

# INMOBILIARIA DEL SUR, S.A. (ISUR.MC) - EQUITY RESEARCH REPORT

This document is not an investment recommendation of any kind. It is a professional analysis for informational purposes only.

## EXECUTIVE SUMMARY

**Company:** Inmobiliaria del Sur, S.A. (ISUR.MC)

**Sector:** Real Estate

**Current Price:** €8.50

**Target Price (Current Year-End):** €13.65

**Target Price (Next Year-End):** €14.92

**Recommendation:** BUY

**Upside Potential (Current Year-End):** 60.59%

**Upside Potential (Next Year-End):** 75.53%

Inmobiliaria del Sur presents a compelling investment opportunity within the Spanish real estate sector, offering significant upside potential based on our comprehensive analysis. The company's mixed business model, combining development and property management activities, provides greater stability compared to pure-play developers while maintaining exposure to the residential market's growth potential.

Despite trading at a discount to its peers due to its smaller size and lower liquidity, INSUR demonstrates solid fundamentals and an attractive dividend policy. Our valuation, derived from multiple methodologies including P/E, P/NAV, and Dividend Yield approaches, indicates substantial undervaluation at current market prices.

## COMPANY OVERVIEW

Inmobiliaria del Sur, S.A. (INSUR) is a Spanish real estate company with a dual business model encompassing both property development and asset management. Headquartered in Seville, the company has established a significant presence in Andalusia while expanding into other strategic markets including Madrid.

Founded with a long-term vision, INSUR has built a reputation for quality and reliability in the Spanish real estate market. The company's business strategy focuses on:

1. **Residential Development:** Construction and sale of residential properties, primarily in the middle to upper-middle market segments.
2. **Property Management:** Ownership and management of a diversified portfolio of commercial properties, including offices, retail spaces, and hotels, generating recurring rental income.

This dual approach differentiates INSUR from many of its competitors, providing greater stability through market cycles while maintaining exposure to the growth potential of the residential development sector.

## TECHNICAL ANALYSIS

### Short-Term Outlook

The short-term technical indicators for INSUR show a cautiously positive trend. The stock has been consolidating after a period of underperformance, with improving momentum indicators suggesting potential for near-term appreciation. Key support levels have held during recent market volatility, indicating resilient demand at current price levels.

### Medium-Term Outlook

Over the medium term, INSUR displays a constructive technical pattern with an emerging uptrend channel. The stock has been forming higher lows, a positive sign for continued price appreciation. Volume patterns indicate accumulation by institutional investors, further supporting the bullish case.

### Long-Term Outlook

The long-term technical structure remains positive, with INSUR trading above its major moving averages. While the stock has underperformed the broader real estate sector in previous years, the current technical setup suggests potential for mean reversion and outperformance going forward.

### Key Technical Levels

- **Support:** €7.80
- **Resistance:** €9.20

- **Stop Loss Level:** €7.20

These technical levels provide important reference points for entry and risk management strategies.

## FUNDAMENTAL ANALYSIS

### Business Model Assessment

INSUR's hybrid business model combines the growth potential of property development with the stability of recurring rental income. This approach provides several advantages:

1. **Reduced Cyclicalit**y: The rental portfolio generates stable cash flows that help offset the inherent cyclicalit
2. **Operational Synergies**: The company leverages its market knowledge and relationships across both business segments.
3. **Capital Allocation Flexibility**: The dual model allows for dynamic capital allocation based on market conditions and opportunities.

The company's development activities focus primarily on residential properties in established urban areas with strong demographic fundamentals. Meanwhile, its property management portfolio consists of strategically located commercial assets with quality tenants and favorable lease terms.

### Financial Performance

INSUR has demonstrated resilient financial performance despite market challenges. Key financial metrics include:

- **Revenue Growth**: Steady growth trajectory with diversification between development income and rental revenue.
- **Profitability**: Healthy operating margins compared to sector peers, reflecting efficient cost management and premium positioning.
- **Balance Sheet**: Moderately leveraged with a Loan-to-Value ratio of approximately 45%, higher than some peers but manageable given the quality of assets and stable cash flows.
- **Dividend Policy**: Consistent dividend payments with a current yield of approximately 6.47%, significantly above the sector average.

The company's financial strategy balances growth investments with shareholder returns, maintaining sufficient financial flexibility to capitalize on market opportunities.

## Competitive Positioning

Within the Spanish real estate sector, INSUR occupies a distinctive position:

1. **Geographic Focus:** Strong presence in Andalusia with growing operations in Madrid, providing both regional expertise and exposure to Spain's most dynamic real estate market.
2. **Market Segment:** Focus on middle to upper-middle residential segments, which have shown greater resilience during market downturns.
3. **Brand Reputation:** Established track record for quality and reliability, supporting premium pricing and customer loyalty.
4. **Scale:** While smaller than major listed peers, INSUR's focused approach allows for agility and specialized market knowledge.

This positioning enables INSUR to compete effectively despite its smaller size relative to major listed real estate companies.

## SECTOR COMPARISON

### Market Position

Inmobiliaria del Sur positions itself as a medium-small sized company within the Spanish listed real estate sector, with a mixed business model combining development and property management activities. This dual approach provides certain stability compared to pure-play developers, although its size is significantly smaller than the major SOCIMIs (Spanish REITs) like Merlin and Colonial or the main developers like Metrovacesa, Neinor, and Aedas.

### Key Metrics Comparison

#### Leverage Ratio (LTV)

The Loan-to-Value (LTV) ratio is a key indicator of leverage level:

- **INSUR:** ~45% (estimated)
- **Neinor/Metrovacesa:** <20% (least leveraged)
- **Aedas:** 26.8%

- **Merlin:** 27.4%
- **Colonial:** ~35%
- **Lar España:** ~40%

INSUR presents a higher leverage level than the sector average, which could represent additional risk in scenarios of rising interest rates or deterioration in the real estate market.

## Business Model

- **INSUR:** Mixed model (development + property management)
- **Merlin/Colonial/Lar:** SOCIMIs (focus on rental assets)
- **Metrovacesa/Neinor/Aedas:** Developers (focus on residential development)

INSUR's mixed model provides greater stability than pure developers but less recurring income than SOCIMIs.

## Market Capitalization and Liquidity

INSUR has a significantly smaller market capitalization than its main competitors, resulting in lower trading liquidity and potential valuation discount due to this factor.

## Dividend Policy

INSUR's dividend policy is at a medium level within the sector:

- SOCIMIs (Merlin, Colonial, Lar) are required to distribute at least 80% of their profits.
- Developers have more variable policies, with Neinor standing out for its commitment to shareholder remuneration.
- INSUR maintains a stable but more moderate dividend policy than SOCIMIs.

## Competitive Strengths

1. **Diversified business model:** The combination of development and property management activities reduces exposure to the real estate cycle.
2. **Local market knowledge:** Strong presence and expertise in Andalusia and Madrid.
3. **Track record and experience:** Long history in the sector that provides credibility and know-how.
4. **Family management:** Shareholder stability and long-term vision.

## Competitive Weaknesses

1. **Smaller size:** More limited financial capacity for large projects.

2. **Higher leverage:** LTV above the sector average.
3. **Lower market liquidity:** May generate valuation discounts.
4. **Geographic concentration:** Although diversified, still has greater exposure to Andalusia than competitors.

## VALUATION

Our valuation of Inmobiliaria del Sur employs multiple methodologies to derive a comprehensive fair value estimate.

### 1. P/E Valuation Method

- Sector average P/E: 15.5x
- Applied adjustment: -10% (discount for smaller size and liquidity)
- Adjusted P/E: 13.95x
- Estimated EPS (current year-end): €1.20
- Estimated EPS (next year-end): €1.35
- Target price (current year-end): €16.74
- Target price (next year-end): €18.83

### 2. P/NAV Valuation Method

- Sector average P/NAV: 0.85x
- Applied adjustment: -5% (discount for smaller size and liquidity)
- Adjusted P/NAV: 0.81x
- Estimated NAV (current year-end): €14.50
- Estimated NAV (next year-end): €15.20
- Target price (current year-end): €11.75
- Target price (next year-end): €12.31

### 3. Dividend Yield Method

- Sector average yield: 4.2%
- Applied adjustment: +5% (premium for higher yield)
- Adjusted yield: 4.41%
- Estimated dividend (current year-end): €0.55
- Estimated dividend (next year-end): €0.60
- Current yield: 6.47%
- Target price (current year-end): €12.47
- Target price (next year-end): €13.61

## Average Valuation

- Current price: €8.50
- Average target price (current year-end): €13.65
- Average target price (next year-end): €14.92
- Upside potential (current year-end): 60.59%
- Upside potential (next year-end): 75.53%

This substantial upside potential reflects our view that the market is significantly undervaluing INSUR's assets, earnings power, and dividend yield relative to its fundamentals and peer group.

## INVESTMENT RECOMMENDATION

Based on our comprehensive analysis, we issue a **BUY** recommendation for Inmobiliaria del Sur (ISUR.MC).

### Justification

Our buy recommendation is supported by the following key factors:

1. **Attractive valuation upside:** The target price for the current year-end shows potential upside exceeding 60%, with prospects for further appreciation in the following year.
2. **Diversified business model:** The combination of development and property management activities provides greater stability compared to pure-play developers.
3. **Attractive dividend policy:** The current yield is significantly above the risk-adjusted sector average.
4. **Favorable relative valuation:** Despite its smaller size and lower liquidity, the company trades at a substantial discount relative to its fundamentals.

### Recommended Investment Strategy

For investors interested in ISUR.MC, we recommend:

1. **Phased entry:** Distribute purchases across 2-3 tranches to mitigate volatility and liquidity risk.
2. **Medium-long investment horizon:** Maintain the position for at least 18-24 months to capture the full revaluation potential.

3. **Moderate portfolio weighting:** Due to its lower liquidity, limit exposure to a maximum of 3-5% of the total portfolio.

## RISK ASSESSMENT

### Downside Risks

1. **Deterioration of the real estate cycle:** A more pronounced slowdown in the residential market would negatively affect the development activity.
2. **Interest rate increases:** INSUR's higher leverage makes it more vulnerable to rising interest rate scenarios.
3. **Geographic concentration:** The greater exposure to Andalusia could be a drag if this region performs worse than the national average.

### Upside Catalysts

1. **Margin improvement:** Efficient cost management could improve operating margins above estimates.
2. **Asset rotation:** The sale of mature assets at attractive multiples would unlock value and reduce leverage.
3. **Dividend increase:** A higher-than-expected payout would improve the perception of the stock.

## CONCLUSION

Inmobiliaria del Sur represents a compelling investment opportunity within the Spanish real estate sector. The company's mixed business model, combining development activities with a stable property portfolio, provides resilience through market cycles while maintaining exposure to growth opportunities.

Trading at a significant discount to our calculated fair value, INSUR offers substantial upside potential for investors willing to look beyond its smaller size and lower trading liquidity. The attractive dividend yield provides additional support for the investment case.

While risks exist, particularly related to leverage and geographic concentration, we believe these are more than compensated for by the current valuation discount. For



investors seeking exposure to the Spanish real estate market with a balanced risk-reward profile, INSUR merits serious consideration.

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