



ISSUER RATING

Long-term Rating

Outlook: Positive

First rating date: 20/05/2021

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## Rating Action

Axesor Rating assigns for the first time the rating of BB- with Positive outlook to Renta Corporación Real Estate.

## Executive Summary

Renta Corporación Real Estate (hereinafter 'Renta Corporación', 'the company' or 'the group'), based in Barcelona (Spain), operates in the real estate sector through its two main business segments: transactional (sale of buildings and management of real estate projects) and asset management (management of SOCIMI and income from Real Estate Investments). The group's scope of operations is focused on Spain, with Madrid and Barcelona as the main markets. During the last financial year, its activity was significantly affected by the impact of Covid-19, recording total revenues (excluding changes in value of Investment Properties) of €45.6M (-49% YoY) and a margin of operations of €4.2M (-86% YoY), which meant a margin on revenues of 9.2% (33% in 2019). At the end of 2020, the company's EBITDA was negative (€19.1M in 2019, not including changes in value of Investment Properties). Renta Corporación has been listed on the continuous market of the Spanish Stock Exchange since 2006, with a market capitalisation of approximately €73M as of 20/05/2021.

## Fundamentals

### Business profile

#### ► Differentiated business model, within the real estate sector.

Although Renta Corporación's operations are framed within the real estate sector, they are characterised by shorter maturity periods for the assets corresponding to its core business (transactional), which is a differentiating element with respect to the traditional promotional business and which limits exposure to external resources and risk associated with the development of the asset. In addition, the transactional business is complemented by the asset management segment, which provides recurrent revenues for the group and favour the operating margins. In this sense, the company has strategic partners, which have allowed it to promote this business line, which is one of the strategic axes of its future growth.

#### ► Sector with a marked pro-cyclical component, highly penalised by the situation resulting from the Covid-19 pandemic.

The group is active in the real estate sector, which has been significantly penalised as a result of the impact of Covid-19 in both health and economic terms. This impact, especially significant in Spain, has substantially conditioned the group's business generation, as a result of its concentration in this market. Thus, to the extent that a gradual recovery is expected in the Spanish economy, mainly associated with progress in the process of immunisation of the population and therefore, reactivation of the main sectors of activity, a gradual recovery of activity in the real estate sector is estimated for the coming years.

#### ► Adequate diversification of the strategic business portfolio, despite the significant reduction in the last financial year.

Renta Corporación's strategic portfolio shows an adequate diversification in terms of sector, highlighting the hotel segment (43% of the total in 2020), as a result of a current situation that favours investments in this type of assets. On the other hand, this situation led to a significant reduction in the backlog in the last year (-39% YoY), mainly due to the purchase options that were nevertheless rejected as a strategy implemented by management to contain the balance sheet. However, an increase in the portfolio is expected, supported by a gradual recovery in activity.

## Financial profile

### ► Revenues and results highly deteriorated in the last financial year.

Activity notably conditioned during 2020 by the economic and market scenario derived from the effects of the Covid-19 pandemic, which led to a reduction in turnover by approximately half compared to the previous year. Likewise, operating and final margins and results have been significantly penalised as a result of the delay in the materialisation of operations and the rejection of purchase options, together with the lower impact derived from changes in the value of Investment Properties, primarily, standing EBITDA and EBT at negative values, as of December 2020. However, the company's performance during the first months of 2021 provides a favourable outlook for the achievement of the targets set for the end of the year, which include, among others, a substantial improvement in revenues and results, which would return to positive values.

### ► High financial autonomy, favoured by the reduction of leverage in 2020.

Solid equity structure (44% of the total balance sheet), exceeding net equity by 1.2 times total financial debt, and benefited from a prudent dividend policy (suspended in the last year). In turn, this prudence is reflected in a containment of investments, given the situation derived from the pandemic, and therefore, a reduction in net financial debt in 2020 (-26% YoY). However, the NFD/EBITDA ratio was penalised by the negative EBITDA recorded in 2020, in breach of the limits established in this respect in the bond financing agreement signed in 2018. In this regard, the company reached an agreement with its bondholders (waiver), which was communicated to the market in December 2020 and through which it is exempt from compliance with the corresponding covenant until 2022, favouring its financial flexibility.

### ► Adequate levels of liquidity, based on its ability to access to external financing.

The group has adequate liquidity, supported by access to external sources of financing. This aspect takes on greater importance, given its limited capacity to generate free cash flow, derived from the investment requirements associated with its operations. However, we believe that this financing capacity will not be deteriorated in the short term, based on leverage at controlled thresholds and a high level of capitalisation.

## Main financial figures

Key financial magnitudes. Thousands of €				
	2018	2019	2020	20vs19
Turnover	90,222	89,550	44,519	-50.3%
Total revenues <sup>(1)</sup>	90,373	90,128	45,634	-49.4%
Margin from operations <sup>(2)</sup>	26,572	29,748	4,203	-85.9%
Margin from operations (%)	29.4%	33.0%	9.2%	-23.8pp
EBITDA <sup>(1)</sup>	17,465	19,133	-5,873	-130.7%
EBITDA margin (%)	19.3%	21.2%	-12.9%	-34.1pp
EBT	16,063	17,196	-8,845	-151.4%
Total assets	131,215	178,044	151,800	-14.7%
Equity	61,492	75,841	66,830	-11.9%
Equity/TFD (%)	154.0%	104.7%	115.6%	11.0pp
Total Financial Debt	39,931	72,466	57,797	-20.2%
Net Financial Debt	31,108	66,741	49,578	-25.7%
Adjusted Net Financial Debt <sup>(3)</sup>	29,156	63,900	47,483	-25.7%
NFD/EBITDA	1.8x	3.5x	-8.4x	-
Adjusted NFD/EBITDA	1.7x	3.3x	-8.1x	-
EBITDA/Interests	5.2x	5.3x	n.a. <sup>(4)</sup>	-
FFO/NFD (%)	12.2%	9.3%	n.a. <sup>(4)</sup>	-

<sup>(1)</sup> Does not include changes in the value of investment properties. <sup>(2)</sup> Includes changes in the value of investment properties. <sup>(3)</sup> Excludes lease debt subject to IFRS-16, non-current debt associated to the arrangement with creditors in 2014 and participating loan interests. <sup>(4)</sup> EBITDA < 0; FFO < 0.

## Rating and Outlook

Axesor Rating gives Renta Corporación a rating of **BB-**, with **Positive outlook**. After the impact on the company's business generation and profitability in 2020, due to the negative market situation caused by the effects of the Covid-19 pandemic, a positive evolution of its activity is expected, which can be seen in the favourable performance experienced during the first quarter of 2021. This evolution is reflected in its main financial indicators. In turn, this improvement is supported by the maintenance of leverage at controlled levels and a solid equity structure, in line with the trajectory followed in this respect in recent years.

## Rating sensitivities

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

### ► Positive factors (↑).

Improvement of the main short-term financial indicators, based on the company's estimates, within the current economic and market context in Spain.

### ► Negative factors (↓).

Slowdown in the expected recovery of activity, with the consequent impact on the estimated improvement in the main financial ratios, conditioned by the slower than expected progress in the process of overcoming the pandemic.

## 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:

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, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

### Additional information

1. 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](http://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](http://www.axesor-rating.com/en-US/about-axesor/rating-scale).
2. Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CERP, of the European Securities and Markets Authority (ESMA).
3. 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.
4. The issued credit rating has been notified to the rated entity, and has not been modified since.

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