

## Strong FY18, growing operational resilience

1 April 2019

Raven had a fundamentally strong FY18, although headline comparisons were affected by a weaker Rouble and FY17 figures boosted by land sales.

End December portfolio occupancy was 89% (FY17: 81%) and local currency rents, ERVs and asset values were all ahead y-o-y.

The market outlook is positive - in management's opinion better than at any time since 2014 - as demand for warehouse and logistics space benefits from both overall economic recovery and eCommerce's growing importance locally.

### Shift to RUB operating model nearing completion

Management has improved the resilience of operating financials over the last few years, progressively converting USD leases and debt into mainly RUB/EUR denomination.

All USD debt should be exited this year, and legacy USD leases converted over the next 24-36 months. That will reduce group exposure to potential forex mismatches, while interest rate hedges add visibility to medium term debt costs.

### Valuation: portfolio performance lost in translation

Raven owns and operates a high-quality portfolio with a strong revenue and valuation outlook, increasingly stable underlying financials and an outlook backed by attractive occupational market dynamics. Politics remains a source uncertainty and underlines the value of an ongoing transition to a Rouble-based operating model. That process is well on track and **our forecasts are supported by acquisitions, better occupancy and the move from USD to RUB debt facilities.**

Sensitivity to external factors and adverse forex was particularly apparent in year-end NAV, as an underlying 8% increase in RUB portfolio values translated into a 19% fall in GBP NAV/share to 48p at end FY18 (FY17: 59p).

Raven announced a 1.75p final distribution, paid by way of tender offer (buy back of two shares in every 51 held), **a distribution of 3p/share for the year, and a yield above 7%**. That process continues to reduce ordinary shares in issue and will progressively underpin EPS and NAV/share.

Summary forecasts				
Year end 31 Dec	2017A	2018A	2019E	2020E
Net Operating Income, £m	129.7	118.3	128.2	123.6
Adj. Pre-tax, £m	55.9	26.2	31.3	26.2
Adj. diluted EPS (p)	5.7	3.1	4.2	3.3
Distribution/ord. share (p)*	4.0	3.0	3.0	3.0
Yield*, %	9.6	7.2	7.2	7.2
Net asset value (p)	59	48	49	50

Source: Group report & accounts and ED estimates, \*Distribution paid via tender offer share buy-back

#### Company Data

EPIC	RAV
Ordinary 1p shares, p	41.5
52 week Hi/Lo	55-43p
Market cap £m	£259m

12% 1p Cumulative Pref	RAVP
Share price p	135
52 week Hi/Lo	151-126
Issued share cap m	99.6
Market cap	£135m
Yield %	8.9

6.5% Convertible Red Pref	RAVC
Share price p	115.5
Equivalent ordinary price	76.7
Issued share cap m	198
Market cap	£229m
Yield %	5.6

#### Exchange rates (RUB/GBP) used:

	B/S	P&L
FY18	88.35	83.69
FY17	77.80	75.19

#### Description

Raven Property Group Ltd is a Guernsey registered property company specialising in investment and development of high-quality Grade A warehouse complexes in major Russian cities. Its portfolio is let to both Russian and international tenants.

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## FY18 results

The FY18 result combined operational and demonstrable financial (local currency) progress. The components included higher portfolio occupancy, from 81% to 89%, now 90%. That reflects both better occupational market dynamics and the group's fundamentally high-quality warehouse and logistics portfolio, well-placed relative to growing occupier demand.

Underlying financials and market positioning improved as the group (a) progressed its transition to a predominantly Rouble operating model and (b) grew its income stream via the addition of two warehouses to its long-term investment portfolio.

That has respectively reduced operational exposure to forex movements and will help offset potential declines in NOI as legacy USD-pegged leases expire over the next two to three years and are re-let in Roubles.

## Underlying performance affected by adverse forex

FY18 performance was obscured by adverse forex. Progressively, such shifts will be mainly an issue for headline results, rather than operations.

<b>Earnings</b>		
<b>y/e 31 Dec, £m</b>	<b>FY17</b>	<b>FY18</b>
<b><u>Underlying Earnings (Adjusted non IFRS)</u></b>		
<b>Net rent and related income</b>	<b>129.7</b>	<b>118.3</b>
Administrative expenses	(19.7)	(22.7)
Long term incentives	(1.3)	0.0
Forex (losses)/gains	6.1	(2.5)
Share of profit of JVs	1.6	1.6
<b>Operating profit</b>	<b>116.5</b>	<b>94.7</b>
Net finance charge	(60.6)	(68.5)
<b>Underlying PBT</b>	<b>55.9</b>	<b>26.2</b>
Tax	(12.5)	(6.2)
<b>Underlying profit after tax</b>	<b>43.4</b>	<b>20.0</b>
<b><u>IFRS Earnings</u></b>		
<b>Net rent and related income</b>	<b>129.7</b>	<b>118.3</b>
Administrative expenses	(22.1)	(25.2)
Share based payments and other LT incentives	(3.5)	(2.9)
Forex (losses)/gains	6.1	(2.5)
Share of profit of JVs	1.6	1.6
<b>Operating profit</b>	<b>111.8</b>	<b>89.4</b>
(Loss)/Profit on revaluation	28.2	(121.0)
Net finance charge	(71.7)	(83.3)
<b>IFRS PBT</b>	<b>68.3</b>	<b>(114.9)</b>
Tax	(25.2)	(5.8)
<b>Underlying profit after tax</b>	<b>43.1</b>	<b>(120.7)</b>

Source: Group FY18 results

## Valuation: 7% yield, 12.5% discount to NAV

The valuation is supported by a 7% plus yield on the ordinary shares, paid as in previous periods via a tender offer; a two for 51 tender offer at 45p. That progressively reduces the equity base and helps underpin NAV/share. This remains a core component of strategy to build shareholder value; Raven has repurchased c 245m shares since 2010.

The impact of a weaker Rouble on headline (GBP) NAV, EPS and dividend cover was accentuated in these results as Raven changed **the presentational currency of its financial reports from USD to GBP** in line with a materially reduced dependence on USD income and financing, and the currency of its equity, including preference shares. Also, the external appraisal used **Rouble estimated rental values (ERVs) as the basis of the investment portfolio valuation for the first time.**

Valuation metrics	2017	2018
<b><u>Income statement</u></b>		
Underlying basic EPS (p)	6.54	3.12
Distribution per share (p)	4.0	3.0
<b><u>Balance sheet</u></b>		
Investment portfolio market value (RUB Bn)	91.8	105.5*
Revaluation (deficit)/surplus (£m)	28.2	(121.0)
IFRS fully diluted NAV/share (p)	59	48

Source: Group FY18 results

\*includes 2018 acquisitions

The most material outcome was a £121m unrealised loss in respect of the revaluation of the investment portfolio vs an 8% y-o-y increase in the RUB figure. That reflected an adverse 10% RUB/GBP movement in 2018, and a 19% fall in GBP NAV/share.

**The shares are currently at 12.5% below NAV/share.** That discounts further weakness and potential for growth in portfolio values and the impact of share repurchases. This is perhaps inevitable post a c 19% fall in NAV/share from 59p to 48p in FY18. An encouraging uplift in the externally appraised value of the portfolio local currency was more than offset by the impact of a weaker Rouble on the GBP translation.

Management, however, sees better prospects than at any time since 2014 and forecast improvement in its local market. Local demand on the back of an economic recovery and e-commerce related drivers is reflected in both higher occupancy and firmer rents/ERVs.

## Forecasts: adjusted for acquisitions, higher occupancy and ERVs

Our forecasts build in (a) full contributions from the two acquisitions completed last year, (b) the full year impact of higher portfolio occupancy and (c) adjustments to rent and debt costs in relationship to ongoing lease expiries and debt refinance programme. They also include modest increases in market (RUB) rents but assume steady forex over the forecast period. The small increase in NAV reflects relatively steady GBP portfolio values, but some net benefit from share repurchases i.e. tender offers related to distributions.

Raven has materially restructured its balance sheet over the last few years and shifted both its debt and its tenants' leases into Roubles. Broadly, it has sought to hedge its operational exposure to further Rouble depreciation vs USD, GBP and EUR, although these could still materially impact reported financials when translated into sterling.

## Accelerating transition to Rouble based model

In contrast to their impact on reported numbers, forex movements have become less of an issue operationally over the last few years. Concerted action by management is transforming the business model and reducing its sensitivity to currency-related issues.

The aim is to match the scale and functional currency of group income and expenses. A three-pronged strategy comprising (a) moving leases denominated in USD onto a more sustainable Rouble basis as they expire; (b) acquisition of high-quality assets with RUB leases, at attractive net initial yields well above debt service costs; (c) refinance of USD debt with RUB/EUR facilities. That should reduce the risk that future shifts in forex rates could negatively affect debt service cover or tenants' ability to cover USD rents.

The group is into the last stage of this transition, on-track to fully eliminate any exposure to US Dollar facilities by the end of the current year, replaced by a Rouble/Euro mix of debt at fixed/hedged interest rates.

## Portfolio dynamics evolving in line with strategy

We have assumed that, assuming stable portfolio occupancy, a switch in current USD leases onto a RUB basis could result up to a c 50% fall in rental income on that specific letting and built that into our forecasts. Portfolio data reveals progress being made in this regard.

- At the year-end 26% (2017: 31%) of the gross lettable area (GLA) of the warehouse portfolio was still subject to US Dollar denominated leases, at average rents of \$148/sqm (2017: \$143/sqm). The weighted average term to maturity was 2.1 years (2017: 3.0 years).
- Rouble denominated leases accounted for 61% (2017: 47%) of total warehouse space at an average rent of Roubles 4,900/sqm (2017: 5,200/sqm), equivalent to c USD76 currently, at a 4.5 years weighted average term to maturity (2017: 3.6 years). Rouble leases have an average minimum annual indexation of 5.9% (2017: 6.8%).

The office portfolio was 20% Euro denominated (FY17: 23%) and 9% US Dollar (FY17: 9%).

Currency profile of Warehouse Portfolio					
'000 sqm	USD	RUB	EUR	Vacant	Total
<b>2018</b>					
<b>Lettable space</b>	485	1,149	50	206	1,890
	26%	61%	3%	11%	100%
<b>2017</b>					
<b>Lettable space</b>	551	822	50	343	1,766
	31%	47%	3%	19%	100%

Source: Group FY18 results

The group's own viability model considers key sensitivities such as potential for portfolio vacancy rates to increase on lease maturities/breaks and decreases in ERVs.

## Letting market

### Supportive; higher occupational demand, minimal supply

The table below illustrates the maturity profile of Raven's lease book and what was delivered in 2018. There are potential breaks for 91,600 sqm of the portfolio this year, 199,900 sqm in 2020. Raven's internal projections suggest that tenants occupying c 17,000 sqm will exercise their breaks and vacate this year.

Including breaks, just over 72% of the lettable space in the year end portfolio expires over the next three years, which will include much of the remaining USD leases. These maturities are reviewed on a continual basis, potential vacancies identified well in advance and the remaining period used to re-let any available space.

Lease maturities						
'000 sqm	2018	2019	2020	2021	2022-32	Total
<b>Warehouses</b>						
End FY17 maturity profile	160	251	302	358	823	1,423
End FY18 maturity profile	0	244	258	358	823	1,683
Maturity profile with breaks		329	440	447	467	1,683
<b>Offices</b>						
End FY17 maturity profile	9	13	6	0	21	49
End FY18 maturity profile	0	11	7	1	30	49
Maturity profile with breaks	0	18	1	1	29	49

Source: Group FY18 results

A currently active warehouse letting market is reflected in leasing activity. In FY18 the group increase occupancy of its enlarged portfolio from 81% to 89% at end December, managing ongoing lease maturities and breaks.

- In total 92,000 sqm of space was vacated on lease maturity, on exercise of breaks and early terminations. That, plus existing vacant space, means that at the year-end there was 206,000sqm of vacant space across the group warehouse portfolio.
- During FY18 the group renegotiated and extended 253,000 sqm of existing leases and signed 241,000 sqm of new leases.
- It has completed deals for 31,850sqm since the end of FY18 (23,000 sqm new lettings, 8,850sqm renewals or lettings). Another 79,800 sqm is subject to letters of intent for renewals, extensions and new lettings which if signed, will reduce portfolio vacancy by a further 24,250 sqm.

### Refinance of USD debt book in parallel with leases

The other key part of the transition is to reduce exposure to USD financing facilities and switch to RUB debt to match rental income and service costs. As at end 2018 31% of Raven's secured banking facilities were RUB denominated (2017: 0%), 35% Euro (2017: 8%), while USD debt as a proportion of total secured declined from 92% to 34%. All remaining USD debt is expected to disappear by the end of the current year.

At the year end, average loan to value of aggregate secured debt was 54.1% (2017: 53%).

## Portfolio

### Acquisitions build rent, help manage cost of shift to RUB leases

Portfolio growth is the second component of the USD to RUB transition. Raven completed two acquisitions in 2018, paying RUB 5.25Bn for 123,200sqm of grade A warehouse space, equivalent to a blended 12.4% pa net initial yield. That brings total acquisitions since April 2017 to RUB 15.3Bn. That, plus higher occupancy will support the top line as the legacy USD-pegged rents are replaced by new Rouble denominated leases.

#### Net rent and related income

£m	FY17	FY18
Acquisitions	8.3	18.2
Existing investment portfolio	95.4	91.6
RosLogistics	9.6	8.1
UK Land Sales	16.4	0.4
Net rent and related income	129.7	118.3

Source: Group FY18 results

The latest additions were the final phase of Logopark Sever, a warehouse complex north of Moscow, and Logopark Volga, a warehouse complex with development land in Nizhny Novgorod. The second acquisition was completed in December, so it didn't have a material impact on FY18 revenues. It should contribute RUB 350m - of total RUB 580m rent from both new assets - to NOI in FY19.

#### Investment property

Asset class	Logistics	Logistics	Logistics	Office	
Location	Moscow	St Petersburg	Regions	St Petersburg	Total
Market value - 1 January 2018	854.3	144.9	117.9	60.7	1,177.8
Corporate acquisition	0.0	0.0	30.8	0.0	30.8
Other acquisition	27.2	0.0	0.0	0.0	27.2
Property improvements	1.4	0.3	0.5	0.5	2.7
Unrealised loss on revaluation	(97.6)	(6.5)	(10.8)	(4.7)	(119.6)
On trans. to presentation currency	55.3	9.2	6.5	3.9	74.9
Market value - 31 December 2018	840.6	148.0	144.8	60.4	1,193.8
Tenant incentives etc.	(13.7)	(4.0)	(1.3)	(0.5)	(19.5)
Head lease obligations	1.1	0.0	0.0	0.0	1.1
Carrying value at 31 Dec 2018	828.0	143.9	143.6	59.9	1,175.4
Revaluation movement in year ended 31 December 2018					0.0
Gross revaluation	(97.6)	(6.5)	(10.8)	(4.7)	(119.6)
Effect of tenant incentives etc.	0.0	0.2	0.0	(0.1)	0.2
Trans. of ten. incentives etc. to GBP	(1.6)	(0.5)	(0.2)	(0.0)	(2.4)
Reval. reported in income statement	(99.2)	(6.8)	(10.9)	(4.8)	(121.8)

Source: Group FY18 results

The tenant complement is broadly spread. No single occupier accounts for over 8% of portfolio GLA (FY17: 11%) and the top ten tenants 42% (2017: 41%) of portfolio GLA terms, 53% (2017: 54%) of rental income.

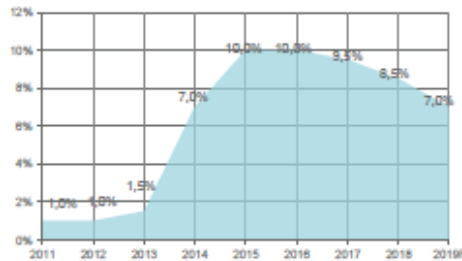
## Market outlook

### Strong demand for warehouse and logistics space

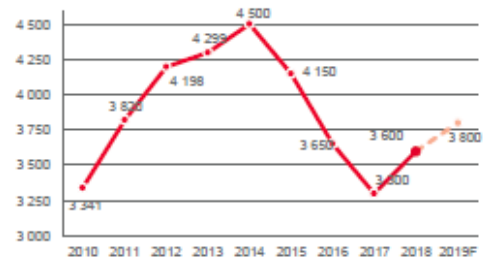
Cushman & Wakefield (C&W) data below (*Marketbeat* Q4 2018) records strong demand for warehouse space in the Moscow region in 2018, with take up at 1.9m sqm, the best figure for the last decade. The average deal size was 15,000 sqm, in line with 2017, so overall growth represented a step up in numbers of transactions.

Market vacancy is declining gradually, with few large-size warehouse blocks above 20,000 sqm available for lease or sale. That situation is exacerbated by minimal speculative construction. Most warehouses due for delivery this year have been built-to-order and C&W identifies a shortage of sites suitable for construction of warehouse complexes in areas of the Moscow region in most demand.

Vacancy rate, class A

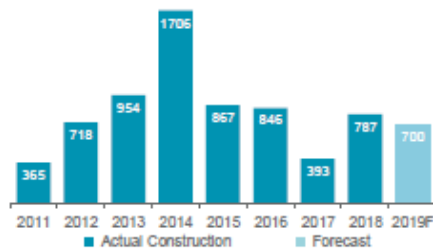


Rental rate, class A, RUB / sq. m / year

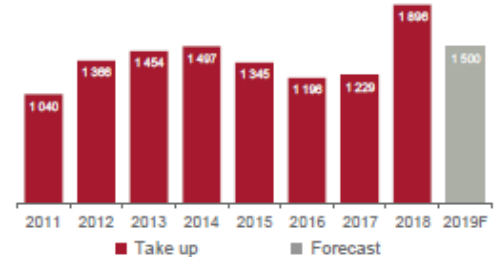


The outlook for 2019 is similar. Take-up is expected to exceed speculative development and vacancy rates to fall further. Speculative construction is just c 35% of projected total construction volume this year. Asking rents were 10% ahead y-o-y in 2018 and higher demand and lower vacancy points to another potential increase in ERVs this year.

New construction, classes A and B, '000 sq. m



Take up, classes A and B, '000 sq. m



Total warehouse stock increased by 787,000 sqm in 2018, twice the growth in 2017. Another 700,000 sqm is expected to be delivered this year, much of it built to order and pre-let. During 2018 1.9m sqm of warehouse space was leased and purchased, the strongest figures for the last decade. C&W expects take up of c 1.5m sqm this year, which it regards as the natural level.

Traditionally retail occupiers have taken the largest share, as well as the biggest average deal size at 24,500 sqm (vs the 15,000 sqm market average) of new warehouse space. There was however a material shift towards take up by logistics companies last year.

Conversely, the investment market was at its weakest position since 2006. In C&W's view the culprit is the complete lack of foreign investors. Purchases and sales were broadly balanced last year.

Other issues may potentially affect market dynamics over the next few years. C&W refers to the Russian government's strategy to invest in national projects, with residential and infrastructure development the main drivers of economic growth.

The intention is to underpin economic growth via construction, growth in financial sectors and manufacturing. These are designed to tackle issues such as pressure from tightening sanctions and higher inflation.

Additional potential sources of market disruption include a VAT increase, the government's determination to push ahead with its own 'de-dollarisation' program, and a relative shortage of lending/increase in the key interest rate.

These issues are blamed for construction sector stagnation since 2015, and a dearth of speculative development. The latter is not unhelpful to existing warehouse operators such as Raven, but C&W expects project financing and credit driven development to pick up over the next two years.



<b>Forecasts</b>				
<b>Income statement</b>				
<b>y/e Dec 31, £m</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>
Net rent and related income	129.7	118.3	128.2	125.1
Administrative expenses	(19.7)	(22.7)	(25.5)	(26.0)
Long term incentives	(1.3)	0.0	0.0	(2.0)
Forex (losses)/gains	6.1	(2.5)	0.0	0.0
Share of profit of JVs	1.6	1.6	1.6	1.6
<b>Operating profit</b>	<b>116.5</b>	<b>94.7</b>	<b>104.3</b>	<b>100.7</b>
Net finance charge	(60.6)	(68.5)	(71.0)	(71.0)
<b>Underlying PBT</b>	<b>55.9</b>	<b>26.2</b>	<b>33.3</b>	<b>29.7</b>
Tax	(12.5)	(6.2)	(5.0)	(3.0)
<b>Underlying profit after tax</b>	<b>43.4</b>	<b>20.0</b>	<b>28.3</b>	<b>26.7</b>
Unrealised profit/(loss) on revaluation	28.2	(121.0)	0.0	0.0
<b>Reported pre-tax profit</b>	<b>68.3</b>	<b>(114.9)</b>	<b>28.3</b>	<b>26.7</b>
Tax	(25.2)	(5.8)	(5.0)	(3.0)
<b>Reported profit after tax</b>	<b>43.1</b>	<b>(120.7)</b>	<b>23.3</b>	<b>23.7</b>
Underlying EPS (p)	5.7	3.1	4.5	3.9
Distribution per share (p)	4.0	3.0	3.0	3.0
<b>Balance sheet</b>				
<b>As at 31 Dec, £m</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>
Investment property	1,159	1,175	1,175	1,175
Investment property under construction	29	31	31	31
Other - incl. JVs	11	10	10	10
Other receivables	4	16	16	16
	<b>1,202</b>	<b>1,232</b>	<b>1,232</b>	<b>1,232</b>
Net cash/(debt)	(429)	(570)	(570)	(570)
Pref/Conv. Pref	(307)	(315)	(315)	(315)
	<b>(736)</b>	<b>(885)</b>	<b>(885)</b>	<b>(885)</b>
Deferred tax	(34)	(33)	(33)	(33)
Other adjustments - incl. net payables	(40)	(29)	(29)	(29)
	(811)	(948)	(948)	(948)
<b>Net equity</b>	<b>392</b>	<b>284</b>	<b>284</b>	<b>284</b>

Source: Group results, Equity Development forecasts



## Investor Access

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