



ISSUER RATING

Long-term Rating

Outlook: Positive

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Rating Action

EthiFinance Ratings affirms Renta Corporación Real Estate's rating at "BB-", maintaining its Positive trend.

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 its main markets. In the last financial year, the company recorded total revenues (excluding changes in value of investment properties) of €81.7M (+78.9% YoY) and a margin from operations of €19.7M (€4.2M in 2020), resulting in a margin over revenues of 24.1% (9.2% in 2020). At year-end 2021, the company's EBITDA stood at €12.1M (negative values in 2020) and the adjusted DFN/EBITDA ratio (adjusted DFN: does not include IFRS-16 lease debt, non-current bankruptcy debt and the participating loan) amounted to 3.5x. Renta Corporación is listed on the Spanish Stock Exchange since 2006, with a market capitalisation of €59M, approximately, as of 20/05/2022.

Fundamentals

Business Profile

- **Differentiated business model within the real estate sector.**

Although Renta Corporación's operations are focused on the real estate sector, its activity is 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 limits the exposure to borrowed funds and risk associated with the development of the assets. In addition, the transactional business is complemented by the equity segment, which provides recurrence to the group's revenue generation and boosts its operating margins. In this regard, the company has strategic partners that have enabled it to promote a business line that is one of the strategic axes of its future growth.

- **This sector has a marked pro-cyclical component which, despite showing signs of recovery in the last year, is conditioned by the current environment.**

The group develops its activity in the real estate sector, which was significantly penalised by the impact of Covid-19. This impact, which was particularly significant in Spain, substantially affected Renta Corporación's business generation in 2020, as a result of its concentration in that market. Although the economic and health situation recovery observed in the last year has had a favourable impact on the sector's performance, the current scenario, marked by high inflation rates and the impact of the war in Ukraine, limits visibility with respect to the progressive reactivation of investment policies by the company's target clients.

- **Continuity in the strategy of the strategic business portfolio lightening, according to the maintenance of the policy of prudence in terms of investment.**

The strategic portfolio has been undergoing a significant reduction in recent years (€62.7M in 2021 vs €129.8M in 2020 and €211.3M in 2019), according to a policy of containment in terms of balance sheet, following the outbreak of the pandemic in 2020; a policy that has been maintained during the last financial year despite the recovery in activity experienced. Given the current economic and geopolitical scenario in Europe, this strategy is expected to be maintained in the short term, although to a lesser extent than in previous years, considering the increase in investments expected by the company. Regarding the portfolio diversification, after the significant presence of the hotel sector in 2020 (43% of the total), the portfolio was concentrated in 2021 in the residential (67%) and industrial/logistics (20%) segments, the latter being considered one of the strategic axes of the group's future growth in terms of both revenues and margins.

Financial Profile

- **Recovery of revenues and margins in the last financial year, however, at lower values in comparison to pre-Covid periods.**

Favourable revenue performance in the last financial year (+78.9% YoY), after a 2020 in which the company's activity was notably penalised by the economic and market scenario derived from the effects of Covid-19. Likewise, their operating margins and results have shown a notable improvement in the last financial year, although they are still at lower levels than in periods prior to the pandemic. With respect to the group's performance during the first months of 2022, the outlook is favourable for the achievement of the strategic objectives established for the end of the year, however, under a current economic and market context that could limit the degree of visibility of these objectives, in the event of a worsening of this situation.

- **High financial autonomy, favoured by the strengthening of the equity structure in 2021.**

Solid equity structure (46% of the total balance sheet), exceeding net equity by 1.3 times total financial debt (not including the participating loan). The group's financial autonomy was benefited in the last year from the increase in equity (+13.3% YoY), which was favoured by the positive results achieved, as well as by the maintenance of financial debt at relatively stable levels (+3.6% YoY), as a result of the continuity of the investment containment policy. The latter, together with the strengthening of the cash position and the contribution in terms of EBITDA recorded (€12.1M vs -€5.2M), has allowed the improvement of the NFD/EBITDA ratio in 2021 (3.5x).

- **Adequate levels of liquidity, due to its ability to access to external resources.**

The group has an adequate liquidity, supported by the access to external funding sources and, additionally, by the improvement in the cash position recorded in the last financial year. This aspect takes on greater importance, given its limited capacity to generate free cash flow, due to the investment requirements associated to its operations. However, we consider that this financing capacity will not be worsened in the short term, based on a leverage at controlled thresholds and a high level of capitalisation.

Main financial figures

Main financial figures. Thousands of €				
	2019	2020	2021	21vs20
Turnover	89,550	44,519	81,484	83.0%
Total revenues ⁽¹⁾	90,128	45,634	81,651	78.9%
Margin from operations ⁽²⁾	29,748	4,203	19,666	367.9%
Margin from operations (%)	33.0%	9.2%	24.1%	14.9pp
EBITDA	21,032	-5,173	12,091	n.a.
Recurring EBITDA ⁽¹⁾	19,133	-5,873	9,827	n.a.
EBITDA margin (%)	23.3%	-11.3%	14.8%	n.a.
Rec. EBITDA margin (%)	21.2%	-12.9%	12.0%	n.a.
EBT	17,196	-8,845	8,118	n.a.
Total assets	178,044	151,800	164,794	8.6%
Equity	75,841	66,830	75,730	13.3%
Equity/TFD (%)	104.7%	115.6%	126.5%	10.9pp
Total Financial Debt ⁽³⁾	72,466	57,797	59,873	3.6%
Net Financial Debt ⁽³⁾	66,741	49,578	43,466	-12.3%
Adjusted NFD ⁽⁴⁾	63,900	47,482	41,870	-11.8%
NFD/Rec. EBITDA ⁽¹⁾	3.5x	n.a. ⁽⁵⁾	4.4x	-
Adjusted NFD/EBITDA	3.0x	n.a. ⁽⁵⁾	3.5x	-
EBITDA/Interest	5.9x	n.a. ⁽⁵⁾	3.2x	-
Rec. EBITDA ⁽¹⁾ /Interests	5.3x	n.a. ⁽⁵⁾	2.6x	-
FFO/NFD (%)	9.3%	n.a. ⁽⁵⁾	8.4%	-

⁽¹⁾ Does not include changes in the value of investment property. ⁽²⁾ Includes changes in the value of investment property. ⁽³⁾ Does not include the participating loan. ⁽⁴⁾ In addition to the participating loan, it does not include the debt for leases under IFRS-16 regulation, the non-current bankruptcy debt and the participating loan's financial costs. ⁽⁵⁾ EBITDA < 0; FFO < 0.

Rating and Outlook

EthiFinance Ratings gives Renta Corporación a rating of 'BB-', with a Positive outlook. After the impact on the company's business generation and profitability in 2020 as a result of the negative market situation caused by the effects of the Covid-19 pandemic, the company's activity has shown a significant improvement in 2021, however, in an environment still conditioned by the effects of the pandemic (successive waves, new variants of the virus, etc.) and which resulted in a downward deviation from its forecasts for that period, as well as in the maintenance in the prudence in its investments, the latter being of significant importance for its growth. The company is in a favourable position to maintain the growth trend shown in the last year, taking into account its performance in the first quarter of 2022. However, the current limited visibility regarding the pace of recovery of the economy and, therefore, of the sector, conditioned by the existing inflationary environment and the risk of a worsening of the armed conflict in Ukraine, explains the maintenance of the rating and outlook in the same terms as previously granted.

Rating sensitivities

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑).**

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

- **Negative factors (↓).**

Slowdown in the activity's recovery expected, with the consequent impact on the main financial ratios estimated, conditioned by the impact of the current scenario on the company's activity.

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, EthiFinance Ratings 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.EthiFinanceRatings-rating.com/en-US/about-EthiFinanceRatings/methodology and according to the Long-term Corporate Rating scale available at www.EthiFinanceRatings-rating.com/en-US/about-EthiFinanceRatings/rating-scale.
- EthiFinance Ratings 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 EthiFinance Ratings 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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