axesor rating

INMOBILIARIA DEL SUR SA
A41002205
CORPORATE RATING

BB

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 21/10/2021

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Content

Rating Action

Axesor Rating assigns for the first time an “BB” rating with a Stable Outlook to Grupo Insur.

Executive Summary

Grupo Inmobiliaria del Sur (hereinafter 'Insur' or 'Grupo Insur') focuses its activity on the real estate sector through its two main operational lines: development and assets. Despite the impact and the context of uncertainty generated by the crisis caused by COVID-19, the group has closed the year 2020 (under the consideration of joint ventures by the proportional method) with a recurring turnover and EBITDA that amounted to €132.8MM and €24.5MM (+8.2% and +8% YoY) respectively, reaching an LTV of 39.7%. In 1H2021, the evolution of the business was positive, with income and EBITDA of €56.8MM and €9.2MM (+30.1% and +18.4% vs 1H2020) respectively, with LTV being 42%. In addition, during 2020 Insur's share fell by 22.6% YoY, with a slight reduction also in 1H2021, with the market capitalisation standing at €131MM (-4.9% vs 2020).

Axesor Rating has provided (as obtained from Insur) very detailed financial projections for analysis and valuation, although they are not reflected in the report at the request of the company.

Fundamentals

Business profile

- **Cyclical sector affected by the current health crisis although in the recovery phase.**

  Although the impact of COVID-19 has been high both in the development and in the assets sector (significant falls in sales and deliveries of homes as well as customers affected in their activity unable to cope with the payment of rents), since the second half of 2020 a favourable recovery of the market is being reflected that translates into a significant growth of new housing transactions that are even higher than those presented in levels pre-Covid (+13.5% growth in 1H2021 vs 1H2019). In addition, the recovery and further progress towards a potential situation of normality during 2021 and 2022 will also have a positive impact on the activity of the clients or tenants (tourism, retail, etc.) most affected in the assets business.

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

  The operation of Insur stands out for the increase of both assets and development activity (GAV of 69% and 31% respectively incorporating joint ventures at the end of 1H2021), with the disposition of assets mainly of a prime nature focused mostly on offices, commercial premises, parking spaces and the recent entry into hotels. After the impact of the health crisis, there was a slight decrease in 2020 in the valuation of its GAV (-2.1% YoY), more conditioned by the two hotel assets it presents. In addition, COVID-19 has also had an impact on the presentation of income bonuses and payment deferrals (for its customers most affected by the current crisis) that have reached €0.6MM and €0.8MM respectively. However, it maintains high occupancy rates in its portfolio (88.3% at the end of 1H2021). On the other hand, Grupo Insur has a small portfolio of assets in relation to the leaders of the sector, with a GAV *(Gross Asset Value)* of €427.4MM (€534.9MM if we consider joint ventures) at the end of 1H2021. It has a total exposure in the national market (100% of its turnover), concentrating its activity mainly in Andalusia, although in recent years a greater diversification is being carried out (both in the development and assets area), highlighting the greater prominence acquired in Madrid.

- **Adequate management focused on the growth and consolidation of the group in the market.**

  Stable shareholders who, together with a *management* with extensive *expertise* in the sector, have enabled the development and implementation of a strategic plan focused on providing a greater boost to the activity in all operating sectors. Currently, the group is in the process of defining a new *business plan* for the coming years that will be of a continuous nature with respect to the previous one (with a vocation for long-term growth as well as the continuous commitment to diversification) and that will be presented in the second half of 2021.

Financial profile

- **Favourable evolution of the business under the maintenance of positive results and margins.**

  Because with the consideration of IFRS, the company would have presented a negative variation in turnover, it is convenient to carry out the analysis under the proportional method that integrates in a more adjusted way all the activity with JVs in recent years. In this way, at the end of 2020, Grupo Insur has shown an increasing trend both for turnover (€132.8MM with a $CAGR_{18-20}$ of 8%) and the recurring EBITDA achieved (€24.5MM with a $CAGR_{18-20}$ of 18.7%) that have allowed it to partially counteract the impact of the health crisis on its business model (mainly delays in the start of new buildings that will condition the income of the development sector up to 2023 as well as moderate impact on the assets sector). During 1H2021, the company continues to reflect a remarkable recovery in its activity, highlighting the increase in income (in all its lines) and EBT (+30.1% and +21.5% respectively compared to 1H2020), all supported by a good commercial performance that is reflected in pre-sales achieved during the first half of €86.4MM, higher than pre-Covid levels (+79.3% compared to 1H2019).

- **High debt levels although favoured by the syndicated refinancing carried out in July 2019 that has improved its financial flexibility.**

  Although it has high debt levels in relation to the operating performance generated (NFD/annualised and recurring EBITDA of 9.5x in 1H2021), Insur has an assets portfolio of significant value that place the LTV *(Loan to Value)* incorporating the joint ventures at 42% by 1H2021 (although it has experienced an increase of 5.5pp compared to 2019). The company's financing structure is marked by the syndicated loan obtained in 2019 (€110MM) which allowed the cancellation of most of the debt associated with real estate investments (bilateral bank loans) under more favourable cost and debt schedule conditions, with 71.8% of the total financial debt (excluding current financing lines) concentrated from 2025 onwards.

- **Positive cash flow levels reinforced under the current context.**

  At the end of the first half of 2021, the group had a favourable cash flow position supported by available cash figures (€36MM), available working capital lines (credit policies, confirming and MARF promissory notes) which stood at €66.6MM as well as the stable operating cash generated with the business (€11MM average for the period 2018-2020 and €15.2MM generated in 1H2021) that allow them to face the current crisis in a better position and the outlook of reflected recovery for the sector.

Main financial figures

Main financial figures (IFRS). Thousands of €.	2018	2019	2020	1H2021	20vs19
Turnover	120,324	121,626	87,650	55,063	-27.9%
EBITDA	22,708	24,224	15,758	8,687	-34.9%
EBITDA Margin	18.9%	19.9%	18.0%	15.8%	-1.9pp
Recurring EBITDA (1)	16,642	20,817	20,605	8,687	-1.0%
Recurring EBITDA Mg. (1)	13.8%	17.1%	23.5%	15.8%	6.4pp
EBT (2)	13,032	10,163	26,205	3,930	157.8%
Total assets	362,216	396,306	433,920	431,399	9.5%
Equity	103,804	107,233	125,557	125,262	17.1%
Total financial debt	211,687	228,262	247,423	249,380	8.4%
Net financial debt	173,482	194,520	203,056	213,430	4.4%
NFD/EBITDA	7.6x	8.0x	12.9x	9.4x	4.9x
NFD/Recurring EBITDA (1)(3)	10.4x	9.3x	9.9x	9.5x	0.5x
Funds From Operations	9,577	6,446	-1,278	7,302	-119.8%
GAV (4)	510,474	537,624	525,977	534,894	-2.2%
LTV (4)	36.2%	36.5%	39.7%	42.0%	3.2pp
EBITDA/Interest	3.7x	4.2x	2.7x	2.9x	-1.5x

(1) Recurring EBITDA: EBITDA - Results from disposals of real estate investments - Results from loss and takeover of consolidated companies - impairments of inventories.; (2) In 2020 the result of €21.9MM derived from the fair value registration of the participation of the company IDS Madrid Manzanares is included and, in 2019, without the accounting impact of the new syndicated financing (application of IFRS 9) the EBT would reach €16MM; (3) For 1H2021, an annualised EBITDA (2H2020 + 1H2021) and (4) with the consideration of joint ventures has been calculated.

Rating and Outlook

Axesor Rating **has assigned Grupo Insur the corporate rating of BB with a Stable outlook,** given the favourable recovery that the sector and the company itself are presenting in its activity, as well as the solid financial position it presents (without strict maturities in the coming years). Despite the impact of the pandemic on Insur's activity that caused, among other aspects, delays in the start of new constructions that could partially affect the generation of income and profits (development sector) in 2021 and 2022 mainly, the group has a balanced economic-financial situation, with a business model that generates operating cash, solid positive results and adequate levels of cash flow that allow it to meet its main financial commitments and continue the trend of recovery in its activity driven by the favourable perspectives of the sector.

Rating sensitivities

Detailed below are the factors that individually or collectively would impact Company's rating:

- **Positive factors (↑).**

  Continuation of the strong pace of pre-sales achieved by the company that favours a greater recovery of income and profit in the coming years. Reduction of leverage levels (improvement of LTV, NFD/EBITDA and FFO/NFD) as well as continuation of the progress of operating cash generation.

- **Negative factors (↓).**

  Non-compliance with projections with significant deviations in revenue, results and margins. Greater increase than estimated for financial debt with an impact on its economic-financial structure. Adjustment and reduction of cash flow levels and operating cash generated with the business.

1. Company profile

1.1 Business and scope of activity

Grupo Insur, based in Seville, operates as the head of a group of companies that carry out their activity within the real estate sector, distinguishing themselves as the main business areas:

- **Assets,** through the leasing of real estate of an urban nature.
- **Soil developers**, mainly finalists, for the construction and sale of real estate assets. This sector includes the construction and management activities of real estate projects for joint ventures, with a growing role within the company's income and that allows it to have a vertically integrated activity structure.

"Extensive *track-record* in the real estate sector with consolidated activity in the developer and patrimonial sector."

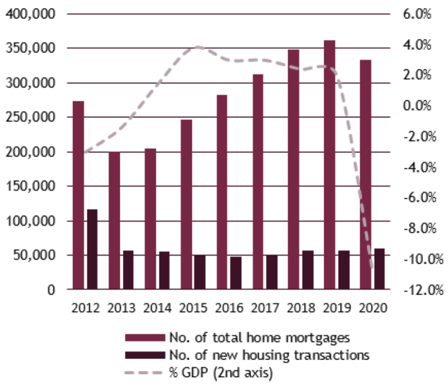
Insur has a history of 75 years and has been listed on the Spanish stock market since 1984 (since 2007 in the continuous market). Its historical trajectory can be considered as prudent and conservative, traits that contrast with some companies in its sector and that are valued positively by Axesor Rating, to the extent that they represent a critical differentiating factor that has marked the performance of the group both in the qualitative aspects related to its portfolio of assets, as from the economic-financial point of view.

With an outstanding historical position in western Andalusia (mainly Seville) and Malaga, since 2007 it has been expanding its area of geographical influence with the development of real estate activities in the Community of Madrid (one of the strategic focuses of the company today).

2. Qualitative analysis

2.1 Sector and competitive positioning

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



Source: INE; Ministry of Development

Insur is positioned as a group specialised in both the development of residential housing as of the real estate rental (lease of tertiary assets such as offices, premises and parking spaces mainly, as well as the latest entry also in hotels). In general, both divisions are framed in a sector characterised by its high cyclical component and a highly fragmented structure that increases competition within these sectors.

The residential sector has undergone a progressive reconversion during the last decade, reducing and boosting the number of current *players* that are characterised by maintaining more efficient processes in their activity and focus on the development of homes with greater added value (location, energy efficiency, additional services, etc.). In this sense, COVID-19 has had a more significant impact on family housing, translating in a higher quality of facilities and design (larger and more open spaces, outside access, etc.).

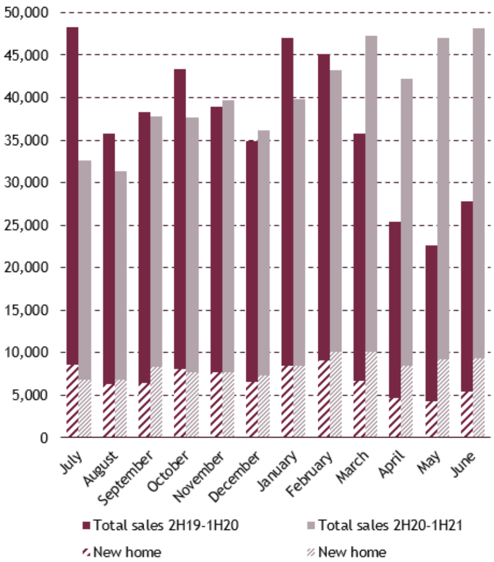
The changes experienced in this sector provide the current residential stock of newly built homes with a greater differential component and associated quality, nuancing the presence of a significant market for second-hand homes and the housing rental model that are presented as consolidated alternatives to the new construction sector.

The expansionary phase of the economy in Spain (until before the current health crisis), with a progressive improvement in the labour market and the purchasing power of households, increased the demand for housing, yielding a progressive growth in the number of sales that benefits from an environment of low interest rates and lower house prices than those observed in the previous economic cycle.

“Atomised and highly competitive sector with a demand for the development sector that has shown signs of recovery since 2H2020 and it is estimated that it will continue during 2021 (verified in the first semester), mainly in the regions with the greatest deficit of new housing.”

In this regard, prices show a more moderate evolution since 2019, where although they were affected by the current health crisis, it should be noted a favourable evolution that is being shown in the development sector since the second part of 2020 and that has continued during the first half of 2021, reflected in an increasing pace of pre-sales / transactions and that could continue to favour towards the maintenance of prices in newly built homes. On the contrary, in second-hand homes and in the rental market, given the greater supply presented by the impact of COVID-19, it could continue to have a major price freeze in the short / medium term. In general, since the sharp fall that occurred since March 2020 in the sale of new and used homes (between 40% and 50%), since June a recovery is being shown, leading to a positive increase in sales for new housing that reaches significant growth rates for 4Q2020, 1Q2021 and 2Q2021 (+2.1%, +18.5% and +87.7% respectively *versus* same quarters of the previous year), an aspect that is allowing to mitigate and reverse the impact

Monthly house purchase and sale operations (evolution 1H2021 – 2H2019)



Source: INE

of the pandemic. In addition, under a pre-Covid-19 comparative analysis, an increase of 13.5% in the sale of new housing for 1H2021 has been reflected in relation to 1H2019.

Regarding the regulatory framework of the sector, although defined and regulated, it conditions its estimated evolution. Providing greater flexibility to the construction/first occupancy licence processes, as well as maintaining a regulated framework that does not distort market prices, especially in regions with higher demand rates, are determined as aspects that can condition the growth of estimated demand.

From Axesor Rating we estimate a continuation in the recovery of the sector at least in the short and medium term sustained by the current volume of houses under development in Spain and the stabilised behaviour of new housing prices in recent months in certain regions with greater demand. The estimated growth is also reinforced by the progressive development of new operating sectors such as *"Build to rent"* for institutional investors that favours the prospects of the sector.

In the same way as the development sector, the rental aspect is also presenting a high uncertainty due to the current context and the co-dependency presented by the companies of the *Real Estate* with clients from different sectors, impacting on short-term demand and income generation (here stand out, among others, companies in the tourism sector and retail due to the greater impact from COVID-19). As alternative measures, deferrals in payments by some players of reference of the sector and even write-offs in part of the rents towards those tenants most affected by the pandemic are being considered. In addition, there is a warning about the fall in terms of valuation presented at the end of 2020 for tertiary assets such as hotels or shopping centres, which in some reference companies have touched double digits (close to 10%). However, we also highlight the positive evolution of logistics assets (more than 5% in 2020) that have become a safe haven asset supported by the boost of online commerce.

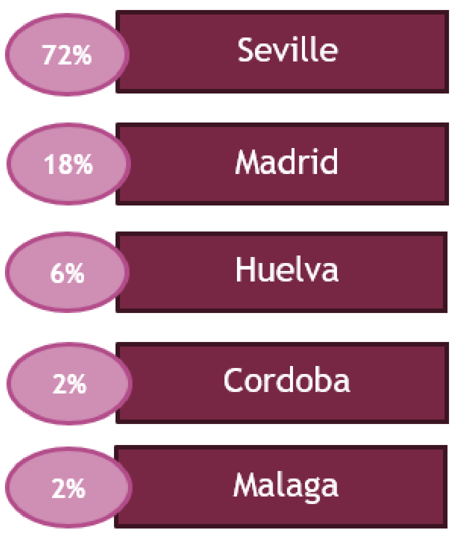
"Remarkable drop in the valuation of tertiary assets such as hotels, shopping centers and retail as opposed to the boom in logistics assets."

At a general level for the sector, although Axesor Rating assesses the situation caused by COVID-19 under a prudent scenario, we consider that a gradual recovery is being reflected in the market (since the end of 2020 and that advances during 2021) that could have a greater continuity in future years although conditioned to the overcoming of the current health crisis. Thus, aspects such as the ease of access to credit, the increase in demands by banks to greater pre-sales to start works, new formulas of public-private collaboration to finance developers, the role presented by European funds for recovery, factors such as changes in the trend of demand for offices and / or implementations of remote work as well as the rise of e-commerce, could partially modify the trends and will be factors that impact on the supply and demand of the sector for the coming years.

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

Its positioning at a geographical level is considered reduced, with a total concentration in the domestic market, an issue that has prevented it from mitigating the negative effects of the evolution of a highly procyclical market.

GAV (property) by markets, 1H2021*



* Jerez represents 0.6% of the total.

In terms of gross value of the GAV assets, despite the fact that a high concentration is still observed in the province of Seville, representing 72% of the total gross valuation of the sector in 1H2021, geographical diversification moderately improves in line with the provisions of the Strategic Plan developed for the period 2016-2020, Madrid in second place with 18% and driven by the incorporation of the Rio 55 business project (two office buildings) and the recent entry into the assets sector of the North building (October 2020).

Grupo Insur carries out its activity in the real estate sector, with a GAV at the end of the first half of 2021 of €427.4MM (estimated valuation based on CBRE values at the end of 2020). On this value, the assets portfolio (including real estate investments destined for own use) represents 86%, also impacted by the strategy developed by the group with JVs, where it is through these, where the development business is enhanced to a greater extent. It should be noted that this amount does not include the fair value of real estate investments and inventories in companies considered joint ventures, in which the group usually participates in general lines by 50% (consolidated by the participation method). Taking this into account, the gross value of the total assets amounts to €535MM, indicating the increase in the relative weight acquired by the development sector (31% of the total GAV). Likewise, the fall in real estate investments at fair value during 2020 (compared in homogeneous terms) stands out, which decreased by 2.1% as a result of the impact of the pandemic on its assets (mainly hotels).

For the development sector, there have continued to be certain delays in the sector for the deliveries of real estate that also affect the company and that derive mainly from external factors such as regulatory legislation (where the entry since June 2019 of the new real estate credit law stands out) or the delays of the Public Administration itself.

Breakdown of turnover by business lines. Thousands of €. [1]

Segment	2019		2020		1H2021		20vs19
	Amount	Weight	Amount	Weight	Amount	Weight	
Real estate development [2]	23,067	19.0%	34,330	39.2%	23,526	42.7%	48.8%
Property operations	13,600	11.2%	12,781	14.6%	7,294	13.2%	-6.0%
Construction	77,432	63.7%	35,442	40.4%	22,191	40.3%	-54.2%
Management	7,527	6.2%	5,097	5.8%	2,052	3.7%	-32.3%
TOTAL	**121,626**		**87,650**		**55,063**		**-27.9%**

[1] IFRS figures and [2] The development business is also carried out through joint ventures that are integrated by the participation method so that this income is not part of the turnover.

"Despite the impact of the pandemic (more accentuated in 2Q2020), there has been a favorable pace of deliveries since then for both own developments and with JVs."

During 2020, the company has presented a notable fall in the construction and management sectors, which has been mainly due to the delay in the start of new developments given the uncertainty generated by the pandemic (COVID-19). However, in the first half of 2021, a gradual recovery is being reflected for these sectors that respond to the favourable commercial performance of the last quarters and the recovery that is being launched after the impact of the pandemic (still in an incipient phase and on which further progress is required). Although at the end of 2020, in the consolidated figures there is a decrease of 27.9% YoY for turnover, it should be noted that the performance of the company's business during the year has been positive if we take into account the activities carried out under the modality of *joint Venture* in the development sector and that do not have their direct reflection in the turnover (under the application of the accounting regulations of the IFRS).

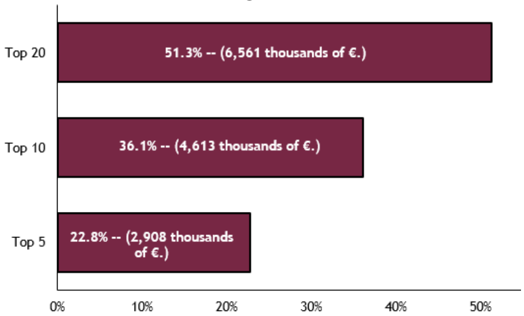
In this sense, as reflected in the evolution of the business (proportional method, table below), the development sector (has the greatest weight in revenues with 73.8%) has had a positive variation in the last year (+50.7% YoY), favoured by the adequate pace of deliveries of developments that has increased since the second half of 2020. Thus, and despite the impact caused by the State of Alarm that meant the paralysis of the Local Administrations causing delays, among others, in obtaining the licences of first occupation (LPO), they have been solved ending the year with a significant increase in the business in this segment.

Breakdown of turnover by business lines. Thousands of €. [1]

Segment	2019		2020		1H2021		20vs19
	Amount	Weight	Amount	Weight	Amount	Weight	
Real estate development	65,059	53.0%	98,030	73.8%	33,838	59.6%	50.7%
Property operations	13,699	11.2%	13,291	10.0%	7,345	12.9%	-3.0%
Construction	39,563	32.2%	18,502	13.9%	13,868	24.4%	-53.2%
Management	4,454	3.6%	2,985	2.2%	1,705	3.0%	-33.0%
TOTAL	**122,775**		**132,808**		**56,756**		**8.2%**

[1] *Figures submitted under the proportional integration method.*

Top clients property sector (2020). % Sales



During 1H2021, the trend reflected in the activity of Grupo Insur has been positive in all its lines of activity, estimating that although the income from development could be mitigated mainly in 2021 and 2022 by the impact of the pandemic (delay in the start of new developments), the recovery that is being shown for the construction sector (currently with joint ventures 757 homes are being built and it is expected to begin an additional 175 in the second half of the year) would provide greater visibility for the group's business in the coming years.

At the same time, the maintenance of its lessor character has allowed Insur to have a significant volume of recurring income. Given the degree of concentration in real estate activity, it is considered that the diversification shown by the group within the same sector is constituted as a basis that also drives the achievement of positive results, hence the maintenance of its position as a lessor and developer.

The lessor portfolio is composed mostly of offices, premises and parking spaces, highlighting the incorporation of hotel assets in 2018 and 2021. In our opinion, the portfolio maintains an adequate quality, which is manifested in a growth in occupancy levels in recent years (89.4% in 2020 vs 67.1% in 2016), highlighting that during 2020, despite the impact of the health crisis, the employment rate has improved slightly (+1pp YoY). However, it is noteworthy that during 1H2021 these occupancy levels have decreased slightly to stand at 88.3% (contract resolutions for an area of 6,890 m^2 versus new marketed areas of 6,126 m^2), the main reason for this reduction being the loss of one of its main customers in Seville, Media Markt (not related to the health crisis). In addition, in July 2021, the delivery to the Group Hotusa of the hotel located in Seville that has been transforming and remodelling in recent years stands out. On the other hand, the maintenance of income diversification in terms of customer is also noted, the evolution with respect to previous years being positive (top 10 customers represent 36% in 2020 vs 51% in 2016 on the total income of the sector).

"High quality of its portfolio of properties and developments executed (in prime areas) as well as high occupancy rates that mitigate to some extent its geographical concentration and the impact caused by the current health crisis (COVID-19)."

Property portfolio breakdown (2020)				
		NON-COMMERCIAL BUILDINGS		
Assets	No. of assets	Rented assets	% occup.	% occup. 2019
Households	5	5	100.0%	100.0%
Parking spaces	3,081	3,011	97.7%	97.5%
		COMMERCIAL BUILDINGS		
Assets	Total m^2	m^2 rented	% occup.	% occup. 2019
Offices	92,418	79,931	86.5%	87.7%
Establishment	29,660	28,220	95.1%	93.8%
Hotels	10,411	10,411	100.0%	100.0%
Archive	4,108	1,595	38.8%	38.8%

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

The location of the properties destined for lease of Grupo Insur in prime areas of Seville mainly, favours higher occupancy rates. However, in line with the rest of the players in the sector, the impact that COVID-19 is having on some of its tenants most affected in their activity (such as those in the retail or fitness sector among others) has caused an impact on rents, resulting in discounts of around € 0.6MM (both agreements reached with customers in 2020 and the first half of 2021 are included). In addition, the group is applying flexible payment formulas for its main affected customers, having reached agreements for the postponement of obligations over the next few years (mainly 2021 and 2022) which are estimated at around €0.8MM.

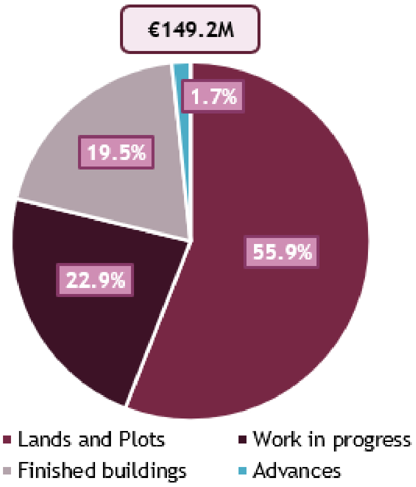
"Despite the delays in the start of new developments for the development sector (mainly through JVs) during 2020 due to the impact of the current crisis, favourable perspectives for recovery are reflected given the portfolio developments in progress and available land (with new projects incorporated in 2021)."

Axesor Rating assesses this impact under a prudent scenario, although we consider that the high occupancy rates presented by the group at the present time mitigate to some extent the impact of this situation, estimating a positive recovery once the current health crisis is completely solved.

Under this point, we highlight the diversification and reinforcement in the rental income that has originated on the occasion of the Rio 55 business project carried out by the group in Madrid, involving the development of two office buildings: South building sold in March 2018 to the AEW fund and delivered in 3Q2020, and North building (14,000 m^2 and 199 parking spaces), which is intended for leasing (BNP Paribas) with an income generation date from the last part of 2020. It is highlighted that after the execution in October 2020 of the promissory agreement signed with IDS Madrid Manzanares (owner of this North building) to acquire an additional 40% of the capital of this company, Insur has expanded its stake in it to 90%.

Most assets corresponding to the development sector are oriented to residential housing. During 1H2021, comparing with pre-Covid levels (2019) and bearing in mind the data obtained by the proportional method incorporating JVs, there has been a reduction in inventories at book value that is mainly due to the completion of works and the strong pace of deliveries made during 2020 (including the Rio 55 project) as well as the lower progress that the sector of construction of new developments has had (impacted by COVID-19). The works in progress have reduced their weight significantly at the end of the first semester

Breakdown of net book value of stocks (1H2021)*



* Incorporating JVs figures, adjusted by their participation percentage.

(€34.1MM vs €105MM in 2019), an aspect that is already being mitigated since the beginning of 2021 with the planning and construction of new developments given the good performance of demand in general. In addition, the recovery that is being presented in the sector is also reflected with the greater investment that the company is allocating to the purchase of new land and plots, representing 55.9% of total stocks (€83.5MM in 1H2021 vs €53.7MM in 2019), an aspect that also reflects the provision of land to continue carrying out the development activity in order to absorb the positive demand for new housing. In this sense, it is worth mentioning the company's preference for the development of land, fundamentally finalist and/or urbanised, thus mitigating urban risk.

At the same time, the collaboration with family offices and financial institutions for the joint development of real estate businesses (joint ventures normally 50% owned by Insur), allows it to take on larger projects. Among the main projects that are being developed jointly, the one carried out with BBVA (Subsidiary Anida) since 2015 for the development of up to 2,434 homes in Andalusia stands out, the one already mentioned and recently completed with private investors from the Río 55 Business Park in Madrid or the new projects agreed and pending start by the end of 2021 or 2022, such as Aljarafe in Tomares (Seville) where 464 multi-family homes will be built or Ágora in Malaga (9,500 m^2 of offices and 180 parking spaces).

2.2 Shareholder, management and financial policy

Insur's shareholding structure was marked by a series of changes in its composition after the death of Jose Manuel Pumar Mariño, the main historical shareholder (20% stake in the company), in 2013. At present, some changes are also taking place that are due to movements of ownership between the companies controlled by the Pumar family, not assuming significant modifications of the entry of new shareholders. The latter justifies the reduction (in 2020 and first half of 2021) of the participation in companies such as "Inversiones Agrícolas Industriales y Comerciales, SL" and "Explotaciones El Cerro, SA" in favour of the Pumar family itself.

Shareholder stability demonstrates a high level of commitment to Insur's objectives on the part of the most important shareholders, while not presenting excessive concentration and remaining involved in decision-making. The presence of the Pumar family in the decision-making process is transferred to the company's 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 2020) and CEO, respectively.

"Strategy that is oriented to the growth and diversification of its business lines under the support of a shareholder and management widely committed. It is currently in the process of defining a new business plan for the coming years (estimated to be presented in the second half of 2021)."

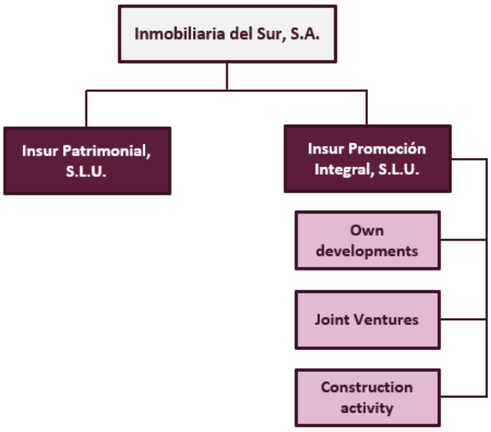
Insur shareholding structure

Member (stake greater than 3%)	Dec-'19	Dec-'20	Jun-'21
Inversiones Agrícolas Industriales y Comerciales, S.L.	10.63%	11.14%	7.42%
Explotaciones El Cerro, S.A.	8.98%	-	-
Increcisa, S.L.	8.11%	8.74%	8.74%
Menezpla, S.L.	5.09%	5.09%	5.09%
Bon Natura, S.A.	5.05%	5.05%	5.05%
Inverfasur, S.L.	5.00%	5.00%	5.00%
Dña. Carmen Pumar Mariño	3.81%	6.01%	6.01%
Dña. Gloria Pumar Mariño	-	3.44%	3.44%
Other significant shareholders and/or related to the Board of Directors	3.65%	3.74%	7.08%
Treasury stock	0.78%	0.84%	0.42%
Free float	*48.90%*	*50.95%*	*51.75%*
TOTAL	**100%**	**100%**	**100%**

As measures defined in the *Business plan* and adopted by the management team, it is worth mentioning the corporate restructuring of the group (June 2018) that resulted in the segregation of the assets activity in order to bring it together under a newly created company ('Insur Assets, S.L.U.'), independent from the development sector. This is favourably valued as reflected in recent years, since it allows greater flexibility in the face of potential business partnerships with third parties by operational area, a greater degree of association of the flows generated by each line of activity and greater understanding of the operational structure and management of Insur as a group. The Strategic Plan defined for the period 2016-2020 (already expired and currently in progress the definition and approval of a new *Business plan*), reflected the following *Drivers* depending on the business sector developed.

On the one hand, taking into account the area of heritage, the objectives are focused on improving the quality of the asset *portfolio* through a plan of adaptation and reconversion to new uses, strengthening the recurrence and stability that this sector brings to the group's income through a diversification strategy from three areas:

Corporate structure Insur Group



- **Geographical:** promoting Madrid as a strategic area, derived mainly from the perspectives and current evolution of the sector in this region. In this regard, the aforementioned project of the 'Madrid Río' business park ('Río 55 Business Park') stands out as a joint business (started in 2018), with a buildable area of 28,000 m^2 (two office buildings). This project has been recently completed, with the south building sold and delivered in 3Q2020 and the north building rented and incorporated into the assets sector (90% share of the rents obtained), being considered an important milestone in the face of a potential improvement of diversification in this sector in the long term.
- **Product**: focus of new investments towards the retail sector (commercial premises) and offices as well as the adaptation of new uses for its assets, such as the recent projects and transformation for hotel use in Cordoba and Seville (Hotusa) already completed.
- **Clients:** reduction of dependence on the Public Administration through the conversion of single-tenant assets to multi-tenants.

With regard to the development sector, Insur's strategy is based on the enhancement of its geographical expansion process within the Spanish territory, increasing its presence in Madrid, while retaining its reference position in Andalusia (areas with solid demand). Considering the portfolio of developments in progress (more than 2,500 homes) and the land portfolio (more than 2,100 potential homes) at the end of 1H2021, the group presents a favourable position to continue the growth trend as the current health crisis is fully overcome and normality recovers (it is estimated that the business of the development sector will be more conditioned in the years 2021 and 2022 by the delay of new constructions produced in 2020 mainly).

Currently, the group is in the process of defining a new strategic plan that, a priori, will reflect a strategy of continuity of the foundations on which the previous business plan is based, highlighting the objective of continuing with the diversification of income at a geographical level for both the assets and development sector (mainly in those sectors where the company already has experience). Given the scenario of uncertainty in which we find ourselves due to COVID-19, it is noted that although Insur postponed new investments at the beginning of the health crisis, at present it has already gradually resumed its investment strategy both for the development sector (it continues with the developments in progress of construction and with new marketing projects) and assets (investment in the adaptation and transformation of assets) given the gradual recovery which is reflecting the market with a good performance of demand in new housing. All this will be collected on the basis of a new business plan (it will be presented predictably in the second half of 2021) with a vocation for long-term growth and under the development of a financial policy with controlled levels of indebtedness, an aspect that has marked the evolution of the company, mainly in periods of market adjustment. Under the latter, new financing operations that allow a greater diversification of sources (such as the MARF) or even the strengthening of its own resources with a capital increase, are currently under study and consideration.

3. 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 in 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 with the full execution of the construction and management of the development). Since the group does not have control over these companies considered joint ventures, based on accounting regulations (application of IFRS), these shares are consolidated by the equity method (the financial statements do not include the proportional share of the group's stake in these JVs). Therefore, although the analysis will start and focus on the data provided in IFRS, it is also convenient to deepen the situation of the group under a proportional assessment that more accurately reflects the economic and financial dimension of Insur.

3.1 Results and profitability

Based on an analysis under IFRS, although the turnover figure was reduced in the last year by 27.9%, it should be noted (as will be detailed later), that this is due to the fact that the development activity of Grupo Insur is being carried out to a greater extent (following the lines of the Strategic Plan) through joint ventures that consolidate by the method of participation and whose sales are not included in the business figure. This aspect is reflected in the volume and distribution of homes delivered during this last year that amounted to 355, corresponding to 105 to own developments and the rest (250) to developments carried out through joint ventures. These data translate into maximum business figures for the development sector, which reached €98MM (adjusted according to the percentage of participation with JVs).

Profitability (IFRS). Thousands of €.

	2018	2019	2020
Turnover	120,324	121,626	87,650
Gross Margin	26.9%	27.6%	25.4%
EBITDA	22,708	24,224	15,758
EBITDA Mg.	18.9%	19.9%	18.0%
Rec. EBITDA (1)	16,642	20,817	20,605
Rec. EBITDA Mg. (1)	13.8%	17.1%	23.5%
EBIT (2)	19,178	22,161	31,489
Financ. Expenses	-6,097	-11,600	-5,820
EBT (2)(3)	13,032	10,163	26,205

(1) Recurring EBITDA: EBITDA - Results from disposals of real estate investments - Results from loss and takeover of consolidated companies - Impairment of inventories; (2) In 2020 the result of €21.9MM derived from the fair value registration of the participation of the company IDS Madrid Manzanares is included and (3) Without the accounting impact in 2019 of the new syndicated financing (application of IFRS 9) the EBT would reach €16MM.

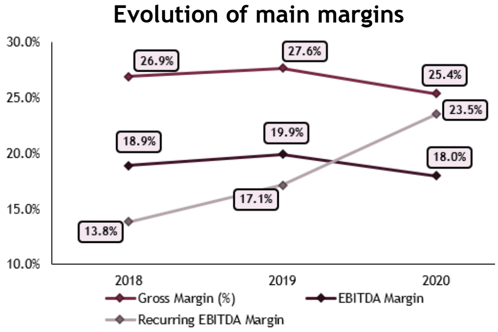
At the level of pre-sales (reservations and sales contracts on homes pending delivery), at the end of 2020 there has been a significant decrease both in own developments and with JVs (100% data), which stands at -45.9% and - 36% YoY, where two factors should be highlighted: i) the impact of COVID-19 that affected the group's operations especially in the second quarter of the year and that is also reflected in the levels of commercial sales, €52.6MM in 2020 vs €66.6MM in 2019; -21,1% YoY (adjusted for their participation in joint ventures), and ii) the notorious weight presented (for comparative purposes) by the South building developed in the Rio 55 project (approximately 23% on the pre-sales of 2019) and which was delivered in 3Q2020. In any case, the evolution of commercial performance during the first half of 2021 has increased significantly (with pre-sales figures higher in the first two quarters even at the levels reached in a pre-Covid market scenario), mitigating and compensating to some extent the impact of the previous year, an aspect that is valued favourably by Axesor Rating and on which greater continuity and progress is required since it would have a positive impact in the coming years within the business generated through the developer area.

Evolution of commercial pre-sales. Thousands of €.

	2018	2019	2020	1H2021	1H21vs18
Grupo Insur companies	41,716	43,014	23,281	7,844	-81.2%
Joint ventures and associates (*)	155,793	153,868	98,414	156,069	0.2%
TOTAL	**197,509**	**196,882**	**121,695**	**163,913**	**-17.0%**

(*) They consolidate by the method of participation. 100% data.

Evolution of main margins



During 2020, although the company stopped its accentuated growing trend presented in recent years for EBITDA and operating margins (analysis under IFRS), it managed to maintain positive and adequate values. Unlike other years, the asset rotation strategy characteristic of the group's activity did not reflect so sharply in the year, with real estate sales of only €0.3MM (€4.1MM and €6MM in 2019 and 2018 respectively). This aspect, together with the moderate decrease in margins in the main operating sectors impacted by COVID-19, led to a reduction in EBITDA of 35% to €15.8MM. Under this point, we note the impact that the health crisis had on the assets and construction/management sector. For the first, in addition to the sharp fall in parking income (-€0.4MM), deferrals and reductions were made to the most affected customers, which were around €0.8MM and €0.6MM respectively. For the second, income in both construction and management decreased significantly due to the delay presented in the start of new developments given the existing uncertainty in the sector.

Profitability (Proportional Method). Thousands of €.	2018	2019	2020
Turnover	113,912	122,775	132,808
EBITDA	23,483	26,519	19,680
EBITDA Mg.	20.6%	21.6%	14.8%
Rec. EBITDA (1)	17,417	22,702	24,527
Rec. EBITDA Mg. (1)	15.3%	18.8%	18.5%
EBIT (2)	19,896	23,994	35,297
EBT (2)(3)	13,272	11,510	29,387

(1) Recurring EBITDA: EBITDA - Results from disposals of real estate investments - Results from loss and takeover of consolidated companies - Impairment of inventories; (2) In 2020 the result of €21.9MM derived from the registration at fair value of the participation of the company IDS Madrid Manzanares is included and (3) Without the accounting impact in 2019 of the new syndicated financing (application of IFRS 9) the EBT would reach €17.3MM.

"Despite the impact of COVID-19 on its operations, the group has presented a favourable evolution in its business and profits during 2020. However, the delay in the start of new developments derived from the uncertainty of the pandemic will impact on the economic evolution (income of the development sector) of 2021 and 2022 mainly."

The impact of the pandemic was also reflected in greater deterioration due to the stocks presented (mainly land and plots as well as to a lesser extent garages) that amounted to €5.1MM during the financial year. In this sense, taking into account the aforementioned deterioration and without considering the real estate sales, Grupo Insur achieved a recurring EBITDA of €20.6MM (-1% YoY) and a margin of 23.5%, valued positively by Axesor Rating.

Regarding the financial burden, the company continued to reduce the weight of financial expenses during the last year. For comparative purposes, it should be noted that 2019 was impacted by the refinancing of the debt carried out in the year, recognising an additional financial expense (€5.8MM) derived from the cancellation of the bilateral loans taken previously by Insur (renewed in 2016) and that comply with the application of accounting regulations (IFRS 9). Without considering this impact, and only considering the interest borne by the loans, the company continued the trend of reduction in this aspect, presenting a decrease of -6.7% YoY.

Finally, both the EBIT and EBT of Grupo Insur experienced a great increase during the last year (+42.1% and +157.9% YoY respectively) being substantially impacted by the profit recorded that derived from the registration at fair value of the participation of the company IDS Madrid Manzanares (owner of the North building of the Rio 55 project in Madrid), which is increased from 50% to 90% and is consolidated by global integration (IFRS 3 application). The increase in profits from this movement (non-recurring) both in the operational and final aspects (net of taxes) amounted to €21.9MM and €15.4MM respectively, an aspect that favoured the results of the year.

Considering the adjustments made by the proportional method according to the percentage of participation of Insur in the JVs, a positive evolution at the business level would be reflected (€132.8MM; $CAGR_{18\text{-}20}$ of 8%) and a reduced impact on recurring operating margins (18.5%; -0.3pp YoY). At the level of EBITDA, although the group continued to show a reduction in the last year, being situated at €19.7MM (-25.8% YoY), as detailed above and carrying out the analysis with the adjustment of both sales for real estate investments and impairments of inventories (more accentuated, the latter, by the pandemic), Group Insur obtained a recurring operating return of €24.5MM, 8% YoY higher than in the previous year. These figures reflect the group's adequate capacity to generate business and positive results even under a scenario of greater uncertainty, an aspect that is favourably valued by Axesor Rating.

Main economic figures 1H2021. Thousands of €. (*)

Metric	1H2019	1H2020	1H2021	1H 21vs19
Turnover	46,864	43,632	56,756	21.1%
EBITDA	7,858	7,763	9,188	16.9%
EBITDA Mg.	16.8%	17.8%	16.2%	-0.6pp
EBT	3,587	3,385	4,112	14.6%
Accumulated presales	216,624	198,058	163,913	-24.3%
Own developments	*41,738*	*41,158*	*7,844*	-81.2%
Joint Ventures	*174,886*	*156,900*	*156,069*	*-10.8%*
Pre-sales formalized semester	48,165	44,683	86,368	79.3%
Own developments	9,556	10,516	8,089	-15.4%
Joint Ventures	38,609	34,167	78,279	102.7%
Occupancy rate (rent)	86.1%	88.9%	88.3%	2.2pp

(*) Data obtained based on the proportional integration method. Pre-sales joint ventures, 100% data.

Based on the evolution presented by Grupo Insur for the first half of 2021, positive values are observed for the main economic indicators (EBITDA and EBT of €9.2MM and €4.1MM; +16.9% and +14.6% respectively vs 1H2019) and commercial performance (pre-sales higher than the levels reached pre-Covid), an aspect that confirms the recovery trend that began since the last part of 2020. Standing out, by operating sectors, are:

- **Development.** The evolution of the group's income in the development area was positive during the first half of 2021 (+21.1% vs 1H2020), driven by the continuation of the adequate pace of deliveries carried out. However, the estimate of deliveries forecast for the second half of the year (adjusted for % participation in joint ventures) is at levels significantly lower than in previous semesters (€33.2MM in 2H2021 vs €89.8MM in 2H2020 and €62.6MM in 2H2019) reflecting the impact of the pandemic (delay in the start of new developments) that will penalise the income of this sector in 2021 and especially 2022. Even so, favourable prospects stand out in the group's long-term activity should the positive trend reflected in its commercial activity continue. The pre-sales formalised by Insur during 1H2021 have reached €86.4MM, figures higher than 1H2020 and 1H2019 (+93.3% and +79.3% respectively), an aspect that reflects a greater recovery and visibility of income for the coming years.

- **Assets**. Despite the reduction in income reflected in the parking activity (collected in the subsidiary Car park Insur) which reaches 39.3% compared to 1H2020, the group has managed to increase the global business of the assets area by 15.6% in the first half of the year, mainly motivated by the entry into the sector of the North building of Rio 55 in Madrid (3Q2020). In addition, although the resolutions of contracts (6,889.6 m^2) have been greatly impacted by the departure of one of the main customers due to the non-renewal of the contract (Media Markt), Insur has offset the impact with the commercialisation of new surfaces (6,125.9 m^2) that have mitigated the decrease in occupancy rates that remain at positive values (88.3% at the end of 1H2021 vs 89.4% in 2020).

"In line with the evolution of the sector, Grupo Insur is presenting a significant volume of pre-sales in recent quarters that could favour a greater recovery after the impact of the pandemic."

- **Construction and management**. The recovery of the normal situation is also having a direct impact on these two areas that increased their income by 81% and 1.9% respectively compared to 1H2020. Although the construction sector has lower margins, which moderately penalises the EBITDA margin (-1.6pp 1H2021 vs 1H2020), according to Axesor Rating, we consider of special importance a greater continuity in these sectors to enhance to a greater extent the business of the development sector in the coming years.

In this way, based on Axesor Rating, we value favourably the evolution that the group has been having since the last half of 2020, since despite the impact of the pandemic and the delay it has had in the start of new constructions, the adequate positioning presented in the sector is allowing a rapid recovery in its activity.

3.2 Asset structure and indebtedness

The financial structure of Grupo Insur is marked by a financial autonomy that, although it is at moderately adjusted levels (net worth represents 28.9% of the total sources of financing in 2020), it is worth noting the latent capital gains presented by the group derived from real estate investments and real estate for its own use (€142.8MM generated by the difference between fair value and its net book value). Therefore, considering these capital gains, the assets structure would be strengthened, representing 37.9% of the group's balance sheet. As a listed company, in recent years it has carried out an active dividend distribution policy (average pay-out of 44% for the period 2016-2020), recently highlighting the distribution of €3.4MM (paid in May 2021) made against reserves. This policy that combines both the distribution of dividends and the partial capitalisation of profits has also allowed it to partially strengthen its own resources (net worth with a $CAGR_{16-20}$ of 11.8%).

"High levels of debt in relation to EBITDA and increase in LTV in recent years, however, this last indicator still maintains adequate values and in line with the main players in the sector."

The company has experienced growth for its total assets in recent years ($CAGR_{18-20}$ of 9.5%) as a result of the increase of its development and assets activity, an aspect that is reflected in the constant increase in real estate investments (€217.3MM in 1H2021; +56.4% compared to 2018), pointing out the additions made in recent years that correspond mainly to the acquisition of offices and parking spaces in Seville, carrying out capex in the assets, incorporation of the Norte Río 55 building (Madrid) to the assets sector and the recent purchases of plots (1H2021) in Andalusia and Madrid. On the financing side, the increase presented by financial debt since 2018 stands out, reaching its maximum value at the end of the first half of 2021 with €249.4MM (+17.8% compared to 2018). Overall, and taking into account the levels of cash available, the evolution of net financial debt and recurring EBITDA (without considering the sale of real estate investments nor the impairments of inventories) is considered stable in recent years (around 9x/10x approximately), although it presents high values that are partially nuanced by the group's business model with an activity characterised by the strong investments made both in its property and development sector (real estate).

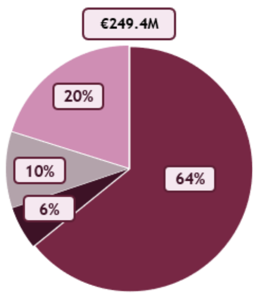
Insur has a stable degree of financing on its assets in relation to the average of the sector, where it is important to point out the value it presents for the LTV under the consideration of joint ventures (image more adjusted to the reality and size of the group, with greater assets and debt), which stood at 42% at the end of the first half of 2021. Under this point, the increase that this indicator is reflecting (+2.3pp compared to 2020) stands out, mainly impacted by the increase in net financial debt (given the investments undertaken) during the first half of the current year. In addition, it should be noted that an updated valuation of its assets is already incorporated, having experienced a slight impact in 2020 due to the crisis caused by COVID-19, where a greater adjustment is indicated for the hotel assets available to the group.

Indebtedness (IFRS). Thousands of €.	2018	2019	2020	1H2021	1H21vs18
Total Assets	362,216	396,306	433,920	431,399	19.1%
Non-current assets	197,349	225,522	286,535	305,366	54.7%
Current assets	164,867	170,784	147,385	126,033	-23.6%
Working capital needs	78,861	74,494	49,720	35,270	-55.3%
Equity	103,804	107,233	125,557	125,262	20.7%
Total financial debt	211,687	228,262	247,423	249,380	17.8%
Net financial debt	173,482	194,520	203,056	213,430	23.0%
Equity/TFD	49.0%	47.0%	50.7%	50.2%	1.2pp
NFD/Rec. EBITDA (1)	10.4x	9.3x	9.9x	9.5x	-1.0x
GAV	400,527	391,533	436,829	427,361	6.7%
GAV (2)	510,474	537,624	525,977	534,894	4.8%
LTV	43.3%	49.7%	46.5%	49.9%	6.6pp
LTV (2)	36.2%	36.5%	39.7%	42.0%	5.8pp

(1) Recurring EBITDA: EBITDA - Results from disposals of real estate investments - Results from loss and takeover of consolidated companies - Impairment of inventories. In addition, for 1H2021, an annualised EBITDA (2H2020 + 1H2021) and (2) Including investment and debt of the joint ventures (based on % of participation) have been calculated.

Given the impact and improvement it entailed, it is also noted that in July 2019, Insur refinanced most of its financial debt through a syndicated financing operation (carried out through its assets parent company, Insur Assets, S.L.U.) that has meant an improvement in terms of cost, debt service as well as reinforcement of the group's financial flexibility. This syndicated loan with a maturity of 10 years and balloon of 65% (with two initial years of lack of capital, beginning to be amortised with increasing rates in the second half of 2021) was configured in two instalments: i) €100MM arranged for the cancellation of bilateral bank loans that presented mainly derived from real estate investments made and ii) €10MM that have already been fully disposed of in the middle of the current year (2021) for the transformation of a building for hotel use *(capex)* in Seville, recently opened at the end of August 2021.

Composition of financial debt (Jun-2021)

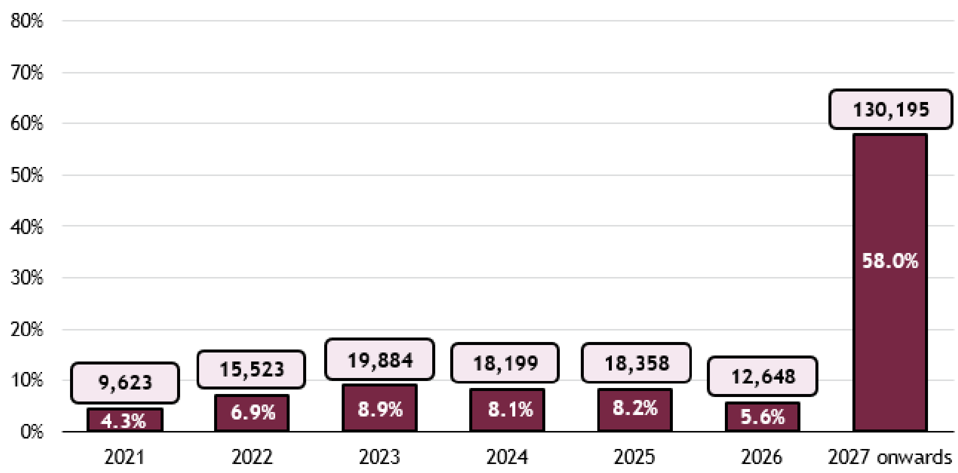


Based on the financial structure presented after the syndicated financing (the total financial debt amounts to €249.4MM at the end of 1H2021), the composition of the company's indebtedness stands out positively, whose debt profile is largely oriented towards the long term (from 2023 onwards 88.8% of the total financial debt would be concentrated, excluding current financing instruments since we understand they will be renewed annually). Most of this debt corresponds to mortgage loans linked to real estate investments (64% of the total), ICO loans (€30MM) as well as mortgage loans on inventories (subrogable and on plots) that concentrate 6% of the total financial debt and that, although they are counted as current liabilities, most of these last obligations have a long-term maturity.

After the emergence of the pandemic in 2020, Grupo Insur carried out a policy of prudence for its financial structure (given the uncertainty in force in the markets), which was reflected in the transformation of the debt from the MARF (promissory notes) to bank. Thus, several loans were obtained through the ICO for an amount of €30MM, maturities of 5 years and with a one-year grace period (it is mentioned that in 1Q2021 the group took advantage of the extension of one more year of grace and amortisation for these loans). However, the group has continued to renew the promissory note programme at the MARF (last added in July 2021) and is gradually increasing this funding, standing at €11.9MM at the end of 1H2021. In this manner, the company is continuing with its diversification strategy in its sources of financing, and a potential bond issue is also planned in the MARF. This strategy is positively valued by Axesor Rating to the extent that a less dependence on bank financing is acquired while strengthening financial flexibility with longer-term maturities.

According to the debt calendar at the end of 1H2021 (under IFRS analysis), it presents stable in the coming years and with a notable improvement in the maturity profile after the syndicated financing obtained in the second half of 2019 and the additional lack and extension of maturities recently obtained in ICO loans. The group presents an adequate schedule for its main financial debt obligations for the coming years as reflected until 2026 (equitable distribution with maturities that do not exceed 9% of the total financial debt in any year), with most of its commitments from 2027 onwards (58% of the total financial debt) being concentrated and which correspond mainly to the obligations contracted in the syndicated financing. Additionally, it is noteworthy that a maturity schedule has also been available for financial debt including joint ventures for their % share (proportional), with the distribution being practically similar to the figures represented below.

Financial debt maturity calendar (IFRS, 1H2021). Thousands of €. (*)



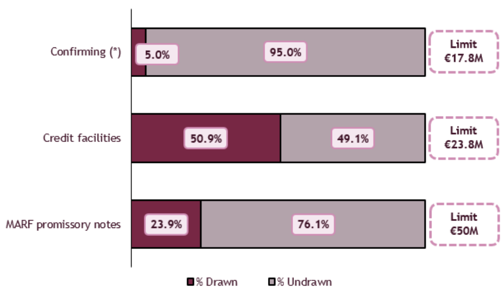
(*) Current financing (credit policies, confirming, etc.) is excluded from the financial debt, since we assume it will be renewed annually at maturity.

"Comfortable and favourable maturity schedule for financial debt that is allowing it to face the current context in a better financial position."

3.3 Cash generation and liquidity

Grupo Insur has been increasing in recent years the limits available for current financing instruments, as a result of the development and growth achieved. Thus, the figures available (or not available) at the end of 1H2021 to finance the working capital reached €66.6MM (mainly between credit policies, confirming and promissory notes in the MARF) with a high growth in recent years (+176% compared to the end of 2018). Along with the above, the group has high levels of cash on the balance sheet at the end of the first half of the year, representing 39.1% of total current liabilities, an aspect that strengthens cash flow levels and also reflects the company's prudence policy in the current scenario.

Detail current financing facilities (1H2021)



(*) Includes other payment facilities

However, the great weight of stocks within the current investment (46% in 1H2021) characteristic of the sector where the activity is carried out must be taken into account, the continuation of the favourable pace of carrying out the same for the maintenance of a balanced economic-financial situation being considered especially relevant. For this asset, it is worth noting the continuous decline registered in recent years impacted by the current situation (investments were postponed in 2020), however, the recovery of the expansion trend in the developer cycle will impact, a priori, on an increase in inventories in the coming years.

Within the analysis of the *Cash flow* at the end of the last full year (2020), the decreasing trend of the funds generated with the exploitation that go on to present negative figures (-€1.3MM) stands out. It is worth mentioning that this unfavourable evolution is greatly conditioned by the business model of Insur, where the development activity is being increased to a greater extent through joint ventures and that under the consideration of IFRS would not be reflected in the funds generated (the results of the JVs are not part of the funds of the activity of exploitation rather they are in the investment activities in the part in which they have been distributed as dividends). Therefore, despite these figures, according to Axesor Rating, a positive assessment of the current situation of the company is maintained, although the continuation and improvement of the generation of business is considered an important factor to assume both the next financial obligations and the investment/growth opportunities that arise before the recovery of the development sector. The management of working capital has reflected a positive impact in recent years, amounting to €12.7MM for 2020 (+440.1% YoY). Both through the management of stocks (achievement and materialisation of an important part of them with the delivery of finished developments) and customers (origin of funds through collections materialised especially with JVs) has had a favourable impact on the improvement of the group's operating *cash flow* (CFO), which stood at €11.5MM in 2020 (+30.2% YoY).

Cash flow. Thousands of €.

	2018	2019	2020	1H2021	20vs19
Earnings before taxes (EBT)	13,032	10,163	26,205	3,930	157.8%
+/- adjustments in results	5,717	6,293	-20,070	5,841	-418.9%
+/- other operation cash flow	-9,172	-10,010	-7,413	-2,469	25.9%
Funds From Operations (FFO)	**9,577**	**6,446**	**-1,278**	**7,302**	**-119.8%**
+/- WK changes	3,188	2,359	12,740	7,905	440.1%
Operational Cash Flow	**12,765**	**8,805**	**11,462**	**15,207**	**30.2%**
Investment Cash Flow	-1,532	-9,090	-11,827	-19,079	-30.1%
Free Cash Flow	**11,233**	**-285**	**-365**	**-3,872**	**-28.1%**
+/- changes in capital	0	-5	-102	112	-1940.0%
Dividends	-1,852	-4,546	-5,374	-6,746	-18.2%
Cash flow Generated Internally	**9,381**	**-4,836**	**-5,841**	**-10,506**	**-20.8%**
Issuance of new debt	116,365	161,355	65,175	20,300	-59.6%
Debt repayment	-110,710	-160,982	-48,709	-18,211	69.7%
Net Cash Generated	**15,036**	**-4,463**	**10,625**	**-8,417**	**338.1%**

"Favourable liquidity position supported both by positive levels of operating cash generated as well as by the high cash flow and available working capital lines".

In 2020, and unlike other years, the company did not carry out any significant sale of its assets (rotation policy), which together with the investments in the remodelling and adaptation of some of its buildings for hotel use and improvement of its offices, led to a high capex (higher than €11MM) that conditioned towards the maintenance of a negative free cash flow of -€0.4MM.

Regarding financing, the last year represented a change of trend in the policy supported by the company until 2019 where bank debt was being amortised in favour of a greater provision of alternative financing through promissory notes in the MARF. In this way, the uncertainty reflected in the market and the strategy presented by Insur to ensure the financing of the working capital (due to the potential risk that could arise with the non-renewal of the promissory notes due to the impact of COVID-19 on the markets), led the company towards a greater issuance of debt with ICO loans with the consequent amortisation of a significant part of the financing coming from the MARF. At the aggregate level, there was a net inflow of debt (issuance greater than amortisation) that resulted in an increase in final cash by €10.6MM.

Liquidity (IFRS). Thousands of €.

	2019	2020	1H2021
Treasury position	33,742	44,367	35,950
Treasury position/Current liabilities	21.8%	40.8%	39.1%
Undrawn credit facilities	45,766	70,448	66,601
FFO*/NFD	3.3%	-0.6%	1.9%

* FFO annualised (2H2020 + 1H2021).

During the first half of 2021, a positive evolution in terms of operating cash generation was reflected, recovering a positive FFO of €7.3MM and maintaining adequate figures for the CFO of €15.2MM. These values have been driven by the continuation of the favourable pace of deliveries in the development sector, as well as the growth of the business in the assets area. However, the group has presented negative figures (as in previous years) for the free and internally generated cash flow, amounting to -€3.9MM and -€10.5MM respectively, conditioned both by the investment made in the period (-€23.5MM) and by the continuation of the dividend distribution policy (-€6.7MM). In relation to the capex since Axesor Rating has favourably valued the use of the investment opportunities that are being presented in the market (new purchases of plots carried out in Madrid and Andalusia for the start of new projects) since they allow to reflect new business for the coming years. All this and, given the maintenance of financial debt practically at similar levels (compared to 2020), brought with it the decrease in final cash flow figures that, even so, continue to be high (€36MM; -19% vs 2020).

Overall, Grupo Insur saw its operations conditioned due to the health crisis presented since the end of 1Q2020, with a greater impact in the second quarter of last year. However, the company's operating performance since the second half of 2020 is recovering in a marked way, continuing in a positive and expansion phase during the first half of 2021. This aspect together with the adequate economic-financial position it presents (optimised maturity profile and solid liquidity position), are allowing it to take advantage of new growth opportunities in the market, being capable to favour towards a recovery of the business in the long term although conditioned to the continuation of this positive outlook in the sector.

Regulatory information

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:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

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

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on www.axesor-rating.com/en-US/about-axesor/methodology and according to the Long-term Corporate Rating scale available at www.axesor-rating.com/en-US/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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