RENTA CORPORACION REAL ESTATE SOCIEDAD ANONIMA

A62385729 CORPORATE

B+ ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings affirms Renta Corporación Real Estate's "B+" rating, maintaining its Stable outlook.
- The company's rating is favoured by the development of a differentiated business model within the real estate sector, which benefits from a shorter maturation period compared to other listed developers in Spain. This is because they start with the acquisition of a developed asset, which is then refurbished for subsequent sale, assuming limited construction risk. Additionally, its solid asset structure is positively highlighted, resulting in a high financial autonomy (Net Equity/Total Adjusted Financial Debt: 161.9% in 2023) and significant deleveraging achieved in the last fiscal year (reduction of adjusted net financial debt by 34% between 2022 and 2023).
- However, the company's rating is constrained by a weak financial profile characterized by high levels of leverage. Additionally, it is further penalized by an unfavorable performance in 2023 in terms of results, resulting in a deterioration of key financial ratios.
- The Stable outlook assigned is driven by an expected recovery in activity in the short to medium term, as well as in operating margins, based on a progressive normalization estimated in the current environment, mainly concerning interest rates, leading to increased dynamism from investors. However, this is coupled with the company's continued policy of balance sheet containment.
- Consistent with our methodology, the sector in which the company operates (Real Estate) presents a medium risk in terms of ESG (sector heatmap between 3 and 3.5) given its impact on the environment. Considering this risk level, the sector rating is not affected. Renta Corporación's ESG rating, according to EthiFinance methodology, ranges between 3.5 and 4.0, resulting in a downward impact on the score of its financial profile, although the impact is not substantial enough to warrant a downgrade in the rating of said profile.

Issuer Description

Renta Corporación Real Estate (hereinafter referred to as 'Renta Corporación', 'the company', or 'the group'), headquartered in Barcelona (Spain), operates in the real estate sector through its two main business segments: transactional (sale of buildings and real estate project management) and asset management (management of real estate vehicles with third parties, some of them via Socimi, and income from the group's real estate investments). The group's operations focus on Spain, with Madrid and Barcelona being its main markets. In the last fiscal year, the company recorded total revenues (excluding variations in the value of real estate investments) of €41.9m (-22.3% YoY) and an operating margin of -€5.0m (€17.7m in 2022). As of the end of 2023, adjusted EBITDA (see calculation in the table of key financial figures) stood at -€6.6m (€2.3m in 2022) and reported EBITDA (see calculation in the table of key financial figures) was -€13.6m (€9.7m in 2022). Adjusted net financial debt (see calculation in the table of key financial figures) amounted to €30.7m as of December 2023 (€46.4m in 2022) and reported net financial debt (see calculation in the table of key financial figures) was €27.9m (€44.0m in 2022). Renta Corporación has been listed on the continuous market of the Spanish Stock Exchange since 2006, with a market capitalization of approximately €27.5m as of 24/04/2024 (Net book equity, as of the end of 2023: €58.5m).

Fundamentals

Business Profile

Industry Risk Assessment

- **The sector is pro-cyclical and fragmented, influenced by an inflationary environment and high current interest rates, factors for which, however, a gradual normalization is anticipated in the short term.**

The group operates in a fragmented sector characterized by high competitiveness, relatively low entry barriers, and positive operating returns in a volatile industry susceptible to macroeconomic stress. Additionally, there is a trend towards consolidation and the development of ESG policies, particularly concerning the sale of more energy-efficient buildings by leading companies. Currently, the industry continues to be impacted by ongoing conflicts, which have led to an inflationary environment and high interest rates, resulting in a slowdown in the real estate market. While a gradual normalization is expected in the short to medium term, factors such as the extension of the mentioned conflicts limit visibility regarding the sector's foreseeable evolution.

- **The 'Real Estate' has a medium ESG risk (sector heatmap between 3 and 3.5) given its impact on the environment.**

The potential risk of ESG factors in the sector's companies over the medium term implies that a transition to new practices is required for the sector. No action could generate a material impact on the overall stability or profitability levels of the sector in the short-to-medium term. This results in a sector assessment which is not impacted by industry-related ESG considerations.

Competitive positioning

- **Competitive position penalized by its small size.**

Although Renta Corporación operates within the real estate sector, its operations are characterized by shorter maturation periods concerning assets related to its core business (transactional). This sets it apart and provides competitive advantages compared to traditional development projects, reducing the construction risk associated with asset development. Additionally, the transactional business is complemented by the patrimonial segment, which adds recurring income generation to the group and enhances operating margins. In this regard, the company has significant partners that have enabled it to drive a business line positioned as a strategic axis for its future growth. This alliance has led to the creation of Socimis Vivenio in 2018 and Wellder in 2022, with the latter specializing in elderly care residences. Furthermore, within the patrimonial business, the establishment of Cabe in 2022, dedicated to urban storage rentals, stands out.

- **Activity with total exposure to the Spanish market and a strategic portfolio concentrated around the residential segment.**

Group's operations are exclusively focused on Spain, which limits the ability to mitigate the impact of unfavorable scenarios in this market. Additionally, regarding the transactional business portfolio, it is concentrated in the residential segment, in line with the group's core business, representing 65% of the total as of the end of 2023. In this regard, in terms of business, the company's revenue generation mostly comes from property sales (90% in 2023), within the transactional segment (92%). However, it is expected that the patrimonial business will gradually gain greater presence, as strengthening this line of business is one of the group's main strategic priorities.

Ownership structure and governance

- **Diversified ownership structure, with the majority stake held by its founding partner.**

Ownership structure characterized by a high degree of diversification, with the 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, providing the company with potential financial support. Regarding the management team, it is worth mentioning the recent change in the corporate general management in March 2024, which we believe could have a positive impact on management and governance.

Financial policy traditionally marked by controlled leverage thresholds, however, conditioned in recent years by the unfavorable market environment in terms of interest rates. In this regard, prudence in decision-making stands out, with a focus on balance sheet restraint in recent years, which is expected to continue in the short term.

Financial Profile

Performance and profits

- **Decline in activity in the last fiscal year, within a context of negative results as a consequence of a challenging market environment.**

Unfavorable trend in terms of revenue, which amounted to €41.8m in 2023, influenced by factors such as ongoing conflicts, an inflationary environment, and high interest rates, leading to a decrease in investment in the sector. Additionally, political uncertainty in 2023, a year marked by municipal, regional, and general elections, further contributed to the decline and delayed the materialization of a significant number of transactions by the company, resulting in negative operating results. Moreover, the pre-tax result in 2023 (-€17.8m vs. €5.6m in 2022) was negatively impacted by fluctuations in the value of real estate investments (-€5.3m vs. €7.3m in 2022), as well as the effects of the interest rate scenario on recorded financial expenses (-€4.0m vs. -€3.6m in 2022). The company expects a rebound in activity in 2024, based on the completion of transactions and the commercialization of the latest investments made at the end of 2023; factors anticipated to improve the group's results, with a return to positive values expected.

Leverage and Coverage

- **Maintenance of the balance sheet containment strategy, resulting in a reduction of net financial debt in 2023. However, there has been a deterioration in leverage ratios.**

Significant reduction in financial leverage in the last fiscal year, supported by maintaining prudence in terms of investment, given the scenario that unfolded, along with divestments carried out (total amount: €22.6m). The company expects to continue deleveraging, in line with the balance sheet containment policy, which will favor the NFD/EBITDA ratio as it is estimated that EBITDA will return to positive values. This is also expected to have a positive impact on the interest coverage ratio, albeit at reduced levels.

It is worth noting that on April 17th, the conclusion order of the Creditors' Meeting was received, formally concluding the process. This will allow Renta Corporación to access external financing on more favorable terms, which is considered important given the company's reliance on external resources associated with the group's business model.

Cash Flow

- **Cash flow generation capacity heavily reliant on external financing.**

Business model resulting in a limited capacity for operational cash flow generation, a matter that has been partially offset in recent years, temporarily, by a conservative strategy regarding investment in assets associated with the group's operations (strategic inventory), as well as by occasional divestments, which have favored free cash flow, especially in the last fiscal year (€16.9m vs €2.8m in 2022). Additionally, the company's activities entail a high exposure to external resources in order to maintain liquidity levels. Nevertheless, in 2023, the cash position experienced a drain of -€9.8m, amounting to €5.2m, with a recovery anticipated in the short term, based on an upturn in activity and the entry of strategic partners into various vehicles aimed at enhancing the business.

Solvency

- **High financial autonomy.**

Strong equity structure (56% of Total balance), exceeding equity by 1.6 times total financial debt. Despite the weakening of the equity structure in the last fiscal year, due to the recorded losses (consolidated result: -€15.9m), the significant reduction in financial indebtedness has led to an improvement in this indicator, which is expected to remain at high levels in the short term.

Liquidity

- **Liquidity constrained by short-term financial commitments, with improvement contingent upon the sale of non-strategic assets and activation of additional liquidity levers.**

As of the end of 2023, the company faces a liquidity situation heavily impacted by a demanding schedule of maturities, concentrated in the short term (2024), with notable maturities including the MARF commercial paper issuances carried out in 2023 (€12.2m) and the debt contracted with a private financing entity (€10m). In response to this scenario, the company has implemented measures to improve the group's liquidity position, including the sale of non-strategic and low-yield assets. These assets, which have been released from encumbrances with the conclusion of the Creditors' Agreement, are expected to be realized between 2024 and 2025. Given the progress made on these actions, particularly regarding the sale of non-strategic assets, and considering the nature of these assets (primarily residential), we believe that this strengthens the company's ability to meet its financial commitments and, therefore, its liquidity position.

Modifiers

Country Risk

- **No significant country risk has been identified, as the company operates solely in the Spanish market.**

Controversies

- **No significant ESG controversies have been detected.**

Main Financial Figures

Main Financial Figures. Thousands of €	2021	2022	2023	23vs22
Turnover	81,484	53,899	41,825	-22.4%
Total revenues [1]	81,651	53,996	41,949	-22.3%
Operating Margin [2]	19,666	17,660	-5,024	-128.4%
Operating Margin (%)	24.1%	32.7%	-	-
EBIT [1]	9,554	1,935	-8,940	-562.0%
EBIT Margin (%)	11.7%	3.6%	-	-
Reported EBITDA [2]	12,071	9,703	-13,581	-240.0%
Adjusted EBITDA [3]	9,817	2,344	-6,566	-380.1%
Reported EBITDA Margin (%)	14.8%	18.0%	-	-
Adjusted EBITDA Margin (%) [4]	12.0%	4.3%	-	-
EBT	8,118	5,595	-17,830	-418.7%
Total Assets	164,794	170,217	104,484	-38.6%
Equity	75,730	77,134	58,535	-24.1%
Equity/Adjusted TFD [5] (%)	126.5%	125.1%	161.9%	36.8pp
Total Adjusted Financial Debt [5]	59,873	61,675	36,164	-41.4%
Adjusted Net Financial Debt [5]	43,466	46,366	30,656	-33.9%
Reported Net Financial Debt [6]	41,870	43,976	27,943	-36.5%
Adjusted NFD [5]/Adjusted EBITDA [3]	4.4x	19.8x	n.a.[7]	-
Reported NFD [6]/Reported EBITDA [2]	3.5x	4.5x	n.a.[7]	-
Adjusted EBITDA [3]/Interests	2.6x	0.7x	n.a.[7]	-
FFO/Adjusted NFD [5] (%)	8.4%	n.a.[7]	n.a.[7]	-

[1] Does not include variations in the value of real estate investments. [2] Includes variations in the value of real estate investments. [3] Calculated according to EthiFinance methodology: EBIT + Depreciation + Impairment and gains/losses on disposal of property, plant, and equipment. Does not include variations in the value of real estate investments or impairments and changes in provisions for commercial transactions. [4] Adjusted EBITDA/Turnover. [5] Does not include either the principal or the interest of the participative loan until 2022. In 2023, it includes financial liabilities associated with assets classified as held for sale in the short term. [6] In addition to the participative loan, does not include lease liabilities under IFRS 16, non-current bankruptcy debt, either participative loan's interests. [7] EBITDA < 0; FFO < 0.

Credit Rating

Credit Rating	
Business Risk Profile	**BB**
Industry risk assessment	*BBB-*
Industry's ESG	*No*
Competitive Positioning	*B+*
Governance	*BB+*
Financial Risk Profile	**B**
Cash flow and leverage	*CCC+*
Solvency	*A*
Company's ESG	Yes
Anchor Rating	**B+**
Modifiers	*No*
Rating	**B+**

Rating Sensitivity

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

- **Positive factors (↑)**

Expansion of the group's size to enhance the business profile. Increase in the presence of the patrimonial business segment, supported by the development of assets other than residential. Establishment of investment vehicles with institutional investors.

Improvement of the financial profile, driven by an increase in EBITDA leading to higher EBITDA margin (industry benchmark for Real Estate: approximately 20%), alongside maintaining net financial debt at stable levels. This will result in an enhancement of the NFD/EBITDA adjusted ratio (industry benchmark: around 2x). Enhancement of the EBITDA/Interest ratio (approximate benchmark: 4.5x).

- **Negative factors (↓)**

Escalation of the current situation, leading to continued negative operating results or margins lower than estimated (industry benchmark for Real Estate EBIT margin: approximately 14%), among other factors.

Unfavorable deviations in the short-term liquidity milestones (entry of investor partners, sale of non-strategic assets, refinancing of part of the corporate debt, among others), negatively impacting the group's ability to meet its payment obligations in the short to medium term.

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, 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. Principal methodology used in this research are :
    - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
- The rating scale used in this report is 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.