EDISON

Raven Property Group

Interim results and outlook

Good underlying progress

Real estate

Raven Property Group (Raven) made good underlying progress in H118 against the backdrop of a modestly growing Russian economy and improving supply-demand conditions in the warehouse sector. Occupancy and operating income were up, although headline results are affected by unrealised FX movements. Not reflected in our forecasts, further acquisitions are likely, funded by a strong cash position (almost $200m), with the potential to more than offset rent reversion to market levels and return the company to growth.

Year end	NOI* ($m)	PAT** ($m)	EPS** (c)	DPS (p)	Adj NAV***/ share (c)	Yield (%)	P/adj NAV (x)
12/16	151.7	47.1	6.81	2.5	68	6.3	0.77
12/17	166.7	56.8	7.41	4.0	77	10.0	0.68
12/18e	155.7	18.3	2.85	2.5	72	6.3	0.72
12/19e	149.9	26.4	4.39	2.5	74	6.3	0.70

Note: *NOI is net operating income. **PAT and EPS (fully diluted) are underlying, excluding valuation movements, depreciation, share-based payments and exceptional items. ***NAV is adjusted and fully diluted, excluding goodwill, deferred tax on valuation gains, fair value movements on derivative contracts and cumulative FX movements on preference shares.

Occupancy and income strengthening

NOI rose by 14% to $79.3m in H118, supported by a rise in occupancy (87% versus 81% in December) and last year's acquisitions. Underlying earnings were $3.2m, but excluding unrealised FX effects increased by 12.3% to $11.9m despite higher administrative and funding costs. The portfolio valuation increased 7% in rouble terms but declined in US dollar terms, with adjusted NAV/share falling to 71 cents. The cash balance was $198.1m and supports further acquisition plans and shareholder distributions (1.25p per share distribution by way of a proposed tender offer buy-back). Our forecasts for underlying EPS are reduced due to higher costs, despite increased NOI, and forecast DPS too. However, we continue to see upside from further acquisitions of high yielding assets, funded by cash.

Market conditions providing support

Operating fundamentals in the Russian market continue to improve, with many economic indicators developing favourably and supply-demand conditions in the warehouse market tightening. Against this supportive backdrop management is pursuing a strategy that targets income growth irrespective of any significant recovery in market rents, reducing voids and acquiring high yielding assets to offset the impact of older, above market leases reverting to market levels at maturity. Political risks remain, often reflected in FX volatility, but should be alleviated by the company repositioning its balance sheet to rouble debt to better match income.

Valuation: Ord shares offer yield and capital potential

Raven investors have three share classes (in addition to warrants) from which to choose, each offering significant yields. The 2018e ordinary share yield is 6% and shareholders benefit fully from any NAV growth or narrowing of the 28% discount to FY18e NAV/share. The pref. shares (RAVP) yield 8.3% and convertible pref. shares (RAVC) shares have a cash yield of 5.5% plus a premium at redemption.

3 September 2018

Price	**39.9p**
Market cap	**£254m**

US$1.31/£, RUB67/$

Net debt ($m) as at 30 June 2018*	1,037

*including pref. and conv. pref. shares

Shares in issue	637.1m
Free float	90.7%
Code	RAV
Primary exchange	LSE
Secondary exchange	TISEA

Share price performance

%	1m	3m	12m
Abs	(9.7)	(15.1)	(16.4)
Rel (local)	(6.5)	(12.7)	(17.1)
52-week high/low		52.0p	39.9p

Business description

Raven Property Group (formerly Raven Russia) invests mainly in Class A warehouses in Russia let to large Russian and international companies. It also owns three office buildings in St Petersburg, a third-party logistics company in Russia (RosLogistics) and a residential development company in the UK (Raven Mount).

Next events

JSE pre-listing announcement	September 2018
FY18 results	March 2019

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Edison profile page

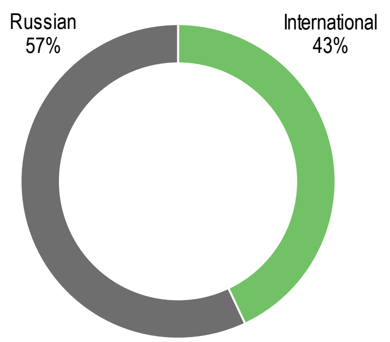
Raven Property Group is a research client of Edison Investment Research Limited

Market conditions supporting strategy

Raven Property Group (formerly Raven Russia) was founded in 2005 to build a portfolio of modern, Grade A Russian warehouse assets through acquisition and development. The company has been self-managed since 2008 and has built a substantial portfolio which, at 30 June 2018, comprised c 1.77m sqm of logistics warehouse property (of which c 72% is in the Moscow region), and c 50k sqm of fully let office property in St Petersburg. Total portfolio occupancy is 87% and the warehouse portfolio is 86 let to mainly large Russian or international companies operating mainly across the retail, distribution, manufacturing and third-party logistics (3PL) sectors. In addition to the core investment property division, group subsidiaries include Raven Mount, a UK residential development company, and RosLogistics, a third-party logistics business in Russia.

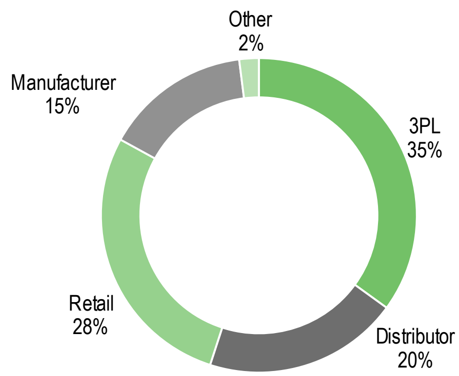
The ordinary shares are listed on the main market of the London Stock Exchange (LSE) and the group intends to seek a broader investor audience by pursuing secondary listing on both the Moscow and Johannesburg (JSE) stock exchanges. The JSE has formally approved the secondary listing, classified as "domestic" for exchange control purposes, and a full pre-listing announcement is expected to be posted soon.

Exhibit 1: Warehouse tenant mix



Source: Raven Property Group. Note: As at 30 June 2018.

Exhibit 2: Warehouse tenants by sector



Source: Raven Property Group. Note: As at 30 June 2018.

Income-focused strategy

Although as we discuss below, market conditions are now improving, warehouse rents are currently much lower than they were three or four years ago and, to a large degree in response to rouble weakness, the market has switched to rouble rather than US dollar-denominated lease terms. Raven has adapted its strategy to these changes but remains focused on maintaining and growing its core portfolio of Grade A logistics warehouses in Russia, with the aim of producing rental income that delivers progressive distributions to shareholders. With high acquisition yields available (c 12%), acquisitions are an important element in replacing the reduction in market rents, which have yet to fully feed through to income given the multi-year nature of lease contracts. Grade A logistics warehouses are the most likely assets to be acquired, but Raven will consider other types of property asset classes if the property and financial metrics are sufficiently attractive. Prior to the market changes, Raven had operated a US dollar model, matching US dollar income with US dollar property debt. However, as new leases are signed, Raven's income mix is becoming increasingly rouble denominated and a balance sheet restructure is underway, shifting from US dollar debt to rouble debt, so as to limit the currency mismatch. A first stage of the strategy was to issue convertible preference shares, in 2016 and in 2017. Although sterling denominated, these provided a significant boost to capital resources and liquidity, to mitigate risks and take advantage of acquisition opportunities.

H118 results: Good underlying progress

Against the backdrop of a Russian economy that has returned to growth despite continuing economic sanctions, and an improving supply-demand balance in the warehouse market, acquisitions and letting activity generated an increase in H118 net operating income (NOI) compared with both H117 and H217. Robust cash flow has maintained a strong cash position, supporting continuing distributions and acquisition growth. However, with the company still reporting in US dollars, unrealised FX effects continue to affect both IFRS and company reported underlying earnings. Excluding FX effects, underlying earnings grew 12.3% to $11.9m.

Unrealised FX impact on earnings and NAV

After a period of relative calm in the rouble/US$ exchange rate during FY17, the weaker rouble in H118 had a negative translation effect on the rouble-denominated cash balances held by the group. Unrealised foreign exchange movements in the p&l, included within the company's underlying earnings measure (see below), were $-8.7m in H118, a negative swing of $13.6m compared with H117. The decline in sterling versus the US dollar over the same period also increased the cost of the preferred and convertible preferred shares. There was a similar effect on property valuations, which increased by 7% in rouble terms compared with December 2017, but which translated into a $34.4m revaluation loss in US dollar terms. Recognised in other comprehensive income, which saw a H118 gain of $13.0m, was the positive impact of sterling weakness versus the US dollar, with the sterling-denominated preference share liabilities translating into a lower amount in US dollars.

Exhibit 3: FX rates versus US dollar

Period-end/BALANCE Sheet	30 June 2018	31 December 2017
Rouble	62.75	57.60
Sterling	1.32	1.35
Euro	1.17	1.20
Average/income statement/balance sheet	H118	H117
Rouble	59.35	57.99
Sterling	1.38	1.26
Euro	1.21	1.08

Source: Raven Property Group

In Exhibit 4 we summarise the income statement performance on both a reported IFRS basis and on the underlying basis provided by management, a key internal performance measure. Underlying earnings excludes investment property revaluations, gains or losses on the disposal of investment property, intangible asset movements, gains and losses on derivative financial instruments, share-based payments and other long-term incentives (to the extent not settled in cash), the accretion of premiums payable on redemption of preference shares and convertible preference shares, material non-recurring items, depreciation and amortisation of loan origination costs, together with any related tax.

Exhibit 4: Summary of income statement

US$m unless stated otherwise	H118			H117			2017		
	Underlying earnings	Capital & other	Total reported	Underlying earnings	Capital & other	Total reported	Underlying earnings	Capital & other	Total reported
Property investment net operating income	73.9		73.9	63.3		63.3	133.3		133.3
Roslogistics net operating income	5.4		5.4	6.3		6.3	12.4		12.4
Raven Mount net operating income	0.0		0.0	0.2		0.2	21.1		21.1
Total net operating income	**79.3**	**0.0**	**79.3**	**69.9**	**0.0**	**69.9**	**166.7**	**0.0**	**166.7**
Administrative & other expenses	(16.9)	(2.3)	(19.2)	(12.6)	(0.6)	(13.2)	(25.3)	(3.2)	(28.5)
Share based payments	(0.9)	(1.6)	(2.5)	(0.8)	(1.4)	(2.2)	(1.6)	(2.9)	(4.5)
Foreign currency gain/(loss)	(8.7)		(8.7)	4.9		4.9	9.2		9.2
Share of JV profits	0.2		0.2	0.3		0.3	2.1		2.1
Operating profit before property gains/(losses)	**53.0**	**(3.9)**	**49.1**	**61.6**	**(2.0)**	**59.6**	**151.1**	**(6.1)**	**144.9**
Gains/(losses) on properties	0.0	(34.4)	(34.4)	0.0	11.6	11.6	0.0	38.2	38.2
Operating profit	**53.0**	**(38.3)**	**14.7**	**61.6**	**9.6**	**71.3**	**151.1**	**32.0**	**183.1**
Net finance expense	(46.4)	(5.4)	(51.8)	(37.3)	(8.0)	(45.3)	(78.1)	(14.4)	(92.4)
Profit before tax	**6.6**	**(43.8)**	**(37.1)**	**24.3**	**1.7**	**26.0**	**73.0**	**17.7**	**90.6**
Tax	(3.4)	(0.6)	(4.0)	(8.8)	(8.0)	(16.8)	(16.2)	(16.8)	(33.0)
Profit after tax	**3.2**	**(44.3)**	**(41.1)**	**15.5**	**(6.3)**	**9.2**	**56.8**	**0.9**	**57.7**
Adjustment for convertible preference shares							12.6		20.1
Fully diluted earnings	**3.2**		**(41.1)**	**15.5**		**9.2**	**69.4**		**77.7**
Average number of shares	653.1		653.1	666.2		666.2	663.5		663.5
Average fully diluted no. shares assuming pref. conversion	666.5		653.1	869.9		682.9	936.4		936.4
Basic EPS (c)	0.49		(6.30)	2.33		1.38	8.56		8.69
Fully diluted EPS (c)	0.48		(6.30)	1.78		1.34	7.41		8.30

Source: Raven Property Group

Key financial highlights

- **Net operating income grew 14% compared with H117, to $79.3m.** Within this, the investment portfolio NOI grew by 17% to $73.9m, and was also 6% ahead on H217. We estimate that FY17 acquisitions had a positive impact of $8-9m, while an increase in occupancy to 87% (December 2017: 81%) more than offset continuing reversion to market rent levels. NOI was slightly lower at logistics subsidiary, RosLogistics, while the decline in NOI compared with H217 at the UK development subsidiary, Raven Mount, reflects the non-repeat of the one-off gain of c $20m generated by the sale of most of its non-core, legacy land bank.
- **Expenses stepped up to support the implementation of strategy and portfolio growth.** Underlying administrative costs increased to $16.9m compared with $13.2m in H117. Costs have been increased to support plans for further portfolio growth and also include c $3m of bonus-related costs that will not repeat in H218. The adjustment from reported administrative expenses includes c $1.8m abortive project costs and depreciation and in H217, a c £2.0m goodwill impairment. Share-based payments charges included in underlying earnings relate to bonuses that were taken in shares rather than cash. Other share-based payment charges, not including in underlying earnings, relate to long term incentive schemes.
- **Underlying net interest expense increased mainly as a result of last year's further issue of convertible preference shares.** The interest paid on secured debt also increased, with higher average balances in part offset by a reduction in the average cost of bank debt. The difference between the underlying and reported net interest expense represents amortisation of the redemption premium on preference shares, amortisation of loan arrangement fees and fair value movements on derivative instruments.
- **Underlying earnings increased 12.3% to $11.9m excluding FX,** but including FX declined to $3.2m compared with $15.5m in H117. Including the negative property revaluation, also driven by foreign exchange translation, the pre-tax loss on an IFRS basis was $37.1m. Fully diluted underlying EPS was $0.48. There was no dilutive effect from the convertible preference shares

in H118 (unlike in FY17) as the finance expense relating to them was greater than the basic IFRS earnings.

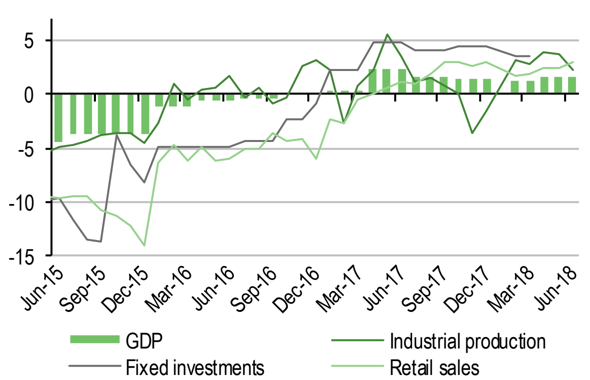
- **Fully diluted IFRS NAV per share** declined to $0.76 (December 2017: $0.80), and on an adjusted basis from a fully diluted $0.77 to $0.71. The adjustments relate to the exclusion of goodwill, fair value changes recognised in the balance sheet in respect of financial derivatives and the unrealised FX movement on the carried value of the preference shares.
- **Operational cash flow remains robust**. Not shown in Exhibit 4, but following a similar trend to NOI, net operational cash flow increased to $55.9m (H117: $48.8m) and cash generation after net interest and payment of preference share coupons was little changed ($7.5m versus $7.4m in H117). The period-end cash balance was $198.1m compared with $266.7m at end-FY17, or $204.4m when adjusted for the asset refinancing that straddled the year end period, inflating both cash and debt. Raven has proposed a 1.25p per share distribution (H117: 1.0p) by way of a tender offer buyback of 1 in 44 shares at 55p.
- **During H118, Raven drew on its first rouble-denominated debt,** drawing RUB2.96bn as part of a mixed euro-rouble facility used to refinance assets acquired during 2017. At the end of H118, the group's total secured bank debt was $824.3m, with a weighted average cost of 7.4% (December: 7.6%) and a weighted average term to maturity of 4.4 years. The LTV (bank debt only, excluding preference and convertible preference shares) was 52%. Rouble bank debt represented 5.7% of the total, euro debt 16.9%, and US dollar debt 77.4%. Of the 17 projects supporting the secured debt, six were financed by euro or rouble debt.

Key operational developments

Management describes operating fundamentals in the Russian market as strong, with many economic indicators moving in its favour and supply-demand conditions in the warehouse market improving.

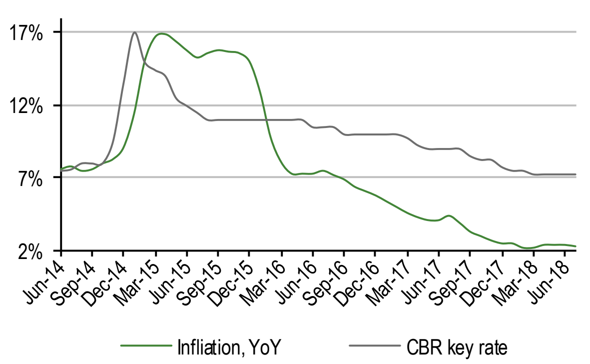
- **Economic conditions in Russia improved**. In 2017 the Russian economy grew by 1.5% (2016: -0.2%), the first rise in three years as the economy continued to adapt to ongoing economic sanctions and oil prices improved. Growth has continued in 2018, with a GDP increase of 1.6% H1 and 1.8% in Q2, which benefitted from Russia's hosting of the FIFA World Cup. Inflation has fallen to less than 3% (2.5% in July 2017), although the Central Bank expects it to return to its long-term trend of c 4% over the next year, in part due to a VAT increase. The key policy interest rate has fallen from 10% at the beginning of 2017 to 7.25%, but remains strongly positive, providing the Central Bank with the flexibility to cut further if it believes this is necessary. However, given the effect VAT is expected to have on inflation, and the recent weakness of the rouble in response to sanctions tightening, rates are for now seen as "on hold".

Exhibit 5: Russian economic indicators



Source: Raven Property Group, JLL research

Exhibit 6: Russian CPI and policy rate



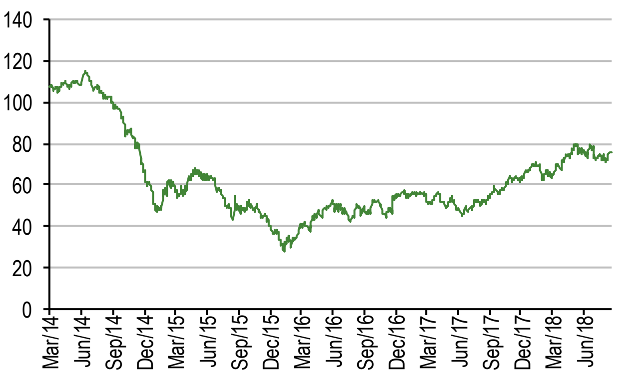
Source: Raven Property Group, JLL research

The rouble enjoyed a period of relative stability versus the US dollar during 2017 and the early months of 2018, trading in a range of c $50-60, but has weakened to c $67 as a result of a further tightening in economic sanctions and generalised volatility in FX markets, especially for emerging markets currencies. More positively, oil prices have continued to trend upwards, with Brent crude recently trading at close to $80 per barrel.

Exhibit 7: Rouble versus US$

Source: Bloomberg, 29 August 2018

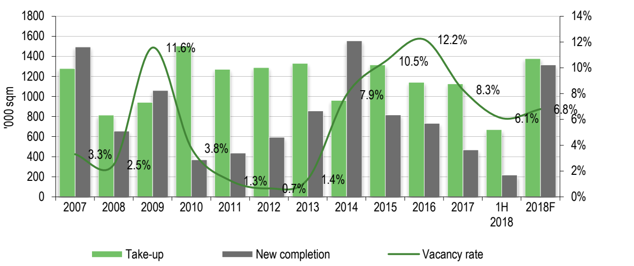
Exhibit 8: Brent crude oil price in US$



Source: Bloomberg, 29 August 2018

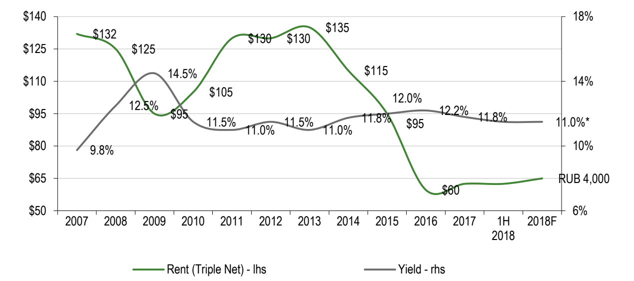
- **Demand-supply conditions in the warehouse market have also improved**. In the Moscow region, accounting for 72% of Raven's warehouse space and where market conditions have been most challenging over the past three years, take-up is continuing to outstrip new supply and vacancy has continued to reduce. JLL estimates mid-year market vacancy at 6.1%, down from 8.3% at the end of 2017, although with an expected uptick in the completion of new supply scheduled for H2 it forecasts an end-2018 vacancy rate of 6.8%. JLL also says that prime rents for new deals have remained stable at c RUB4,000 per sqm.

Exhibit 9: Moscow supply vs demand and vacancy



Source: Raven Property Group, JLL research

Exhibit 10: Moscow prime rents and yields



Source: Raven Property Group, JLL research

Compared with the Moscow region, conditions in St Petersburg and the regions, which account for the balance of Raven's warehouse stock, have been less challenging, exhibiting similar but less volatile development.

- **Occupancy of Raven's portfolio has increased from 81% to 87%,** with warehouse occupancy at 86% (December: 81%) and office occupancy at 99% (December: 100%). Within the warehouse portfolio, the Moscow region saw an improvement in H118 occupancy from 78% to 84%, the regions from 90% to 95%, with St Petersburg declining slightly from 90% to 88%.

  New warehouse lettings in the period totalled 153,000 sqm (8.7% of the total warehouse space), while a further 116,000 sqm of existing leases were renegotiated and extended. Tenants vacated 54,000 sqm of space.

Exhibit 11: Warehouse portfolio leasing summary

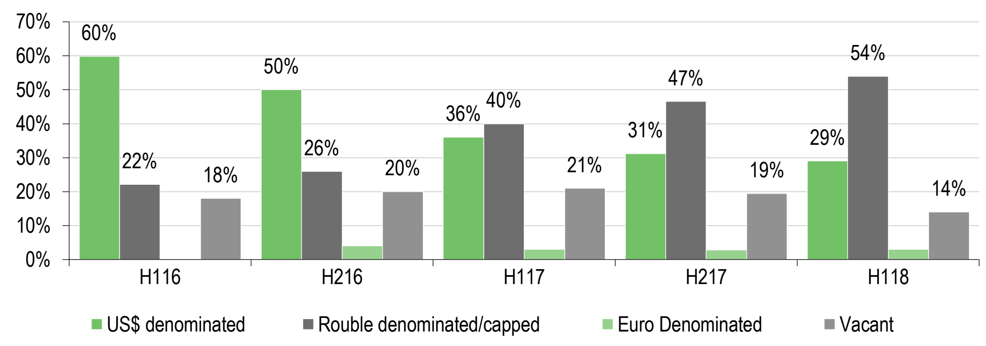
Sqm '000s	2018	2019	2020	2021-27	Total
Maturity profile at 1 January 2018	**159**	**247**	**308**	**710**	**1,424**
Renegotiated and extended	(28)	(7)	(44)	(37)	(116)
Maturity profile of renegotiations	0	13	4	99	116
Vacated/terminated	(33)	0	(10)	(11)	(54)
New lettings	34	10	0	110	153
Maturity profile at 30 June 2018	**132**	**262**	**258**	**871**	**1,523**
Maturity profile including breaks	194	332	329	668	1,523

Source: Raven Property Group

At the end of H118 132,000 sqm of warehouse space was due to mature in H2, plus an additional 62,000 sqm of potential lease breaks. Management expects tenants to vacate 39,000 sqm of the maturing space, and for 15,000 sqm of the breaks to be exercised. However, since the end of H118 it has so far let a further 38,000 sqm of vacant space and has already renegotiated and extended 23,000 sqm of maturing leases.

- **Rouble-denominated leases now account for 54% of warehouse space,** up from 47% at end-2017, with the share of US dollar-denominated rents reducing to 29% of the total (December: 31%). Voids and a small amount of space let on euro-denominated leases account for the balance. The average rouble rent at end-H118 was RUB4,900 per sqm, with a weighted average term to maturity of 3.6 years. The average US dollar rent was $153 per sqm with a weighted average term to maturity of 2.6 years.

Exhibit 12: Currency exposure of leases by warehouse space



Source: Raven Property Group

Both the warehouse and office markets in which Raven operates are now effectively rouble markets and Raven's remaining US dollar leases should therefore be expected to unwind over the next three years. Rouble leases are generally shorter at inception than US dollar leases and contain lease break clauses (c three years on average or five years with a three-year break option, compared with an average c five years previously for dollar leases). Rouble leases do have the advantage of having annual indexation which is linked to Russian CPI but may also specify a minim level. The current average indexation of Raven's rouble-denominated leases at 30 June was 6.1% pa. At current market rent levels, this unwinding of long-term dollar contracts will be a negative drag on revenue, for which acquisitions and void reductions are providing an off-set. Raven indicates an average rent for new lettings in roubles during H118 at c RUB3,800 per sqm (2017:RUB3,870 per sqm) while lease renewals benefit from tenants wanting to avoid the frictional cost of moving. Management indicates an average level of RUB4,500-5,000 per sqm (2017:RUB5,250).

The St Petersburg office portfolio continues to perform well with no significant changes in occupancy or tenant mix.

- **One acquisition has been agreed year-to-date and management hopes to announce others in the coming quarter.** Raven recently announced the conditional agreement to acquire a c 59k sqm Grade A warehouse building, immediately adjacent to the c 195k sqm Sever logistics park in Moscow, which it acquired in November 2017. The property to be acquired is well known to Raven: it is 78% let, with an unexpired weighted average lease term of nine years and annual rent indexation of 6%. The current annualised lease income, before indexation, is RUB231.2m (c US$3.4m at US$=RUB67), rising to RUB271.7m (US$4.0m) when fully let. The consideration totals RUB2.45bn (US$36.2m), with RUB160.0m (US$2.4m) deferred for six to eight months. Management expects the transaction to complete by late September and says that it has a number of other acquisitions under discussion and hopes to make further announcements in due course. It has also shown that it is willing to walk away from deals that do not meet its acquisition criteria, charging c $1.8m of abortive due diligence costs in H118 as a result.

  Given the improvement in market conditions, Raven is also planning to speculatively build c 70,000 sqm of warehouse space on development land that is already owned at Nova Riga. At current construction costs and rents it expects to generate a c 12% return on the marginal cost of investment, although no additional rent is likely until 2020. The Nova Riga land plot (25 hectares) is one of a number of land plots owned by Raven, totalling 156 hectares, of which 84 hectares (including Nova Riga) represents potential additional phases of existing assets.

Financials

The key forecasting judgement is how quickly Raven can grow income through void reduction and the acquisition of income producing assets to offset the drag of older, primarily US dollar-denominated leases maturing and the rents reverting to market. It is also possible that market rents may begin to recover, although we do not allow for this in our forecasts.

Exhibit 13 shows the breakdown of historical and forecast group net operating income (NOI). The key driver of our NOI forecasts is the property investment division that we expect to generate c 92% of NOI in FY18.

Exhibit 13: Net operating income (NOI)

US$m	2014	2015	2016	2017	2018e	2019e
Property investment net operating income	174.5	162.7	140.6	133.3	143.6	136.8
Roslogistics	15.8	9.0	9.8	12.4	11.6	12.2
Raven Mount	2.0	2.5	1.3	21.1	0.5	1.0
Total NOI	**192.3**	**174.1**	**151.7**	**166.7**	**155.7**	**149.9**

Source: Raven Property Group, Edison Investment Research

Our key forecasting assumptions for the investment property division NOI are:

- Completion of the recently agreed acquisition at Sever by the end of September, adding annualised NOI of $3.4m.
- All maturing warehouse leases and leases covered by lease breaks are renegotiated and extended as per the maturity/break schedule shown in Exhibit 11. We believe there are no material near-term US dollar lease maturities, so through to end-FY19 we assume an average $100 per sqm on these leases, renegotiated/extended at $70 (c RUB4,700).
- Void warehouse space continues to decline, falling to 12% by end-FY18 (H118: 14%), 10% by end-H119 and 8% by end-FY19. The additional space let is assumed at $60 per sqm (c RUB4,000).
- We assume no change in the NOI contribution from the fully let office properties.

- Our forecasts are built in US dollars and do not allow for indexation of rents. Implicitly, we are assuming that indexation is matched by rouble deprecation versus the US dollar, which is conservative.

Our revised estimates are shown in Exhibit 14. Although we expect slightly higher NOI than previously, this is more than offset (in underlying earnings) by higher administrative costs and higher net finance costs and, in FY18, negative FX revaluation effects not previously forecast.

Management indicates that the H118 growth in the cost base will support Raven's ongoing growth policy and that future warehouse acquisition or development should be expected to increase income without having any marked impact on overheads. Our forecasts allow for lower bonus costs.

The increase in our forecast for net finance expense is driven by lower forecast interest income, resulting from lower balances as cash is invested, lower interest rates and FX effects. We have assumed an unchanged 7.4% cost of bank debt.

Our estimates are based on exchange rates of £1-US$1.31 and $1=RUB67.

Please note that Exhibit 14 is presented on the company's underlying basis which differs from the IFRS-based financial summary in Exhibit 17.

Exhibit 14: Estimate revisions (underlying earnings basis)

US$m except where otherwise stated	New forecast 2018e	New forecast 2019e	Previous forecast 2018e	Previous forecast 2019e	2018e change	2019e change
NOI	155.7	149.9	154.6	150.1	1%	0%
Administrative expenses	(30.1)	(27.5)	(25.9)	(26.0)	16%	6%
Share based payments & long-term incentives	(0.9)	0.0	0.0	0.0		
FX gains/(losses)	(8.7)	0.0	0.0	0.0		
Share of profit of JV	0.7	1.0	1.0	1.0		
Operating profit	**116.7**	**123.4**	**129.7**	**125.1**	**-10%**	**-1%**
Net finance expense	(89.9)	(88.3)	(86.2)	(85.2)	4%	4%
Underlying profit before tax	**26.7**	**35.2**	**43.5**	**39.9**	**-39%**	**-12%**
Tax	(8.5)	(8.8)	(10.9)	(10.0)		
Underlying profit after tax	**18.3**	**26.4**	**32.6**	**29.9**	**-44%**	**-12%**
Fully diluted company underlying EPS (c)	2.85	4.39	4.92	4.78	-42%	-8%
Distributions per share (c)	2.50	2.50	3.00	3.00	-17%	-17%
Fully diluted adjusted NAV per share (c)	72	74	81	84	-12%	-13%

Source: Edison Investment Research. Note: Compared with IFRS, underlying earnings exclude valuation movements, depreciation, amortisation of debt issuance costs, amortisation of preference share redemption premium, share-based payments and exceptional items.

Upside from acquisitions

As noted above, utilising a strong cash position to fund high quality income producing acquisitions is a key element of Raven's strategy to offset the effects of rent reversion and return the company to growth. We estimate that the remaining US dollar-denominated leases are generating NOI that is c $35-45m above spot market levels for Rouble denominated leases at the current exchange rate, although indexation of Rouble leases may narrow the difference by the time that the US dollar leases expire, and a good level of renewal by existing tenants would be beneficial. To plug the gap, management targets adding c $10m pa to annualised NOI through acquisitions over the next two to three years, as well as further reducing voids.

At an assumed 12% yield, an aggregate $30m addition to NOI would require investment of around $250m. Assuming gearing of 60%, the cash/equity investment requirement is c $100m. Our forecasts already assume completion of the recently agreed acquisition at Sever. It is a corporate acquisition and will include an undisclosed amount of debt that Raven intends to refinance. For now, our model allows for a cash outlay of $36.2m, with no debt assumed on acquisition. If refinanced at 60% gearing, this will increase our forecast cash balance by c $22m. We would additionally anticipate that Raven may look to refinance its existing amortising secured debt in order to release any over-collateralisation. Amortisation is running at c $30m pa and in our illustration of how Raven may finance the targeted acquisitions (Exhibit 15) we assume that $60m may be released by refinancing existing debt. On this basis, our analysis indicated potential end-FY19 cash resources of $156m (or $96m without refinancing existing secured debt) compared with a net cash requirement of $85.5m.

Exhibit 15: Illustrative acquisition funding

US$m	
Required investment	**250.0**
Less conditionally agreed Sever acquisition	(36.2)
Additional investment required	**213.8**
Assumed LTV	60%
Cash/equity investment required	**85.5**
Forecast FY19 cash	74.6
Add Sever refinancing	21.7
Refinance existing secured loans	60.0
Adjusted available cash funding	**156.3**

Source: Edison Investment Research

While the illustration in Exhibit 15 indicates that a high cash balance would remain after the acquisition spend, it is lower than the c $100m that we have previously assumed that management would wish to maintain. We suspect that given the improving operating environment and the likelihood that by the end of FY19 Raven will have completed the repositioning of its balance sheet, substantially matching rouble income with rouble-denominated debt and thereby de-risking cash flows, management would be comfortable with a reduced cash buffer.

Cash flow and financing

Operating cash flow remained robust in H118 and after interest payments it was at a similar level to H117 ($7.5m versus $7.4m). The full year 2017 benefitted from a one-off gain of c $20m on the sale of non-core development land within the UK subsidiary, while in 2018 convertible preference share dividends have increased as a result of the further issuance of shares in 2017. The end-H118 cash balance also remains strong at $198.1m.

As noted above, our forecasts assume completion of the $36.2m agreed acquisition at Sever and that it is settled in cash, although in reality this will include the assumption of debt and less cash outlay. We also factor in a modest amount of ongoing capex plus $30m of development spend at Nova Riga in 2019. We have also assumed shareholder distributions in the form of tender offer buy backs and that sufficient shares will be tendered for a full distribution (similar to H118 but higher than in previous periods).

Exhibit 16: Modified cash flow analysis

US$m	2017	2018e	2019e		H117	H118
Net cash generated from operating activities	125.5	106.4	106.6		48.8	55.9
Interest received	7.3	5.5	4.0		3.0	2.2
Bank borrowing costs paid	(64.2)	(64.1)	(59.3)		(32.7)	(33.9)
Preference share dividends	(14.7)	(16.5)	(17.2)		(7.1)	(7.9)
Convertible preference share dividends	(13.1)	(17.0)	(16.3)		(4.5)	(8.8)
Total net operating income after interest	**40.7**	**14.2**	**17.8**		**7.4**	**7.5**
Loan amortisation	(38.3)	(31.0)	(30.0)		(20.2)	(16.0)
Bank loans drawn/(repaid)	146.1	(22.8)	0.0		2.8	(22.8)
Share repurchases/tender offer distributions	(14.3)	(37.6)	(20.3)		0.2	(27.0)
Issue of convertible preference shares	126.4	0.0	0.0		0.0	0.0
Other financing items	(0.5)	(1.2)	0.0		3.7	(1.2)
Net cash from investing activity	(207.0)	(38.3)	(34.0)		(92.1)	(0.1)
FX	15.0	(9.0)	0.0		7.5	(9.0)
Change in cash resources	**68.0**	**(125.6)**	**(66.5)**		**(90.5)**	**(68.6)**
Closing cash	**266.7**	**141.1**	**74.6**		**108.1**	**198.1**

Source: Raven Property Group, Edison Investment Research

Valuation

Investors in Raven can choose between ordinary shares, preference shares, convertible preference shares and warrants. The ordinary shares, warrants, and preference shares are traded on the LSE while the convertible preference shares trade on the official list of the International Stock Exchange Authority Limited (TISEA). As noted above, the group is pursuing secondary listings of the ordinary shares on both the Moscow and Johannesburg stock exchanges.

The ordinary shares offer a good level of yield and provide investors will full upside to NAV growth or discount narrowing. Based on our forecast distribution of 2.5p for FY18, the yield is 6.3% and the discount to fully diluted adjusted NAV is c 26%. Distributions are variable and are normally made via tender offer buy backs. Our assumed distribution is relatively high compared with forecast earnings but as noted above, a full deployment of cash resources on cash-generative acquisitions has the potential to substantially lift earnings and cash flow above the forecast levels.

The convertible preference shares (RAVC) rank ahead of other share classes in terms of dividend payments and receive a cumulative 6.5% preferential dividend on the subscription amount of 100p, a cash yield of 5.5% on the current price of 118.5p. The convertible preference shares are redeemable by the company on 26 July 2026 at 1.35, and can be converted into ordinary shares at the holders request at any time prior to redemption, currently at a rate of 1.759 (equivalent to c 67p per ordinary share at the current price), a premium of c 69%.

The (non-convertible) preference shares (RAVP) earn a cumulative 12% dividend on the fixed issue amount per share of 100p, ranking ahead of the ordinary shares. At a current price of 144.5p, the yield is 8.3%.

As noted above, although NAV per share declined in H118, the main driver was the translation of the investment portfolio value from roubles to US dollars. The portfolio value increased by 7% in rouble terms. If the market continues to improve, as we expect, there should be room for valuation yields to decline over the medium to long term, further increasing rouble-denominated asset values. However, the investment market in Russia is relatively thin compared with the size of the economy, making valuation movements less predictable.

Diluted IFRS NAV per ordinary share at end-H18 was 76c and on a fully diluted adjusted basis (adjusted for goodwill, deferred tax on valuation gains, fair value movements on derivative contracts and cumulative FX movements on preference shares) it was 71c. At an exchange rate of $1.31/£, this represents c 54p for a P/NAV discount of c 26%.

Sensitivities: The economy

Political and economic tension between the US, EU and Russia, resulting in continuing economic sanctions against Russia, and volatility in foreign exchange markets, continue to create uncertainty and risks for Raven. However, as noted above, the Russian economy is again growing and local market operators appear to have accepted the inevitability of long-term economic sanctions and are adapting accordingly. The local risks have the impact of reinforcing normal sector risks including occupancy and rent levels, funding access and cost, and property valuations. We highlight the following:

- **Volatility in FX markets.** The majority of Raven's operational activity is in Russia. The group's functional currency is sterling and its reporting currency is US dollars. The key potential effects arise from:
  - Changes in the value of the rouble versus the US dollar. An increasing share of income is rouble denominated and a high proportion of debt is currently denominated in US dollars, although we expect this to further decline. In US dollar terms, a weaker rouble is likely to

reduce income versus interest costs, reduce the value of rouble cash holdings and reduce property values versus secured bank borrowings.

  - Changes in the value of sterling versus the US dollar. A weaker sterling will increase preference share and convertible preference share dividends in US dollar terms.

- **Rent reversion.** As noted above, average contracted rents on Raven's warehouse portfolio are above market rents, and in some cases (longer maturity US dollar leases) considerably so. Raven's strategy seeks to offset the ongoing rent reversion by reducing voids and acquiring high yielding additional assets. An inability to make acquisitions would make this much more difficult to achieve.
- **Funding.** As noted above, the issuance of convertible preference shares in 2016 and 2017, and other restructuring of bank debt, significantly strengthened Raven's financial position. We would expect acquisitions to be substantially cash funded and later refinanced, or acquired with debt in place. An inability to refinance acquisitions would restrict the aggregate amount of acquisition activity that Raven would be able to finance.
- **Further sanctions against Russian banks**, aimed at limiting their access to international funding, could limit the availability or increase the cost of rouble funding.
- **The legal system in Russia is still in the relatively early stages of development** and the tax system is revised regularly. The key tax treaty for the group is that between Russia and Cyprus, which allows Raven's properties to be held by subsidiaries domiciled in this low tax jurisdiction.

Exhibit 17: Financial summary

Period ending 31 December.	2014	2015	2016	2017	2018e	2019e
PROFIT & LOSS (US$000's)	**IFRS**	**IFRS**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
Gross revenue	257,596	219,704	195,294	228,082	214,618	206,875
Property operating expenditure & cost of sales	(65,288)	(45,581)	(43,553)	(61,354)	(58,950)	(56,927)
Net rental and related income	192,308	174,123	151,741	166,728	155,669	149,948
Administrative expenses	(34,630)	(30,494)	(25,344)	(28,547)	(32,916)	(28,518)
Share based payments and other long term incentives	(2,354)	(3,594)	(9,077)	(4,546)	(4,877)	(4,800)
FX gains/(losses)	(15,471)	1,223	18,079	9,229	(8,709)	0
Share of profit of joint ventures	955	2,518	1,780	2,074	704	1,000
Operating profit/(loss) before realised/unrealised property gains (EBIT)	140,808	143,776	137,179	144,938	109,871	117,630
Realised/unrealised gains on investment property	(145,404)	(256,548)	(39,517)	38,152	(34,449)	0
Operating profit	(4,596)	(112,772)	97,662	183,090	75,422	117,630
Net finance expense	(93,448)	(92,284)	(75,416)	(92,444)	(104,271)	(106,147)
Charge on preference share conversion	0	0	0	0	0	0
Profit before tax	(98,044)	(205,056)	22,246	90,646	(28,849)	11,483
Tax	9,855	12,697	(14,527)	(32,961)	(9,016)	(8,799)
Profit after tax	(88,189)	(192,359)	7,719	57,685	(37,865)	2,684
Company underlying earnings	66,652	54,559	47,122	56,808	18,250	26,396
Fully diluted IFRS EPS (c)	(11.83)	(27.99)	1.16	8.55	(5.92)	0.45
Basic company underlying EPS (c)	9.32	8.18	7.17	8.56	2.87	4.46
Fully diluted company underlying EPS (c)	8.94	7.94	6.81	7.41	2.85	4.39
Distributions per ordinary share (p)	6.00	2.00	2.50	4.00	2.50	2.50
Period end number of shares exc own held (m)	688.5	644.1	661.5	655.4	608.9	575.6
Average number of shares (m) - basic	715.0	666.8	657.5	663.5	635.4	592.1
Average number of shares (m) - fully diluted	745.5	687.2	667.7	675.1	639.9	601.2
BALANCE SHEET						
Investment property	1,593,684	1,333,987	1,300,643	1,568,126	1,569,664	1,572,664
Other non-current assets	151,840	96,735	92,097	100,844	120,394	150,394
Total non-current assets	1,745,524	1,430,722	1,392,740	1,668,970	1,690,058	1,723,058
Cash & equivalents	171,383	202,291	198,621	266,666	141,074	74,606
Other current assets	54,444	51,878	53,798	79,815	59,078	59,078
Total current assets	225,827	254,169	252,419	346,481	200,152	133,684
Total assets	1,971,351	1,684,891	1,645,159	2,015,451	1,890,210	1,856,742
Interest bearing loans & borrowings	55,252	104,724	40,787	106,697	50,000	50,000
Other current liabilities	86,215	55,481	66,351	107,392	85,906	77,850
Total current liabilities	141,467	160,205	107,138	214,089	135,906	127,850
Interest bearing loans & borrowings	837,429	814,021	699,038	740,485	762,585	739,185
Preference shares	164,300	156,556	131,703	146,458	143,477	143,477
Convertible preference shares	0	0	119,859	269,031	272,698	283,467
Other non-current liabilities	130,866	89,066	87,195	115,629	102,061	102,061
Total non-current liabilities	1,132,595	1,059,643	1,037,795	1,271,603	1,280,821	1,268,190
Total liabilities	1,274,062	1,219,848	1,144,933	1,485,692	1,416,726	1,396,040
Net assets (and shareholders' equity)	697,289	465,043	500,226	529,759	473,484	460,702
NAV adjustments						
Goodwill	(7,806)	(5,134)	(6,187)	(4,712)	(4,599)	(4,599)
Deferred tax on revaluation gains	55,250	0	0	0	0	0
Cumulative FX loss on preference shares	13,955	4,956	(20,362)	(7,856)	(11,385)	(11,385)
Fair value of derivatives	(5,322)	(5,159)	(5,041)	(8,172)	(15,424)	(15,424)
Adjusted NAV	753,366	459,706	468,636	509,019	442,076	429,294
Fully diluted IFRS NAV per share (c)	98	70	71	80	77	79
Fully diluted adjusted NAV per share (c)	106	70	68	77	72	74
CASH FLOW						
Net cash generated from operating activity	168,794	136,151	118,012	125,485	106,413	106,594
Payments for investment property under construction	(105,582)	(20,028)	(9,163)	(122,274)	(43,158)	(33,000)
Acquisition of subsidiary undertakings, net of cash acquired	(12,873)	0	0	(82,519)	0	0
Other investing activity	19,561	32,895	8,171	5,060	10,341	2,944
Net cash generated from investing activity	(98,894)	12,867	(992)	(199,733)	(32,817)	(30,056)
Bank borrowing costs paid	(70,979)	(69,465)	(66,808)	(64,171)	(64,132)	(59,265)
Ordinary dividends paid in cash	0	0	0	0	0	0
Preference/convertible preference share dividends paid	(18,225)	(17,156)	(19,437)	(27,875)	(33,531)	(33,474)
Net own shares (acquired)/disposed	(68,928)	(41,906)	6,624	(14,337)	(37,590)	(20,266)
Issue of preference/convertible preference shares	0	0	128,327	126,402	0	0
Debt drawn/(repaid)	89,447	23,157	(164,493)	107,764	(53,750)	(30,000)
Other investing activity	(3,086)	(4,930)	(4,972)	(485)	(1,201)	0
Cash flow from financing activity	(71,771)	(110,300)	(120,759)	127,298	(190,204)	(143,005)
Change in cash	(1,871)	38,718	(3,739)	53,050	(116,607)	(66,468)
Opening cash	201,324	171,383	202,291	198,621	266,668	141,077
FX/other	(28,073)	(7,812)	69	14,997	(8,984)	0
Closing cash	171,383	202,291	198,621	266,668	141,077	74,609
Debt	(1,056,981)	(1,075,301)	(991,387)	(1,262,671)	(1,228,760)	(1,216,129)
Net (debt)/cash	(885,598)	(873,010)	(792,766)	(996,003)	(1,087,683)	(1,141,520)

Source: Raven Property Group, Edison Investment Research

Contact details	Revenue by geography
La Vieille Cour La Plaiderie St. Peter Port Guernsey GY1 6EH + 44 (0) 1481 712955 www.ravenrussia.com	N/A

Management team

Non-executive chairman: Richard Jewson	Executive deputy chairman: Anton Bilton
Richard is a former managing director of the Jewson timber and building merchant and then chairman of its holding group, Meyer International, until 1993. He has since served as a non-executive director and chairman on a number of public companies, including Savill's, Anglian Water, and currently Tritax Big box REIT (as chairman) and Temple Bar Investment Trust (NED).	Anton is an international property entrepreneur and founder of the Raven Group, which became a part of Raven Property Group (formerly Raven Russia), of which he is a co-founder, in 2009. He has also been founder and director of three other companies that have floated on the AIM market of the LSE and is chairman of Sabina Estates. Anton is an economics graduate from City University in London.
Chief executive officer: Glyn Hirsch	**Chief financial officer: Mark Sinclair**
Glyn is a Guernsey resident. He qualified as a chartered accountant with Peat, Marwick Mitchell & Co in 1985. Until 1995, he worked in the corporate finance department of UBS (formerly Phillips & Drew). From 1995 until 2001, he was chief executive of CLS Holdings, the listed property investment company, a former director of Citadel Holdings, the specialist French property investor and former chairman of Property Fund Management, the listed property fund management business. He is also a director of Sabina Estates.	Mark is a Guernsey resident. He is a chartered accountant and spent 18 years at BDO Stoy Hayward, a leading professional services firm in the UK. He was a partner in the London Real Estate Group, responsible for a portfolio of large property companies, both listed and private. He joined Raven Mount in June 2006 as finance director of Raven Russia Property Management, the former property adviser to the company, and joined the board of Raven Russia in March 2009.

Principal ordinary shareholders	(%)
Invesco Perpetual	32.9
Woodford Investment Management	13.0
JO Hambro Capital Management	10.3
Raven Property Group directors & EBT	9.3
Schroder Investment Management	8.9
Old Mutual Global Investors	5.0