EDISON

Globalworth Real Estate Investments

2018 results

Strong progress in 2018

Real estate

A strong FY18 performance for FY18 included a full-year earnings contribution from Globalworth Poland and good underlying progress from the existing portfolio. The results appear consistent with our recently published multi-year forecasts, which we will review in detail in the coming days. These look for strong future growth from adding value to existing assets and further developments, against a positive operating environment in Romania and Poland. Not included in those forecasts were potential further accretive acquisitions although Globalworth Real Estate (GWI) continues to evaluate a strong pipeline of opportunities. To fund investments, including acquisitions and the planned elimination of the Globalworth Poland minority interest, GWI intends to issue up to €500m of additional equity capital.

Year end	NOI* (€m)	EPRA earnings** (€m)	EPRA EPS (c)	EPRA NAV/ share*** (€)	DPS (c)	P/EPRA NAV (x)	Yield (%)
12/16	43.6	8.6	13.3	8.57	0	0.96	N/A
12/17	51.1	16.8	17.9	8.84	44	0.93	5.4
12/18	133.4	60.9	46.0	9.04	54	0.91	6.6
Estimates under review							

Note: *NOI is net operating income. **EPRA earnings is adjusted for revaluation movements and other non-recurring items. *** EPRA NAV is adjusted for deferred tax liabilities, fair value of interest rate derivatives and other items.

Acquisitions and underlying gains

Globalworth Poland was fully reflected in the FY17 balance sheet but contributing to the FY17 income statement for less than one month and was a significant driver of FY18 growth. Underlying progress also reflected strong leasing activity and an increasing contribution from recently completed developments, rental growth, ongoing acquisitions and operational efficiency. Net operating income increased from €51.1m to €133.4m but is yet to fully reflect the increase, to €159.5m, in year-end annualised contracted income for the commercial standing portfolio. EPRA earnings grew from €16.8m (17.9 cents per share) to €60.9m (46.0 cents per share). Including increased DPS and growth in EPRA NAV per share to €9.04, the NAV total return for the year was 7.8%.

Targeting further accretive acquisitions

The commercial property markets in Romania and Poland are supported by strong economic growth, above the EU average, and an increasing number of multinational companies operating in the region. Against this positive backdrop, GWI has potential acquisitions with a value of €280m under exclusive negotiation in Poland, with a blended yield of 7.5%, and is evaluating other accretive acquisitions. To fund this investment as well as the acquisition of a further 21.58% interest in Globalworth Poland (taking its stake to more than 99%) GWI proposes to issue up to 55m new shares at around the prevailing EPRA NAV per share.

Valuation: Growth should drive shareholder returns

GWI is trading with an FY18 yield of almost 7% and a discount to forecast EPRA NAV per share of c 10%. Management of existing investments, further developments and continuing accretive acquisitions all point to strong growth.

13 March 2019

Price	**€8.23**
Market cap	**€1,116m**
Net debt (€m) at 31 December 2018	1,259
Net LTV at 31 December 2018	43.9%
Shares in issue	135.6m
Free float	26.3%
Code	GWI
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.8	(4.1)	(10.0)
Rel (local)	2.3	(8.0)	(8.4)
52-week high/low		€9.60	€7.90

Business description

Globalworth is a real estate investment company, incorporated in Guernsey and listed on AIM. It is the leading office investor in the CEE region with a portfolio approaching €2.5bn in Romania and Poland. It targets a sustainable and growing dividend with capital growth.

Next events

EGM	29 March 2109

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Edison profile page

Globalworth Real Estate Investments is a research client of Edison Investment Research Limited

The FY18 results appear consistent with our growth outlook

In our recently published detailed note on Globalworth, we laid out our multi-year financial forecasts up to and including FY22. We did this to demonstrate GWI's potential to grow rental income and capital values, including a significant potential contribution from the active development programme as well as an increased contribution from recently completed acquisitions and developments, rental growth and operating efficiency. Not specifically included in our forecasts, but highlighted as areas of potential additional uplift, were accretive acquisitions and capital growth as a result of Bucharest yield convergence towards the lower levels seen in markets elsewhere around the CEE region.

We will review the FY18 financial results, summarised in Exhibit 1 alongside our FY18 forecasts, in detail in the coming days and update our multi-year forecasts. We do not expect material changes in the current portfolio and developments; however, the potential accretive acquisitions flagged by management are a source of medium-term upside.

The up to 55m new shares that GWI proposes to issue is split between a placing for cash issue (up to 38m new shares) and proposed issue of up to 17m new shares to Growthpoint properties International in exchange for the Gowthpoint's 21.58% interest in Globalworth Poland, increasing the GWI to more than 99%. Growthpoint, South Africa's largest REIT, became the cornerstone investor in GWI in 2016 and owns 28.3% of GWI. It acquired its stake in Globalworth Poland in June 2018 when it subscribed to its €450m equity raise. If the transaction completes, GWI will consider exercising its statutory squeeze-out rights to acquire the remainder of the GPRE shares (less than 1%), which it says would allow it to rationalise the group structure, reduce administration costs, achieve operational synergies and present a simpler equity story to its investors.

Management also indicates that the identified €280m of acquisitions in Poland being negotiated under exclusivity, and other pipeline assets, have a clear strategic fit with the existing portfolio, are in prime locations, have an attractive income profile, bring further asset management opportunities, and offer potential scale benefits. The additional acquisition growth in Poland complements an existing active development programme in Romania. The share placing is targeted at assisting the company in managing its gearing strategy to a long term target LTV of below 40%. At an EGM called for 29 March the board is seeking shareholder approval to issue the up to 38m placing shares for cash. GWI intends to issue all of the new shares at around the prevailing EPRA net asset value

The board has also provided an update on the potential move to a premium listing on the London Stock Exchange, noting that it will await greater clarity in terms of the impact of Brexit before making a decision to proceed.

Exhibit 1: 2018 financial summary and versus Edison forecasts

€m unless otherwise stated	2018	2017	Change	Edison forecast
Net operating income	133.4	51.1	161%	116.4
Administrative expenses	(15.3)	(10.2)	49%	(14.3)
Fair value gain on investment property	34.1	6.7	407%	60.5
Net other income & expense items	(1.6)	13.4		(3.3)
Operating profit	**150.7**	**61.0**	**147%**	**159.3**
Net finance expense	(38.4)	(37.0)	4%	(38.3)
JV profit	3.1	2.2	41%	3.5
Profit before tax	**115.3**	**26.2**	**341%**	**124.5**
Current & deferred tax	(15.4)	(2.4)		(15.2)
Net profit	**99.9**	**23.7**	**321%**	**109.4**
Non-controlling interests	(19.7)	0.7		(15.7)
IFRS attributable net profit for year	80.3	24.4	229%	93.7
Adjust for:				
Fair value gain on investment property	(34.1)	(6.7)		(60.5)
Other EPRA adjustments including tax and non-controlling interest effects	14.7	(0.9)		22.2
EPRA earnings	**60.9**	**16.8**	**262%**	**55.4**
Basic IFRS EPS (€)	60.7	26.4		70.8
Diluted EPRA EPS (€)	**46.0**	**17.9**	**156%**	**41.8**
DPS declared (€)	54.0	44.0	23%	54.0
Diluted EPRA NAV per share	**9.04**	**8.84**		**9.11**
Investment properties inc JV(€bn)	2.46	1.82	36%	2.48
Net LTV	43.9%	34.0%		43.0%

Source: GWI, Edison Investment Research

Compared with our forecasts we briefly note that:

- The net operating income growth from €51.1m to €133.4m substantially reflects a full year contribution from Globalworth Poland and development completions in Romania, further acquisitions of income generating assets in Poland through the year, and strong letting activity. The Globalworth Poland contribution includes a €21.5m one-off cash settlement in respect of master lease and NOI guarantees that had been granted to the company prior to its IPO and before GWI made its investment. This was not included in our NOI forecasts, pending confirmation of the accounting treatment for the settlement, announced in December 2019. On an underlying basis, NOI earned during the year was slightly below the level that we had forecast, but year-end annualised contracted NOI of €159.5m is actually ahead of our expectations (€155.7m), which is a positive indicator for FY19 income. We believe the transaction will be largely valuation neutral to GWI but it has the benefits of delivering an upfront cash payment in respect of the likely future guarantee payments, and brings greater operational flexibility to the management of the assets. The master lease settled accounted for 0.5% of group standing commercial GLA at the time of settlement and GWI expects to lease the corresponding space in the short to medium term.
- With Globalworth Poland already reflected in the FY17 balance sheet, the 36% growth in the investment portfolio in 2018 to €2.5bn (FY17: €1.8bn), includes €538.3m invested in five standing asset acquisitions in Poland, €17.5m in three land plots in Bucharest, Romania on which GWI plans to new office projects, continuing development spend and valuation uplift.
- Occupancy of the commercial standing portfolio, already at a good level, continued to increase, reaching 95.1% at end-FY18 (H118: 94.6% and FY17: 93.3%). Including tenant expansion options, end-FY18 occupancy was 96.3%. During the year the group negotiated the take-up or extension of 121.8k sqm of commercial space in Romania and Poland, with a similar pace maintained in H2 as in H1.
- 2018 saw two development projects completed, both in Bucharest; the second (of three) towers at Globalworth Campus (H118) and the new pre-let HQ for Groupe Renault Romania, the Renault Bucharest Connect. Construction of the third tower at Globalworth Campus is underway (due for completion Q419) and since year end, 60% of the project has been pre-let

or is subject to a letter of intent. Two of GWI's further pipeline of development projects have also commenced; the 26.4k sqm Globalworth Square project in Bucharest and a 17.7k sqm unit at the TAP logistics centre in Timisoara.

- Net finance expense was little changed despite increased borrowing during the year, reflecting the benefits of refinancing secured bank debt with lower cost, unsecured, fixed rate debt, and the non-recurrence of prior year refinancing costs. In June 2017 GWI issued a €550m Eurobond at a fixed 2.875% due 2022, and in March 2018 €550m of senior unsecured notes due 2025 at a fixed 3.0%.
- EPRA earnings increased from €16.8m to €60.9m, ahead of our €55.4m expectation. EPRA earnings benefited from the net effects of the master lease and NOI guarantee settlement, including non-controlling interests.

Exhibit 2: Financial summary

Year ending 31 December, €000's	2016	2017	2018
INCOME STATEMENT			
Rental income	46.2	53.9	137.6
Net property operating expenses	(2.6)	(2.8)	(4.2)
Net operating income (NOI)	43.6	51.1	133.4
Administrative expenses	(7.7)	(10.2)	(15.3)
Depreciation of long-term assets	(0.2)	(0.2)	(0.4)
Acquisition costs	(0.1)	(10.8)	(1.2)
Fair value gain on investment property	6.7	6.7	34.1
Bargain purchase gain on acquisition of subsidiaries	0.0	28.9	0.3
Gain on sale of subsidiary	0.3	0.0	0.0
Share based payments	(0.0)	(0.1)	(0.5)
FX gain/(loss)	(0.1)	(0.3)	(1.2)
Other net operating income/(expense)	1.3	(4.1)	(4.0)
	0.0	0.0	5.5
EBIT	43.7	61.0	150.7
Net finance expense	(31.5)	(37.0)	(38.4)
JV	0.0	2.2	3.1
Profit before tax (PBT)	12.2	26.2	115.3
Tax charge	(0.9)	(2.4)	(15.4)
Profit after tax	11.3	23.7	99.9
Minorities	0.0	0.7	(19.7)
Attributable profit after tax (PAT)	11.3	24.4	80.3
EPRA earnings adjustments:			
Fair value gain on investment property	(6.7)	(6.7)	(34.1)
Bargain purchase gain on acquisition of subsidiaries	0.0	(28.9)	(0.3)
Other EPRA adjustments	4.0	28.0	15.0
EPRA earnings	8.6	16.8	60.9
Basic average number of shares (m)	64.4	92.5	132.3
Fully diluted average number of shares (m)	64.4	93.8	132.5
IFRS EPS - basic (€c)	17.6	26.4	60.7
Diluted EPRA EPS (€c)	13.3	17.9	46.0
DPS (€c)	0.0	44.0	54.0
Dividend cover		0.4	0.9
BALANCE SHEET			
Investment property	980.9	1,792.4	2,391.0
Other non-current assets	17.7	49.2	69.0
Total non-current assets	998.6	1,841.6	2,460.0
Cash & equivalents	221.3	273.3	229.5
Other current assets	11.8	46.1	47.4
Total current assets	233.2	319.4	277.0
Interest bearing loans & borrowings	(375.6)	(834.0)	(1,235.1)
Deferred tax liabilities	(70.6)	(99.6)	(107.0)
Other non-current liabilities	(4.5)	(13.1)	(15.9)
Total non-current liabilities	(450.6)	(946.7)	(1,358.0)
Interest bearing loans & borrowing	(38.7)	(36.4)	(24.0)
Other current liabilities	(27.1)	(41.5)	(57.7)
Total current liabilities	(65.8)	(77.8)	(81.7)
Net assets	715.4	1,136.5	1,297.3
Non-controlling interests	0.0	(67.6)	(212.4)
Shareholders' equity	715.4	1,068.9	1,084.9
Adjustments to EPRA:			
Add deferred tax liability	70.6	112.1	128.6
Deduct goodwill as a result of deferred tax	(5.7)	(5.7)	(5.7)
Add negative fair value of interest rate swap	3.6	2.6	2.1
Other	0.0	(6.5)	(9.8)
EPRA NAV	783.8	1,171.5	1,200.2
Period end number of shares, fully diluted (m)	91.5	132.5	132.7
Basic NAV per share (€)	7.91	8.09	8.19
EPRA NAV per share (€)	8.57	8.84	9.04
CASH FLOW			
Net cash flows from operating activities	19.9	10.1	80.1
Cash flows from investing activities	(39.5)	(388.0)	(426.9)
Cash flows from financing	206.9	430.6	303.1
Change in cash	187.3	52.7	(43.7)
Opening cash	31.0	218.4	271.0
Closing cash	218.4	271.0	227.3
Adjustments to balance sheet cash	3.0	2.3	2.3
Balance sheet cash	221.3	273.3	229.5
Debt	(414.2)	(870.4)	(1,259.1)
Net (debt)/cash	(192.9)	(597.1)	(1,029.5)
Net LTV	19.7%	34.0%	43.9%

Source: Company data. Edison Investment Research

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