EDISON

Raven Property Group

FY20 results

Logistics growth amid the pandemic

Real estate

As a growing and essential part of the supply chain, all of Raven's warehouses continued to operate throughout the year, occupancy increased and more than 99% of rents were collected. In FY20, rouble weakness obscured this strong operational progress. However, strong demand for space, especially driven by e-commerce activity, combined with low vacancy, a lack of new supply and increased construction, are positive indicators for increased rents and valuations.

Year end	NOI* (£m)	PAT** (£m)	EPS*** (p)	DPS (p)	EPRA NRV/**** share (p)	Yield (%)	P/adj NAV (x)
12/19	126.5	15.8	7.7	3.50	83	12.3	0.34
12/20	113.1	19.0	(6.9)	1.25	49	4.4	0.58
12/21e	100.3	12.9	4.1	2.50	51	8.8	0.55
12/22e	102.0	14.1	2.5	2.50	55	8.8	0.52

Note: *Net rental and related income. **Underlying earnings excluding FX as defined in Exhibit 2. ***Fully diluted underlying earnings including FX. ****EPRA net reinstatement value (NRV).

Underlying operational progress offset by FX

An increase in occupancy to 94% (FY19: 90%) and rouble rent indexation substantially offset continuing drag from the run-off of legacy US dollar leases (now 8% by area versus 16% in FY19). Despite tight market conditions, rents increased only modestly but management expects a move up towards RUB4,500 per sqm (currently c RUB4,100-4,200) during the year, growing thereafter. Valuations edged up 0.5% in roubles but with yields high (c 11%), interest rates low (-1.5% to 4.25% in 2020) and construction costs increasing, rent growth should increasingly drive capital growth. Raven will soon issue circulars in respect of the repurchase and placing of Invesco shares, ahead of a planned general meeting. If approved by shareholders, this will remove a significant share overhang. Details are yet to be announced but we expect the transaction to be accretive and at least cash neutral.

Estimates reduced due to FX

The rouble weakened from c RUB/£81 to c RUB/£100 during the year, c 20%, reducing rouble income and expenses reported in sterling. IFRS accounting also captures translation losses on euro-denominated debt in the rouble-operating subsidiaries. Excluding this, in sterling terms, underlying earnings were £19.0m (FY19: £15.8m) but the unadjusted IFRS loss was £14.2m. Balance sheet translation losses reduced EPRA NRV to 49p (FY19: 83p). An FY20 distribution of 1.25p, by way of a tender offer buyback, will be made. Our reduced sterling forecasts are based on a continuation of FX rates at around current levels. As we discuss in detail within this report, we see positive indicators for property valuation gains and rouble recovery, both of which could have a significantly positive impact.

Valuation: High yield at asset value discount

Based on the FY21e distribution per share, the ordinary share yield is approaching 9% with full upside to potential asset value gains and geared NAV uplifts, as well as any narrowing in the more than 40% discount to EPRA NRV. The preference shares currently yield a little more than 10%.

19 March 2021

Price	**28.5p**
Market cap	**£167m**
	RUB/£102
Net debt (£m) at 31 December 2020 (including preferred shares)	825.8
Gross LTV at 31 December 2020 (secured debt only)	56.1%
Shares in issue	585.4m
Free float	89%
Code	RAV
Primary exchange	LSE
Secondary exchange	MOEX/JSE

Share price performance

%	1m	3m	12m
Abs	0.0	4.8	(3.4)
Rel (local)	(2.6)	0.1	(30.9)
52-week high/low		37p	24p

Business description

Raven Property Group invests mainly in Class A warehouses in Russia let to large Russian and international companies. It also owns commercial office space in St Petersburg and a third-party logistics company in Russia (RosLogistics). The group runs its property investment portfolio with the objective of delivering progressive distributions to shareholders over the long term.

Next events

EGM	Exp. April 2020

Analyst

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

Edison profile page

Raven Property Group is a research client of Edison Investment Research Limited

Operational strength

This note provides a detailed update on our strategic report published in September 2020.

With the majority of Raven's warehouse space used to support essential sectors such as supermarket chains, all of its warehouse properties continued to operate during FY20 despite a COVID-19 lockdown in the first half of the year. As restrictions were eased, and a second lockdown avoided, the demand for space increased. Following a similar trend to other markets, Russian e-commerce activity saw strong growth, although it remains some way behind and has much further to go. Occupancy increased to 94% (FY19: 90%) and more than 99% of rents were collected. Although the pandemic continues to cloud the general economic outlook, warehouse market demand-supply fundamentals continue to be strong, with low vacancy, a lack of new supply and increased construction costs all indicating the potential for accelerated rental growth.

However, despite the strong operational performance and cash collection in rouble terms, weakness of the rouble continued to weigh on the results as presented in sterling.

Rouble weakness impacted on sterling presentation

To a very large extent, Raven is now a rouble-denominated operating business that reports in sterling and makes shareholder distributions (ordinary and preference share) in sterling at group level. At the level of the rouble-based operating subsidiaries, the main exceptions to this are the residual US dollar-denominated leases (now down to 8% of total warehouse space, but 18% of warehouse net rental income/NOI) and euro-denominated secured debt (40% of total secured debt), both of which we expect to decline further. As a result, changes in the value of the rouble impact on reported earnings and net asset value as reported in sterling.

Against sterling, the end-FY20 closing rate was c 24% below end FY19, while the FY20 average rate was c 12% lower. Compared with the euro, the end-FY20 closing rate was slightly more than 30% lower than end FY19. We are not currency forecasters and despite a number of positive indicators for the Russian economy and rouble (see below), including the recent strong recovery in oil prices, in our forecasting we assume a continuation of FX rates around current levels.

Exhibit 1: Rouble weakness affected the results presented in sterling

	FY19	FY20	FY21e	FY22e
Period end (balance sheet)				
Rouble/£	81.15	100.43	102.00	102.00
£/€	1.17	1.10	1.17	1.17
Period average (income statement)				
Rouble/£	82.63	92.57	102.06	102.00
£/€	1.14	1.13	1.15	1.17

Source: Raven Property Group historical data, Edison Investment Research forecasts

In the income statement, the impact of rouble weakness was:

- At the subsidiary level, an increase in the cost of euro-denominated debt and an unrealised foreign exchange loss on the value of that debt.
- At the group level, a reduction in the sterling equivalent of the rouble income, substantially offset by a similar reduction in rouble costs.

In the balance sheet, the main impact is on the translation into sterling value of rouble-denominated net assets, primarily the investment property portfolio and rouble-denominated debt.

The rouble mismatch in the local operating units arises from the managed transition from US dollars to roubles. Before the decline in Russian interest rates through 2019–20, real rates were unattractively high. Over time, we expect the euro debt to be replaced by rouble debt, matching the income base of the group, through debt amortisation and through refinancing when the terms are appropriate.

Positive operational performance reinforced by FX moves

Exhibit 2 provides a summary of financial performance in FY20, including a reconciliation from IFRS reporting to the group's measure of 'underlying earnings', which approximates to recurring 'cash earnings' that support shareholder distributions. Raven has also published earnings and net asset value (NAV) on an EPRA basis for the first time. EPRA net reinstatement value (NRV) and net tangible assets (NTA) are both 49p, well ahead of the IFRS diluted NAV per share of 40p. We will continue to review the EPRA earnings disclosure, but for now consider underlying earnings, as a closer proxy for distribution potential, to be the more useful measure to focus on.

Exhibit 2: Summary of FY20 financial performance

	FY20			FY19			FY20/FY19	
£m unless stated otherwise	**Underlying**	**Adj**	**Reported IFRS**	**Underlying**	**Adj**	**Reported IFRS**	**Underlying**	**Adjustments**
Investment property	107.7	0.0	107.7	120.2	0	120.2	-10%	
RosLogistics	5.3	0.0	5.3	6.1	0	6.1	-13%	
Raven Mount	0.1	0.0	0.1	0.2	0	0.2	-79%	
Net rental and related income	**113.1**	**0.0**	**113.1**	**126.5**	**0.0**	**126.5**	**-11%**	
Administrative expenses	(23.1)	(1.6)	(24.7)	(23.1)	(2.3)	(25.4)	0%	Depreciation, abortive project costs
Share based payments and other long-term incentives	0.6	(1.8)	(1.2)	(4.9)	(0.5)	(5.5)		Excludes non-cash settled
Share of profit of JV	(0.1)	0.0	(0.1)	0.8	0.0	0.8		
Net finance expense	(62.2)	(10.4)	(72.6)	(73.0)	(34.6)	(107.6)	-15%	Loan/issue fees & derivative value change
Profit before tax, FX, property revaluation, other non-recurring	**28.2**	**(13.8)**	**14.5**	**26.3**	**(37.4)**	**(11.2)**	**7%**	
FX gain/(loss)	(53.7)	0.0	(53.7)	27.5	0.0	27.5		
Property revaluation	0.0	(5.6)	(5.6)	0.0	48.3	48.3		Unrealised revaluation gain
Profit on disposal of JV				0.0	0.5	0.5		
Profit on re-designation of convertible preference shares	0.0	45.7	45.7	0.0	0.0	0.0		
Profit before tax	**(25.5)**	**26.4**	**1.0**	**53.7**	**11.3**	**65.1**		
Tax	(9.2)	(5.9)	(15.1)	(10.5)	(8.5)	(19.0)		Tax in respect of adjustments
Profit after tax	**(34.7)**	**20.6**	**(14.2)**	**43.2**	**2.8**	**46.0**		
Profit after tax, excluding FX	**19.0**	**20.6**	**39.5**	**15.8**	**2.8**	**18.6**		
Per share items								
Basic EPS (p)	(6.86)		(2.80)	7.67		8.16	-189%	
Diluted EPS (p)	(6.86)		(2.80)	6.35		7.50	-208%	
Distribution per share (p)			1.25			3.50	-64%	
Basic NAV per share (p)			41			76	-47%	
Diluted NAV per share (p)			40			75	-47%	
EPRA NRV per share (p)			49			83	-41%	

Source: Raven Property Group data

The key features of the FY20 income statement in underlying terms were:

- Group net rental and related income (NOI) was c 11% lower in sterling terms despite a resilient performance in roubles. Improving occupancy and indexation of rouble-denominated rents were positive factors, while the run-off of legacy US dollar-denominated leases at well above market-level rents continued to drag.
- Underlying administrative expenses were at a similar level to FY19 in sterling terms despite a charge of £2.8m prudently taken in settlement of a vexatious claim brought by a tenant who declared bankruptcy in 2018 while all possible appeal routes are pursued. Translation of rouble costs into sterling was a positive factor.

- Before unrealised FX movements and property revaluation movements, underlying operating profit increased by 7%.
- Underlying net finance expense benefited from an increasing proportion of rouble-denominated debt and significantly reduced rouble interest rates, as well as a positive translation effect into sterling. The key Russian Central Bank rate dropped from 5.75% to 4.25% during the year.
- FX saw a negative £81.2m swing from a positive £27.5m in FY19 to a negative £53.7m in FY20, mainly relating to the translation of euro debt on the balance sheets of rouble-denominated operating subsidiaries, generating an underlying net loss after tax.
- Underlying net profit before FX was £19.0m, an increase from £15.8m in FY19.
- The company will make a final distribution of 1.25p by way of a tender offer buyback of one share in every 32 at 40p and intends to return to half-yearly distributions in the current year.

Compared with IFRS earnings, the main adjustments to underlying earnings relate to depreciation, unrealised valuation movements in respect of properties and derivative instruments, amortisation of the convertible preference share redemption premium (historically), long-term incentive payments that are settled in shares and other non-recurring items (including the £45.7m accounting profit on the redesignation of the convertible preference shares into new ordinary and preference shares).

- In rouble terms, there was a small underlying movement in property valuations (0.5%). Including this underlying movement (the negative translation effect of £256.7m is captured within the other comprehensive income adjustment), property improvement investment of £12.2m and movements in lease incentive adjustments, the reported revaluation loss was £5.6m (including investment property under construction).
- The IFRS net loss was £14.2m (FY19: profit of £46.0m), while other comprehensive income also included a net foreign currency translation adjustment of negative £146.7m resulting from rouble weakness. Sterling net assets were £233.7m (end FY19: £365.8m) and basic NAV per share was 41p (40p on a diluted basis), down from 76p. EPRA NTA was 49p (FY19: 83p).
- The cash position remained strong at £53.1m and the loan to value ratio for the secured bank debt was 56.1%.

Key operational developments

- **Portfolio occupancy increased to 94% from 90% at the end of 2019,** due to a combination of short- and long-term lettings. Since year-end it has dipped back to 92% due to the expiry of a large number of short-term leases although signed letters of intent (LOIs) account for an offsetting amount of space. New lettings of warehouse space in 2020 amounted to c 289k sqm with a further c 310k sqm of existing leases renegotiated and extended. A number of tenants have also increased the space let. Warehouse occupancy at year end was 94% (1,775k sqm of the 1,895k sqm of space let) with 98% (48k sqm of the c 49k sqm of the space let) in the much smaller office portfolio.

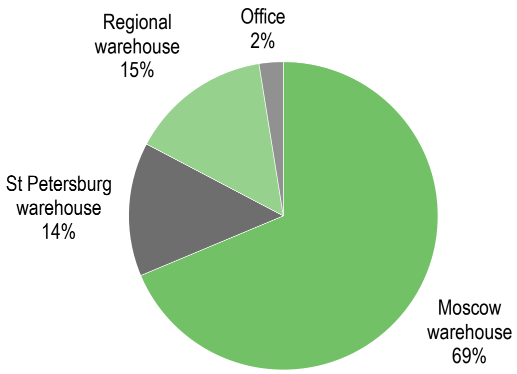
Exhibit 3: Portfolio leasing summary

000 sqm	2020	2021	2022	2023	2024–32	Total
Maturity profile at start of year	239	317	269	270	650	1,745
Renegotiated/extended	(101)	(135)	(27)	(9)	(38)	(310)
Maturity profile of renegotiations	7	33	9	21	240	310
Breaks exercised	30	32	(31)	(6)	(25)	
Vacated/terminated	(200)	(5)	(2)	0	(4)	(211)
New lettings	25	117	2	1	144	289
Maturity profile at end of year	**0**	**359**	**220**	**277**	**967**	**1,823**
Maturity profile at year-end including breaks	**0**	**483**	**273**	**342**	**725**	**1,823**

Source: Raven Property Group

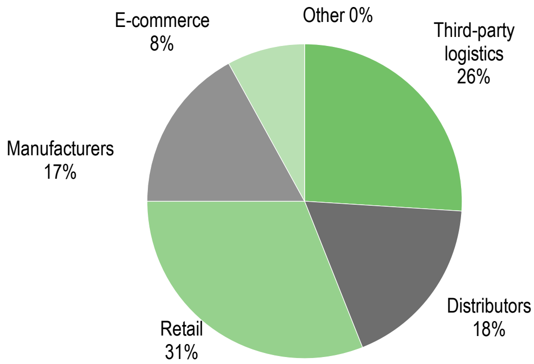
Leasing strategy continues to focus on maintaining high occupancy with high quality tenants for the long term, while keeping a diversified tenant mix across sectors and business types. Short term lets are used to minimise voids. Raven also targets tenants who require significant capital investment into their premises and seek to 'rentalise' these improvements over the term of the lease, creating enhanced returns. The growth of the e-commerce activities of tenants is also providing an opportunity to invest in higher specification fit-outs including specialised racking.

Exhibit 4: Portfolio split by area



Source: Raven Property Group, 31 December 2020

Exhibit 5: Warehouse tenants by sector



Source: Raven Property Group, 31 December 2020

- **Rouble-denominated leases now account for 83% of total warehouse space,** up from 71% at end 2019, with the share of US dollar-denominated rents halving to 8% of the total (end FY19: 16%). Voids and a small amount of space let on euro-denominated leases account for the balance. The average rouble warehouse rent is RUB4,973 per sqm, with a weighted average term to maturity of 4.1 years, and average minimum annual indexation of 5.6%. The average US dollar rent is $177 per sqm with a weighted average term to maturity of 2.1 years.

  Both the warehouse and office markets in which Raven operates are now effectively rouble markets and Raven's remaining US dollar leases will fully unwind over the next two to three years. Average US dollar rent is more than double the average rouble-denominated rent, partly reflecting the high-spec nature of much of the space (eg cold store units), and making a direct comparison difficult. However, it remains the case that Raven's remaining US dollar leases are above current market rents and their unwinding continues to act as a drag on revenues. Void reduction, rouble indexation and reversion to market rents in respect of rouble leases signed over the past two to three years are positive offsetting factors, while market conditions offer potential for a general recovery in market rents.
- **The portfolio (including properties under development) was externally valued by Jones Lang LaSalle (JLL) at £1.1bn** (FY19: £1.3bn). As noted above, there was little change in the underlying like-for-like rouble valuation of the portfolio (+0.5%) despite the significant reduction in Russian official benchmark interest rates (by 1.5% to 4.25% over 12 months and 3.5% over 24 months) and yields remain high, particularly compared with more developed European markets, while rents are increasing, albeit slowly at present.

Exhibit 6: Raven portfolio valuation yields*

	2020	2019
Moscow warehouse	8.50–11.70%	10.80–12.10%
St Petersburg warehouse	12.20–12.30%	12.10–12.30%
Regional warehouse	11.75–12.20%	11.80–12.30%
St Petersburg office	11.75–12.00%	11.75–12.00%

Source: Raven Property Group. Note: *The figures above represent the discount rates applied to the cash flows from the properties, derived from the prime cap rates published by JLL and adjusted for individual property factors.

Update on warehouse market conditions

Management notes that continued reductions in market vacancy, a lack of new supply and increased construction costs are creating classic conditions for rental growth. While economic uncertainty remains (although forecasters expect a recovery in Russian GDP in 2021), the warehouse sector nevertheless seems ideally set to benefit from an accelerated structural shift driven by e-commerce, with all the major retailers developing their strategies to reflect this. Moreover, on a comparative European measure, rents are very low and for the majority of end-users, form a very small percentage of their total cost base. Raven anticipates market rents rising to R4,500 per sqm during the year, and growth continuing thereafter.

Economic rebound forecast

Russian GDP declined by 3.1% in 2020 due to the direct and indirect impacts of the COVID-19 pandemic. This was the sharpest correction since the global financial crisis 11 years ago, but compared with many other economies represented a relatively resilient performance and was around half the rate of decline seen across the eurozone area. The Russian Central Bank recently indicated that the economy is on track to grow 3–4% in 2021. With consumer price inflation running at c 5%, the prospect of a reversal in some of the past two years' decline in interest rates may provide support to the rouble, along with the recent strength in oil prices after last year's sharp fall.

Exhibit 7: Rouble versus sterling

Source: Bloomberg, 15 March 2021

Exhibit 8: Brent crude oil price in US$

Source: Bloomberg, 15 March 2021

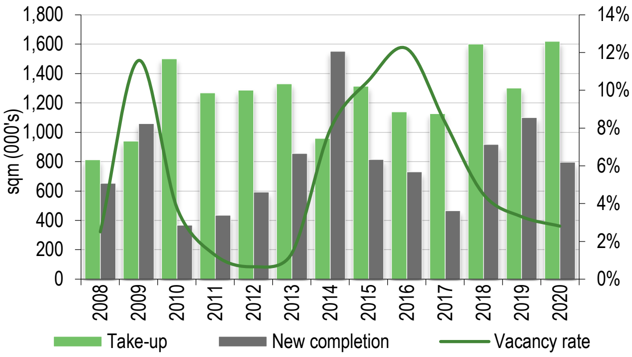
Tight supply driven by demand

With continuing strong demand for warehouse space relative to supply, market vacancy has continued to fall in both Moscow and St Petersburg.

JLL estimates end-2020 vacancy of 2.8% in Moscow, which represents 70.5% of Raven's warehouse portfolio, and even slightly lower in St Petersburg. Despite the tightness in the market, rents did not grow as fast as expected during 2020 and this held back valuations. However, Raven indicates that it is now seeing evidence of rents firming at a faster pace and expects this to continue, moving towards RUB4,500 by year-end.

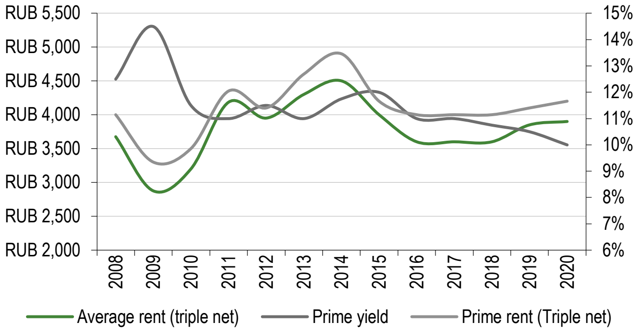
Raven estimates that the cost of constructing a Grade A warehouse has risen by at least 15% in the last 12 months, which may further restrict new development activity unless rents increase further. Costs have been affected by the impact of the weak rouble on imported materials and a reduction in the foreign labour force due to Covid-19 lockdowns and the closing of Russia's international borders. Many foreign temporary construction workers returned to their homes in the middle of 2020 and are as yet either unwilling or unable to return.

Exhibit 9: Moscow warehouse supply vs demand and vacancy



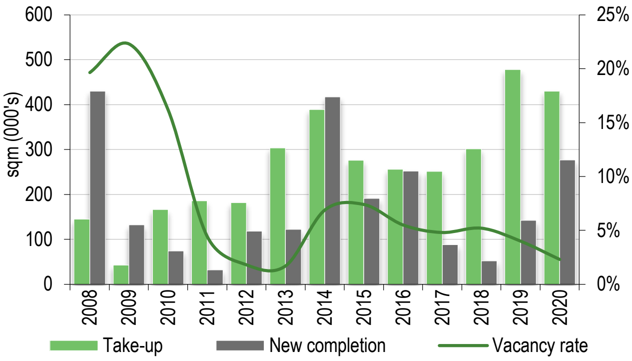
Source: Raven Property Group FY20 results presentation. JLL Research

Exhibit 10: Moscow prime warehouse rents and yields



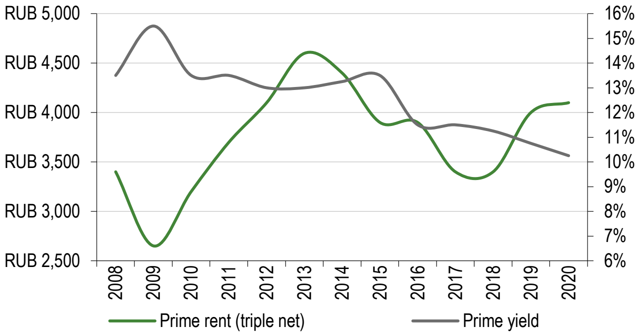
Source: Raven Property Group FY20 results presentation. JLL Research

Exhibit 11: St Petersburg warehouse supply vs demand and vacancy



Source: Raven Property Group FY20 results presentation. JLL Research

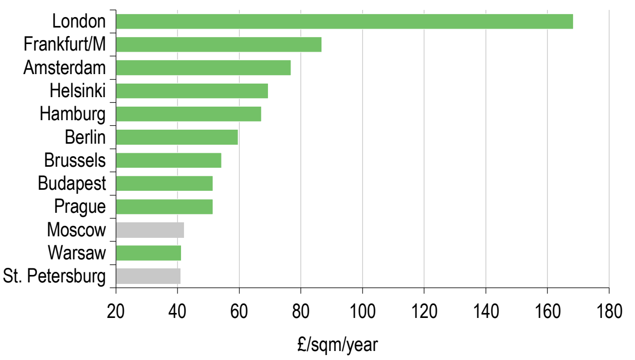
Exhibit 12: St Petersburg prime warehouse rents and yields



Source: Raven Property Group FY20 results presentation. JLL Research

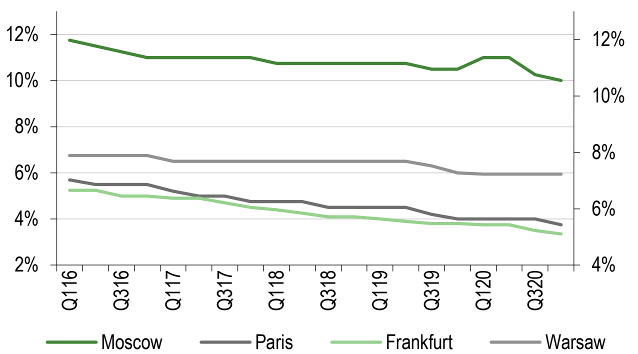
Compared with the wider European market, Russian warehouse rents remain at relatively low levels, while yields are significantly higher. Notwithstanding the relative lack of development of the Russian property investment market, this is a positive indicator for value creation over the medium to longer term. In the near term, against a positive fundamental sector backdrop and compared with international markets and local interest rates, Russian warehouse valuations appear very well underpinned with upside potential.

Exhibit 13: Selected European warehouse rents



Source: Raven Property Group FY20 results presentation. JLL Research

Exhibit 14: Selected European warehouse yields



Source: Raven Property Group FY20 results presentation. JLL Research

Simplified capital structure and share overhang removed

During FY20, Raven significantly simplified its capital structure and since the year end has agreed a solution to the overhang of shares owned by Invesco, subject to shareholder approval at a forthcoming general meeting.

Re-designation of convertible preference shares

In July 2020, shareholders approved the re-designation of the company's convertible preference shares and this became effective on 30 September 2020. Holders of the convertible preference shares each received a mix of new ordinary shares and new preference share. In financial terms, the redesignation increased IFRS earnings on a recurring basis was slightly accretive of both basic IFRS EPS and NAV per share. The impact on underlying earnings was modest as non-cash amortisation of the redemption premium on the convertible bonds was already excluded. Additionally, the company noted the following benefits to shareholders resulting from re-designation:

- A simplification in the capital structure that should improve liquidity in the ordinary and preference shares.
- A reduction in the potential dilution in the ordinary shares resulting from a future conversion of the convertible preference shares that was possible at any time until maturity in 2026.
- The removal of uncertainty concerning the refinancing of the convertible preference shares on their maturity in 2026.

IFRS accounting allocated a part of the uplift in equity resulting from the issue of new ordinary shares to the FY20 income statement as a one-off accounting gain (£45.7m net of costs). The recurring benefit to the income statement is c £6m pa, representing the net benefit of the convertible preference share finance costs saved (c £19.7m including c £7.2m of redemption premium amortisation) less additional interest expense on the new preference shares issued.

Repurchase and placing of Invesco ordinary and preference shares

In 2019, with shareholder approval, Raven repurchased and immediately cancelled 99.1m ordinary shares (16% of the outstanding number at the time) from funds managed by Woodford Investment Management and Invesco Asset Management (IAML). The shares were acquired using the company's existing cash resources, at a significant discount to net asset value, materially enhancing NAV per share. An agreement to acquire IAML's remaining ordinary and preference shareholding lapsed during H120 due to the market uncertainty created by the pandemic, but talks aimed at removing the overhang continued and a new agreement was reached in January 2021. A conclusion of the transaction requires approval by ordinary and preference shareholders at a general meeting, ahead of which circulars will soon be issued. In respect of the IAML holdings, under the transaction:

- around 9.8m ordinary shares will be acquired by Raven and cancelled;
- 100m ordinary shares and 32.5m preference shares will be acquired by a newly formed 50:50 joint venture (RH), comprising Raven and members of the management team (and related entities); and
- around 46.8m ordinary shares and c 31.1m preference shares have been conditionally placed with investors.

The transaction prices are 21.6p for the ordinary shares and 90.8p for the preference shares.

To capitalise RH, management participants will transfer up to c 53.0m Raven ordinary shares, already owned, and Raven will provide an equal amount of cash. At the transaction prices above, the cost of the ordinary share purchase (c £21.6m) and preference share purchase (c £30.2m) amounts to c £51.8m. In addition to its cash capital contribution, Raven has indicated an intention to assist the JV with additional funding and has recently entered into a €60m corporate loan through its Cypriot holding company.

Further details are not yet available, including the accounting treatment of the JV (consolidated or equity accounted). However, given the significant discount of the transaction prices to market prices, the existing significant discount to NAV on which the ordinary shares trade and the high yield on the preference shares, we would expect the transaction to be accretive for the company. We would also anticipate that distribution income to RH on its Raven share investments will exceed the funding cost. Most likely in our view is that any surplus will be used to amortise the debt funding such that the JV is neutral to Raven's recurring cash flow.

If approved by shareholders, post-completion the Invesco interest in both ordinary shares and preference shares will fall to zero, and the RH JV will own c 27% of the group's ordinary shares and c 15% of the preference shares. Ahead of the shareholder vote and completion of the transaction, we have not included it in forecasts.

First time EPRA disclosure

Raven has not historically reported supplementary information on an EPRA basis but has now taken the opportunity of recent changes to the EPRA methodology to do so. A key issue was the EPRA NAV adjustment (add-back) for deferred tax provisions in respect of unrealised property gains. In Russia these are payable whether the property is sold (and the gain realised) directly or as part of a corporate vehicle, and conservatively Raven has quoted IFRS net assets (after deducting deferred tax) even as a long-term investor. EPRA NAV has been replaced with three new measures: net reinstatement value (NRV), net tangible assets (NTA) and net disposal value (NDV). The EPRA NRV and NTA values include a deferred tax add-back, even where this may become payable. NRV in particular is aimed at highlighting the value of net assets on a long-term basis, reflecting the investment that would be needed to recreate the company.

EPRA NRV and EPRA NTA were both 49p at end-FY20 (Exhibit 15), well above the diluted IFRS NAV of 40p. EPRA NDV of 42p was much closer to the IFRS value, reflecting the crystallisation of deferred tax liabilities that would occur on sale. We have included EPRA NRV as our main asset value benchmark for Raven.

On an EPRA basis, the FY20 loss was reported as £49.7m compared with £34.7m on an underlying basis and £14.2m on an IFRS basis. Both EPRA and underlying earnings included an adjustment for the £45.7m gain on resignation of the convertible bonds, property and interest rate derivative valuation movements, and both include FX movements in the income statement, adding volatility to the results. However, underlying earnings, as a proxy for cash earnings, makes additional adjustments. These include for depreciation, long-term incentives not paid in cash, and amortisation of the issue premium and issue costs on preference and (historically) convertible preference shares. We will continue to monitor the EPRA earnings disclosure, but for now we consider underlying earnings, adjusted for FX, as the more useful measure.

Exhibit 15: Key EPRA disclosures

	2019	2020
Earnings		
Underlying earnings (£m)	43.2	(34.7)
Underlying EPS (p)	7.67	(6.86)
EPRA earnings (£m)	24.0	(49.7)
EPRA EPS (p)	4.3	(9.8)
EPRA cost ratio (including vacancy costs)	24.8%	22.1%
EPRA cost ratio (excluding vacancy costs)	22.7%	20.5%
EPRA cost ratio (excluding share-based payments)	20.3%	21.0%
Balance sheet		
IFRS net assets (£m)	365.8	233.7
Diluted IFRS net asset value (NAV) per share (p)	75	40
EPRA net reinstatement value (NRV) per share (p)	83	49
EPRA net tangible assets (NTA) per share (p)	83	49
EPRA net disposal value (NDV) per share (p)	71	42
Portfolio		
EPRA net initial yield (NIY)	9.4%	9.4%
EPRA topped up net initial yield	9.5%	9.6%
EPRA vacancy rate	11.0%	7.2%

Source: Raven Property Group

Forecast and financials

Our forecasts are based on the current £/RUB rate

Our forecasts are based on FX rates at around current levels as shown in Exhibit 1. Although the rouble is only slightly weaker versus sterling compared with end-FY20, we estimate that a continuation of the current rates would represent a c 10% reduction in the average FY21 level compared with FY20, reflecting rouble weakness in H220.

At the level of the rouble-based subsidiaries, the slight strengthening of the rouble versus the euro since the end-FY20 level suggests a positive translation of euro-denominated debt (reported in the income statement) in FY21 (c £10m versus a negative c £53m in FY20). However, at current rates we forecast this to be more than offset at the group level by the negative impact on the sterling presentation of the rouble earnings. We also forecast a negative translation impact on NAV (c £21m versus c £147m in FY20), taken within other comprehensive income, in respect of the reduction in the sterling-equivalent value of the rouble net assets.

Net rental and related income

For the core property investment business, our forecasts allow for a continued run-off of the remaining US dollar-denominated warehouse rents offset by indexation of rouble-denominated rents and improving occupancy. For warehouse occupancy, we assume a further improvement to c 96% from 94% at end FY20 and for this level to be maintained during FY22. We expect little change in the office portfolio and in rouble terms, we expect total net property rental income to be broadly flat (c RUB10bn) over FY21/22. At our assumed FX rates, there is a downward trend in the sterling presentation due to rouble weakness.

There is a similar FX effect on our forecasts for RosLogistics, masking the slight improvement in net rental and related income (c 2%) we forecast for FY21 (increasing to 5% growth in FY22).

Exhibit 16: Net rental and related income

(£m)	FY20	FY21e	FY22e
Property investment gross revenues	140.5	124.2	126.1
Property investment net operating income	**107.7**	**95.5**	**97.0**
RosLogistics gross revenues	13.3	12.0	12.6
RosLogistics net operating income	**5.3**	**4.8**	**5.1**
Group total			
Gross revenues	153.8	136.2	138.7
Net rental and related income	**113.1**	**100.3**	**102.0**

Source: Raven Property Group data, Edison Investment Research forecasts

Group underlying earnings forecast

The changes to our underlying earnings forecasts are significantly driven by FX and, as noted above, we have not at this stage incorporated the proposed Invesco share repurchase via a newly formed JV. Our revised forecast for underlying profit before tax and FX gains/(losses) is £20.5m, down from £24.9m previously.

Exhibit 17: Summary of underlying earnings and forecast changes

	New estimates		Last published*
	£/RUB102 average/102 spot		£/RUB98 average/98 spot
£m unless stated otherwise	**FY21e**	**FY22e**	**FY21e**
Gross revenue	136.2	138.7	145.8
Property operating expenditure & cost of sales	(35.9)	(36.7)	(39.4)
Net rental & related income	**100.3**	**102.0**	**106.4**
Administrative expenses	(19.8)	(20.0)	(19.9)
Share-based payments and other long-term incentives	(1.0)	(1.0)	(1.0)
Share of profit of joint ventures	0.0	0.0	0.0
Underlying operating profit before FX gains/(losses)	**79.5**	**81.0**	**85.5**
Net finance expense	(59.0)	(59.0)	(60.6)
FX gains/(losses)	10.0	0.0	0.0
Underlying profit before tax	**30.5**	**22.0**	**24.9**
Tax	(7.6)	(7.9)	(10.9)
Effective tax rate	25.0%	35.8%	43.9%
Underlying profit after tax	**22.9**	**14.1**	**14.0**
Underlying profit before tax, excluding FX	**12.9**	**14.1**	**14.0**
Basic underlying eps (p)	4.1	2.5	2.7
Fully diluted underlying EPS (p)	4.1	2.5	2.7
Distribution per share (p)	2.50	2.50	2.25
Fully diluted NAV per share (p)	41	44	45
EPRA NRV per share (p)	41	44	45

Source: Edison Investment Research forecasts. Note: *10 September 2020.

Our IFRS earnings forecasts are shown in Exhibit 19 at the back of this report and also include a relatively small amount of depreciation, unrealised valuation movements in respect of properties and derivative instruments (we assume none prospectively), and long-term incentive payments that are settled in shares (none assumed prospectively).

Our forecasts indicate a continuing healthy cash position and a stable LTV in respect of the secured debt despite the further negative FX impact on the sterling presentation of portfolio values and NAV. We expect continuing distributions per share at the rate of 2.5p pa.

Forecasts significantly geared to higher property values and higher £/RUB

Although we have not assumed any change in the rouble value of the portfolio, as we note on page 13 there are several supportive positive factors that point towards potential valuation increases. The structure of Raven's balance sheet, with assets funded primarily by secured debt and fixed-charge preference shares, provides the ordinary shares with significant gearing to asset value. We estimate that a 1% increase/(decrease) in the value of the portfolio (at constant FX) is equivalent to a c 4% increase/(decrease) in NAV per share after allowing for deferred tax.

Exhibit 18: Asset gearing

£m	FY20	FY21e	FY21e
Investment properties & properties under construction	1,117	1,104	1,109
Other assets	112	105	98
Preference shares	(252)	(252)	(252)
Secured debt	(627)	(621)	(621)
Other liabilities	(116)	(119)	(121)
Ordinary shareholders' equity	234	217	213
Equity/assets	19%	18%	18%

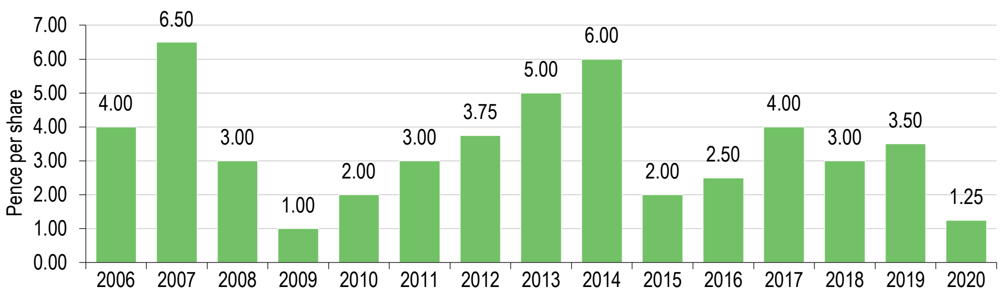
Source: Raven Property Group, Edison Investment Research forecasts

Valuation

Investors in the ordinary shares are fully exposed to share distributions and NAV movements, and would benefit from any narrowing of the wide discount to NAV.

Despite sometimes volatile economic and market conditions, Raven has consistently made distributions to ordinary shareholders. These are made through share repurchases effected by way of tender offers, providing shareholders with a choice of receiving cash (in return for shares tendered) or retaining their shareholding and benefiting from increased ownership share in the company. Since listing, it has repurchased and cancelled more than 300m ordinary shares. COVID-19 uncertainty delayed the FY19 final distribution (2.25p) until September 2020, resulting in just one distribution in respect of FY20 (1.25p declared with the final results) but the company indicates that it will return to biannual distribution in FY21.

Distributions to ordinary shareholders



Raven Property Group

Our forecast 2.5p distribution for FY21 represents a yield that is approaching 9%, while the shares are trading at a more than 40% discount to EPRA NRV per share.

At a price of 113p, the yield on the cumulative non-redeemable preference shares is a little more than 10% based on the fixed yield of 12% on the nominal value of 100p. The preference shares have the added security of ranking ahead of the ordinary shares for distributions, but do not provide the upside exposure to underlying income, property valuations and a recovery in the rouble versus sterling.

Exhibit 19: Financial summary

Period ending 31 December. (£m)	2017	2018	2019	2020	2021e	2022e
INCOME STATEMENT	**IFRS**	**IFRS**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
Gross revenue	177.0	162.6	175.4	153.8	136.2	138.7
Property operating expenditure & cost of sales	(47.3)	(44.4)	(48.9)	(40.7)	(35.9)	(36.7)
Net rental and related income	129.7	118.3	126.5	113.1	100.3	102.0
Administrative expenses	(22.1)	(25.2)	(25.4)	(24.7)	(21.3)	(21.5)
Share based payments and other long term incentives	(3.5)	(2.9)	(5.5)	(1.2)	(1.0)	(1.0)
FX gains/(losses)	6.1	(2.5)	27.5	(53.7)	10.0	0.0
Share of profit of joint ventures	1.6	1.6	1.3	(0.1)	0.0	0.0
Operating profit/(loss) before realised/unrealised property gains (EBIT)	111.8	89.4	124.3	33.4	88.0	79.5
Realised/unrealised gains on investment property	28.2	(121.0)	48.3	(5.6)	0.0	0.0
Operating profit	140.1	(31.6)	172.6	27.8	88.0	79.5
Net finance expense	(71.7)	(83.3)	(107.6)	(72.6)	(62.4)	(62.4)
Gain on cancellation of Convertible Preference shares				45.7		
Profit before tax	68.3	(114.9)	65.1	1.0	25.6	17.1
Tax	(25.2)	(5.8)	(19.0)	(15.1)	(7.6)	(7.9)
Profit after tax	43.1	(120.7)	46.0	(14.2)	18.0	9.2
Company underlying profit after tax	43.4	20.0	43.2	(34.7)	22.9	14.1
Company underlying profit after tax, excluding FX	37.2	22.5	15.8	19.0	12.9	14.1
Basic IFRS EPS (p)	6.50	(18.81)	8.16	(2.80)	3.24	1.63
Fully diluted IFRS EPS (p)	6.27	(18.81)	7.50	(2.80)	3.24	1.63
Basic company underlying EPS (p)	6.54	3.12	7.67	(6.86)	4.13	2.51
Fully diluted company underlying EPS (p)	5.68	3.08	6.35	(6.86)	4.13	2.51
Distributions per ordinary share (p)	4.00	3.00	3.50	1.25	2.50	2.50
Period end number of shares exc own held (m)	655.4	612.5	480.8	576.7	525.9	483.0
Average number of shares (m) - basic	663.5	641.6	563.9	506.3	554.2	562.7
Average number of shares (m) - fully diluted	936.4	649.4	876.7	506.3	554.2	562.7
BALANCE SHEET						
Investment property	1,159.2	1,175.4	1,337.7	1,089.8	1,077.5	1,082.5
Other non-current assets	74.7	102.6	70.5	54.8	54.8	54.8
Total non-current assets	1,233.9	1,278.0	1,408.2	1,144.5	1,132.3	1,137.3
Cash & equivalents	197.1	73.5	68.1	53.1	43.2	35.3
Other current assets	59.0	44.4	42.0	31.5	33.5	34.7
Total current assets	256.2	117.8	110.1	84.6	76.8	69.9
Interest bearing loans & borrowings	(78.9)	(75.6)	(60.2)	(29.6)	(29.6)	(29.6)
Other current liabilities	(79.5)	(66.2)	(51.7)	(39.2)	(41.9)	(43.4)
Total current liabilities	(158.3)	(141.8)	(111.9)	(68.8)	(71.5)	(73.0)
Interest bearing loans & borrowings	(547.4)	(567.9)	(623.2)	(597.8)	(591.7)	(591.7)
Preference shares	(108.3)	(109.3)	(110.3)	(251.5)	(251.9)	(252.3)
Convertible preference shares	(198.9)	(206.1)	(217.5)	0.0	0.0	0.0
Other non-current liabilities	(85.4)	(75.2)	(89.6)	(77.3)	(77.3)	(77.3)
Total non-current liabilities	(939.9)	(958.4)	(1,040.6)	(926.6)	(920.9)	(921.3)
Net assets (and shareholders' equity)	391.8	295.6	365.8	233.7	216.6	212.9
Adjust for:						
Fair value adjustment in respect of interest rate derivatives	N/A	N/A	(2.6)	(2.5)	(2.5)	(2.5)
Deferred tax in respect of investment properties	N/A	N/A	64.6	56.5	56.5	56.5
EPRA net reinstatement value (NRV)	N/A	N/A	427.8	287.7	270.6	266.9
IFRS NAV per share (p)	60	48	76	41	41	44
Fully diluted IFRS NAV per share (p)	59	48	75	40	41	44
EPRA net reinstatement value (NRV) per share	N/A	N/A	83	49	51	55
CASH FLOW						
Net cash generated from operating activity	98.0	96.1	93.1	77.6	72.6	73.4
Property investment	(161.3)	(86.5)	(24.0)	(14.3)	(5.0)	(5.0)
Other investing activity	7.3	14.3	7.8	4.3	(0.5)	(0.7)
Net cash generated from investing activity	(154.0)	(72.2)	(16.2)	(9.9)	(5.5)	(5.7)
Bank borrowing costs paid	(49.5)	(50.0)	(54.7)	(43.1)	(37.1)	(37.0)
Preference/convertible preference share dividends paid	(21.0)	(24.0)	(23.8)	(24.6)	(25.8)	(25.8)
Net own shares (acquired)/disposed	(11.3)	(28.3)	(53.3)	(9.2)	(14.1)	(12.9)
Debt drawn/(repaid)	78.8	(20.8)	50.9	8.9	0.0	0.0
Other financing activity	97.5	(16.7)	0.8	(2.2)	0.0	0.0
Cash flow from financing activity	94.5	(139.8)	(80.1)	(70.1)	(77.0)	(75.7)
Change in cash	38.5	(115.9)	(3.2)	(2.3)	(9.9)	(8.0)
Opening cash	160.6	197.1	73.5	68.1	53.1	43.2
FX/other	(2.0)	(7.7)	(2.1)	(12.7)	0.0	0.0
Closing cash	197.1	73.5	68.1	53.1	43.2	35.3
Secured bank debt	(626)	(643)	(683)	(627)	(621)	(621)
Preference shares & Convertible Preference shares	(307)	(315)	(328)	(252)	(252)	(252)
Net (debt)/cash, including Pref. & Conv. Pref.	(736.2)	(885.4)	(943.0)	(825.8)	(830.0)	(838.4)
LTV on secured debt	52.6%	53.3%	50.1%	56.1%	56.3%	56.0%

Source: Raven Property Group historical data, Edison Investment Research forecasts

General disclaimer and copyright

This report has been commissioned by Raven Property Group and prepared and issued by Edison, in consideration of a fee payable by Raven Property Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia