

20 February 2024

## Raghsa

Raghsa is a company specializing in the development, construction, sale, and rental of offices and apartments that adhere to premium standards. It holds a prominent position as a leader in Argentina's market for corporate rentals and luxury residential towers. The company's primary sources of operating income include property sales, rentals, and the management of both offices and residential buildings. Notable among its developed and sold projects are the renowned residential towers of Le Parc in Buenos Aires and Punta del Este, as well as office properties like Madero Riverside and Plaza San Martín, among others. Raghsa oversees the management of three office buildings, with plans to inaugurate another business center this year. Additionally, the company has acquired land for future construction projects. Notably, Raghsa has expanded its presence beyond Argentina, with a footprint in the United States, where it leases a residential property in New York.

## Results

Raghsa's most recent financial results were reported for the third quarter of the 2024 fiscal year (3Q24), concluding on November 30, 2023. The fiscal year will conclude on February 29, 2024. In the Argentine office rental market, payments are made in pesos with a dollar-linked adjustment, and property transactions are conducted in hard currency, ensuring the company's income in dollars.

The current portfolio of rental offices includes the Madero Office, Belgrano Office, and the Libertador Business Center, all situated in Buenos Aires. Since the last report in the first quarter of 2024, Raghsa has sold 5,779 m<sup>2</sup> in Madero Office for USD 18.9 million. The company continues to concentrate its rental business in the northern corridor of Buenos Aires. Following these sales, the total rentable area stands at 96,858 m<sup>2</sup>,

representing a 25% decrease compared to the same period last year.

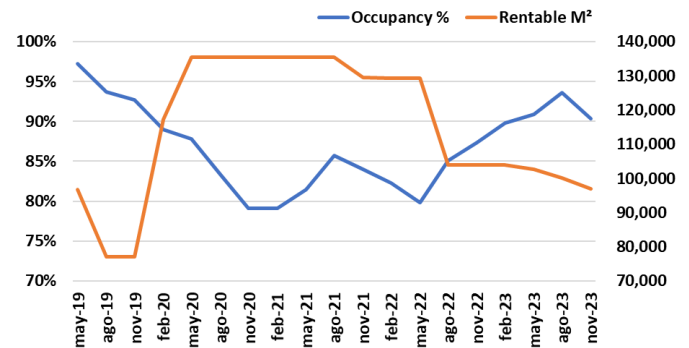
Raghsa places emphasis on managing its modern buildings, with Belgrano Office and Libertador Business Center being Gold certified by the U.S. Green Building Council (USGBC), now constituting 94% of the total rentable m<sup>2</sup>. As of the last closing, the occupancy rate reached 90.3%, maintaining high levels despite the labor market changes introduced by the pandemic.

Occupancy Rate	Plaza San Martín	Madero Office	Belgrano Office	Madero Riverside	Libertador Business Center	Total
rentable m2	-	6,139	30,499	-	60,220	96,858
3Q24	-	100%	87%	-	91%	90.3%
2Q24	-	100%	87%	-	96%	93.6%
Var (bp)	-	0	0	-	-500	-333
3Q23	-	35%	93%	-	96%	87.4%
Var (bp)	-	6500	-600	-	-500	291
3Q22	68%	35%	93%	79%	94%	84.0%
Var (bp)	-	6500	-600	-	-300	628

**Source:** Sekoia Research based on financial statements.

The chart below shows greater efficiency in the use of available m<sup>2</sup>, with fewer m<sup>2</sup> over time but of higher quality and with a higher occupancy rate.

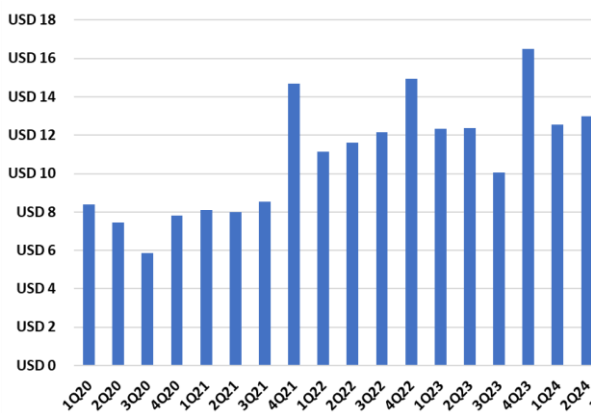
## Occupancy rate and rentable m<sup>2</sup> by quarter



**Source:** Sekoia Research based on financial statements.

Despite the reduction in available square meters, the occupancy level maintains rental income relatively stable. In 3Q2024, Raghsa reported rental income at the official exchange rate average of USD 9.7 million, a 3% decrease compared to 3Q2023.

### Rental income by quarter (USD millions)



**Source:** Sekoia Research based on financial statements.

To mitigate seasonality in the sector, we will consider the accumulated 9 months of the fiscal year based on the average exchange rate during that period. By 9M24, rental income reached USD 46.6 million, marking a 13% increase from 9M23. A notable aspect was also observed in the reduction of rental costs and administration and marketing expenses. The benefit was attributed to a more limited portfolio of buildings.

Revenues (US millions)	9M24	9M23	Var (%)	9M22
Rental revenues	46.6	41.2	13%	38.2
Cost of rental revenues	4.4	5.3	-17%	5.7
Cost/Rental revenues (%)	9%	13%	-300bp	15%
Consortium revenues	0.8	0.8	1%	0.6
Adm. & comm. expenses	12.9	16.8	-23%	10.4
Expenses/Rental rev. (%)	28%	41%	-1300bp	27%

**Source:** Sekoia Research based on financial statements.

Raghsa maintains stable income through rental contracts with both local and international firms. In the latest results JPMorgan represented 19% of the total portfolio and contributed 17% to the total revenues, indicating a concentration risk. However, excluding the JPMorgan case, the remaining contracts are highly diversified across companies from various industries.

Now, considering the available m<sup>2</sup> at the last closing and the average weighted price per m<sup>2</sup> of the portfolio reported by Raghsa (around USD 26.5 per m<sup>2</sup>), we can estimate that the company has the

capacity to generate USD 30.8 million annually in rentals. This calculation assumes full occupancy of the offices and does not include rental income from properties outside Buenos Aires or the unveiling of new units.

On the other hand, we can also consider the residential building that Raghsa owns in New York, One Union Square South, with 16,165 rentable square meters. Since its acquisition in 2020, the property has utilized its revenues for revaluation. For 2024, it is anticipated that the investment will mature and yield better operational results. Annual rental income is estimated at USD 15.5 million, a 4% increase compared to 2023, while expenses are projected at USD 6.6 million, reflecting a 52% annual decrease. The property would generate an operating income of USD 8.8 million.

### Investments and Projects

Raghsa plans to inaugurate a new premium office building, the Núñez Business Center, by mid-2024. The tower will add 22,200 rentable m<sup>2</sup> to the portfolio, located near the Libertador Business Center. Financially, only 3% of the total work remains to be contracted, and 14% remains to be paid. The company aims to inaugurate with a 25% occupancy rate and is currently negotiating lease contracts. Raghsa's strategy is to certify the building under the USGC, which would allow adding an additional USD 7.7 million in rentals with full occupancy.

Raghsa's commitment to the northern corridor of Buenos Aires remains steadfast. Following the latest closing, the company announced the acquisition of a new plot in the same block as the Núñez Business Center—2,800 square meters located at the former Axiom gas station on Av. Libertador. The company intends to construct a new corporate tower spanning 50,000 square meters, with 25,000 rentable square meters featuring open and flexible floors equipped with the latest technology. The purchase was finalized for USD 33.5 million. Raghsa has already paid USD

12 million, and the remaining USD 21.5 million will be settled in the coming months. Construction is slated to commence in the first half of 2025, with a total investment of USD 160 million. For financing, the company plans to utilize its operating cash flow and issue a local hard dollar corporate bond. This project solidifies Raghsa's position as a leader in the development of premium offices in Argentina.

### **Debt Profile**

As of 3Q24, Raghsa reported a financial debt of USD 273.8 million. All the debt is denominated in dollars and remains stable, being 1% lower than 2Q24 and 1% lower than 3Q23. Following the purchase of the New York property, the company did not incur additional debt and exchanged its corporate bonds during 2023, avoiding capital payments. Raghsa prioritizes the use of its own funds to execute its developments.

The financial debt consists of 55% in bonds, 42% in mortgage debt for the New York property, and the remaining 3% secured by shares of the subsidiary in New York. The bonds are divided as follows: Class 3, due in March 2024, with an interest rate of 7.25% for USD 35.2 million; Class 4, due in 2027, with an interest rate of 8.5% for USD 57.8 million; and Class 5, due in 2030, with an interest rate of 8.25% for USD 56.3 million. All bonds are bullet and are governed by New York legislation. The 2030 bond emerged as a result of an early and voluntary exchange carried out by Class 3 with a 62% acceptance rate.

On the other hand, the mortgage on the property in New York totals USD 114.3 million. It was obtained during the pandemic, entailing a very low annual interest of 2.65%. Considering inflation in the United States, it has been running at a negative real interest rate. Starting from 2030, the mortgage shifts to a variable rate scheme, and amortization installments will begin to impact from 4Q24.

The company has reduced its cash position, amounting to only USD 4.2 million as of 3Q24. This signifies a 15% decrease compared to 2Q24 and a 63% decrease compared to 3Q23. The cash is distributed with 84% in pesos and 16% in dollar bank deposits. Valued at the blue-chip swap rate, the cash totals USD 2.1 million.

As has been the trend in recent quarters, the decrease in cash was offset by higher financial assets. The company holds financial assets totaling USD 186.7 million, which, valued at market prices, reached USD 154.7 million. This represents a 9% increase compared to 2Q24 and a 15% increase compared to 3Q23. Of this total, 56% is invested in Treasury Bonds, 24% in Foreign Corporate Bond Funds, 10% in hard-dollar sovereign bonds, 8% in Argentine corporate bonds with New York law, and 2% in local currency funds.

Analyzing the weight of liabilities, the mortgage on Union Square South is secured by the same property. For this reason, we will first consider Raghsa's debt ratios without factoring in the mortgage debt, rental flows, or expenses and interest corresponding to the company's activities in New York.

With this criteria, the total financial debt is reduced to USD 150 million, implying annual interest payments of USD 10.8 million. Considering cash and the aforementioned financial instruments, net financial debt becomes negative at USD 6.8 million. This implies that the company could pay off all its bonds immediately using its liquid assets, without relying on rental flows or selling its portfolio of offices.

Furthermore, if we project rental flows using the aforementioned rental prices, with an occupancy rate of 90%, Raghsa would obtain USD 27.8 million through its portfolio of 3 properties. This flow implies that the company has the capacity to cover up to 2.6 times the annual interest payments using only its operating income.

In a second, more stringent analysis, we can consider the property in New York with its mortgage and rental flows. In this scenario, net financial debt would increase to USD 117 million, interest payments would reach USD 14 million, and rental income would amount to USD 36.6 million. With these new flows and figures, the Net Debt/Rentals leverage ratio would be 3.2 times. Not bad, considering that, at least until 2030, the property in New York would generate income robust enough to cover the annual interest and mortgage amortization services by itself.

Finally, we can assess the value of Raghsa's real estate. After the recent sales, the value of square meters at 3Q24 totaled USD 478.7 million. This calculation is conducted quarterly by reputable independent appraisers, considering only assets in Argentina and quoting the almost finished Núñez Business Center as land. The average price per square meter of premium office sales in Argentina remains stable compared to 2Q24 and 3Q23, at around USD 4,000.

The value of the portfolio properties in Argentina represents more than three times the outstanding financial debt of Raghsa. Without selling financial assets and with the sale of some square meters, even at a much lower price than appraised, the company could easily cover the payment of all its financial debt.

### Fixed Income

In the coming days, on March 20, Raghsa will pay off the remaining capital of the 2024 bond. With very little volume, its price already reflects compliance.

The 2027 bond is trading with a clean price of USD 98.5 and offers a yield to maturity close to 9% with a modified duration of 2.7 years. The bond has remained stable and has withstood the fluctuations in interest rates from the Federal Reserve and the consequent increase in required yields for all sovereign and corporate bonds, both developed and emerging. Finally, the 2030 bond

can be acquired at a clean price of USD 96.5, providing a very similar yield of 9% but with a modified duration of 4.6 years.

### Raghsa 8,5% 2027

Bond Description		Issuer Information		Identifiers	
10 Bond Info	Name	RAGHSA SA		FIGI	BBG00TSYCF86
11 Addtl Info	Industry	Other Financial (BCLASS)		ISIN	USP79849AD07
12 Reg/Tax	Security Information			ID Number	B14647381
13 Covenants	Mkt Iss	EURO-DOLLAR		Bond Ratings	
14 Guarantors	Ctry/Reg	AR	Currency	USD	Moody's
15 Bond Ratings	Rank	Sr Unsecured	Series		Caa2
16 Exchanges	Coupon	8.500000	Type	Fixed	
17 Inv Parties	Cpn Freq	S/A			
18 Fees, Restrict	Day Cnt	ISMA-30/360	Iss Price		Issuance & Trading
19 Schedules	Maturity	05/04/2027			Amt Issued/Outstanding
20 Coupons	MAKE WHOLE	@50.000 until 05/04/24/	CALL	05/...	USD 58,342.00 (M) /
21 Impact	Iss Sprd				USD 58,342.00 (M)
22 Quick Links	Calc Type	(1)STREET CONVENTION		Min Piece/Increment	1,000.00 / 1.00
23 ALLQ Pricing	Pricing Date	04/02/2020		Par Amount	1,000.00
24 QRD Trade Recap	Interest Accrual Date	05/11/2020		Book Runner	
25 TDH Trade Hist	1st Settle Date	05/11/2020		Reporting	TRACE
26 CACS Corp Action	1st Coupon Date	11/04/2020			
27 CF Filings	ISSUED IN EXCHANGE OF	144A/REGS CUSIP 750645AD5/ISIN USP79849AC24 AND			
28 CN Sec News					
29 HDS Holders					
30 Send Bond					



Source: Bloomberg.

### Raghsa 8,25% 2030



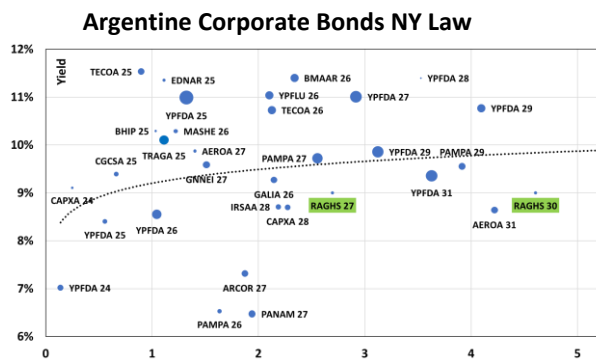
Source: Bloomberg.

**Raghsa 8,25% 2030**



Source: Bloomberg.

Due to its good credit quality, Raghsa remains below the yield curve of Argentine corporate bonds with New York law. A comparable sector, such as IRSA, operates with similar yields. Its 2028 bond has a yield of 8.7% with a duration of 2.2 years.



Source: Sekoia Research based on Bloomberg.

**Outlook**

With a repositioning and expansion plan in place, Raghsa maintains control over its financial statements. The substantial financial assets in hard currency, coupled with the low level of debt and the favorable real interest rates on its mortgage abroad, provide flexibility for new real estate developments.

As we've highlighted in previous reports, the company continues to prudently manage its assets and liabilities, achieving an excellent financial position while generating new business. Including Raghsa in a local corporate bond portfolio is a prudent investment strategy in a sector known for its extremely defensive characteristics in the local economy.

The 2027 and 2030 bonds remain attractive, offering compelling coupon payments for those who prioritize stability over performance. With one of the best risk/return ratios, Raghsa has been a key issuer in our fixed-income funds for many years.

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