in the business which is materialised in a turnover of €138.2m for 2023 (CAGR21-23 of 14.5%). Recurrent EBITDA stood at €21.6m, with a strong increase in operating performance incorporating the sale of investment property (typical of the group's policy of rotating non-strategic assets), which reached €30.5m and boosted by the sale of an office building and commercial premises in Seville (+€8.9m of capital gains). However, the sharp rise in interest rates, with a greater impact on the group in the second half of the year, led to a sharp increase in financial expenses (+32% including the netting of capitalised financial expenses derived from its ongoing development projects), which penalised EBT by -6.5% YoY, although it remained positive and high (€15.3m).

**Profitability (proportional). Thousands of €.**

| | FY21 | FY22 | FY23 | 1QFY24 | 22vs21 | 23vs22 |
|---|---|---|---|---|---|---|
| Turnover | 125,269 | 117,860 | 119,777 | 36,106 | -5.9% | 1.6% |
| Gross Mg | 33.9% | 30.9% | 36.3% | 31.8% | -3.0pp | 5.4pp |
| EBITDA | 26,204 | 23,244 | 31,519 | 6,400 | -11.3% | 35.6% |
| EBITDA Margin (1) | 20.9% | 19.7% | 26.3% | 17.7% | -1.2pp | 6.6pp |
| Recurring EBITDA (1) | 22,451 | 21,197 | 22,618 | 6,200 | -5.6% | 6.7% |
| Recurring EBITDA margin (1) | 17.9% | 18.0% | 18.9% | 17.2% | 0.1pp | 0.9pp |
| EBIT (2) | 21,921 | 22,090 | 23,793 | 5,300 | 0.8% | 7.7% |
| EBIT Margin (2) | 17.5% | 18.7% | 19.9% | 14.7% | 1.2pp | 1.1pp |
| Financial expenses | -5,990 | -7,310 | -9,931 | -2,791 | -22.0% | -35.9% |
| EBT (2) | 16,371 | 16,855 | 14,653 | 4,600 | 3.0% | -13.1% |

(1) Recurring EBITDA: EBITDA - Results on disposals of investment property - Results on loss and takeover of consolidated companies - Impairment of inventories, and (2) 2022 includes the profit generated by the takeover of 100% of *Desarrollos Metropolitanos del Sur* amounting to €9.4m (application of IFRS 3 which entails recording DMS assets and liabilities at fair value).

Considering the adjustments made by the proportional method based on Insur's percentage stake in the JVs, the group maintains positive figures overall, despite the fact that 54 homes in Madrid could not be delivered in 2023 (€25m of revenue on a proportional basis) could not be delivered due to delays in the receipt of the urbanization works in the sector, which affected two developments (delivery began in February of this year). Overall, Insur's revenues and recurring EBITDA reached €119.8m and €22.6m respectively, with deliveries amounting to 309 homes (384 in 2022) and an average selling price of €262.1k, although heavily influenced by a more affordable development delivered during the year (€154k), which excluding it, would have raised it to €290.8k (€269.4k in 2022). This allowed to maintain positive and high recurring EBITDA and EBIT margins of 18.9% and 19.9% (+0.9pp and +1.1pp YoY) respectively. Additionally, it is worth mentioning two important aspects that impact the group's figures: i) the 2022 and 2023 EBITDA incorporates the benefit of the inventory and investment properties delivered after the takeover of DMS (16/06/2022), amounting to €6m and €2.8m respectively, and ii) during 2023, the group offset the drop in development revenues (affected by the delays of two developments described above) with the sale of three plots of land in Seville for €12.8m.

**Pre-sales evolution. Thousands of €.**

| | FY19 | FY20 | FY21 | FY22 | FY23 | 1QFY24 | 1Q24vs19 |
|---|---|---|---|---|---|---|---|
| Insur Group companies | 43,014 | 23,281 | 18,553 | 101,235 | 70,028 | 75,096 | 74.6% |
| Joint ventures and associates (*) | 153,868 | 98,414 | 156,057 | 100,818 | 165,653 | 161,609 | 5.0% |
| **TOTAL** | **196,882** | **121,695** | **174,610** | **202,053** | **235,681** | **236,705** | **20.2%** |

(*) Consolidated using the equity method. Data at 100%.

In terms of pre-sales (reservations and sales contracts on homes pending delivery), following the impact of the pandemic, the group has a favourable commercial performance, in line with the sector, which is reflected in record pre-sales figures at the end of 1Q2024 (€236.7m with data at 100% and €170.1m with data adjusted for the % stake in JVs). Furthermore, in 2Q2024 and based on internal data provided by Insur management, the pace of pre-sales continues to increase during the year (higher than 1Q), which is a positive aspect and reflects revenue visibility for the coming years.

As for the rest of the group's business areas, construction and management continued to grow in 2024, supported by Insur's activity levels (at record highs), while in the property business there was a slight decline in revenues and EBITDA of 2.3% and 1.3%, respectively, as a result of the divestment of leased assets during the year. This is part of the group's strategy to raise funds to enable greater territorial diversification in the property area (possibility of acquiring ownership of some of the assets in Madrid or Malaga that are being developed in the tertiary segment).

In general terms, EthiFinance Ratings has a favourable assessment of the group's performance from the last half of 2020 to the present, one of the main reflections of which is the positive trend in the pace of pre-sales (exceeding pre-Covid-19 levels in cumulative figures). Revenue generation and positive results are expected for 2024 and 2025, strongly driven by the entire development business that the group is developing in both the residential and tertiary segments. Thus, at the end of 1Q2024, the group has a pre-sales coverage (% sold over estimated deliveries) of 79.5% and 52.8% for 2024 and 2025 respectively, figures that are positively valued. Likewise, the impact of the financial burden could peak in the current year, and this increase could be softened if the evolution of interest rates is positive during 2025 as projected in the economy.

## Assets Structure and Indebtedness

The financial structure of *Grupo Insur* is marked by a financial autonomy that, although it is at moderately adjusted levels (equity represents 30.1% of total sources of financing in 2023), it is worth highlighting the latent capital gains that the group has derived from investment property and real estate for own use (€122.4m generated by the difference between the fair value and its net book value). Therefore, considering these capital gains, the equity structure would be strengthened, representing 39.2% of the group's balance sheet. On the other hand, as a listed company, in recent years it has been pursuing an active dividend distribution policy with an average pay-out of 44% for the period 21-23. This policy, which combines both the distribution of dividends and the partial capitalisation of profits, has also enabled it to partially strengthen its equity (net worth with a CAGR21-23 of 5.3%), although it continues to present a somewhat reduced Equity/TFD ratio (57.8%; +4.8pp YoY). In any case, if we consider the capital gains that the group has in its asset portfolio, this ratio would present more solid values above 90%, which is positively assessed by the Rating Agency.

Insur has a level of financing on its assets at stable values for the last two years, with an LTV (under consideration of joint ventures) of 40.6% at the end of 2023, a figure that is considered to be at controlled values in the sector.

| Asset and financial structure (IFRS). Thousands of €. | FY21 | FY22 | FY23 | 22vs21 | 23vs22 |
|---|---|---|---|---|---|
| Total Assets | 464,249 | 497,074 | 483,385 | 7.1% | -2.8% |
| Non-Current Assets | 329,771 | 311,464 | 290,960 | -5.6% | -6.6% |
| Current Assets | 134,478 | 185,610 | 192,425 | 38.0% | 3.7% |
| Working Capital | 27,475 | 96,513 | 88,477 | 251.3% | -8.3% |
| Equity | 131,513 | 140,455 | 145,728 | 6.8% | 3.8% |
| Total Financial Debt | 246,842 | 265,454 | 252,342 | 7.5% | -4.9% |
| Net Financial Debt | 194,348 | 229,553 | 221,106 | 18.1% | -3.7% |
| Equity/TFD | 53.3% | 52.9% | 57.8% | -0.4pp | 4.8pp |
| NFD/EBITDA | 9.5x | 11.3x | 10.2x | 1.9x | -1.1x |
| GAV | 419,250 | 485,790 | 452,692 | 15.9% | -6.8% |
| GAV (2) | 522,935 | 584,384 | 593,012 | 11.8% | 1.5% |
| LTV | 46.4% | 47.3% | 48.8% | 0.9pp | 1.6pp |
| LTV (2) | 37.9% | 40.5% | 40.6% | 2.7pp | 0.0pp |
| Recurring EBITDA (1) /Interests | 3.4x | 2.5x | 2.0x | -0.9x | -0.5x |

(1) Recurrent EBITDA: EBITDA - Results on disposals of investment property - Results on loss and takeover of consolidated companies - Impairment of inventories, and (2) Including investment and debt of joint ventures (depending on % shareholding).

The group's interest coverage ratio is low (2x in 2023), which has worsened in recent years as a result of the sharp rise in interest rates. An improvement in this ratio is expected for 2024-2025, favoured by the expected increase in EBITDA, which is a positive aspect, as if the evolution of the environment goes hand in hand with a fall in interest rates as expected, it should also have a favourable impact on the group's structure.

**NFD/EBITDA calculation. Thousands of €. (*)**

| Concept | FY21 | | FY22 | | FY23 | |
|---|---|---|---|---|---|---|
| | IFRS | Proportional | IFRS | Proportional | IFRS | Proportional |
| Bank debt | 227,814 | 245,731 | 241,123 | 257,273 | 217,807 | 256,284 |
| MARF bond drawn down | 0 | 0 | 12,706 | 12,706 | 22,293 | 22,293 |
| Undrawn MARF bond | 29,585 | 29,585 | 15,969 | 15,969 | 5,832 | 5,836 |
| MARF Notes | 17,491 | 17,564 | 10,359 | 10,359 | 11,135 | 11,135 |
| **TFD (Insur)** | **274,890** | **292,880** | **280,157** | **296,307** | **257,067** | **295,548** |
| IFRS 16 (+) | 425 | 425 | 438 | 438 | 279 | 279 |
| Suppliers for land purchases (+) | 1,112 | 1,112 | 828 | 828 | 828 | 828 |
| Undrawn MARF bond (-) | -29,585 | -29,585 | -15,969 | -15,969 | -5,832 | -5,836 |
| **TFD (EthiFinance Ratings)** | **246,842** | **264,832** | **265,454** | **281,604** | **252,342** | **290,819** |
| Cash (-) | -49,844 | -64,932 | -32,901 | -39,195 | -29,264 | -45,388 |
| Pledged deposits as collateral for financial obligations (-) | -2,650 | -2,650 | -3,000 | -3,000 | -1,972 | -1,972 |
| Balance available on escrow account MARF Bond (-) | -30,000 | -30,000 | -17,150 | -17,150 | -7,707 | -7,707 |
| **NFD (Insur)** | **192,396** | **195,298** | **227,106** | **236,962** | **218,124** | **240,481** |
| Balance available on escrow account MARF Bond (-) | 30,000 | 30,000 | 17,150 | 17,150 | 7,707 | 7,707 |
| **NFD (EthiFinance Ratings)** | **194,348** | **197,250** | **229,553** | **239,409** | **221,106** | **243,459** |
| Recurring EBITDA | 20,552 | 22,451 | 20,298 | 21,197 | 21,582 | 22,618 |
| **NFD/Recurring EBITDA (Insur)** | **9.4x** | **8.7x** | **11.2x** | **11.2x** | **10.1x** | **10.6x** |
| **NFD/Recurring EBITDA (EthiFinance Ratings)** | **9.5x** | **8.8x** | **11.3x** | **11.3x** | **10.2x** | **10.8x** |

(*) Unlike the criteria followed by Grupo Insur, at EthiFinance Ratings we do not consider the undrawn part of the bond issued in the MARF as financial debt or cash.

Although there was a decrease in financial debt under IFRS (-4.9% YoY), the analysis (given its closer fit to the group's reality) should be based on figures under the proportional method. In this respect, an increase of 3.3% was observed for the last year, despite the heavy investments made by the group, which amounted to €94.8m (purchase of land for €13.5m, maintenance and adaptation capex for €4m and execution of works for €77.3m). Thus, taking into account cash levels, the evolution of net financial debt and recurring EBITDA (excluding the sale of investment property and inventory impairments) continued to show high figures in recent years (around 10x/11x approximately), although they are partially tempered by the group's business model, with an activity characterised by heavy investment in both its assets and development segments.

At the end of 1Q2024, based on the financial structure presented after the syndicated financing (July 2019) as well as other loans for the development of developers (they account for around 77% of the financial debt), the group presents a favourable diversification in the capital market, with a programme of promissory notes in the MARF (€50m) that will be renewed until July 2025 and bonds issued also in the MARF for an amount of €30m (of which €22.3m have been consumed). In addition, it is worth mentioning that in the short term it has current financing instruments such as credit facilities, reverse factoring and promissory notes (grouping around 16% of total financial debt) which we understand will be renewed annually as the group has a good financial profile. The composition of indebtedness stands out positively, whose debt profile is largely oriented towards the long term (from 2026 onwards 83.3% of the total financial debt is concentrated).

EthiFinance Ratings estimates that the company could reach its peak financial debt during the current year, corresponding to the year that should see the highest number of deliveries materialise as well as next year, which could further balance Insur's leverage levels.

## Cash Generation and Liquidity

| Cash Flow (IFRS). Thousands of €. | FY21 | FY22 | FY23 | 22vs21 | 23vs22 |
|---|---|---|---|---|---|
| EBT | 14,973 | 16,404 | 15,337 | 9.6% | -6.5% |
| +/- adjustments in results | 1,888 | -273 | 13,337 | -114.5% | 4985.3% |
| +/- other operation cash flow | -8,324 | -11,145 | -15,284 | -33.9% | -37.1% |
| **Funds From Operations** | **8,537** | **4,986** | **13,390** | **-41.6%** | **168.6%** |
| +/- WK changes | 17,416 | -4,939 | 3,077 | -128.4% | 162.3% |
| **Operational Cash Flow** | **25,953** | **47** | **16,467** | **-99.8%** | **34936.2%** |
| **Net Investment Cash Flow** | **-44,558** | **3,771** | **10,064** | **108.5%** | **166.9%** |
| **Free Cash Flow** | **-18,605** | **3,818** | **26,531** | **120.5%** | **594.9%** |
| +/- changes in capital | -14 | -510 | -540 | -3542.9% | -5.9% |
| - Dividends | -6,917 | -5,700 | -6,031 | 17.6% | -5.8% |
| **Cash flow Generated Internally** | **-25,536** | **-2,392** | **19,960** | **90.6%** | **934.4%** |
| +/- debt variation | 31,013 | -14,551 | -23,597 | -146.9% | -62.2% |
| +/- changes in exchange rates | 0 | 0 | 0 | - | - |
| **Cash Variation** | **5,477** | **-16,943** | **-3,637** | **-409.3%** | **78.5%** |
| Cash at the start of the period | 44,367 | 49,844 | 32,901 | 12.3% | -34.0% |
| **Cash at the end of the period** | **49,844** | **32,901** | **29,264** | **-34.0%** | **-11.1%** |

At the end of the first quarter of 2024 (based on proportional figures), *Grupo Insur* has positive liquidity levels, as it has a high level of cash (€48.7m), positive operating cash generation prospects for 2024 and 2025, as well as ample available lines between credit facilities, the possibility of issuing promissory notes in the MARF, part of the bond issued in the MARF without drawdown, and work certifications as well as subrogations (more than €180m). On the commitments side, the group has financial obligations for 2024 and 2025 of around €20.1m and €24.2m respectively (including loans, IFRS 16 and deferred land purchases), maintenance capex for its activity of around €16m per year on average for the current and following year (both for the property and development areas with new land) and continuation of the dividend distribution policy. Overall, Insur has an adequate capacity to meet these obligations over the next two years, all while maintaining the appropriate development of its activity and business.

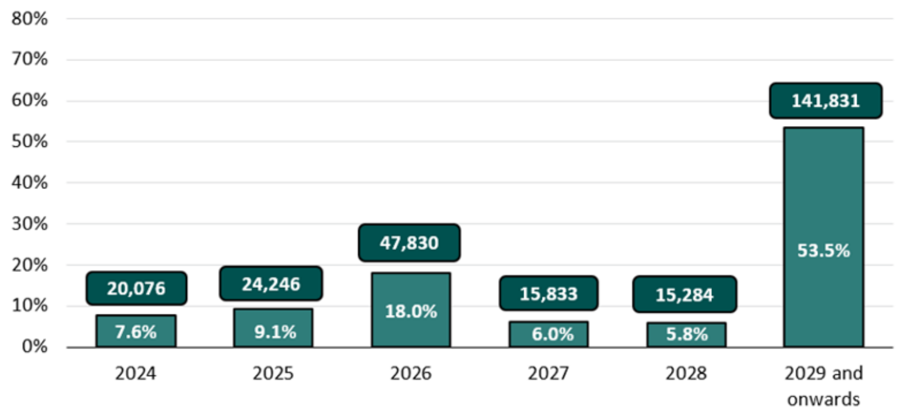
On the other hand, the weight of inventories within current investment (70% in 2023) should be taken into consideration, which is characteristic of the sector in which Insur carries out its activity and which, moreover, has been increasing in recent years due to the expansion stage and new developments that are being carried out in the developer segment (with significant investments in land and the start of new works in progress). Therefore, it is considered of particular importance to continue with the favourable pace of these developments in order to maintain a balanced economic-financial situation, especially in the face of more uncertain macroeconomic contexts such as the current one.

In terms of cash flow analysis, the group has presented a positive variation in the generation of funds from its activity (FFO) which has reached €13.4m, driven by the positive evolution of its business. Moreover, these figures would be boosted by the consideration of the development activity carried out through joint ventures, which under IFRS (presentation format of this cash flow) would not be reflected in the funds generated (the results of the JVs are not part of the funds from the operating activity but are in the investment activities in the part that has been distributed as dividends). EthiFinance Ratings considers the continuation of this positive trend in the generation of business and cash in the coming years to be an important factor in order to assume the next financial obligations and to continue to take advantage of investment/growth opportunities that may arise.

This operating cash generated, together with other funds obtained such as those derived from the divestments of assets carried out in the last year (office building and commercial premises sold in Seville), have allowed the group to present a free cash flow of €26.5m in 2023. This figure has supported Insur's dividend distribution (€6m) as well as most of the net repayment of financial debt in the last year (€23.6m), mainly related to the repayment of bank loans. As a result of these significant cash outflows, Insur reduced its final cash by €3.6m for 2023.

Looking at the debt schedule at the end of 1Q2024 (under proportional analysis), it is stable for 2024 and 2025 at around €20-€24m per year. However, the group has a higher concentration in 2026 amounting to €47.8m (18% of total financial debt), which is supported not only by bank loans, but also by the amount of the bond issued in the MARF. We believe that the peak of deliveries that the group will have in 2024, 2025 and part of 2026, will support a significant generation of funds that should allow to meet, a priori, all these commitments. For the rest of the years, the maturities are smaller, with the peak reflected in 2029 with the obligation to meet its syndicated financing among others.

**Financial debt maturity schedule (proportional, 1Q2024). Thousands of €. (*)**




(*) Financial debt excludes short-term financing (credit lines, confirming, promissory notes in MARF, etc.) as we assume it will be renewed annually at maturity.

## Issue profile

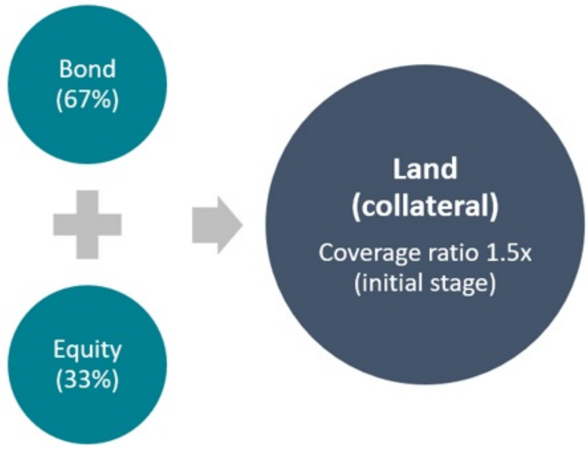
### Legal structure and characteristics of the instrument

In December 2021, the Insur Group issued a bond to provide it with more funds to boost its operating activity. It is a secured bond for an amount of €30m, with bullet maturity in 5 years (December 2026) and a fixed interest rate of 4%. The target market was the MARF (Spain), under the regulatory framework of Spanish law. Additionally, although the issuer is *Insur Promoción Integral* (IPI), the guarantor is *Inmobiliaria del Sur, S.A.*, which represents the entire Insur Group as a whole (therefore, in a situation of greater stress, the assets and complete business of the group in all its aspects, development, property and construction, would be taken into account as guarantees), with the starting point for the valuation of the bond being the Insur Group's own corporate rating.

| Terms and Conditions of the Issuance | |
|---|---|
| Issuer | Insur Promoción Integral, S.L.U. |
| Guarantor | Inmobiliaria del Sur, S.A. |
| Instrument | Senior Secured Bond |
| Issue Date | 10/12/2021 |
| Size | €30m |
| Maturity | 10/12/2026 |
| Repayment Type | Bullet |
| Collateral | Land and plots |
| Yield | 4% |
| Covenants | Debt limit and coverage |
| Purpose | Residential or tertiary use |
| Market | MARF (Spain) |
| Legislation | Spanish Law |

The financing obtained through the bond is being used for the acquisition of land to continue capitalizing on growth opportunities in the development segment, and can be employed for: i) residential use in provincial capitals for primary residences or in metropolitan areas where the company has been developing its activity, namely Seville, Madrid and Malaga, and ii) tertiary use limited only to the capitals of Seville, Madrid and Malaga.

**Breakdown of collateral financing (initial stage)**




The initial objective is to acquire around 4-6 plots for which it is stressed that both the company's own resources and the financing provided through the bond will be used, maintaining a "coverage ratio of the amount invested/consumption of the bond" of 1.5x, i.e., based on the total price of a plot, 2/3 of it will be financed with the funds from the bond and the remaining 1/3 through the issuer's own resources, *Insur Promoción Integral* (IPI). At the end of 2023, four plots had been acquired through the bond funds, one for tertiary use (*Las Tablas*, Madrid), and three for residential use (Seville), with around €5.8m currently (July 24) pending investment.

As indicated above, the bond issue is guaranteed by Insur, as well as a mortgage on the plots of land acquired. To this end, and depending on the timing of the development and the parties involved in the development, the following specific guarantees and covenantsare presented for the transaction (below is a timeline from the initial timing to the end of the development):

- **Prior to the investment in the land.** The funds from the bond will be held in an escrow account until the opportunity to purchase new land presents itself.
- **Acquisition of the plot of land.** At the time of the purchase of a plot of land for the development of a residential or tertiary development, a first mortgage on the asset or land acquired with the proceeds of the bond itself will be established as security. By establishing a coverage ratio of 1.5x, the transaction will be 100% guaranteed at the time of purchase of the plot.
- **Disposition of the developer's mortgage loan.** Once the project has the construction licences and sufficient commercialization to secure financing from a banking entity the mortgage rank will be subordinated in favour of the bondholder (2nd rank) to the mortgage guarantee held by the financial institution (1st rank). In this regard, it is important to note that once bank financing enters the project, it is assumed, a priori, that the value of the land is higher than at the time of purchase, since the risk of executing the development has been minimised as a result of the marketing carried out (with minimum pre-sales levels achieved and required by the financial institution) and the reduction of the time period to liquidate the asset itself.
- **Specific covenants of the operation.** In order to ensure that the bondholders' guarantee is not diminished when the mortgage is postponed to the 2nd rank, RICS valuations (independent appraisers) will be carried out every six months to verify that the asset valuation meets the following conditions:
    - Prior to the formalisation of the promoter mortgage loan → GAV/Invested amount of the bond >= 1.5x.
    - At origination of the developer mortgage loan (and prior to drawdown) → GAV/Invested amount of the bond >= 1.65x.
    - 12 months after formalisation of the developer mortgage loan → (GAV - Amount drawn down developer mortgage loan) /Invested amount of the bond >= 1.85x.
    - 24 months after formalisation of the developer mortgage loan: (GAV - Amount drawn down on the developer mortgage loan) / Amount invested in the bond >= 2.05x.

However, it is important to highlight an aspect that frequently arises in development projects, and therefore in those developed by *Grupo Insur*. Based on the initial conditions of the purchase of the site with a coverage ratio of 1.5x, once the bank proceeds to finance the project due to the favourable course of the same, it could also finance part of the land already purchased initially by Insur with the bond and its own resources. In cases where such a situation is reflected, it will mean a reduction in the financing of the bond due to the entry of cash with the bank developer loan received for land that was already fully financed at the initial moment. In these cases, the amounts released from the bond would be returned to the escrow account and/or invested in a new plot of land with the following specific covenants (assuming that these new amounts to be invested would already be guaranteed with the previous development).

- Prior to the formalisation of the promoter mortgage loan → GAV/Invested amount of the bond >= 1.5x.
    - At 12 months after the formalisation of the promoter mortgage loan → (GAV - Amount drawn down on mortgage loan + Amount of bond in cash or invested in second asset) / (Amount invested in bond + Amount of bond in cash or invested in second asset) >= 1.85x.
    - At 24 months after the formalisation of the promoter mortgage loan → (GAV - Amount drawn down on mortgage loan + Amount of bond in cash or invested in second asset) / (Amount invested in bond + Amount of bond in cash or invested in second asset) >= 2.05x.

In addition to this, and in order to provide greater comfort to the operation, two additional and general covenants have been established during the term of the bond, at consolidated level and under the incorporation of the joint ventures adjusted by their percentage of ownership (JVs) using the proportional integration method, which must be: i) LTV <= 45% and ii) interest coverage ratio (EBITDA/Interests) >= 2x. At the end of 2023, these covenants presented adequate figures, complying with the established limits (based on the procedural report carried out by Deloitte).

In this way, *Grupo Insur* could give greater rotation and use to the funds from the bond, all under an appropriate structure of covenants both for the maintenance of the guarantees of the operation with the formalised mortgage (whether first or second rank), as well as at a general level in order to ensure a favourable economic-financial structure for the company.

At EthiFinance Ratings we value positively the structure of the bond transaction, understanding that the period of greatest volatility for this type of project would occur at the time of the purchase of the site and prior to the entry of the financial institution with the developer loan, in these cases having a coverage ratio of 1.5x that would guarantee the value of the bond with the acquired asset itself. Furthermore, and despite the postponement to the second rank in the mortgage after the entry of the bank developer loan, we consider that this aspect reflects, among others, the good progress of the project, as the financial institution would have ensured the viability of the project and a minimum level of commercialisation. Therefore, the volatility of the development should decrease under normal conditions with respect to the initial moment of purchase.

## Recovery analysis

In order to analyse in greater depth the recovery prospects of the bond and of the company's other potential creditors, a hypothetical default scenario is established, stressing the group's forecasts for the coming years:

**Recovery valuation under a stress scenario. Thousands of €.**

| Main Assumptions | | Waterfall simplified | |
|---|---|---|---|
| Year of Default | 2026 | Gross Valuation of the Company in 2026e | 354,568 |
| 2023 Revenue | 119,777 | Administrative Expenses | 7,091 |
| 2023 EBITDA | 22,618 | Net Valuation of the Company | 347,476 |
| 2026 Revenue Default | 161,331 | *Priority claims* | 27,798 |
| 2026 EBITDA Default | 30,564 | Available Pool for Creditors | 319,678 |
| 2026 Cash | -13,602 | *Financial Debt (1st Rank)* | *259,697* |
| | | *Financial Debt (2nd Rank)* | *64,719* |
| | | **Recovery rate** | **98.5%** |

The main assumptions envisaged for the Insur Group's figures to show a stress situation in line with a hypothetical default are as follows:

- Turnover. Specific considerations apply depending on the segment in question, with the overall impact for the period 2024-2026 with respect to the accumulated and initially projected turnover being -18%. In this regard, it is worth highlighting: i) the reduction in housing deliveries for 2025 and 2026 (a total of 14% less in volume for these two years), having assumed the cost of the entire development, ii) the impossibility of selling several tertiary buildings (currently under development) in Malaga (2) and Madrid (1) with the associated debt and costs, without generating rents, and iii) not carrying out the estimated sale of land for 2024 for a total price of €15.9m.
- This would reflect a reduction in EBITDA and EBT of 35.9% and 85.4% by 2026 (compared to initial projections).
- The possibility of capital increases by the group is not considered.
- Elimination of dividends paid in 2026 (year of default) corresponding to the previous year.
- The promissory note programme is not renewed in 2026.
- The asset rotation policy (characteristic of the group) is not applied from 2025 onwards, therefore, no cash inflows from own sales of assets in the property area will occur.

The interrelation of these assumptions would lead to a default situation at the end of 2026, given the presentation of negative cash levels, an insufficient liquidity position (without the possibility of accessing new sources of external financing due to its deteriorated situation and the high level of debt already presented) to meet the main obligations it would have in that year. In this situation, the company would present as collateral the assets acquired with the bond financing and could present discount rates that would vary depending on a hypothetical scenario of foreclosure, mainly based on the stage of the development. EthiFinance Ratings has considered discounts on analysis of potential asset values (based on the quality of the asset and its maturity) of up to 35%. Even considering these discount rates, which would be applied mainly in the event of foreclosure and the need to go to auction, the financing of the bond would, a priori, be fully or mostly guaranteed with the value of the asset itself.

On the other hand, although the debt structure presented by the group reflects a significant volume of mortgage loans on investment property, it also has at the end of 2023 properties for lease and own use free of charges and encumbrances amounting to €24.4m (fair value), representing 7.5% of the total. In addition, the group has unrealised capital gains on its investment property assets (reflected in the balance sheet at book cost) of €122.4m. EthiFinance Ratings, under this scenario of greater stress, also views positively the diversification of Insur's activity, both in development and real estate, with the latter area being of particular note, as the sale of assets (in prime areas) could be another alternative that would allow it to raise funds to restructure the business.

In any case, and in the event of a hypothetical situation in which the bond is not fully covered by the sale of the guaranteed asset itself, a valuation of the group has been performed using the Discrete Asset Valuation (DAV) method, with a greater adjustment of the assets presented in the hypothetical default situation (a total additional reduction of 33% is made, which would rise to 46% considering the capital gains the group has in its real estate investments as of the end of 2023), obtaining a net valuation of the group (after deducting administrative expenses) of €347.5m. After discounting priority claims, the amount available for creditors (€319.7m) would be in line with the group's total financial debt including the maturity of the bond itself (€324.4m), reflecting a recovery rate of over 98%, which is rated very positively by EthiFinance Ratings.

## Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.