

July 21st 2023

**Raghsa S.A.**

Raghsa is a company dedicated to the development, construction, sale, and rental of offices and homes with high-quality standards. Its trajectory began in the year 1969. The company is a leader in Argentina's market for AAA corporate rentals and the development of luxury residential towers.

The firm's operating income comes from property sales, rentals, and the management of offices and residential buildings. Among its constructed and already sold buildings, the famous residential towers of Le Parc in Buenos Aires and Punta del Este stand out, as well as office properties like Madero Riverside, Edificio Plaza San Martín, among others.

The company manages a portfolio of 3 office buildings and has been progressing since 2020 with the construction of a new premium corporate complex in the Núñez neighborhood in Buenos Aires. Raghsa also has a presence in the North American real estate market with its One Union Square South residential building, with more than 16,000 m<sup>2</sup> of rentable area.

**Results**

The square meter in the premium office rental market in Argentina is priced at the official exchange rate. Moreover, developments outside the country and the purchase and sale of properties allow the company to obtain part of its income in hard currency. In line with the nature of its business, most of Raghsa's assets and liabilities are denominated in US dollars. For this reason, we will first analyze Raghsa's results at the official exchange rate for each period under review.

Raghsa released its latest results at the end of the first quarter of the 2024 fiscal year, as of May 31, 2023. The company's fiscal year ends in late February of each year.

As we highlighted in our previous report, Raghsa has been divesting its offices in the center of Buenos Aires, prioritizing its operations in the northern corridor and

its more modern buildings. After fully selling the Madero Riverside Tower and the Plaza San Martín Building in 2022, during the first half of 2023, the company sold functional units and parking spaces in the Madero Office Tower for USD 15.7 million.

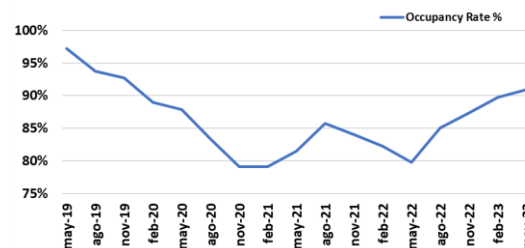
The current office portfolio consists of the Madero Office Tower, 955 Belgrano Office, and Centro Empresarial Libertador. After the recent sales, the total rentable area reached 102,637 m<sup>2</sup>. Raghsa focuses on occupancy in its higher-quality properties: Belgrano Office with 87% and Centro Empresarial Libertador with 97%. Both buildings are certified by the U.S. Green Building Council (USGBC) with a Gold rating and represent 88% of the company's total available square meters.

Occupancy Rate (%)	Edificio Plaza San Martín	Torre Madero Office	Torre 955 Belgrano Office	Torre Madero Riverside	Ctro. Emp. Libertador	Total
rentable area (m2)	-	11,918	30,499	-	60,220	102,637
1Q2023/24	-	70%	87%	-	97%	90.9%
4Q2022/23	-	63%	87%	-	97%	89.8%
Var (bp)	-	700	0	-	0	113
1Q2022/23	36%	35%	93%	64%	94%	87.4%
Var (bp)	-	3500	-600	-	300	349
1Q2021/22	68%	56%	93%	96%	82%	85.1%
Var (bp)	-	1400	-600	-	1500	581

Source: Sekoia Research based on balance sheet data.

At the latest closing, the average occupancy rate reached 91%, levels that had not been seen since before the pandemic. The divestment of square meters in the Madero Office Tower, which had lower occupancy, contributed to improving this indicator compared to the previous quarter.

**Occupancy rate (%) by quarter**



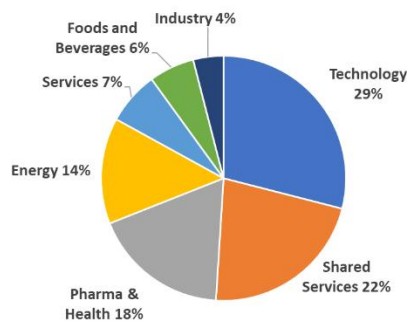
Source: Sekoia Research based on balance sheet data.

In the last quarter, Raghsa reported a rental income of USD 12.5 million, a 2% increase compared to the same quarter of the previous year.

Rental income totaled USD 51.2 million in rental revenues during the 2023 fiscal year. This was a 10% increase compared to the previous fiscal year. The combination of a higher occupancy rate for higher-quality square meters led to an increase in income while a more efficient use of available square meters led to a decrease in rental costs.

As mentioned earlier, Raghsha's office clients come from various industries represented by local and international corporations. At the latest closing, Chevron and JP Morgan accounted for 18% of the company's income and trade credits, compared to 23% in previous quarters. However, the concentration of income remains an important risk to monitor in this business segment.

**% Revenue by customer's sector**



Source: Sekoia Research based on Raghsha presentation Apr-23.

Meanwhile, administrative and commercial expenses increased significantly totaling USD 19.2 million for the 2022/23 fiscal year, a 40% increase compared to the previous fiscal year.

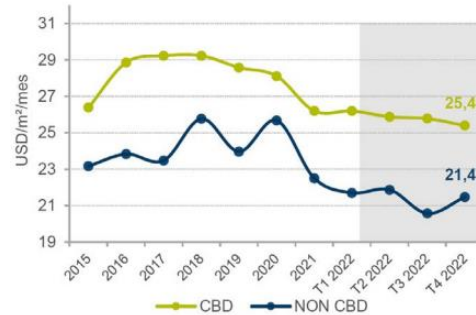
Revenues (US millions)	3M2023/24	3M2022/23	Var (%)	FY 2022/23	FY 2021/22	Var (%)
Rental revenues	12.5	12.3	2%	51.2	49.8	3%
Cost of rental revenues	1.4	1.7	-17%	6.4	7.3	-11%
Cost/Rental revenues (%)	11%	14%	-300bp	13%	15%	-200bp
Consortium revenues	0.3	0.2	20%	0.6	0.6	14%
Adm. & comm. expenses	3.6	3.3	9%	19.2	13.7	40%
Expenses/Rental rev. (%)	29%	27%	200bp	38%	28%	1000bp

Source: Sekoia Research based on balance sheet data.

With the current portfolio, projecting income flows based on the average price per square meter in the premium office market (USD 25.4 per m<sup>2</sup>), the company has the capacity to generate an annual rental flow of USD 31.3 million. Similarly, maintaining the current occupancy level would result in an annual flow of USD 28.4 million. These estimates do not include

properties outside of Buenos Aires or potential sales or unveiling of functional units.

**Monthly rental price in USD per m<sup>2</sup> (CBD and Non-CBD)**



Source: Raghsha presentation Apr-23.

Office Rentals	1Q2023/24
Rentable m2	102,637
Price per m2 (USD)	25.40
Max. monthly flow (mill. USD)	2.61
Max. annual flow (mill. USD)	31.3
Occupancy rate (%)	91%
Rented m2	93,290
Monthly flow (mill. USD)	2.37
Annual flow (mill. USD)	28.4

Source: Sekoia Research based on balance sheet data.

On the other hand, through its subsidiary Raghsha Real Estate LLC, the company owns a residential property in the United States. The One Union Square South building was built in 1998, located in the heart of New York, and has 239 units available for rent. With a total rentable area of 16,165 m<sup>2</sup>.

The estimated annual rental income for 2023 is USD 14.9 million, while projected expenses amount to USD 13.7 million. The property would generate an operating net income of USD 1.2 million for 2023, an estimation that is considerably lower than the one projected for 2022. The firm's goal for this building is the reinvestment of its income in order to appreciate the property. Raghsha took on very cheap debt to buy half of the building in the heart of NY and is still in a phase of reinvesting income to target a high-quality residential segment.

**Investments and Projects**

Raghsha is progressing with the construction of the new Núñez Business Center, located on Campos Salles Street along the Av. Libertador corridor. This AAA-class

tower construction will add 24,000 new rentable square meters. The company aims to certify this property under the Gold classification of the US Green Building Council (USGBC). At the previously described average rental prices and in a scenario of full occupancy, the project has a potential rental flow of USD 7.3 million annually.

Regarding the progress of the construction, the company has already contracted 90% of the total work and paid 63% of it. The Núñez Business Center is expected to be completed and launched in June 2024. In commercial terms, Raghsa has recently started negotiations with clients for rentals.

In terms of other investments, at the beginning of 2023, Raghsa sold all the remaining units of its Le Parc IV Tower in Punta del Este.

### **Debt Profile**

At the end of the first quarter, the company reported a total financial debt of USD 274.6 million, fully denominated in dollars. The amount is 2% lower than the previous quarter's and 3% lower than the same period of the previous year. The financial debt is composed of corporate bonds accounting for 54.6%, mortgage debt for the property in New York for 41.6%, and debt secured by shares of the subsidiary in New York for the remaining 3.8%.

There are three NY Law bullet bonds: RAGHSA 7 ¼ 03/21/24 for USD 34.3 million, RAGHSA 8 ½ 05/04/27 for USD 57.8 million, and RAGHSA 8 ¼ 04/24/30 for USD 56.3 million.

The 2030 bond resulted from an early and voluntary exchange by the holders of the 2024 one. The company offered a new six-year bond (the longest maturity offered by local issuers so far) to the holders. In return, Raghsa increased the annual coupon payment by only one percentage point. A high level of participation, with 61.8% of the nominal value of the 2024 bond accepting the exchange, reflected investors' confidence in the company.

On the other hand, the mortgage on the property in New York amounts to USD 114.2 million and pays a 2.65% annual interest for the first ten years, transitioning to a Libor variable rate scheme afterward. The amortization payments will start in November 2023. The credit was taken in 2020, taking advantage of the low international rates, which presented a great opportunity for the company.

The company's cash and equivalents at the latest closing totaled USD 8.1 million. However, considering that 75% of the cash is denominated in dollars, the cash and equivalents valued at the blue-chip swap would be reduced to USD 7 million. This amount decreased by USD 2.1 million compared to the previous quarter's closing.

Raghsa's modest cash balance is compensated by an abundant account of financial assets. At the latest closing, financial assets totaled USD 137.8 million. 99% of these instruments are denominated in dollars and include U.S. Treasury Bonds, Mutual Funds with mostly foreign fixed-income securities, and NY-law bonds from other local issuing companies.

As for liabilities, the mortgage on Union Square South in NY is secured by the same property. For this reason, we will first consider the debt ratios without taking into account the stock of mortgage debt, rental payment flows, or payments of expenses or interests corresponding to NY operations.

As such, the total financial debt amounts to around USD 149.9 million. This debt implies annual interest payments of USD 12.1 million. On the other hand, the net financial debt, considering cash and assets, contracts to only USD 5.1 million. This means that in a moderate scenario where Raghsa obtains an annual rental flow of USD 28.4 million, the company would only need to receive rentals for 3 months to cover the net debt payment. Additionally, this flow could cover interest payments up to 2.4 times. Both multiples reflect the company's strong financial position, as it maintains cash and accumulates financial assets through rental collections and property sales, despite the capital expenditure invested in new projects.

Now, if we consider the mortgage debt and the projected rental flows from residential properties in New York, the net debt would total USD 129.8 million. In this case, the rental flow would increase slightly to USD 29.6 million, and debt interests would amount to USD 15.3 million annually. This level of net debt generates leverage of 4.4 times. The level is not high, considering that the mortgage loan is repayable in installments and will not be fully repaid until 2050.

In a second analysis, we can compare the total value of marketable square meters in Raghsa's portfolio against the net debt to be paid, considering only the assets in Argentina and Raghsa's debt without the mortgage. As of May 2023, the company reported a market value of all its properties at USD 504.7 million, which means an average office sale price of precisely USD 4,000 per square meter.

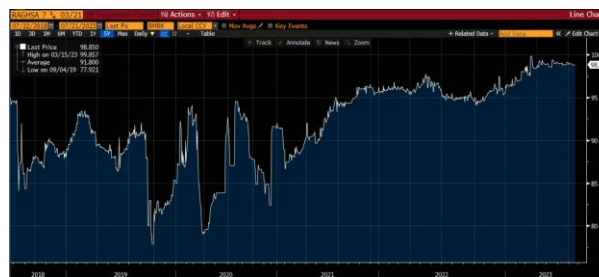
This means that the value of the assets in the portfolio in Argentina represents almost 4 times the total financial debt and almost 100 times the net financial debt that Raghsa S.A. owes to its bondholders. The company practically has zero net debt.

**Bonds**

RAGHSA 7 ¼ 03/21/24 trades clean at around 99.5%. It yields 8% with a modified duration of 0.6 years. This bond has shown remarkable stability over the past two years, operating with very low levels of volatility and reduced risk following its exchange. It has served as a solid store of value during challenging times, appealing to conservative investors seeking stability.

**Raghsa 7,25% vto. 2024**

Bond Description		Issuer Description		Identifiers	
<b>Bond Info</b>		<b>Issuer Information</b>		<b>Identifiers</b>	
13 Bond Info	Name	RAGHSA SA	FIGI	BBG00G6Z0Y69	
13 Addtl Info	Industry	Other Financial (BCLASS)	ISIN	USP79849AC24	
13 Reg/Tax	<b>Security Information</b>		ID Number	AM8726540	
13 Covenants	Mkt Iss	EURO-DOLLAR	Bond Ratings	Moody's	Caa2
13 Guarantors	Ctry/Reg	AR	Currency	USD	
13 Bond Ratings	Rank	Sr Unsecured	Series	REGS	
13 Identifiers	Coupon	7.250000	Type	Fixed	
13 Exchanges	Cpn Freq	S/A	<b>Issuance &amp; Trading</b>		
13 Inv Parties	Day Cnt	ISMA-30/360	Iss Price	99.32600	
13 Fees, Restrict	Maturity	03/21/2024	Aggregated Amount	Issued/Out	
13 Schedules	CALL	08/22/23@100.00	USD	119,729.84 (M) /	
13 Coupons	Iss Yield	7.375	USD	35,114.56 (M)	
13 Times	Calc Type	(1)STREET CONVENTION	Min Piece/Increment		
13 ALLO	Pricing Date	03/15/2017	1,000.00 / 1.00		
13 GRD	Qt Recap				
13 TDH	Trade Hist		Par Amount	1.00	
13 CACS	Corp Action	09/21/2017	Book Runner	ITAU,UBS	
13 CF	Filings	03/17/2023	Reporting		
13 CN	Sec News	04/20/2023	Reporting		
13 HDS	Holdings				
13 Send Bond					



Source: Bloomberg.

As for RAGHSA 8 ½ 05/04/27, it trades at 98%, yielding close to 9% with a modified duration of 3.1 years.

**Raghsa 8,5% vto. 2027**

Bond Description		Issuer Description		Identifiers	
<b>Bond Info</b>		<b>Issuer Information</b>		<b>Identifiers</b>	
13 Bond Info	Name	RAGHSA SA	FIGI	BBG00T5YCF86	
13 Addtl Info	Industry	Other Financial (BCLASS)	ISIN	USP79849AD07	
13 Reg/Tax	<b>Security Information</b>		ID Number	B34647381	
13 Covenants	Mkt Iss	EURO-DOLLAR	Bond Ratings	Moody's	Caa2
13 Bond Ratings	Ctry/Reg	AR	Currency	USD	
13 Identifiers	Rank	Sr Unsecured	Series	REGS	
13 Exchanges	Coupon	8.500000	Type	Fixed	
13 Inv Parties	Cpn Freq	S/A	<b>Issuance &amp; Trading</b>		
13 Fees, Restrict	Day Cnt	ISMA-30/360	Iss Price	58,342.00 (M) /	
13 Schedules	Maturity	05/04/2027	USD	58,342.00 (M)	
13 Coupons	MAKE WHOLE	@50.000 until 05/04/24/ CALL 05/_	USD	58,342.00 (M)	
13 Impact	Iss Sprd		Min Piece/Increment		
13 Quick Links	Calc Type	(1)STREET CONVENTION	1,000.00 / 1.00		
13 ALLO	Pricing Date	04/02/2020	Par Amount	1,000.00	
13 GRD	Qt Recap		Book Runner		
13 TDH	Trade Hist		Reporting		
13 CACS	Corp Action	05/11/2020	Reporting		
13 CF	Filings	05/11/2020			
13 CN	Sec News	11/04/2020			
13 HDS	Holdings				
13 Send Bond					



Source: Bloomberg.

Finally, RAGHSA 8 ¼ 04/24/30 can be bought at around 95-96%, offering a yield of 9% with a modified duration of 4.9 years. Raghsa is slightly below the yield curve of Argentine corporate bonds.

**Raghsa 8,25% vto. 2030**

Bond Description		Issuer Description		Identifiers	
<b>Bond Info</b>		<b>Issuer Information</b>		<b>Identifiers</b>	
13 Bond Info	Name	RAGHSA SA	FIGI	BBG01GF95N33	
13 Addtl Info	Industry	Other Financial (BCLASS)	ISIN	USP79849AE89	
13 Reg/Tax	<b>Security Information</b>		ID Number	ZK3626155	
13 Covenants	Mkt Iss	EURO-DOLLAR	Bond Ratings	Moody's	Caa2
13 Guarantors	Ctry/Reg	AR	Currency	USD	
13 Bond Ratings	Rank	Sr Unsecured	Series	REGS	
13 Identifiers	Coupon	8.250000	Type	Fixed	
13 Exchanges	Cpn Freq	S/A	<b>Issuance &amp; Trading</b>		
13 Inv Parties	Day Cnt	ISMA-30/360	Iss Price	56,777.28 (M) /	
13 Fees, Restrict	Maturity	04/24/2030	USD	56,777.28 (M)	
13 Schedules	MAKE WHOLE	@50.000 until 04/17/24/ CALL 04/_	USD	56,777.28 (M)	
13 Coupons	Iss Sprd		Min Piece/Increment		
13 Impact	Calc Type	(1)STREET CONVENTION	1,000.00 / 1.00		
13 Quick Links	Pricing Date	03/17/2023	Par Amount	1,000.00 / 1.00	
13 ALLO	Qt Recap		Reporting		
13 GRD	Trade Hist		Reporting		
13 TDH	Trade Hist				
13 CACS	Corp Action	04/24/2023			
13 CF	Filings	04/24/2023			
13 CN	Sec News	10/24/2023			
13 HDS	Holdings				
13 Send Bond					



Source: Bloomberg.

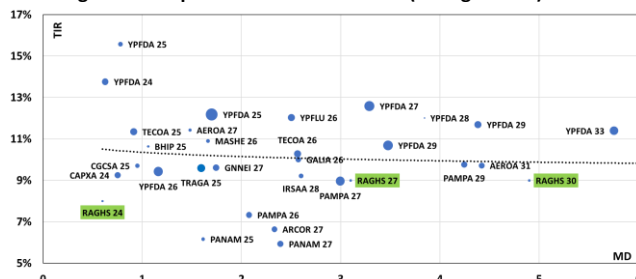
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Argentine Corporate Bonds Yield Curve (NY legislation)



Source: Sekoia Research based on Bloomberg data.

**Outlook**

In summary, the company manages its assets and liabilities with great care, achieving an excellent financial position while investing in new developments, diversifying not only currencies but also the quality and origin of its future clients.

Furthermore, the substantial cushion of return offered by its bonds serves as a store of value, despite operating in a context that affects all fixed-income prices globally.

Raghsa has been one of our preferred bonds for many years. We believe it offers one of the best risk/return ratios among local issuers with foreign currency. It is a key asset in our bond funds.

Like the rest of the high-quality Argentine corporate yield curve, these months have seen some loss of attractiveness compared to the yields offered by other emerging market bonds from more stable economies than Argentina. However, as a local issuer, it remains one of our top picks for a long time. We like Raghsa, and we feel comfortable with it. The bonds may seem somewhat expensive at first glance, but we rest easy with a nice current yield.