



ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 20/05/2021

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## Rating Action and rationale

- EthiFinance Ratings downgrades Renta Corporación Real Estate's rating from "BB-" to "B+", changing its outlook from Positive to Stable.
- The company's rating is favoured by their differentiated business model within the real estate sector, which benefits from a shorter maturity period, and limited construction risk compared to listed real estate developers in Spain. The company also stands out positively for its solid equity structure, resulting in high financial autonomy (Equity/Total Financial Debt: 125.1% in 2022). Despite this, its rating is constrained by a weak financial profile, penalised by the absence of a capacity to cover interests via recurring EBITDA (0.6x in 2022; EBITDA/Interests: 2.7x, including the change in value of real estate investments), as well as by a high leverage ratio, with a NFD/Recurring EBITDA of 19.9x, at year-end 2022. Not considering Net Financial Debt, the debt associated with the participating loan, the IFRS-16 lease debt, and the non-current bankruptcy debt, the adjusted NFD/EBITDA ratio stood at 4.5x in 2022, exceeding the limit set in the terms and conditions of the bonds (3.5x), issued in 2018 for €16.5M. If this threshold continues to be exceeded continuously for a period of more than six months, it could lead to the declaration of an early maturity of the bonds, leading to the obligation to repay the principal prior to their maturity in October 2023. In this regard, it is worth mentioning that the company would have the possibility of meeting this maturity; via the eventual sale of assets. In addition, the effects of the armed conflict in Ukraine, generalised inflation and rising interest rates, has further penalised the company's business generation and financial ratios in the last financial year. This context is expected to continue in the short term, which explains, to a large extent, the downgrade in the rating and outlook.
- In line with our new methodology, the sector in which the company operates (Real Estate) presents a medium ESG risk (sector heatmap between 3 and 3.5), given its impact on the environment. Considering this level of risk, the rating of the sector is not affected.

## Issuer description

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 the value of investment properties) of €54.0M (-33.9% YoY), and a margin from operations of €17.7M (€19.7M in 2021), resulting in a margin on revenues of 32.7% (24.1% in 2021). At year-end 2022, the recurring EBITDA (excluding the change in value of investment properties) stood at €2.3M (€9.8M in 2021), and the NFD/Recurring EBITDA ratio was 19.9x (4.4x in 2021). Including changes in value of investment property, the group recorded an EBITDA of €9.7M and an adjusted NFD/EBITDA ratio (adjusted NFD: does not include IFRS-16 lease debt, non-current bankruptcy debt, and equity loan principal and interest) of 4.5x (3.5x in 2021). Renta Corporación is listed on the Spanish Stock Exchange since 2006, with a market capitalisation of approximately €44M, as of 28/04/2023.

## Fundamentals

### Business Profile

#### Industry Risk Assessment

- **Pro-cyclical sector, conditioned by the current environment of high inflation and rising interest rates.** The group operates in an atomised sector, characterised by a high degree of competitiveness, limited barriers to entry and positive operating profitability; in a volatile industry under stress situations. There is also a trend towards concentration and the development of ESG policies, mainly by benchmark companies. The industry is currently penalised by the impact of the war in Ukraine, high inflation, and interest rate hikes. These have led to a slowdown in the market, the visibility of which, in terms of a normalisation, in the short to medium term is considered low.
- **In line with our new methodology, the Real Estate sector has a medium ESG risk (sector heatmap between 3 and 3.5).** The potential risk of ESG factors for companies in the sector in the medium term implies that a transition to new practices is required. No action could have a material impact on the overall stability or profitability levels of the sector in the short to medium term. Considering this level of risk, the rating of the sector is not affected.

#### Company's competitive positioning

- **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). This is a differentiating element with respect to the traditional promotional business, and limits the risk associated with the development of the asset. In addition, the transactional business is complemented by the equity segment, which provides recurrence to the group's revenue generation and boosts operating margins. In this regard, the company has important partners that have enabled it to promote a line of business. This is a strategic axis of its future growth and these partnerships have led to the creation of the Socimis Vivenio in 2018 and Wellder in 2022, the latter specialising in elderly homes. Also, within the equity segment, we highlight the creation of Cabe in 2022, dedicated to the rental of storage rooms.
- **Strategic portfolio concentrated around the residential segment.** Despite the increase in the last year (€85.3M vs €62.7M in 2021), the strategic portfolio remains at much lower levels than in previous years (€129.8M in 2020 and €211.3M in 2019). This is in line with a policy of balance sheet containment, following the outbreak of the pandemic in 2020 and the subsequent inflationary and rising interest rates environment. In this regard and given the current scenario, this strategy is expected to be maintained in the short term. Concerning the diversification of the portfolio, a concentration in the residential segment is observed (64%), conforming to the group's core business. The strategy of strengthening the equity segment has been reflected in real estate investments and in the portfolio. However, with the incorporation of new types of assets in 2022 (storage rooms and elderly homes), we consider that this strategy is in a developing state, given its presence in the company's current activity (31% of real estate investments and 10% of the portfolio).

#### Governance

- **Diversified shareholding structure, in which the majority presence of its founding partner stands out.** Ownership structure characterised by a high degree of diversification, highlighting the majority presence of its founding partner, Luis Hernández de Cabanyes, holding 12.7% of the capital. The presence of historical shareholders is complemented by institutional investors, who provide financial support for potential liquidity needs. Financial policy traditionally marked by leverage at controlled thresholds, but conditioned in the last financial year by the unfavourable market situation.

## Financial Profile

### Cash-flow and leverage

- **Drop in activity, coupled with a notable reduction in recurring EBITDA in the last financial year.** Drop in total revenues in 2022 (-33.9% YoY), due to the impact of the recent economic situation on the group's main business line (transactional). This fall was transferred to a greater extent to recurring EBITDA (-76.3% YoY) as a result of the increase in the cost structure, primarily due to the incorporation of new operating divisions. The recurrent EBITDA margin stood at 4.3%, at year-end 2022 (12.0% in 2021), which we consider low for the sector. Taking into account the present environment, we expect the pace of transaction materialisation and operating profitability to remain constrained in the short term.
- **Worsening of leverage ratios.** Notable deterioration in the NFD/Recurring EBITDA ratio, despite the maintenance of Net Financial Debt at relatively stable levels, as a result of the containment in terms of the balance sheet. At the end of 2022, this indicator stood at 19.9x (adjusted NFD/EBITDA: 4.5x), values considered as high. Similarly, the company presented no interest coverage capacity, via recurring EBITDA generation in the last year, with the Recurring EBITDA/Interest ratio standing at 0.6x, as of December 2022 (EBITDA/Interest: 2.7x). Both issues penalise Renta Corporación's financial profile.
- **Cash generation capacity is highly dependent on external financing.** A business model that results in a limited operating cash flow generation capacity that has been favoured, temporarily, by a conservative strategy in terms of investment in assets associated with the group's operations (strategic stocks). In addition, the short maturity period of these assets (around 12 months) results in high exposure to external resources in order to maintain liquidity levels.

### Solvency

- **High financial autonomy.** Solid equity structure (45.3% of the total balance sheet), exceeding net equity by 1.3x total financial debt (not including the participating loan). The increase in shareholders' equity, thanks to the capitalisation of the profit recorded and the maintenance of Total Financial Debt at relatively stable levels (+3.0% YoY), enabled this indicator to remain high in the last financial year.

## Modifiers

### ESG Factors

- **No relevant risks with respect to ESG controversies have been identified.**

### Liquidity

- **Adequate liquidity.** Although the company's liquidity situation (year-end 2022) is highly penalised by a demanding maturity schedule, concentrated in the short term (2023), the commitments to refinance part of the maturities and to cancel another, via asset sales, gives credence to our view in this regard. This aspect results in a liquidity assessment as adequate, albeit conditioned by a deteriorating financial profile.

### Country Risk

- **It has not been determined that there is a conditioning country risk, as the company concentrates its operations in Spain.**

## Main financial figures

Main financial figures. Thousands of €				
	2020	2021	2022	22vs21
Turnover	44,519	81,484	53,899	-33.9%
Total revenues <sup>(1)</sup>	45,634	81,651	53,996	-33.9%
Margin from operations <sup>(2)</sup>	4,203	19,666	17,660	-10.2%
Margin from operations (%)	9.2%	24.1%	32.7%	8.6pp
EBIT <sup>(2)</sup>	-5,732	11,722	9,223	-21.3%
EBIT margin (%)	-12.6%	14.4%	17.1%	2.7pp
EBITDA	-5,173	12,071	9,703	-19.6%
Recurring EBITDA <sup>(1)</sup>	-5,873	9,827	2,330	-76.3%
EBITDA margin (%)	-11.3%	14.8%	18.0%	3.2pp
Rec. EBITDA margin (%)	-12.9%	12.0%	4.3%	-7.7pp
EBT	-8,845	8,118	5,595	-31.1%
Total assets	151,800	164,794	170,217	3.3%
Equity	66,830	75,730	77,134	1.9%
Equity/TFD (%)	115.6%	126.5%	125.1%	-1.4pp
Total Financial Debt <sup>(3)</sup>	57,797	59,873	61,675	3.0%
Net Financial Debt <sup>(3)</sup>	49,578	43,466	46,366	6.7%
Adjusted Net Financial Debt <sup>(4)</sup>	47,482	41,870	43,976	5.0%
NFD/Recurring EBITDA <sup>(1)</sup>	n.a. <sup>(5)</sup>	4.4x	19.9x	15.5x
Adjusted NFD/EBITDA	n.a. <sup>(5)</sup>	3.5x	4.5x	1.1x
EBITDA/Interest	n.a. <sup>(5)</sup>	3.2x	2.7x	-0.5x
Rec. EBITDA <sup>(1)</sup> /Interest	n.a. <sup>(5)</sup>	2.6x	0.6x	-2.0x
FFO/NFD (%)	n.a. <sup>(5)</sup>	8.4%	n.a. <sup>(5)</sup>	-

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

## Rating Sensivity

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

- **Positive factors (↑).** Increased presence of the equity segment in the group's operations, supported by the strengthening of assets of a type other than residential. Improvement of the financial profile, favoured by an increase in recurring EBITDA, leading to an increase in the recurring EBITDA margin (Real Estate sector benchmark: 20%, approximately). This, together with a maintenance of Net Financial Debt at stable levels, should lead to an improvement in the NFD/Recurring EBITDA ratio.
- **Negative factors (↓).** Intensification of the current macroeconomic situation, leading to a continuity in the deterioration in operating results and a worsening of the EBIT margin (benchmark values for the Real Estate sector: 14%, approximately), among others. Further deterioration of key financial ratios, such as NFD/EBITDA, leading to a weaker financial profile, coupled with a liquidity ratio below 2x (sum of the cash position at the end of the last year and estimated short-term FFO, divided by the sum of debt maturities and maintenance capex, in the short term).

## 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 <https://www.ethifinance.com/en/ratings/methodologies> and according to the Long-term Corporate Rating scale available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- 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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