Raven Russia

FY16 results

Emerging opportunities

Real estate

Management's outlook is cautiously optimistic and market conditions have improved since the start of 2016. Raven's FY16 results show an IFRS profit of $7.7m or $55.4m on an EPRA basis. An opportunistic acquisition of three assets in St Petersburg announced since the year-end and expected to close in Q217 vindicates Raven's strategy of strengthening the balance sheet in anticipation of the market changing. The defence of occupancy levels kept vacancies at 19% on average with leases covering 22% of gross lettable area (GLA) extended and replaced. This has helped maintain cash flow and leaves Raven well-placed to benefit from an upturn.

Year end	Revenue ($m)	NOI* ($m)	EPS** (c)	Adj. NAV*** (p)	P/adj. NAV*** (x)	DPS (p)	Yield (%)
12/15	219.7	174.1	7.93	70	0.74	2.00	3.7
12/16	195.3	151.7	6.81	68	0.77	2.50	4.7
12/17e	196.2	149.8	5.80	70	0.74	1.00	1.9
12/18e	199.8	151.8	6.17	81	0.64	1.00	1.9

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

Strategy succeeding as seen in FY16 results

Raven ended 2016 with a strong cash balance of $198.6m, which enabled it to conditionally acquire three assets in St Petersburg for $83m at the beginning of 2017, less than the replacement cost and on a yield of 16%. There was some investment property valuation loss, but this was reduced by 84% to $40.2m vs $251.2m in FY15. As a result, Raven posted an IFRS profit of $7.7m and the board intends to make a further 2p distribution by way of a tender offer, bringing the total FY16 dividend to 2.5p. Work to change the mix of debt, including a convertible preference issue, has extended debt maturity, strengthening the balance sheet. Management continues to seek opportunistic additions to the portfolio.

Market outlook improving

The Russian economy has stabilised, the rouble has risen 26% against the dollar since the start of 2016, inflation has halved to c 4.3% and the oil price has recovered significantly. The recession constrained the supply of new grade A warehouses and rents have not recovered to pre-recession levels, which may weigh on new supply in future. This bodes well for occupancy levels, which Raven has kept above 80%. A shift to rouble rents may reduce tenant risk to some extent and has been accompanied by the indexation of new leases at rates of 5-7% pa. With supply-demand dynamics more favourable we forecast PBT rising to $44.4m in FY17 and cash flow enabling some distributions.

Valuation: Further to go

The case for upside to our maintained forecast of a 1p dividend in FY17 (1.9% yield) has been strengthened by the FY16 results and the additional tender offer the board intends to make. The preference (RUSP) and convertible preference (RUSC) shares yield 8.4% and 5.7%, respectively. The ordinary shares trade at a c 1% discount to NAV, which may narrow as market conditions improve.

27 March 2017

Price	**53.5p**
Market cap	**£354m**

$1.2361/£, RUB71.433/£

Net debt ($m) at 31 December 2016	792.8
Shares in issue	662m
Free float	90%
Code	RUS
Primary exchange	LSE
Secondary exchange	TISEA

Share price performance

%	1m	3m	12m
Abs	2.0	27.5	52.2
Rel (local)	0.8	20.9	28.9
52-week high/low		52.00p	28.88p

Business description

Raven Russia (RUS) 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

H117	30 June 2017

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Edison profile page

Raven Russia is a research client of Edison Investment Research Limited

Summary of FY16 results

Management was clear at the beginning of 2016 that it expected trading conditions to be difficult, but identified several positive factors: that the quality of the investment property assets remained excellent, despite the write-down in valuation; that new supply into the market was very limited, with vacancy rates expected to fall over the 18 months ahead; and that any improvement in the rouble–US dollar exchange rate would be of benefit to Raven. The FY16 results bear out all three: the property assets' valuation was more resilient in FY16; occupancy was roughly flat and should rise following the acquisitions in February; and the rouble strengthened along with the price of oil and more positive economic indicators in Russia, contributing $18.1m to earnings. The FY16 results represent a considerable stabilisation after the steep declines in FY15, which stemmed from a sharp fall in the oil price and economic sanctions imposed on Russia in 2014. We will briefly describe the main points from the results before looking at the market outlook and our forecasts in more detail.

- Raven reported an IFRS profit after tax of $7.7m, following a loss of $192.4m the year before, mainly due to revaluation losses on investment property ($254.2m in FY15 vs $40.2m in FY16). Operating profit was down 4.5% to $137.2m in 2016 and underlying earnings after tax (details of the adjustments are shown in Exhibit 12 on page 8) were $47.1m vs $54.6m in FY15. Basic underlying earnings per share were 7.17c (FY15: 8.17c), IFRS EPS were 1.17c, up from a loss of 28.81c in FY15.
- The issue of convertible preference shares in July 2016 raised £109m (c $130m), which was used to substantially reduce debt and the costs of debt amortisation: Raven paid $16m to be released from existing bank facilities of $31m, booking a $15m profit in doing so. The company also sold a small plot of land near St Petersburg for $3.8m. In total, $165m of debt and amortisation was repaid in the year and year-end net LTV was 41.6%, down from 53.7% at 31 December 2015.
- The company had a cash balance at the end of FY16 of $198.6m and has subsequently acquired three assets near St Petersburg for c $83m. This demonstrates that management's strategy of fortifying the balance sheet has enabled it to seize an opportunity presented by Russia's economic slowdown. We understand that the ability to act quickly was a key element in Raven's successful bid.
- Average occupancy remained at c 82% in the year, in line with our forecast. The management of maturing leases and re-letting space when practicable has been a key focus in a difficult trading environment: 167ksqm of space was let in FY16, or 11% of the whole portfolio. One effect of the changing business environment has been a rise in the proportion of leases denominated in roubles, which now cover 26% of GLA (FY15: 21%). Raven has responded to this change by ensuring that all new rouble leases are index-linked to rise 5-7% pa.
- Management and the board remain wary, but more optimistic than a year ago. It is hoped that there will be no further valuation losses, that estimated rental values (ERVs) will harden and, with new supply constrained, the economy improving and Russian inflation falling, occupancy and rents will rise. The board intends to distribute 2p per share by way of a tender offer buy-back of one share in every 26 at 52p, bringing total distributions for the year to 2.5p.

The results show that despite challenging conditions, Raven, with shareholder support, is emerging from the Russian recession in good shape: the balance sheet is strong, the portfolio has grown in FY17 and market conditions are improving, which is encouraging for occupancy and rent levels. Raven has continued to make distributions to shareholders and our forecasts, explained on pages six to nine, indicate rising revenues and profits, underpinned by the high-quality portfolio. We will now look at the wider market in more detail.

Company description

Raven was founded and admitted to AIM in 2005, with the intention of building a portfolio of Class A Russian warehouse assets through acquisition and development. It internalised its property advisor in 2008 and took over Raven Mount in 2009, which participates in a JV developing a luxury private residential estate in the Cotswolds. The ordinary shares (RUS) and warrants (RUSW) issued in 2009 moved to the main market of the LSE in 2010, followed by the preference shares (RUSP) in 2011. In 2016 Raven issued 109m convertible preference shares which trade on the official list of the Channel Islands Stock Exchange (TISEA). Apart from Raven Mount, Raven Russia also owns RosLogistics, a third-party logistics business in Russia. Tenants in its 1.5m sqm of investment property tend to be large Russian or international companies providing strong tenant covenants.

Portfolio

As demonstrated by the conditional deal announced earlier in the year (see our January note for details), Raven continues to expand its portfolio of Grade A logistics warehouses in Russia and has added two office buildings which came as part of that deal. The portfolio is chiefly made up of warehouses near Moscow and the regional assets are in Novosibirsk and Rostov-on-Don. The recession put severe pressure on many occupiers, and over the last two years Raven has successfully defended several of its leases in Russian courts, while negotiating with other occupiers in order to maintain occupancy. A dispute with Dixy, a major occupier at Noginsk, was resolved and a new lease for eight years for 43,000sqm of space has been signed at market rent.

Exhibit 1: Portfolio

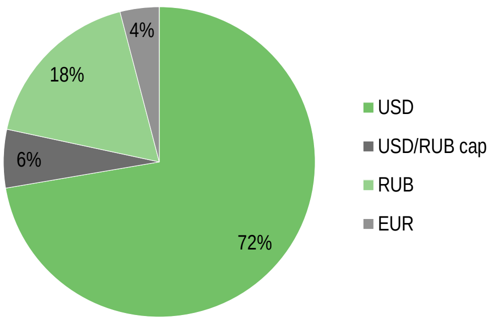
	Area (sqm 000s)	% of total	Annualised NOI ($m)	% of total	Occupancy (%)
Moscow warehouses	1,077	67	112	68	80
Pushkino	213	13	17	10	78
Istra	206	13	21	13	88
Noginsk	204	13	26	16	84
Klimovsk	158	10	19	12	82
Krekshino	118	7	15	9	91
Nova Riga	67	4	2	1	24
Lobnya	52	3	8	5	100
Sholokovo	45	3	3	2	48
Southern	14	1	1	1	80
St Petersburg warehouses	271	17	22	13	94
Shushary	148	9	15	9	98
Pulkovo	36	2	3	2	68
Gorigo	87	5	4*	2	98
Regional warehouses	222	14	17	10	73
Novosibirsk	121	7	10	6	78
Rostov	101	6	7	4	67
St Petersburg offices	49	3	14	8	99
Kellerman	22	1	6*	4	98
Constanta	16	1	5	3	100
Primium	11	1	3*	2	98
Total	1,619	100	165	100	82

Source: Raven Russia data. Note: *These are estimated, but annualised NOI for all three is reported to total $13m.

The company also has a land bank of 263ha of which 84ha are adjacent to existing completed assets, mostly near Moscow. The remainder is in other regional cities where Raven does not have other assets, there are all on the route from Moscow to Novosibirsk, one of Russia's main transport arteries. Although ERVs have now steadied, as discussed above, they remain at levels where development would provide only marginal returns (if any). Therefore no development is currently planned at any of these sites, although there is permission to add 134k sqm of space at Noginsk and 130k sqm at Nova Riga.

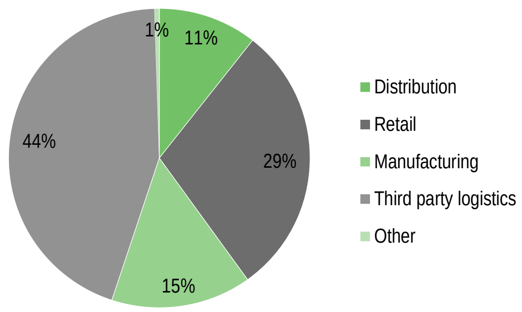
The charts below show the sector and currency exposures of the warehouse portfolio excluding the Gorigo asset acquired this year. The weighted average lease term to maturity of the warehouse leases was four years at 31 December 2016. Average dollar denominated rents were $125 per sqm per year and the average rouble or capped rent was R5,120. Overall, long term, dollar denominated leases still make up the bulk of net operating income (NOI) and underpin Raven's cash flows, but for the sake of expediency in the recent environment, Raven has signed some shorter leases with smaller local operators with purely domestic businesses. This has partly driven the shift towards rouble rents (which moved from 21% to 26% of GLA over the year). These leases tend to be under five years and have breaks, providing the tenant with flexibility and insulating them from currency risk. On the other hand, Raven is able to index-link these rents to CPI, supporting NOI, and is not tied to the tenants for an extended period, meaning that space can potentially be re-let more easily to larger, international occupiers in future. The tactic has enabled Raven to manage its expiry profile and keep occupancy above 80%.

Exhibit 2: Warehouse portfolio NOI analysis



Source: Raven Russia data

Exhibit 3: Warehouse portfolio GLA by sector



Source: Raven Russia data

In the year, Raven renegotiated leases on 157k sqm of space. 187k sqm of space was vacated on maturity or early termination and new leases on 167k sqm were signed. The total gross lettable area of the portfolio at year end was 1,499k sqm, so new and extended leases were signed in respect of c 22% of the portfolio by area. The lease maturity profile of the portfolio and changes to it in 2016 are shown in Exhibit 4. As of 31 December 2016, no single tenant accounted for more than 11% of GLA and the top 10 accounted for 46% (58% of NOI).

Exhibit 4: Lease maturity profile changes in 2016

Sqm 000s	2016	2017	2018	2019	2020+	Total
Maturity profile at 1 January 2016	228	210	131	225	429	1,223
Lease extension	(81)	(44)	(20)	(12)	-	157
Vacated/terminated	(147)	(17)	(23)	-	-	187
Remaining	-	149	88	213	429	879
Lease extension maturities		50	42	21	44	157
New lease maturities		16	35	18	98	167
Lease maturity profile at 31 December 2016		215	165	252	571	1,203

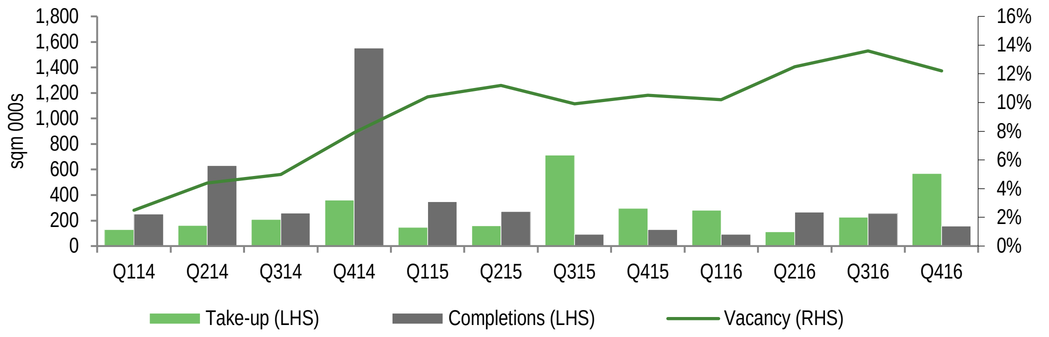
Source: Raven Russia data

The Russian warehouse market

The Russian warehouse market is still dominated by large retailers that are seeking to make their supply chains across Russia more efficient. The recession from which Russia is now emerging has subdued new supply, although it did increase vacancy rates across the sector, especially around Moscow where they remain over 12%. Near Raven's regional assets the rate is under 10%, and rents there are now similar to rents in Moscow. Property investment is concentrated in the office sector and is 90% Russian-funded, with only c 6% of capital going to the warehouse market. This leaves it relatively immature and potentially attractive to specialist investors such as Raven. We examine the Moscow market, where Raven's portfolio is concentrated, in more detail below.

Exhibit 5 shows the completion and take-up of grade A warehouse space around Moscow over the last three years as well as the vacancy rate. This shows severe oversupply in the first half of the period as Russia went into recession, and a recovery in the second half, with take-up in Q315 and in Q416 noticeably affecting vacancy. It does not show the area of previously let space where leases expired, and although since mid-2015, there has been 1.2m sqm more space taken up than built, a further 0.9m sqm of oversupply from the previous 18 months remains, before allowing for lease expiries.

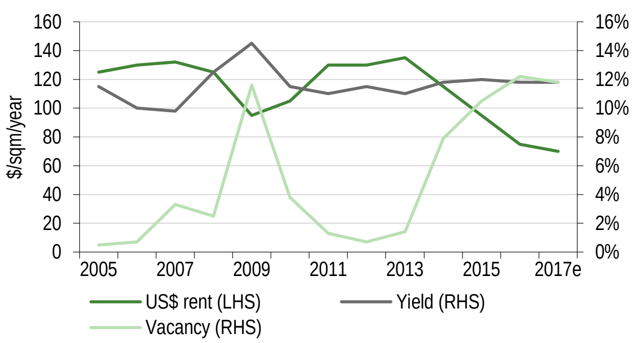
Exhibit 5: Moscow warehouse market supply and demand dynamics



Source: Raven Russia reports, JLL

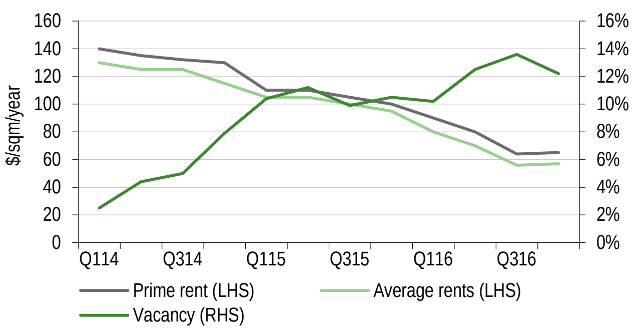
This is a likely contributor to rents remaining low compared with historical levels, although the recent slight reduction in vacancy may be associated with a stabilisation of rental rates visible in Exhibit 7. We have estimated rents using JLL's quarterly reports on the Moscow warehouse market. JLL switched from reporting rent levels in dollars only in Q115, and now only gives rouble figures. This in itself reflects a change in market dynamics, and for consistency of presentation we have chosen to extrapolate dollar figures from the movements in rouble rents and the exchange rate for the last two quarters. We note, however, that dollar and rouble rents did not move in tandem when both were being reported, and exchange rate changes did not match the variance. However, the recent strength of the rouble should increase the dollar value of rouble rents, and reflects economic conditions, which may also be conducive to higher rents.

Exhibit 6: Average rent, yield and vacancy since 2005



Source: Raven Russia reports, JLL

Exhibit 7: Rents and vacancy since 2014

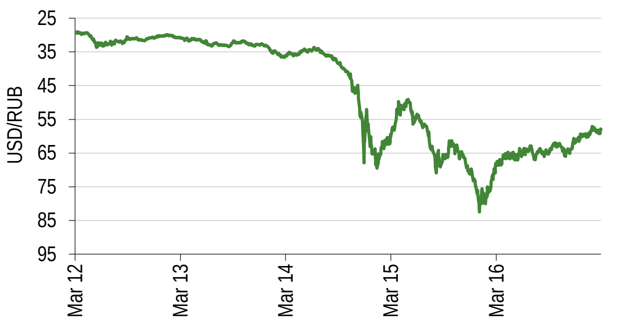


Source: JLL

The smaller St Petersburg warehouse market has shown similar trends, with vacancy down over 2016 from 7.6% to 5.5% and rents steady as take-up outstripped new supply. The office market also performed well, with vacancy rates down in class A and B offices. The construction of a major office, leisure and retail plaza to the north-west of the city (referred to in our last note) is expected to increase demand for other office space in the vicinity, which includes the Primium building conditionally acquired by Raven in February. Raven's St Petersburg assets are 99% let on average and market commentators expect vacancy rates generally to fall in the area, supporting rents.

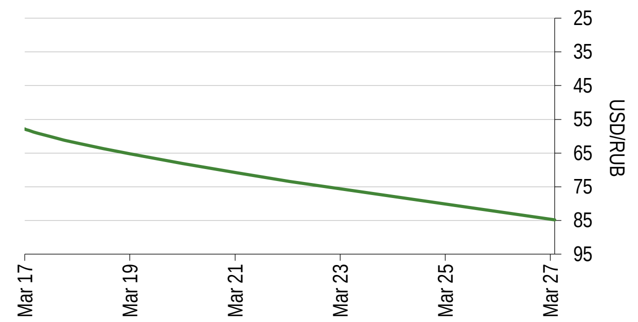
We therefore share management's view that the outlook is better than a year ago, but that the market is in the early stages of recovery. We would also note that the move from dollar-denominated rents to rouble-denominated rents changes the sensitivity of the market to exchange rates. It is likely to be beneficial to occupiers whose Russian business works in roubles, aligning their costs more closely with their revenues, which may make occupancy levels more resilient to economic headwinds in future. For a foreign owner of Russian property, the shift increases direct exposure to the rouble. In the near term this may be beneficial for a business reporting in dollars or sterling, given the rouble's recent strength and falling Russian inflation. Forward rates imply that in the medium term the rouble is expected to weaken against the dollar, however, reflecting the recent interest rate increase by the Federal Open Market Committee (FOMC) and expectations of further increases in 2017.

Exhibit 8: US$/RUB last five years



Source: Bloomberg

Exhibit 9: US$/RUB forward rates



Source: Bloomberg, as at 17 March 2017

Changes to estimates

We have reviewed our estimates in the light of the published results and recent acquisitions, leading us to raise them slightly, as shown in Exhibit 10. The 2016 results were better than our forecasts in terms of NOI and EBIT, the latter helped by FX gains of $18m in the year. However, revaluation losses were above our forecast, leading to lower IFRS earnings and slightly lower NAV per share than we had expected. Cash earnings were ahead of our forecasts and the board intends to distribute a further 2p per share via a tender offer for one share in every 26 at 52p per share, also ahead of our forecast. We have introduced a 2018 forecast and explain our assumptions in detail below.

Exhibit 10: Estimate changes

YE Dec	NOI ($m)			EBIT ($m)			EPS (c)			DPS (p)			Adjusted, fully diluted NAV per share (p)		
	Est.	Actual	% chg	Est.	Actual	% chg	Est.	Actual	% chg	Est.	Actual	% chg	Est.	Actual	% chg
2016	150.8	151.7	0.6%	131.1	137.2	4.7%	7.76	6.81	-12.3%	1.00	2.50	150.0%	0.54	0.54	-0.8%
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	141.4	149.8	5.9%	114.8	123.2	7.3%	5.45	5.80	6.4%	1.00	1.00	0.0%	0.56	0.56	0.8%
2018e		151.8			124.2			6.17			1.00			0.58	

Source: Raven Russia data, Edison Investment Research

Profit and loss

The principal drivers of changes to our net operating income forecast have been the increase in rents from the new St Petersburg assets (c $13m per annum, with a c eight-month contribution in 2017) and improvements in the rouble to dollar exchange rate. We continue to forecast on the assumption that vacancy across the existing portfolio will fall from 19% at the year-end to 15% at H117, 13% in H217, 10% in H118 and 7% in H218. This outlook is based on the improvements in the economic conditions in Russia and the rapid reduction in vacancy seen in the wider warehouse market following the financial crisis in 2009: market-wide vacancies dropped from c 12% to 4% in a year and to 1% the year after that. Raven's performance in the recession, limiting the falling occupancy and NOI, encourages us that this can be achieved. We have also adjusted our tax expectations upwards to allow for new legislation coming into effect in FY17.

Exhibit 11: Divisional NOI summary

Year-end December (US$000s)	2014	2015	2016	2017e	2018e
Property investment gross revenues	230,108	202,286	175,661	172,752	175,297
Property investment net operating income	174,541	162,677	140,638	138,201	140,238
RosLogistics gross revenues	24,399	15,267	17,806	21,402	22,473
RosLogistics net operating income	15,793	8,972	9,815	10,625	10,590
Raven Mount gross revenues	3,089	2,151	1,827	2,000	2,000
Raven Mount net operating income	1,974	2,474	1,288	1,000	1,000
Group total					
Gross revenues	257,596	219,704	195,294	196,154	199,770
Net rental and related income	192,308	174,123	151,741	149,826	151,828

Source: Raven Russia data, Edison Investment Research

We also assume that new leases are at a lower rent than before the recession. In a year that saw 11% of GLA re-let, rouble rents went from 21% to 26% of the portfolio, implying that around half of new rents are denominated in the local currency. We assume that those start at RUB4,000 in H117 and grow 5% per annum, roughly in line with inflation and at the lower end of Raven's range of indexed annual lease uplifts. For the half of rents in dollars, we apply the current exchange rate of RUB57.789/US$. At the moment, we do not assume that this will change, but, for illustration, if we were to apply the current forward rates, our dollar NOI in FY18 would be c $4m lower.

For RosLogistics, we apply 5% annual cost and revenue growth in roubles half-by-half (ie H117 is 5% above H116), and then apply the current exchange rate to future periods. Rouble strength therefore magnifies growth in dollar terms. For the smaller Raven Mount operations, we assume flat revenues of $2m and NOI of $1m (Exhibit 11).

We do not assume any FX gains or property valuation changes and our model uses operating costs of 25% of NOI, administrative expenses flat at $14m, depreciation in line with the last reported period and share-based payments of $1m per year. We allow for a distribution of 1p per year in FY17 and FY18, expecting that the board will wish to continue making one while preserving balance sheet strength as the market improves. As before, we model this as a cash payment but would expect further tender offers to be more likely. Our earnings and balance sheet estimates suggest higher distributions would be possible should the board deem them appropriate.

Exhibit 12: Key financial data – profit and loss

Year-end December (US$000s)	2014	2015	2016	2017e	2018e
Gross revenue	257,596	219,704	195,294	196,154	199,770
Property operating expenditure & cost of sales	(65,288)	(45,581)	(43,553)	(46,328)	(47,942)
Net rental and related income	192,308	174,123	151,741	149,826	151,828
Administrative expenses	(34,630)	(30,494)	(25,344)	(24,614)	(25,614)
Share based payments and other long term incentives	(2,354)	(3,594)	(9,077)	(3,000)	(3,000)
FX losses	(15,471)	1,223	18,079	0	0
Share of profit of joint ventures	955	2,518	1,780	1,000	1,000
Operating profit/(loss) before realised/unrealised property gains (EBIT)	140,808	143,777	137,179	123,212	124,214
Realised/unrealised gains on investment property	(145,404)	(256,548)	(39,517)	0	0
Operating profit	(4,596)	(112,771)	97,662	123,212	124,214
Net finance expense	(93,448)	(92,284)	(75,416)	(80,290)	(77,518)
Charge on preference share conversion	0	0	0	0	0
Profit before tax	(98,044)	(205,055)	22,246	42,922	46,696
Tax	9,855	12,697	(14,527)	(11,160)	(12,141)
Profit after tax	(88,189)	(192,358)	7,719	31,762	34,555
EPRA adjustments					
Realised/unrealised gains on investment property	145,404	256,548	43,324	0	0
Profit on maturing forward derivatives	(700)	0	0	0	0
Change in fair value of derivatives	6,362	5,205	4,145	0	0
Movement in deferred tax thereon	(8,205)	(24,562)	212	0	0
EPRA earnings	54,672	44,833	55,400	31,762	34,555
Company underlying earnings (net, exc pref conversion charge)	66,652	54,560	47,122	39,476	42,269
Reported EPS - fully diluted (c)	(11.83)	(27.99)	1.16	4.73	5.15
EPRA EPS - fully diluted (c)	7.78	6.69	7.46	4.80	5.22
Company underlying EPS - fully diluted (c)	8.94	7.94	6.81	5.80	6.17
Distributions per ordinary share (p)	6.00	2.00	2.50	1.00	1.00
Period end number of shares (m)	737.6	682.6	668.0	668.0	668.0
Period end number of shares exc own held (m)	688.5	644.1	661.5	661.5	661.5
Average number of shares (m) - basic	715.0	666.8	657.3	661.5	661.5
Average number of shares (m) - fully diluted	745.5	687.2	667.7	671.3	671.3

Source: Raven Russia data, Edison Investment Research

Balance sheet

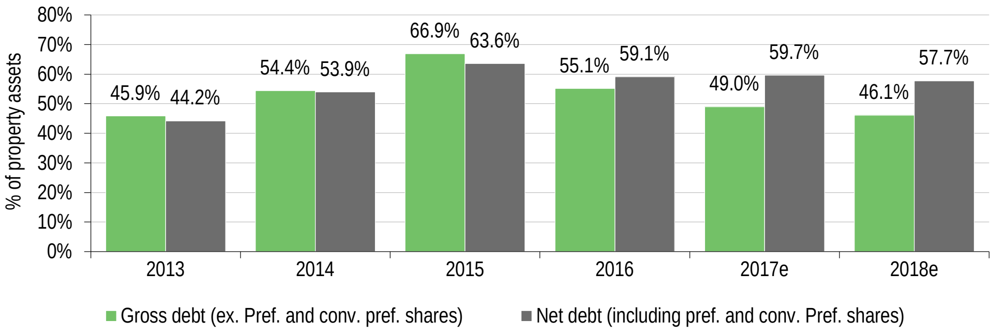
Exhibit 13: Key financial data – balance sheet

Year-end December (US$000s)	2014	2015	2016	2017e	2018e
Investment property	1,593,684	1,333,987	1,300,643	1,386,643	1,389,643
Investment property under construction	47,958	39,129	41,253	41,253	41,253
Goodwill	2,375	2,245	1,882	1,882	1,882
Derivative financial instruments	6,853	5,585	5,012	5,012	5,012
Deferred tax asset	35,766	6,145	27,451	27,451	27,451
Other non-current assets	58,888	43,631	16,499	16,499	16,499
Total non-current assets	1,745,524	1,430,722	1,392,740	1,478,740	1,481,740
Inventory	1,389	1,381	771	771	771
Trade & other receivables	52,623	50,264	52,669	52,669	52,669
Derivative financial instruments	432	233	358	358	358
Cash & equivalents	171,383	202,291	198,621	99,234	85,640
Total current assets	225,827	254,169	252,419	153,032	139,438
Total assets	1,971,351	1,684,891	1,645,159	1,631,772	1,621,178
Trade & other payables	84,962	53,384	65,408	65,408	65,408
Derivative financial instruments	1,253	2,097	943	943	943
Interest bearing loans & borrowings	55,252	104,724	40,787	50,000	50,000
Total current liabilities	141,467	160,205	107,138	116,351	116,351
Interest bearing loans & borrowings	837,429	814,021	699,038	649,825	609,825
Preference shares	164,300	156,556	131,703	131,703	131,703
Convertible preference shares	0	0	119,859	119,859	119,859
Derivative financial instruments	4,153	1,794	67	67	67
Deferred tax liabilities	89,118	55,619	61,869	61,869	61,869
Other non-current liabilities	37,595	31,653	25,259	25,259	25,259
Total non-current liabilities	1,132,595	1,059,643	1,037,795	988,582	948,582
Total liabilities	1,274,062	1,219,848	1,144,933	1,104,933	1,064,933
Net assets (and shareholders' equity)	697,289	465,043	500,226	526,839	556,245
NAV adjustments					
Goodwill	(7,806)	(5,134)	(6,187)	(6,187)	(6,187)
Deferred tax on revaluation gains	55,250	0	0	0	0
Cumulative FX loss on preference shares	13,955	4,956	(20,362)	(20,362)	(20,362)
Fair value of derivatives	(5,322)	(5,159)	(5,041)	(5,041)	(5,041)
Adjusted NAV	753,366	459,706	468,636	495,249	524,655
Fully diluted NAV per share (c)	1.10	0.72	0.71	0.75	0.79
Adjusted fully diluted NAV (c)	1.06	0.70	0.68	0.70	0.81
Fully diluted NAV per share (p)	0.84	0.55	0.54	0.61	0.63
Adjusted fully diluted NAV (p)	0.80	0.53	0.54	0.56	0.58
LTV (%)	45.3	53.7	41.6	43.3	41.3

Source: Raven Russia data, Edison Investment Research

As mentioned above, the balance sheet was strengthened significantly in FY16. Management believes that valuation losses have now washed through, and, as ever, we do not forecast investment property valuation changes (this applies to derivatives and other assets carried at fair or market value as well). The conditional acquisition of the three St Petersburg assets will lift the value of the investment property portfolio if it is successful and contributes the most to the cash reduction we expect in FY17.

Exhibit 14: Debt as a percentage of property assets



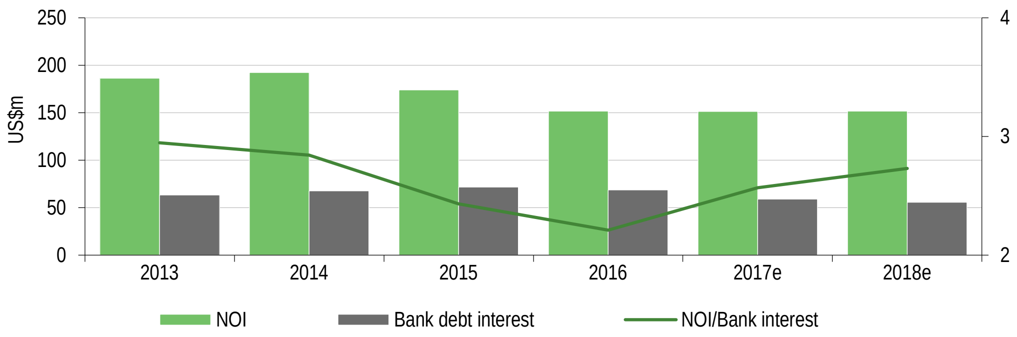
Source: Raven Russia data, Edison Investment Research

We expect management to continue reducing debt levels and for gross and net debt to continue to fall in relation to property assets (Exhibit 14). The sale of part of HSH Nordbank's debt book in FY16 gave Raven the opportunity to repay most of one of its facilities for $16m and be released from the other, generating a profit of $15m. Since the year end another high-amortisation loan has been refinanced, extending it from $75m to $80m maturing in 2024 and with a reduced amortisation rate and similar interest. There are now no major debt maturities before 2019 other than scheduled amortisation. The average cost of debt is now 7.5% and the weighted average maturity is 4.7 years.

Cash flow

Cash flow movements are largely explained above and we show our cash flow forecast in Exhibit 16. The acquisition causes net debt to increase in FY17 compared to FY16, but we expect it to fall thereafter. NOI was 2.2x bank interest in FY16 as expected in our previous estimates, and the debt reduction measures should cause this multiple to rise to 2.6x in FY17 and 2.7x in FY18 on our forecasts.

Exhibit 15: NOI to bank interest



Source: Raven Russia data, Edison Investment Research

Exhibit 16: Key financials – cash flow statement

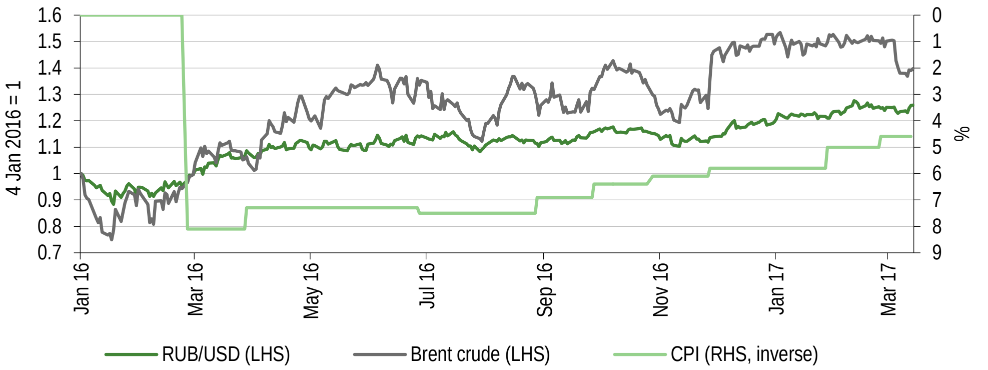
Year-end December (US$000s)	2014	2015	2016	2017e	2018e
Profit before taxation	(98,044)	(205,056)	22,246	42,922	46,696
Adjustments for:					
Depreciation, goodwill impairment, and amortisation	5,224	1,599	1,101	1,114	1,114
Provision for bad debt		3,720	22	0	0
Share of profits of joint ventures	(955)	(2,518)	(1,780)	(1,000)	(1,000)
Revaluation of investment properties/properties under construction	145,404	256,548	43,324	0	0
Share based payments	2,354	3,594	5,944	3,000	3,000
Net interest expense	93,448	92,284	75,416	80,290	77,518
Other including loss on disposal, inventory write-down, FX, and preference conversion charge	15,480	(1,223)	(18,079)	0	0
Receipts from joint ventures	983	3,954	4,521	1,000	1,000
Working capital changes	9,845	(8,020)	(3,216)	0	0
Tax paid	(4,945)	(8,731)	(7,680)	(11,160)	(12,141)
Net cash generated from operating activity	168,794	136,151	121,819	116,166	116,187
Payments for investment property under construction	(105,582)	(20,028)	(9,163)	(83,000)	0
Property improvements & movements in completion provisions	0	0	0	(3,000)	(3,000)
Acquisition of subsidiary undertakings, net of cash acquired	(12,873)	0	0	0	0
Interest received	3,208	2,909	3,399	2,200	1,700
Other investing activity	16,353	29,986	177	(1,114)	(1,114)
Net cash generated from investing activity	(98,894)	12,867	(5,587)	(84,914)	(2,414)
Bank borrowing costs paid	(70,979)	(69,465)	(66,808)	(58,895)	(55,622)
Exercise of warrants	524	177	37	0	0
Net own shares (acquired)/disposed	(68,928)	(41,906)	6,624	0	0
Issue of preference shares	0	0	0	0	0
Ordinary dividends	0	0	0	(8,149)	(8,149)
Pref dividends	(18,225)	(17,156)	(15,088)	(15,804)	(15,804)
Convertible pref share dividend	0	0	(4,349)	(7,791)	(7,791)
Issue of convertible preference shares			128,327		
Other investing activity	(3,610)	(5,107)	(5,009)	0	0
Change in net debt from investing activity	(161,218)	(133,457)	43,734	(90,640)	(87,367)
Other items	(20,285)	(2,973)	(79,722)	0	(0)
Change in net debt	(111,603)	12,588	80,244	(59,387)	26,406
Opening net debt	773,995	885,598	873,010	792,766	852,153
Closing net debt	885,598	873,010	792,766	852,153	825,747

Source: Raven Russia data, Edison Investment Research. Note: Net debt includes preference and convertible preference shares.

Sensitivities: The economy

Occupancy, rent levels, valuation yields and foreign exchange movements all affect Raven's business and are key assumptions in our forecasts. We assume the last two remain at current levels, which we believe to be a conservatively naïve stance; we base our rent assumptions on the pattern of recent new leases and the profile of upcoming lease expiries and we forecast improving occupancy based on the general outlook for the wider Russian economy.

Exhibit 17: Exchange rate, oil price and inflation since January 2016



Source: Bloomberg

As noted earlier, and illustrated in Exhibit 17, the rouble has performed well recently and Russia appears to be coming out of recession, with falling inflation and a recovery in the oil price since the lows of early 2016. Our oil and gas team continues to expect a long-term oil price of $70 per barrel, above the current level of c $50/bbl. The OECD forecasts Russian GDP growth in 2017 and 2018 of 0.8% and 1.0%, respectively, after falls of 3.7% and 0.8% in 2015 and 2016 (last updated on 28 November 2016).

An improvement along the lines expected by the OECD and other commentators would be of benefit to Raven, and, like management, we look for evidence of better trading conditions in 2017.

Valuation

Raven's strategy is to grow income and shareholder distributions and although the Russian recession made a reduction in the dividend necessary, a distribution has been maintained, with 2.5p exceeding our forecast for 2016. We maintain our conservative forecast of 1p per share for FY17 and FY18, noting that the current strategy is defensive (although opportunistic as demonstrated by the recent acquisition). However, we have raised our EPS forecast from 5.5p to 5.8p in FY17, which may leave room for a higher level of distributions than we have assumed.

With the company well placed to benefit from a stabilising economy, cash flow and distributions will continue to be the underlying attraction of a long-term investment in Raven, and the current discount to NAV of c 1% may be reduced.

Distributions and yield

Our forecast distribution of 1p per ordinary share equates to a yield of 1.9% on the current price and reflects our view that Raven remains prudent, is still reducing debt and wishes to maintain its cash balance. Below we show net operating income after tax and all interest payments using the US$/£ exchange rate as at 17 March 2017 (and historic rates for historic periods). These have increased from our old forecasts (see page 10 of our update note from 31 August 2016).

Exhibit 18: Net operating income after interest

$000s	2014	2015	2016	2017e	2018e
Net cash generated from operating activities	168,794	136,151	118,012	116,166	116,187
Interest received	3,208	2,909	3,399	2,200	1,700
Bank borrowing costs paid	(70,979)	(69,465)	(66,808)	(58,895)	(55,622)
Pref dividends	(18,225)	(17,156)	(15,088)	(15,804)	(15,804)
Convertible pref dividends	0	0	(4,349)	(7,791)	(7,791)
Total NOI after interest	82,798	52,439	35,166	35,876	38,669
Average fully diluted number of shares (m)	687	877	1,024	1,024	1,024
NOI per share after interest (p)	9.8	4.8	2.8	2.8	3.1
Distribution per ordinary share (p)	6.0	2.0	2.5	1.0	1.0

Source: Raven Russia data, Edison Investment Research. Note: $1.2361/£.

The preference shares (RUSP) earn a cumulative 12% dividend on the fixed issue amount per share of 100p. These shares currently trade at 143p, for a yield of 8.4%. The convertible preference shares (RUSC), which rank above other shares, receive a cumulative 6.5% preferential dividend on the subscription amount of 100p, a yield of 5.7% on the current price of 114p.

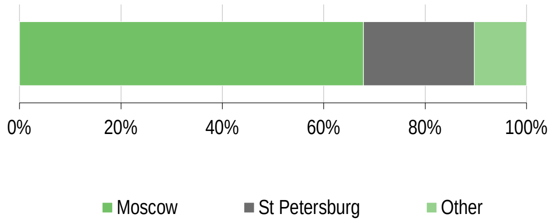
NAV

Diluted IFRS NAV per share at 31 December 2016 was 71c, slightly lower than 72c a year earlier. Fully diluted and adjusted and using an exchange rate of $1.2361/£ gives 54p for a discount of c 5%, a considerable reduction over the last six months, reflecting greater optimism on the economic outlook and adjustment for FX movements.

Exhibit 19: Financial summary

Year-end December (US$000s)	2014	2015	2016	2017e	2018e
PROFIT & LOSS					
Gross revenue	257,596	219,704	195,294	196,154	199,770
Property operating expenditure & cost of sales	(65,288)	(45,581)	(43,553)	(46,328)	(47,942)
Net rental and related income	192,308	174,123	151,741	149,826	151,828
Administrative expenses, share based payments and long-term incentives	(36,984)	(34,088)	(34,421)	(27,614)	(28,614)
FX losses	(15,471)	1,223	18,079	0	0
Share of profit of joint ventures	955	2,518	1,780	1,000	1,000
Operating profit/(loss) before realised/unrealised property gains (EBIT)	140,808	143,776	137,179	123,212	124,214
Realised/unrealised gains on investment property	(145,404)	(256,548)	(39,517)	0	0
Operating profit	(4,596)	(112,772)	97,662	123,212	124,214
Net finance expense	(93,448)	(92,284)	(75,416)	(80,290)	(77,518)
Profit before tax	(98,044)	(205,056)	22,246	42,922	46,696
Tax	9,855	12,697	(14,527)	(11,160)	(12,141)
Profit after tax	(88,189)	(192,359)	7,719	31,762	34,555
EPRA earnings	54,672	44,832	55,400	31,762	34,555
Company underlying earnings (net, exc pref conversion charge)	66,652	54,559	47,122	39,476	42,269
Reported EPS - fully diluted (c)	(11.8)	(28.0)	1.2	4.7	5.1
EPRA EPS - fully diluted (c)	7.8	6.7	7.5	4.8	5.2
Company underlying EPS - fully diluted (c)	8.9	7.9	6.8	5.8	6.2
Distributions per ordinary share (p)	6.0	2.0	2.5	1.0	1.0
BALANCE SHEET					
Investment property and property under construction	1,641,642	1,373,116	1,341,896	1,427,896	1,430,896
Other non-current assets	103,882	57,606	50,844	50,844	50,844
Total non-current assets	1,745,524	1,430,722	1,392,740	1,478,740	1,481,740
Cash & equivalents	171,383	202,291	198,621	99,234	85,640
Other current assets	54,444	51,878	53,798	53,798	53,798
Total current assets	225,827	254,169	252,419	153,032	139,438
Total assets	1,971,351	1,684,891	1,645,159	1,631,772	1,621,178
Trade & other payables	86,215	55,481	66,351	66,351	66,351
Interest bearing loans & borrowings	55,252	104,724	40,787	50,000	50,000
Total current liabilities	141,467	160,205	107,138	116,351	116,351
Interest bearing loans & borrowings	837,429	814,021	699,038	649,825	609,825
Preference shares	164,300	156,556	131,703	131,703	131,703
Convertible preference shares	0	0	119,859	119,859	119,859
Other non-current liabilities	130,866	89,066	87,195	87,195	87,195
Total non-current liabilities	1,132,595	1,059,643	1,037,795	988,582	948,582
Total liabilities	1,274,062	1,219,848	1,144,933	1,104,933	1,064,933
Net assets (and shareholders' equity)	697,289	465,043	500,226	526,839	556,245
NAV adjustments					
Goodwill	(7,806)	(5,134)	(6,187)	(6,187)	(6,187)
Deferred tax on revaluation gains	55,250	0	0	0	0
Cumulative FX loss on preference shares	13,955	4,956	(20,362)	(20,362)	(20,362)
Fair value of derivatives	(5,322)	(5,159)	(5,041)	(5,041)	(5,041)
Adjusted NAV	753,366	459,706	468,636	495,249	524,655
Fully diluted NAV per share (c)	1.10	0.72	0.71	0.75	0.79
Adjusted fully diluted NAV (c)	1.06	0.70	0.68	0.70	0.81
Fully diluted NAV per share (p)	0.84	0.55	0.54	0.61	0.63
Adjusted fully diluted NAV (p)	0.80	0.53	0.54	0.56	0.58
CASH FLOW					
Profit before taxation	(98,044)	(205,056)	22,246	42,922	46,696
Depreciation, goodwill impairment, and amortisation	5,224	1,599	1,101	1,114	1,114
Provision for bad debt	0	3,720	22	0	0
Share of profits of joint ventures	(955)	(2,518)	(1,780)	(1,000)	(1,000)
Revaluation of investment properties/properties under construction	145,404	256,548	43,324	0	0
Net interest expense and share based payments					
Other including loss on disposal, inventory write-down, FX, and preference conversion charge	95,802	95,878	81,360	83,290	80,518
Receipts from joint ventures	15,480	(1,223)	(18,079)	0	0
Working capital changes	983	3,954	4,521	1,000	1,000
Tax paid	9,845	(8,020)	(3,216)	0	0
Net cash generated from operating activity	(4,945)	(8,731)	(7,680)	(11,160)	(12,141)
Payments for investment property under construction and property improvements	168,794	136,151	121,819	116,166	116,187
Acquisition of subsidiary undertakings, net of cash acquired	(105,582)	(20,028)	(9,163)	(86,000)	(3,000)
Interest received	(12,873)	0	0	0	0
Other investing activity	3,208	2,909	3,399	2,200	1,700
Net cash generated from investing activity	16,353	29,986	177	(1,114)	(1,114)
Bank borrowing costs paid	(98,894)	12,867	(5,587)	(84,914)	(2,414)
Exercise of warrants	(70,979)	(69,465)	(66,808)	(58,895)	(55,622)
Net own shares (acquired)/disposed	524	177	37	0	0
Issue of shares	(68,928)	(41,906)	6,624	0	0
Dividends	0	0	128,327	0	0
Other financing activity	(18,225)	(17,156)	(19,437)	(31,744)	(31,744)
Change in net debt from financing activity	(3,610)	(5,107)	(5,009)	0	0
Other items	(161,218)	(133,457)	43,734	(90,640)	(87,367)
Change in net debt	(20,285)	(2,973)	(79,722)	0	(0)
Opening net debt	(111,603)	12,588	80,244	(59,387)	26,406
Closing net debt	773,995	885,598	873,010	792,766	852,153

Source: Company data, 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	

Key members of board and management

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 Intl. plc. until 1993. He has since served as a non-executive director and chairman on a number of public companies, including Savill's plc, Anglian Water plc, and currently Tritax Big box REIT plc (as chairman) and Temple Bar Investment Trust plc (NED).	Anton is an economics graduate from the City University in London. He was the founder of the Raven group. He has also been a founder and director of three other companies that have floated on AIM.
Chief executive officer: Glyn Hirsch	**Chief financial officer: Mark Sinclair**
Glyn qualified as a chartered accountant with Peat, Marwick Mitchell & Co in 1985. Until 1995 he worked in the corporate finance department of UBS. Subsequently he has been CEO of listed property investment company CLS Holdings, a director of French property investor Citadel Holdings plc, and chairman of listed fund manager Property Fund Management plc.	Mark joined Raven Mount in June 2006 as FD of RRPM, the former property adviser to Raven Russia. He is a chartered accountant with 18 years of experience at BDO Stoy Hayward, where he was a partner in the London real estate group with responsibility for a number of large listed and privately owned property companies.

Principal ordinary shareholders at 31 December 2016	(%)
Invesco Perpetual	32.0
Woodford IM	11.8
Schroder Investment	10.7
Raven Russia Directors & EBT	9.5
JO Hambro	9.2
Old Mutual Global Investors	4.2
Ruffer	3.0

Companies named in this report

N/A

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