

# Globalworth Real Estate

## CEE office landlord of choice

With a strong and liquid balance sheet, Globalworth (GWI) is well placed for further growth. The Romanian and Polish economies in which it operates are performing strongly and well above the EU average, creating a favourable environment in which to add value to existing assets, undertake further developments and make accretive acquisitions.

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	0.93	N/A
12/17	51.1	16.8	17.9	8.84	44	0.90	5.5
12/18e	116.4	55.3	41.8	9.11	54	0.87	6.8
12/19e	149.3	73.0	55.1	9.71	56	0.82	7.0
12/20e	162.4	84.3	63.6	10.74	58	0.74	7.3
12/21e	177.3	99.1	74.7	11.65	62	0.68	7.8
12/22e	186.3	115.8	87.3	12.25	72	0.65	9.0

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.

## A leader in strong markets

With an investment portfolio approaching €2.5bn in value, mostly income-producing and focused on Class A offices in Romania and Poland, GWI is the leading institutional office landlord in Central and Eastern European (CEE). It targets modern, environmentally efficient assets, in prime locations in key cities and lets to established, blue chip, mostly multi-national tenants on long duration, triple net, inflation-linked leases. GWI is internally managed with a highly experienced senior management team and a strong, well-resourced and locally based management platform. The Romanian and Polish economies are growing strongly, well above the EU average, creating a favourable environment for GWI to grow further by adding value to existing assets, further developments and acquisitions.

## Strong income and capital potential

GWI targets a sustainable and growing dividend, with capital growth. The FY18 DPS has been confirmed at €0.54 and we forecast strong growth in future years. An increased contribution from recently completed acquisitions and developments, future developments, rental growth and operating efficiency should all contribute to strong growth in EPRA earnings, dividend growth and dividend cover. Rental growth and development profits should drive NAV growth. Unlike most European markets, Bucharest prime office yields remain well above the previous peak and any tightening (not captured in our forecast) would add to NAV growth. The balance sheet is strong and liquid to support growth: end-H118 LTV of 36.2% and cash of more than €500m, with mostly fixed rate, unsecured debt.

## Strong 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 more than 10%. We would expect shareholder returns to be driven by the strong upside potential in income and capital earnings and we forecast a compound annual average NAV total return of 12.6% per year to FY22.

## Re-initiation of coverage

### Real estate

22 January 2019

**Price** €8.0

**Market cap** €1,058m

Net debt (€m) at 30 June 2018 730.7

Net LTV as at 30 June 2018 36.2%

Shares in issue 132.3m

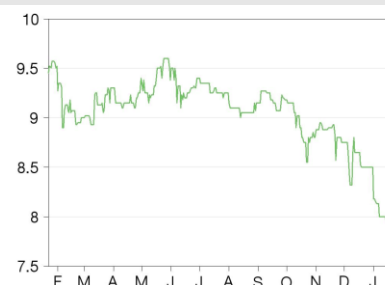
Free float 25.5

Code GWI

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (5.9) (8.6) (14.9)

Rel (local) (9.8) (7.6) (5.7)

52-week high/low €9.57 €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 €2.5 billion in Romania and Poland. It targets a sustainable and growing dividend with capital growth.

### Next events

H218 dividend payment 8 February 2019

FY18 results Est. March 2019

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## Investment summary

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### Growth in CEE offices

The Romanian and Polish economies are growing strongly, well above the EU average, and the IMF forecasts this to continue throughout our forecasting period to FY22. Strong economic growth and the growing number of multi-national tenants operating in the region support strong occupational demand, while investment demand has also remained strong. In the past 12 months, GWI has expanded from its strong Romanian position into Poland through the acquisition of a controlling stake in Griffin Premium Real Estate (GPPE, now Globalworth Poland) and has significantly strengthened its equity capital and diversified its shareholder base. It has also successfully accessed public debt markets to raise fixed rate unsecured debt at attractive rates. This leaves the group with a strong, liquid balance sheet to support its continued growth. We forecast that an increased contribution from recently completed acquisitions and developments, future developments, rental growth and operating efficiency will all contribute to strong growth in EPRA earnings, dividend growth and dividend cover. We expect rental growth and development profits to drive capital growth and increasing EPRA NAV per share, and there is scope (not captured in our forecast) for market-wide yield tightening, especially in Romania, to further lift NAV.

### Well funded to grow income and capital

Although development activity has significantly reduced relative to the overall company value since IPO, we still expect it to be a significant driver of future growth and total return. To capture the potential for developments to positively affect rental income and capital values, we have extended our analysis to FY22. The quality of current income earnings, clear management guidance for the developments and a strong, liquid balance sheet all support this long-term analysis. We look for annualised contracted net operating income (NOI) to increase from c €140m to more than €200m over the period and for EPRA EPS to reach €0.87 and DPS €0.72 in FY22. Combining our DPS and capital return forecasts, we estimate a c 60% EPRA NAV total return between end-FY18 and end-FY22, or a compound annual average return of 12.6%. Yield tightening in Romania (Bucharest prime office yields are above those in other regional markets and remain well above the previous peak), not in our forecast, has the potential to lift returns further. H118 net LTV was 36.2% and the majority of the debt is fixed rate (slightly less than 3%) and unsecured. Including development spending and revaluation gains we forecast a FY22 LTV of c 40%.

### Sensitivities

The key sensitivities are reviewed on page 17. Above all we would note that the commercial property sector is cyclical. This is particularly the case for capital values, whereas income risk can be partly mitigated by diversification and careful tenant selection. Funding conditions can also vary significantly through the cycle. In particular we would note:

- Cyclical factors. The Romanian and Polish economies continue to grow well above the EU average and the IMF forecasts this to continue. Relatively long duration, inflation linked, triple net leases and a high-quality tenant base provide income protection. Capital values are more volatile and difficult to predict.
- Property development. This is a key driver of our forecast growth and carries particular risks including timing delays, cost over-runs and leasing. GWI has successfully delivered 200k sqm of GLA across eight projects since 2015, with no material time delays or cost over-runs.
- Funding. GWI has a strong liquid balance sheet with sufficient current cash resources to fund substantially all the development pipeline. The majority of debt is fixed rate and unsecured.

## Leading CEE office investor

Since it listed in 2013, GWI has grown rapidly to become one of the leading real estate companies in the CEE region, with a primary focus on Romania and Poland. The company acquires, develops and manages commercial real estate, primarily in the office sector, where it focuses on modern assets with excellent environmental credentials in prime locations. It aims to be the landlord of choice to the growing number of multi-national tenants operating in the region and has built an overall portfolio with a value approaching €2.5bn (including agreed acquisitions).

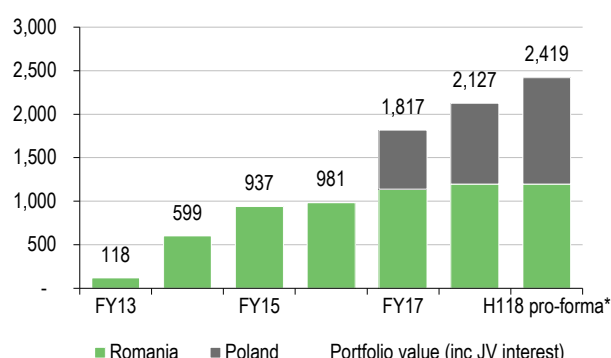
The company was founded by the CEO, Ioannis Papalekas, who remains a significant shareholder with a stake of 18.3%. He began investing in the Romanian real estate market in 2001, building up then successfully disposing of a sizeable portfolio of predominantly commercial property ahead of the financial crisis. In the years that followed, he remained active in the market and as the economic environment and sector outlook began to improve in 2013, GWI was established, subsequently incorporating the expertise and resources he had established and using it as a platform for strong growth.

GWI was incorporated in Guernsey in 2013 and was admitted to the AIM market of the London Stock Exchange (LSE) in July that year. The company plans to pursue a premium listing on the Main Market of the LSE in 2019. In June 2017 the company issued €550m nominal of 2.875% unsecured Eurobonds due 2022, and during H118 it issued €550m nominal of 3.0% unsecured loan notes due 2025 under a €1.5bn Euro Medium Term Notes programme. Both issues are traded on the Official List of the Irish Stock Exchange and the Bucharest Stock Exchange.

Post-IPO, GWI built a strong Romanian portfolio and in late 2017 entered into the Polish real estate market, the largest in the CEE region, through the acquisition of a controlling stake in the listed real estate platform GPRE. GPRE has since been re-named Globalworth Poland and GWI's initial stake of 71.7% was slightly diluted to 68.4% as a result of the €450m equity capital raise undertaken by the Polish subsidiary (of which €300m was internally subscribed by GWI) in June 2018 to fund its growth plans in the Polish market.

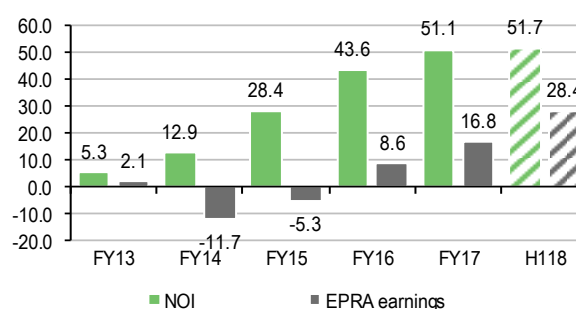
The portfolio is split broadly equally between Romania and Poland and was independently valued at €2,130m at 30 June 2018.<sup>1</sup> Since then three further office assets in Warsaw, valued at c €290m, have been acquired, adding c €18.0m to the H118 contracted rent roll on standing assets of €135.5m (€141.0m including development pre-lets).

**Exhibit 1: Strong growth in portfolio value (€m)...**



Source: GWI. Note: \*H118 pro forma includes the subsequent completed acquisitions of Spektrum Tower, Skylight and Lumen.

**Exhibit 2: ...and in NOI\* and EPRA earnings\*\* (€)**



Source: GWI. Note: \*NOI is net operating income. \*\*EPRA earnings are adjusted for valuation movements, related deferred tax and other non-recurring items.

<sup>1</sup> The group's investment property portfolio for Romania was valued by CBAR Research & Valuation Advisors (Coldwell Banker) and Cushman & Wakefield. The group's investment property portfolio for Poland was valued by Knight Frank and CBRE.

The Romanian and Polish office markets both benefit from solid fundamentals, supported by strong economies. GWI targets high-quality assets in key locations with excellent environmental credentials, chosen for their appeal to a strong, predominantly multi-national tenant base, which includes a wide range of internationally recognised companies including Vodafone, Renault-Dacia, Honeywell, Nestlé and IBM. Cash flow visibility also benefits from long-dated, triple net, inflation-indexed, euro-denominated leases. With a strong, liquid balance sheet and proven access to capital markets, GWI expects to grow income and capital values strongly through asset management of the existing portfolio, accretive acquisitions and further developments.

## Experienced internal management

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GWI is internally managed with a highly experienced senior leadership team and a well-resourced platform that manages all aspects of the business.

The founder and CEO, Ioannis Papalekas, has almost 20 years of real estate experience. Most of this is in Romania and has a successful track record, including timely exits. He is supported by an experienced senior management team, including:

- Deputy CEO and CIO, Dimitris Raptis joined GWI in 2012 following 15 years' experience in financial services and real estate mostly with Deutsche Bank RREEF, with a focus on real estate investment particularly in Southern Europe.
- Deputy CIO, Stamatis Sapkas, joined GWI in 2013 and has 15 years' experience in real estate advisory and investment. Prior to joining GWI he was a member of Citigroup's real estate and lodging investment banking team.
- CFO Andreas Papadopoulos has 27 years' experience in accounting and financial management, audit and corporate finance, mostly with Ernst & Young, in several Central and South-East European countries including Romania. He has been GWI's CFO since 2014.
- COO, Adrian Danoiu, has more than 20 years' experience in accounting, finance and business administration and has worked with Mr Papalekas since 2002.

## Growing in-house team of investment professionals

GWI has built a team of more than 170 dedicated and multi-disciplinary professionals, all based on the ground in Bucharest and Warsaw. In Romania, GWI has shown that a strong local presence allows the company to respond flexibly, efficiently and proactively to tenants and is an advantage in sourcing off-market investment opportunities.

GWI has also been able to create significant value by assembling land parcels and successfully obtaining the required building permits. Although GWI is not a builder/constructor itself, it does undertake significant often complex development activity where its team is involved in designing and planning developments from the outset, with this close involvement continuing throughout the development period.

We believe the local presence of the in-house leasing team in Romania has been a significant factor in GWI's ability to sign longer leases than is general in the market and that the group will seek to apply a similar strategy in Poland.

The asset management team is an essential part of the integrated approach that GWI adopts. In addition to reacting to tenants and serving their day-to-day needs, GWI aims to grow with tenants, anticipating their needs for additional space, including working with the investment and development teams to plan for the tenants' eventual relocation. The company has a strong track record of attracting and strengthening relationships and increasing take-up with top international clients including Deutsche Bank, Hewlett Packard, Honeywell and Wipro.

## Corporate governance

Ioannis Papalekas, CEO, and Dimitris Raptis, deputy CEO and CIO, are executive members of the board of directors, which has 13 members. Geoff Miller (biography on page 20) is the non-executive chairman and there are 10 further non-executive directors. The senior non-executive director is Eli Alroy.

Certain significant shareholders have the authority to nominate non-executive directors including Bruce Buck (appointed by the founder, Ioannis Papalekas), Akbar Rafiq and Alexis Atteslis (appointed by York Capital and Oak Hill Advisors, 15.4% and 9.9% shareholders respectively), as well as four directors appointed by 29.0% shareholder Growthpoint Properties (Norbert Sasse, George Muchanya, Peter Fechter and Richard Van Vliet). The other four non-executive directors (John Whittle, Eli Alroy, Andreea Petreanu and chairman Geoff Miller) stand for re-election annually at the AGM.

The company seeks to voluntarily comply with the main principles of good governance set out in the UK Corporate Governance Code and believes that was achieved in the last financial year. The board considers the independence of each board member quarterly and believes a majority are independent of the company and free from any relationship that could materially interfere with the exercise of their independent judgement.

## Growing portfolio focused on office investment

GWl has grown to become the largest institutional office landlord in Romania and Poland. At 30 June 2018 (H118), the GWl portfolio was independently valued at c €2,130m, an increase of c 17% since end-FY17, including the acquisition of six new investments in the period for a total of c €247m. Including completed acquisitions since then the portfolio value is approaching €2.5bn. This includes the H218 acquisitions of three office assets in the heart of Warsaw: Spektrum Tower for €101m (adding c €6.3m to the contracted rent roll) and Skylight and Lumen for a consideration of €190m (adding €11.5m to contracted rent roll).

**Exhibit 3: Summary of portfolio gross asset value (GAV)**

Assets	Valuation (€m)	% of total
Standing assets, Romania	1,091	45%
Standing assets, Poland	932	39%
<b>Total standing assets at 30 June</b>	<b>2,024</b>	<b>84%</b>
Developments in progress, Romania	17	1%
Future developments/development land	49	2%
<b>Investment property GAV at 30 June</b>	<b>2,089</b>	<b>86%</b>
Add RBC JV* (development in progress)	40	2%
<b>GAV at 30 June</b>	<b>2,130</b>	<b>88%</b>
Add Spektrum Tower, Skylight, Lumen (standing)	291	12%
<b>Total GAV, including Spektrum, RBC</b>	<b>2,421</b>	<b>100%</b>

Source: GWl. Note: \*RBC is the Renault Bucharest Connected (RBC), a joint venture development asset (GWO share 50%), at its 100% value.

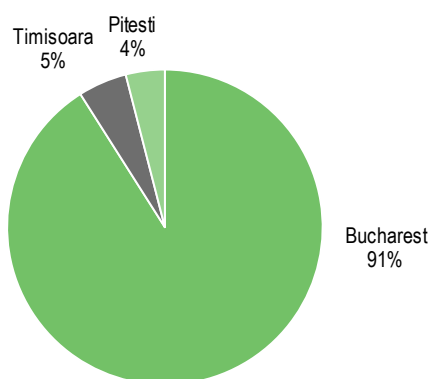
Including Spektrum Tower, Skylight and Lumen, let standing investments account for c 96% of the portfolio's GAV, with current and future developments/development land representing the balance. On the same basis, the portfolio value is split broadly equally between Poland and Romania. Let standing pure office and mixed office/retail properties account for most of the portfolio (90%), with the light industrial assets at Timisoara, Romania accounting for c 4%, and the current and future developments/development land c 5% (Exhibit 4).

**Exhibit 4: Sector split of GAV\***

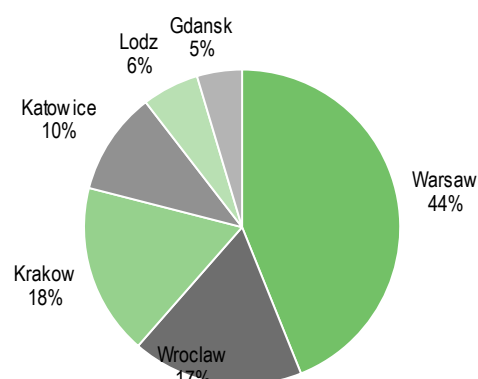
	Romania	Poland	Group
Office	80.0%	73.8%	77%
Light industrial/logistics	9.0%		4%
Mixed office/retail		26.2%	13%
Other	11.0%		5%
<b>Total portfolio</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: GWI data, Edison Investment Research. Note: \*30 June GAV adjusted for Spektrum Tower, Skylight and Lumens

GWI targets prime locations, with good transport links, within key cities. Geographically, the Romanian office assets are focused on the Bucharest new central business district (CBD). The Polish assets are more widely spread around key cities.

**Exhibit 5: Romanian GAV by city**


Source: GWI

**Exhibit 6: Polish GAV by city\***


Source: GWI. Note: \*H118 adjusted for Spektrum Tower, Skylight and Lumen.

The portfolio is modern, with 60% of the assets at end-H118 having been developed within the previous five years. As a result, the portfolio benefits from excellent environmental credentials that can be an advantage in attracting and retaining blue-chip tenants.

The tenant base is diversified, with a strong focus on multinationals (Exhibit 7). For GWI and the market, companies in the information technology and communications, business process outsourcing, shared service centre and financial sectors have been the main drivers of the demand for space. There is a continuing strong trend for multinational corporates to expand in the CEE region, in many cases consolidating certain operations that service their entire European or even global activities. The master lease sub-heading in Exhibit 7 refers to a relatively small amount of space in a group context, which is still covered by rental and NOI guarantees attached to a number of the assets owned by Globalworth Poland and put in place prior to GWI's investment. In December, certain of these were settled in return for a one-off cash payment (see page 13).

**Exhibit 7: Good quality and diversified tenant base**

	Romania	Poland	Combined
Multinational	89.3%	63.0%	77.2%
National	7.8%	30.7%	18.4%
State owned	2.8%	2.7%	2.8%
Master lease		3.6%	1.7%

Source: GWI. Note: Data as at 30 June 2018.

GWI's Romanian strategy has been to target longer leases where possible and its weighted average unexpired lease length (WALL) of 6.0 years at 30 June 2018 was above the five-year length at inception that is typical in the markets (average 2.5 years). The WALL in Poland is shorter (4.1 years at H118) and we would expect GWI to similarly seek to increase this over time. The leases are almost without exception triple net, whereby the tenant is responsible for tax, insurance and maintenance expenses, denominated in euros and index linked to inflation. The quality of the



tenants, the length of leases and triple net terms all contribute towards stable and predictable cash flows.

Exhibit 8 provides a summary of the standing portfolio, using the published portfolio data at end-H118 adjusted for our estimate of the impacts of the subsequent acquisitions of Spektrum Tower, Skylight and Lumen. The H118 GLA of 923.6k sqm has increased to 998.6k sqm on a pro forma basis. Continued strong leasing progress in H118 saw the take-up or extension of 60.5k sqm of commercial space in Romania and Poland at an overall average lease length of 8.6 years (c 41k sqm to new tenants at an average of 9.8 years). Occupancy of the commercial standing portfolio was 94.6%, up from 93.3% at the start of the year, and was 96.4% including tenant expansion options. Spektrum Tower was acquired with occupancy of c 93% and a WALL of 5.1 years, and Skylight and Lumen were acquired with occupancy of c 93% and a WALL of nearly four years. We estimate pro forma occupancy (by GLA) at 94.3%.

#### Exhibit 8: Overview of standing portfolio

	30 June 2018			Spektrum Tower, Skylight and Lumen	Group pro forma
	Romania	Poland	Group		
Number of investments	13	15	28	2	30
Gross asset value (GAV, €m)	1,091.1	932.4	2,023.5	291.9	2,315.4
Gross lettable area (GLA, '000 sqm)	572.8	350.8	923.6	75.0	998.6
Contracted rent (€m)	71.1	64.4	135.5	17.8	153.3
Occupancy (commercial portfolio only)*	92.9%	97.3%	94.6%	90.6%	94.3%
Weighted ave. lease length (WALL, commercial portfolio in years)**	6.0	4.1	5.3	N/A	N/A

Source: GWI, Edison Investment Research. Note: \*30 June 2018 Romanian occupancy 95.8% including tenant options. \*\*30 June 2018 group WALL 5.3 years including pre-lets.

## Current development projects

Since IPO Globalworth has completed a number of developments, all within Romania, including Globalworth Tower, various logistics assets, and the first phase of the Globalworth Campus project. At the end of H118 there were two major projects (three properties) under construction in Bucharest.

The Renault Bucharest Connected (RBC) project, comprising two buildings, is on track to be delivered by the end of Q119. It is 100% pre-let and on completion will house Groupe Renault's new headquarters in Romania and a dedicated auto design centre. Groupe Renault Romania is already a GWI tenant following the acquisition of the Dacia Warehouse. The RBC project is jointly owned by GWI and Elgan Group with GWI funding 100% of the development costs and sharing 50% in the pre-interest profits of the JV, including revaluation gains. We expect GWI to acquire full control of RBC at completion and reflect this in our estimates. The main HQ building is effectively completed and the smaller design centre building is well advanced.

The Globalworth Campus Tower III is the third of the three towers and represents the second and final phase of the project, located on Dimitrie Pompeiu Street in the northern part of Bucharest. The completed first phase comprises the two side towers providing c 57.2k sqm of Class A office space. This second phase will provide an additional 34.8k sqm of GLA, comprising a Class A office building, a 750-seat conference centre, c 500 parking spaces and other amenities. Construction is in progress and practical completion is expected by the end of 2019.

**Exhibit 9: Current on-site developments**

	Renault Bucharest Connected*	Globalworth Campus Tower III
	West Bucharest	Bucharest new CBD
Type	Office	Office
Expected/potential delivery	Q119E	Q419E
Expected GLA ('000sqm)	42.3	34.8
Letting progress	100%	-
Cost/capex to 30 June 2018 (€m)	31.9	7.4
As is value at 30 June 2018 (€m)	40.4	16.9
Estimated remaining capex (€m)	26.1	44.6
Estimated rental income (€m)	5.5	5.7
Estimated yield on cost (€m)	9.5%	11.0%

Source: GWI. Note: \*Carried as a joint venture asset.

GWI has a material pipeline of additional development projects, all within Romania, which we review below.

## Recent transactions

Since 1 January 2018 GWI has completed eight new acquisitions for an aggregate investment of c €540m, including Spektrum Tower, Skylight and Lumen in H218. It has also delivered a seventh development property in Romania, taking the total GLA developed by the company to c 200k sqm. To provide a greater sense of GWI's asset focus we briefly summarise these transactions below:

- **Quattro Business Park (QBP)**, a high-quality office complex, comprising five buildings in the northern part of Krakow in Poland, was acquired for a total consideration of €139.0m and adds c €10.7m to contracted rental income. QBP was completed in phases between 2010 and 2015 and provides 60.3k sqm of GLA and 1,335 parking spaces. It is multi-tenanted to c 50 national and multi-national corporates, with Cap Gemini, Google and Luxoft being the largest occupiers. It is 99% occupied, with a WALL of 3.1 years (as at 30 June 2018).
- **Warta Tower**, an iconic office building located at the extended West CBD in Warsaw, Poland, was acquired for a total consideration of €55.0m. The property was completed in 2000 and comprises 33.7 sqm of GLA and 542 parking spaces over 24 floors (three underground). It is multi-tenanted, with the TuiR Warta insurance subsidiary of Talanx as its largest tenant. It is 91.3% occupied with a WALL of 2.9 years (at 30 June 2018). With a current contracted rental income of c €5.9m the property provides an attractive current income and GWI is assessing longer-term repositioning alternatives that are consistent with its active asset management approach.
- **West Link**, a newly completed Class A office building west of Wroclaw city centre, was acquired for a total consideration of €35.8m. The property is well situated within the city's key communications arteries and offers 14.4k sqm of GLA and 265 parking spaces over eight floors (two underground). It is fully let with a WALL of 6.7 years (at 30 June 2018) and generates €2.5m of contracted rental income. The main tenant is Nokia Solutions & Network, which is also the main tenant in an adjacent property (West Gate) owned by GWI.
- **Spektrum Tower**, a Class A office building in the heart of Warsaw's CBD, was acquired in July for €101.0m. The high rise building was completed in 2003 and underwent extensive refurbishment in 2015. It offers 29.5k sqm of GLA and 318 parking spaces over 38 floors (five below ground). It is multi-tenanted to more than 60 national and multi-national corporates with current occupancy of 92.5%, which GWI expects to increase in the near term. Annual contracted rental income is c €6.3m with a WALL of 5.1 years (at 30 June 2018).
- **Three development land plots** were acquired for €17.5m. Two of these, an investment of €15.5m, are within Bucharest's new CBD and are strategically positioned adjacent to existing GWI assets. One is situated between GWI's Globalworth Plaza and the Green Court B offices and represents the last remaining street-facing plot on Gara Herastrau Street. The second new



CBD plot is situated adjacent to the Green Court complex, providing an opportunity for further expansion. Combined, GWI expects the new CBD plots to allow for the development of c 43k sqm of GLA of additional commercial space. A third development land plot, directly adjacent to the Renault Business Centre project in West Bucharest, was acquired for €2.0m. GWI expects this to provide for the development of an additional c 60k sqm of GLA at the site, taking the total to c 100k sqm. We discuss GWI's development plans in greater detail below.

- The **Globalworth Campus Tower II** opened for business in April 2018, completing Phase A of the project. Phase A comprises Tower I (29k sqm of GLA, opened in Q3 of 2017) and the 28.2k sqm Tower II Both towers provide Class A office accommodation, over 14 floors (two underground), including 456 parking spaces.
- **Skylight and Lumen**, two high-quality office buildings in the heart of the Warsaw CBD, were acquired in December 2018 for a total consideration of c €190m. They are situated above the Zlote Tarasy shopping centre and benefit from excellent connectivity to the city's main train station, other transport links and the amenities of an established and well-recognised mixed-use complex. The buildings offer 45.5k sqm of GLA and with a current occupancy of 89% have a contracted rental income of €11.5m.

## Future developments offer income and capital growth

Four of the land plots for future development are located in prime locations in Bucharest on which GWI envisages building mainly office properties with an aggregate GLA of c 130k sqm, subject to receiving the relevant approvals. In addition, GWI owns 30 hectares of land near its TAP light industrial park in Timisoara, which can be developed in stages. Together with a planned extension to the existing TAP facility, this land is expected to deliver additional GLA of more than 170k sqm. A summary of the projects is shown in Exhibit 10. GWI expects the projects to add an aggregate €29.4m to potential rental income when completed with a yield on expected costs of c 11.0%. We have included each of these projects in our estimates, with assumptions in line with management expectations.

**Exhibit 10: Development pipeline – all located in Romania**

	Luterana land plot	Globalworth Square and Green Court D land plots	GW West land plot	TAP extension	TAP Phase II
	Bucharest CBD	Bucharest new CBD	West Bucharest	Timisoara	Timisoara
Type	Office	Office	Office	Light ind./logistics	Light ind./logistics
Expected/potential delivery	2020e	2020e	2021e	N/A	2019-20e
Expected GLA ('000sqm)	27.0	43.0	60.0	28.5	145.0*
Cost/capex to 30 June 2018 (€m)	7.0	15.5	2.0	0.8	4.7
As is value at 30 June 2018 (€m)	14.3	18.1	2.0	0.7	7.9
Estimated remaining capex (€m)	36.7	57.2	68.2	6.1	56.4
Estimated rental income (€m)	5.8	8.0	8.6	0.9	6.1
Estimated yield on cost (€m)	11.4%	10.6%	12.3%	11.7%	9.5%

Source: GWI

## Co-working initiative

In June 2018 GWI announced a collaboration with Mindspace, the global operator of co-working space, building on an existing partnership in Poland, where Mindspace leases space in GWI's flagship Hala Koszyki property in Warsaw. Mindspace targets high-quality, flexible facilities that are well aligned with the GWI offering. These are provided to a broad range of members of all sizes, from start-ups to large enterprises. Mindspace is now entering the Romanian market, its seventh country of operation, by leasing c 11,000 sqm of space in three GWI properties (Globalworth Campus, City Offices and Bucharest Tower Center).

As part of this collaboration, GWI has made an equity investment in Mindspace of US\$10m (c €8.6m) to support its ongoing growth. As well as benefiting from the strong growth in demand for

co-working space, GWI also welcomes the community benefits and associated technologies that co-working brings to the buildings.

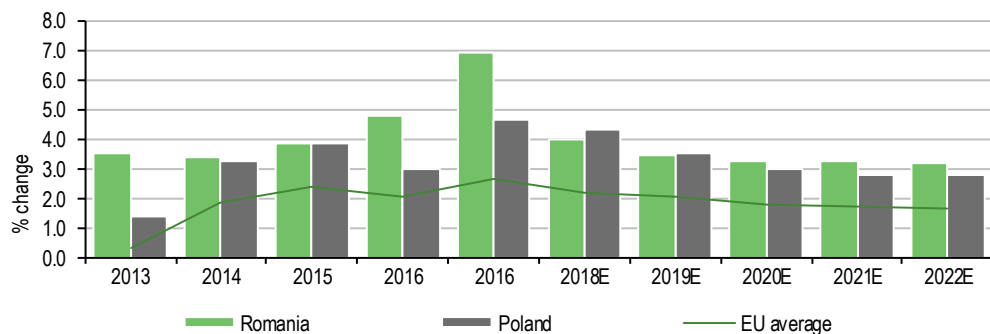
## Market environment

### Romania and Poland delivering above-average GDP growth

Romania and Poland have the largest populations in the CEE region and are the two fastest-growing economies in Europe with a consistent record of high, above European-average growth rates since the global financial crisis.

The economies of both countries have been major beneficiaries of multinational companies looking to take advantage of high-quality infrastructure, a skilled workforce, lower overall operating costs and proximity to Western Europe to expand in the region, often using it as a base from which to service parts of their European or global operations. With rising levels of employment and incomes, both economies have also recently been benefitting from rising levels of consumer demand. In Romania, grants and subsidies as a result of EU accession in 2007 have also been a significantly positive factor and a second round is expected to see an aggregate €43bn of approved EU funds flow towards the country between 2014 and 2020.

**Exhibit 11: Romanian and Polish GDP growth versus EU average**

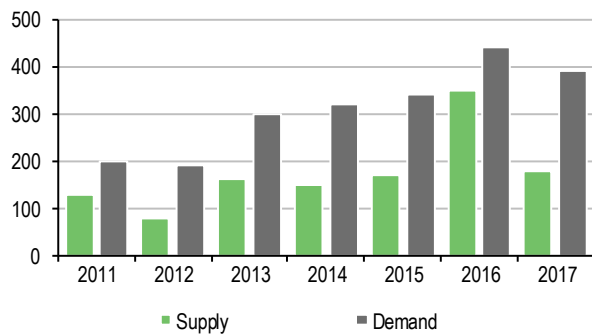


Source: IMF World Economic Database, October 2018

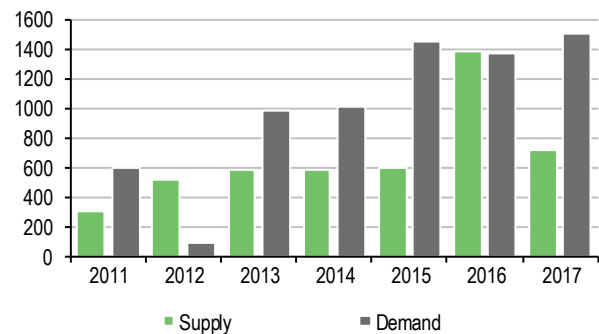
IMF forecasts are for Romanian and Polish GDP to continue at levels well above the EU average over the next several years.

### Occupier demand for quality office space exceeds supply

Expanding economies have created increasing demand for commercial real estate and especially for high quality space to meet the needs of expanding multinationals. A tightening labour force also makes it increasingly important for employers to be able to offer an attractive working environment, to attract and retain staff but this could also begin to act as a drag on employment growth and office demand.

**Exhibit 12: Bucharest office demand-supply (000 sqm)**


Source: GWI Annual Report 2017

**Exhibit 13: Polish office demand-supply (000 sqm)**


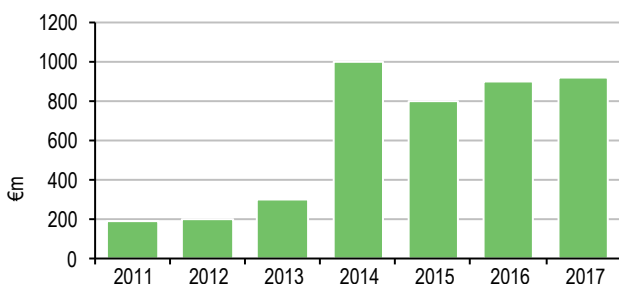
Source: GWI Annual Report 2017

In Bucharest, demand has exceeded supply over the past several years and vacancy rates have declined. Across Bucharest as a whole, vacancy is c 8%, the lowest in the past nine years according to CBRE. However, this varies by location and is much lower in the new CBD district. Rent levels have remained relatively stable, with some upwards pressure depending on the property and location. Market conditions are such that supply is expected to increase in the current year and next. Colliers estimates 185,000sqm of new space will be delivered in 2018 (taking the stock to 2.4m sqm), with c 650,000sqm in the pipeline for 2019 and 2020, although much of this has not actually commenced, giving developers flexibility over timing. Colliers believes that some upwards pressure on vacancy should be expected.

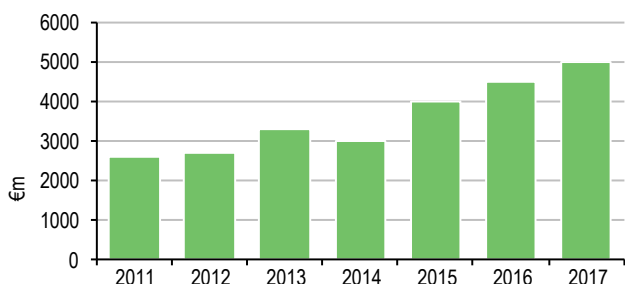
The Polish market is much more regionalised than is the case in Romania, making generalisations difficult, although here too the demand for high-quality, energy efficient properties, with good transport links remains strong. In response to continuing strong take-up, new development activity is also increasing in Warsaw and the regions, with rent levels broadly stable.

## Investment market

CEE investment markets continue to attract investor interest. In Romania, 2017 investment volumes increased for a third consecutive year, reaching almost €1bn. The market remains strong and following an estimated 18% growth in H118, Colliers believes that 2018 may show further growth. The much larger Polish investment market has been the strongest in the region since 2015 and investment volumes in 2018 are expected to achieve an all-time high of c €6.0bn according to Cushman & Wakefield. The main threat to investment volumes around the region appears to be sufficient access to quality properties.

**Exhibit 14: Investment volume – Romania**


Source: GWI Annual Report 2017

**Exhibit 15: Investment volume – Poland**


Source: GWI Annual Report 2017

Yields on prime office stock have continued to decline over the past three years, by between 1.0pp and 1.50pp in Warsaw, Budapest and Prague, but less so in Bucharest where they remain

noticeably higher. With Bucharest prime yields still well above the c 6.0% seen at the 2007 pre-financial crisis market peak, GWI management anticipates the gap with other CEE centres will narrow. This is not reflected in our forecasts and has the potential to significantly enhance EPRA NAV and total return as we explain on page 15.

**Exhibit 16: Prime office yields**

Romania	Poland	Hungary	Czech R.	UK		France	
Bucharest	Warsaw	Budapest	Prague	London City	London West End	Paris CBD	Paris La Defense
7.25%	5.00%	6.00%	4.75%	4.25%	3.50%	3.00%	4.00%

Source: Colliers, Romania, mid-year update 2018, Knight Frank European Quarterly (Q318)

## Financials

To capture the potential for the development pipeline to positively impact rental income and capital values, we have extended our analysis to the end of FY22. Although there are significant uncertainties attached to forecasting over such a long time period we note that:

- The portfolio of completed assets has a relatively long WALL of more than five years with inflation indexed, triple net leases and a high-quality tenant base adding to income visibility.
- Management has given clear guidance about its expectations for the costs, timing and rent potential of the development pipeline, although this may adapt to future changes in market conditions.
- The company has a strong balance sheet with sufficient cash resources to meet substantially all of the expected costs of development.

In summary we expect further strong growth in rental income and recurring income-based earnings (EPRA earnings) as a result of a growing contribution from recently completed acquisitions and developments, future developments, rental growth and operational efficiency. We look for EPRA earnings growth to support strong dividend growth and improving dividend cover. Without assuming any shift in market-wide valuation yields, we also forecast that rental growth and development profits will drive capital growth and an increasing EPRA NAV per share. Our forecasts are summarised in Exhibit 17.

**Exhibit 17: Edison forecast summary**

	NOI (€m)	EPRA earnings (€m)	EPRA EPS (c)	EPRA NAV/share (€)	DPS (c)	Net LTV (%)
FY16	43.6	8.6	13.3	8.57	0	19.7
FY17	51.1	16.8	17.9	8.84	44	33.3
FY18e	116.4	55.3	41.8	9.11	54	43.0
FY19e	149.3	73.0	55.1	9.71	56	42.8
FY20e	162.4	84.3	63.6	10.74	58	42.6
FY21e	177.3	99.1	74.7	11.65	62	41.3
FY22e	186.3	115.8	87.3	12.25	72	39.5

Source: Company data, Edison Investment Research

## The balance sheet is strong and liquid

GWI's strong balance sheet position and its increasingly diversified shareholder base provide considerable comfort in its ability to undertake the development programme that drives much of the income and capital growth that we forecast.

GWI raised €54m at IPO in 2013 and has since issued additional shares with an aggregate value of more than €800m. The main shareholders are shown on page 20. York Capital and Oak Hill have provided consistent support to GWI since 2014 and in 2016 a €200m equity raise saw Growthpoint Properties (€186m subscription), South Africa's largest REIT, enter the share register as a new

cornerstone investor. Growthpoint shares GWI's strategic vision on the opportunity to expand in the region and subscribed €150m to the €450m Globalworth Poland equity raise in June 2018, becoming a 21.6% shareholder in the GWI subsidiary. In December 2017, GWI raised a further €340m of equity capital in a placing of 38.9m shares (slightly more than 40% of the number outstanding) at €8.75 per share, receiving good support from existing shareholders while allowing GWI to diversify its investor base and leaving the company in a strong position to finance its recent acquisitions and the next stage of growth.

The company has also demonstrated the ability to tap into long-term debt funding on attractive terms. In June 2017 it issued a €550m Eurobond at a fixed 2.875% due 2022. The proceeds were mainly used to repay existing, higher cost, secured lending. This was followed in March 2018 by the issue of €550m of senior unsecured notes due 2025 at a fixed 3.0%, under a €1.5bn medium-term note programme. The notes were issued at a price of 99.225%.

At 30 June 2018, GWI had total outstanding debt of c €1.24bn, mostly unsecured, which was substantially offset by a significant c €0.5bn cash balance to give net debt of €0.7bn or an LTV of 36.2%.

## **Settlement of Polish master lease and NOI guarantees**

As noted above, a number of the original Globalworth Poland (formerly GPRE) assets (but not the assets more recently acquired) have benefited from rental or NOI guarantees that were put in place before GWI's investment, when GPRE listed on the Warsaw Stock Exchange in April 2017. The guarantees were intended to provide investors with visibility over the company's income during the initial post-IPO period by covering rental income on previously unleased office space, and topping up NOI to a specified level on the retail component on mixed-use assets for a five-year period. The guarantee agreement also provided for rent top-ups under certain specified situations to cover rent-free periods and other related costs.

In late December 2018, GWI settled certain master lease and NOI guarantees in exchange for receiving a one-off cash settlement of €21.5m to cover any and all amounts due now or in future. There will be a number of income statement and balance sheet impacts arising from the settlement, although we think it reasonable to assume that these will be effectively neutral to group valuation. Pending further disclosure from GWI, including whether it will be required to recognise the cash payment as income upfront or spread over a longer period, we have modelled the company as if the guarantees were to remain in place.

Positively, the group will receive cash upfront in respect of the likely guarantee payments, and management of the assets will become more flexible without the complication of the master lease.

The upfront cash payment will be offset by the elimination of future guarantee payments in respect of rent and service charges on vacant space, and certain rent-free periods and capital expenditures. At a group level, these guarantees are not material and added c 2.5% to the Globalworth Poland effective occupancy (calculated on a GLA basis), or c 1% on a group basis.

## **Forecasting assumptions**

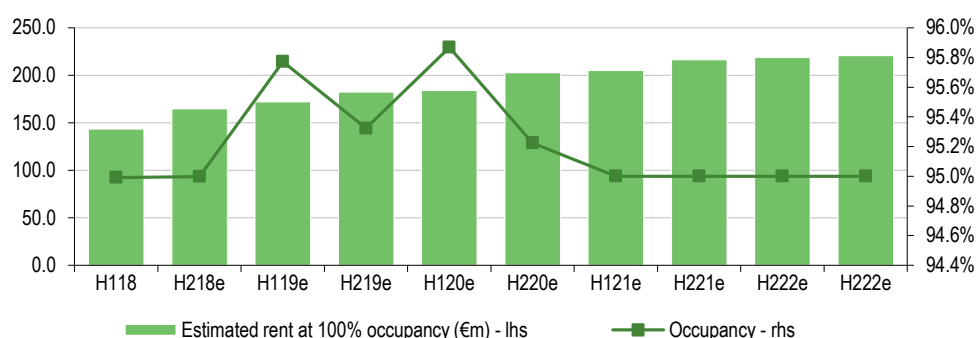
The key forecasting assumptions that we have made are:

- As a starting point we have taken H118 contracted rental income on standing assets of €135.5m and adjusted for Spektrum Tower (€6.3m), Skylight and Lumen (€11.5m) from the dates of acquisition.
- We have assumed no other acquisitions during the forecast period, including three assets, at varying stages of development, in which Globalworth Poland has a minority (25%) interest and a right to acquire the remaining interest once certain conditions have been met (the RoFo assets). The RoFo agreement was put in place before GWI's investment and we expect that

the valuation at completion will be such that further investment would not meet GWI's investment return criteria. The estimated cost of acquiring the remaining interest was an estimated €113m at 30 June.

- Aside from the RoFo assets, although we have not assumed further acquisitions, we would consider them likely. Similarly, we have assumed no equity issuance, which we believe would be likely if suitable acquisitions are identified, to maintain gearing at a prudent level.
- For the developments currently on site (RBC and Globalworth Campus III) we assume costs, rental income and timing in line with GWI management expectations shown in Exhibit 9. We assume that the 100% pre-let RBC will add rental income of c €5.5m pa from the beginning of Q219. For Globalworth Campus III, we assume it will be initially 70% let at opening, contributing c €3.4m from the beginning of FY20, with occupancy building thereafter.
- We include the development pipeline shown in Exhibit 10 and assume costs, rental income and timing in line with the GWI management expectations shown. We assume that each of the office assets will be 60% let at completion, with occupancy building thereafter. For the industrial assets, we assume the phased construction will be on a fully pre-let basis.
- We assume the maintenance of a high level of occupancy across the portfolio as a whole, although the assumption of 60% initial occupancy for speculatively developed assets, followed by a steady increase, creates some volatility in the overall average. For both the Romanian and Polish portfolios we assume a stabilisation at c 95% towards the end of the forecast period, which may prove conservative.

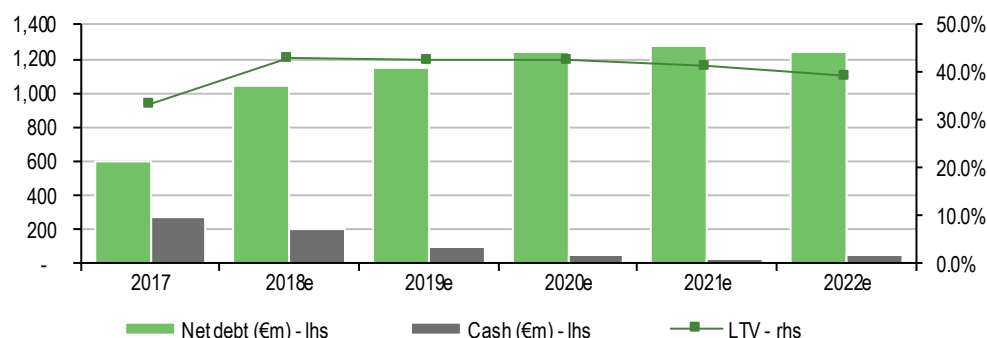
**Exhibit 18: Forecast rent potential and occupancy**



Source: Edison Investment Research

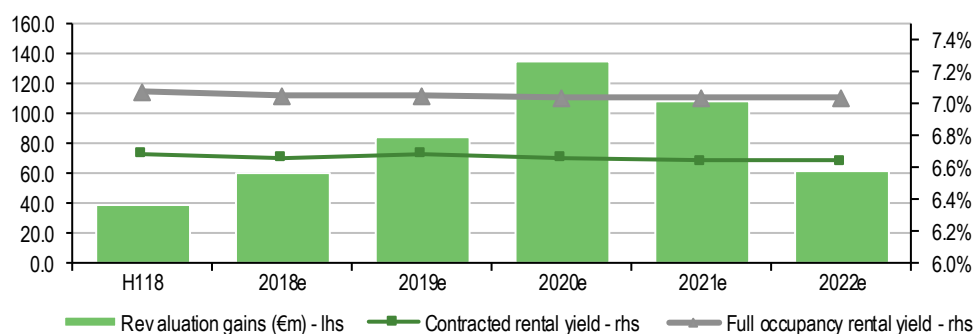
- We have indexed rents to the European Harmonised Index of Inflation (HICP) and have assumed a constant rate of 2.0% per year over the period, similar to the current level.
- Our forecasts for non-recoverable direct property expenses are fairly constant at a little above 3% of rental income, similar to the level reported in H118. Given the modernity of the assets we have not allowed for additional refurbishment capex over and above that paid for by tenants.
- We expect the reported group administrative expenses in FY18 to be c 40% above the FY17 level, including a full-year contribution from Globalworth Poland as well as some group-level investments to strengthen the team for growth. Our forecasts assume growth in line with HICP over the balance of the forecast period.
- We forecast that the subsequent acquisition activity and ongoing development spending will primarily be funded out of the cash position, with only a marginal increase in gross debt, to c €1.3bn. As the cash balance is deployed we forecast net debt to increase to c €1.3bn, giving an LTV of c 40%. The majority of the debt is unsecured fixed rate debt at a blended cost of just under 3%. We have assumed a similar cost for the balance of secured bank debt.



**Exhibit 19: Debt and gearing forecasts**


Source: Company data, Edison Investment Research

- We have assumed positive revaluation movement in line with rental growth and we have assumed a yield of 7% on the Romanian development assets, similar to the current blended yield on the completed Romanian portfolio post completion and letting. These assumptions generate only very small fluctuations in the rental yield on completed assets, driven by occupancy fluctuations. Specifically, we have not assumed any generalised market-driven changes in yield, either positive or negative, although as we discuss below there is potential for the Romanian yield in particular to tighten, converging on the levels seen in more established regional markets.

**Exhibit 20: Forecast revaluation movements and valuation yields**


Source: Edison Investment Research. Contracted and full occupancy rents as a % of completed investment property value.

- Management expects to be able to maintain a relatively low effective current tax rate for the foreseeable future. The company pays no income tax in Guernsey, but in other jurisdictions local rates apply to taxable income. The standard rate in Poland is 19.0% and in Romania it is 16%. This is a difficult area to forecast externally and remains an area of uncertainty. We have applied a 6% effective current tax rate throughout our forecast period and allowed for a deferred tax accrual on revaluation movements at a higher rate (a blended c 16/17%), added back to EPRA NAV.

## NAV sensitivity to yield shift

Although we make no assumption about market-driven valuation yield shifts, current market conditions suggest good potential for prime office yields to tighten in Bucharest in particular, where prime office yields remain well above the levels in other regional markets and valuations remain

well below historical highs. This would have a positive impact on our EPRA NAV and total return forecasts.

The full occupancy yield on the Romanian portfolio was c 7.1% at H118 (slightly above the yield based on contracted NOI of 6.6%), with the small discount to the Bucharest prime yield of 7.25% reflecting the quality and location of the assets. As noted above, Bucharest office assets represent 90% of this, with a particular focus on the new CBD.

At H118, the full occupancy yield on GWI's Polish assets in Warsaw and a number of other key Polish cities where yields tend to be higher was c 7.0%. We estimate that on geographically weighted basis this is c 1.0% premium to prime valuations. In addition to geographical location, this is likely to reflect the relatively smaller lot sizes of some of the original GPRE assets compared with recent acquisitions and the Bucharest portfolio. There may be room for these yields to tighten versus prime yields and for regional yields to tighten versus Warsaw, with strong regional office take-up reflecting good levels of occupier interest in regional centres other than Warsaw. GWI also hopes to create value in the recent acquisitions. Spektrum Tower is a larger Warsaw asset, with the acquisition cost representing a full occupancy yield of 6.8%. We estimate that the agreed acquisition of Skylight and Lumens for an expected €190m reflects a similar full occupancy yield (89% occupancy currently).

Exhibit 21 shows the sensitivity of our forecast group EPRA NAV per share to alternative yield assumptions for Romania alone, Poland alone and applied across the whole portfolio. The Polish impact adjusts for the minority interest. For example, 0.5% yield tightening applied to the Romanian assets only would lift our forecast FY22 EPRA NAV per share by c €1.0, or c 8%, from the forecast €12.25 to €13.25. If applied across the whole portfolio, Romania and Poland, a similar 0.5% yield tightening would lift forecast EPRA NAV per share by €1.5 to €13.7, a c 12% increase. For completeness, Exhibit 21 shows our forecasts for the impact on EPRA NAV for a range of potential yield shifts, including increases.

**Exhibit 21: Impact of full occupancy yield change on EPRA NAV per share**

EPRA NAV per share (€) for yield change of:	Romania only yield change					Poland only yield change					Whole portfolio yield change				
	2018e	2019e	2020e	2021e	2022e	2018e	2019e	2020e	2021e	2022e	2018e	2019e	2020e	2021e	2022e
-1.00%	10.5	11.4	12.7	13.8	14.5	10.2	10.8	11.8	12.8	13.4	11.5	12.4	13.8	15.0	15.6
-0.75%	10.1	10.9	12.2	13.2	13.9	9.9	10.5	11.5	12.5	13.1	10.9	11.7	13.0	14.0	14.7
-0.50%	9.7	10.5	11.7	12.7	13.3	9.6	10.2	11.2	12.2	12.8	10.2	11.0	12.2	13.2	13.8
-0.25%	9.4	10.1	11.2	12.1	12.8	9.3	10.0	11.0	11.9	12.5	9.7	10.3	11.4	12.4	13.0
No change (Central forecast)	9.1	9.7	10.7	11.6	12.3	9.1	9.7	10.7	11.6	12.3	9.1	9.7	10.7	11.6	12.3
+0.25%	8.8	9.4	10.3	11.2	11.8	8.9	9.5	10.5	11.4	12.0	8.6	9.1	10.1	11.0	11.6
+0.50%	8.6	9.1	9.9	10.8	11.4	8.7	9.3	10.3	11.2	11.8	8.1	8.6	9.5	10.3	10.9

Source: Edison Investment Research

## Management incentivisation

At IPO a number of management and board incentives were put in place, including the granting of warrants to the founder and certain directors under the Founder Warrant Agreement and the Director Warrant Agreement. Warrants representing a potential 2,830,020 new ordinary shares (less than 2% of the total outstanding) remain unvested in two remaining tranches, at a strike price of €5.00, subject to the average daily market price being at least €10.00 and €12.50 respectively for at least 60 consecutive days. The potential dilution is minimal and we have made no allowance for this in our estimates.

GWI has a performance incentive scheme for senior management, the terms of which were set out in a shareholder circular and approved in 2016. This has been structured via a wholly owned investment subsidiary in which the executive directors, amongst others, are preference shareholders. The main incentivisation components comprise a variable annual incentive and a long-term incentive. The performance targets for the variable annual incentive are set each year by

the remuneration committee and payment is a mixture of cash and shares, with the shares vesting over a three-year period. The long-term incentive fee is primarily based on achieving certain returns for shareholders, measured as a specified internal rate of return objective, calculated on a cash in/cash out basis, subject to various trigger events to 2022.

## Valuation

We expect dividends to represent a significant element of shareholder returns. Reflecting the growth in the overall portfolio since IPO and the increased share of completed, income-generating assets, GWI commenced distributions in FY17, declaring half-yearly dividends per share amounting to €0.44 for the year as a whole. For FY18 aggregate dividends per share increased to €0.54, set with a view to the expected growth in income earnings, as recent acquisitions make a full contribution and current and planned development complete. Our forecasts indicate strong growth in DPS (to €0.72 in FY22) and in DPS cover (from a forecast 0.8x in FY18 to 1.2x in FY22).

Capital growth has been strong since IPO and we forecast this to continue, enhancing income returns further. As noted above, our base forecasts assume no market-driven shifts in the portfolio valuation yield, with revaluation movements driven by expected inflation indexation of rents and our forecast for development gains. The latter are based on management's expectations for the costs, timing and rent potential of the developments and our assumption that the post-completion yields will be similar to current portfolio levels.

**Exhibit 22: EPRA NAV total return forecasts**

	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	FY18–22e
Opening NAV per share (€)	5.6	8.1	9.1	8.6	8.8	9.1	9.7	10.7	11.6	9.1
Closing NAV per share (€)	8.1	9.1	8.6	8.8	9.1	9.7	10.7	11.6	12.3	12.3
DPS paid (€)				0.2	0.5	0.6	0.6	0.6	0.7	2.4
<b>NAV total return</b>	<b>45.4%</b>	<b>12.2%</b>	<b>-5.6%</b>	<b>5.8%</b>	<b>8.6%</b>	<b>12.6%</b>	<b>16.4%</b>	<b>14.0%</b>	<b>11.0%</b>	<b>60.7%</b>

Source: Company data, Edison Investment Research

Combining our DPS and capital return expectations, we estimate an aggregate c 60% EPRA NAV total return between end-FY18 and end-FY22, or a compound annual average return of 12.6%. Dividends represent just under half of the forecast return and capital growth represents the balance.

As noted above, yield convergence, especially in relation to the Romanian portfolio, has the potential to materially increase returns above the levels that we estimate.

Although there are no direct comparators to GWI, in Exhibit 23 we show a summary valuation and share price performance comparison of GWI with a small number of other quoted companies that are also significant investors in the CEE regional commercial property market within more broadly spread portfolios. The table uses historical (rather than forecast) financial data. On this basis, GWI offers a significantly higher yield than the peer group average while trading at a slightly lower P/NAV, and while we would expect the share price performance to be driven by future growth in EPRA NAV per share and supported by the attractive yield and growing DPS, there is also potential for some re-rating.

**Exhibit 23: Peer comparison table**

	Price (local)	Market cap (€m)	P/NAV (x)	Yield (%)	P/E (x)	Share price performance			
						1 month	3 months	12 months	From 12M high
NEPI Rockcastle	7.40	4,276	1.04	6.9	13.8	14.7	-1.3	-39.3	-36.8
IMMOFINANZ	22.44	2,531	0.83	3.1	61.0	8.2	6.7	13.1	-3.8
CA IMMO	30.30	3,018	0.98	2.6	23.1	9.6	2.1	20.9	-7.3
GTC	8.79	991	0.86	3.8	17.7	7.1	9.3	-12.2	-13.1
Average (Ex-Globalworth)			<b>0.93</b>	<b>4.1</b>	<b>28.9</b>	<b>9.9</b>	<b>4.2</b>	<b>-4.4</b>	<b>-15.2</b>
Globalworth	8.00	1,060	0.88	6.8	25.4	-5.9	-6.4	-15.3	-18.8
Globalworth Poland	4.99	516	0.70	1.4	N/A	-0.2	-7.2	-4.8	-11.7

Source: Company data. Thomson Reuters. Note: Prices at 22 January 2019.

Also shown in Exhibit 23 is Globalworth Poland, which retains its quoted status on the Warsaw Stock Exchange. It has a market capitalisation of a little more than €500m based on the last traded price of PLN4.99 (c €1.2). The last-traded price represents a discount of c 30% to the last published (30 September 2018) EPRA NAV per share of €1.67, but trading in the shares is thin. As noted above, GWI owns 68.4% of the company and Growthpoint Properties 21.6%. If Poland brings forwards REIT legislation for the commercial property sector, it could prove positive for Globalworth Poland, but progress has been slow and there is no immediate prospect of this happening. If that remains the case, if GWI finds a way to eliminate the minority interest and de-list Globalworth Poland, we would welcome the simplification of the group structure.

## Sensitivities

Property is a cyclical sector but some of the inherent income risk can be mitigated by building a large diversified portfolio, with multiple, quality tenants, reducing vacancy risk substantially. In addition, GWI's development activity carries particular risks associated with the building process, including timing, cost over-runs and uncertainty of leasing on completion. Specific to GWI we would highlight the important role played by the founder and CEO, who continues to be a significant shareholder (18.2%). The experience that the management team has of working within Romania is a significant benefit for GWI, given the country's reputation for relatively weak political and business transparency. The country's justice system has remained subject to special monitoring by the European Commission since EU entry in 2007.

- **Cyclical risks:** as noted above, the Romanian and Polish economies continue to grow strongly and well above the EU average; the IMF forecasts this growth to continue during the period of our forecasts to 2022. Existing rental income is protected by relatively long, inflation-linked leases, substantially to multi-national corporates. A weaker lettings market for existing properties at lease maturity or for new development at completion would negatively affect our forecasts. Capital values are more difficult to predict and historically have shown considerable volatility. Prime office yields in Bucharest, Romania of c 7.25% remain above the previous peak c 6.0% but below the 2011 peak of c 9.0%. With prime office capital values back to previous peak levels in Poland, as in most major European markets, GWI is targeting high-quality, well-located properties with lower valuations, including in the regions outside Warsaw.
- **Property development risk:** the significance of development activity within the overall group has significantly reduced in the past few years, representing a substantial de-risking. The end of H118 GAV of completed assets, adjusted for the subsequent acquisitions of Spektrum Tower, Skylight and Lumen, is c €2,315m with an annualised contracted rent of €153.3m. In contrast, the current and planned development projects (all included in our forecasts) were carried at a value of €106.1m, with an expected future capex requirement to completion of €294.9m and expected future rent potential of €40.6m. Since 2015, GWI has successfully developed and delivered 200k sqm of GLA spread across eight projects, with no material time delays or cost

over-runs. In some cases, these projects have been technically demanding, as was the case with Globalworth Plaza, a 26-floor tower constructed on an island site above underground lines.

- **Key individual risk:** we discuss above the experience and track record of the founder, CEO and significant shareholder, Ioannis Papalekas. He has made a major contribution to the growth of GWI and we consider his future involvement will play an important role in the group's further development. This risk is mitigated by the considerable deepening and broadening of the management team at GWI in the period since listing.
- **Funding risk:** as discussed above, GWI has a strong, liquid balance sheet with sufficient cash resources to fund substantially the development pipeline that we identify in this report. The debt is substantially unsecured and fixed rate and similarly to rental income is denominated in euros. We believe that financing risk is minimal until the maturity of this fixed rate debt, in 2022 and 2025, at which point we forecast GWI to have a net LTV of c 40% and be strongly cash generative. Weaker than forecast rental income or capital values would negatively impact this assessment.

**Exhibit 24: Financial summary**

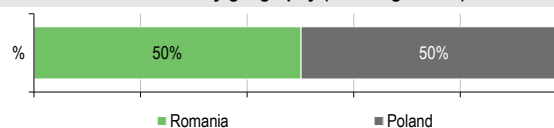
€000's	2016	2017	2018e	2019e	2020e	2021e	2022e
<b>INCOME STATEMENT</b>							
Rental income	46.2	53.9	120.1	154.0	167.7	183.0	192.6
Net property operating expenses	(2.6)	(2.8)	(3.7)	(4.7)	(5.3)	(5.7)	(6.3)
Net operating income (NOI)	43.6	51.1	116.4	149.3	162.4	177.3	186.3
Administrative expenses	(7.7)	(10.2)	(14.3)	(14.6)	(14.9)	(15.2)	(15.5)
Depreciation of long-term assets	(0.2)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Acquisition costs	(0.1)	(10.8)	(1.0)	0.0	0.0	0.0	0.0
Fair value gain on investment property	6.7	6.7	60.5	83.9	134.9	108.3	61.4
Bargain purchase gain on acquisition of subsidiaries	0.0	28.9	0.3	0.0	0.0	0.0	0.0
Gain on sale of subsidiary	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Share based payments	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
FX gain/(loss)	(0.1)	(0.3)	(0.9)	0.0	0.0	0.0	0.0
Other net operating income/(expense)	1.3	(4.1)	(1.3)	0.0	0.0	0.0	0.0
EBIT	43.7	61.0	159.2	218.0	281.9	269.8	231.6
Net finance expense	(31.5)	(37.0)	(38.3)	(38.5)	(39.7)	(40.0)	(40.0)
JV	0.0	2.2	3.6	2.1	0.0	0.0	0.0
Profit before tax (PBT)	12.2	26.2	124.5	181.6	242.2	229.7	191.6
Tax charge	(0.9)	(2.4)	(15.2)	(20.3)	(29.0)	(25.7)	(19.4)
Profit after tax	11.3	23.7	109.3	161.4	213.2	204.0	172.2
Minorities	0.0	0.7	(15.7)	(24.0)	(24.5)	(24.9)	(25.5)
Attributable profit after tax (PAT)	11.3	24.4	93.7	137.4	188.7	179.1	146.7
EPRA earnings adjustments:							
Fair value gain on investment property	(6.7)	(6.7)	(60.5)	(83.9)	(134.9)	(108.3)	(61.4)
Bargain purchase gain on acquisition of subsidiaries	0.0	(28.9)	(0.3)	0.0	0.0	0.0	0.0
Other EPRA adjustments	4.0	28.0	22.5	19.6	30.5	28.3	30.5
EPRA earnings	8.6	16.8	55.3	73.0	84.3	99.1	115.8
Basic average number of shares (m)	64.4	92.5	132.3	132.4	132.4	132.4	132.4
Fully diluted average number of shares (m)	64.4	93.8	132.5	132.6	132.6	132.6	132.6
IFRS EPS - basic (€c)	17.6	26.4	70.8	103.8	142.6	135.3	110.9
Diluted EPRA EPS (€c)	13.3	17.9	41.8	55.1	63.6	74.7	87.3
DPS (€c)	0.0	44.0	54.0	56.0	58.0	62.0	72.0
Dividend cover		0.4	0.8	1.0	1.1	1.2	1.2
<b>BALANCE SHEET</b>							
Investment property	980.9	1,792.4	2,416.5	2,666.8	2,915.8	3,076.4	3,137.8
Other non-current assets	17.7	49.2	85.9	31.2	30.8	30.4	30.1
Total non-current assets	998.6	1,841.6	2,502.4	2,698.0	2,946.6	3,106.8	3,167.9
Cash & equivalents	221.3	273.3	203.7	101.5	51.1	23.2	54.1
Other current assets	11.8	46.1	45.5	50.1	53.2	56.1	57.5
Total current assets	233.2	319.4	249.2	151.6	104.3	79.3	111.7
Interest bearing loans & borrowings	(375.6)	(834.0)	(1,238.5)	(1,238.5)	(1,288.5)	(1,288.5)	(1,288.5)
Deferred tax liabilities	(70.6)	(99.6)	(110.6)	(125.0)	(147.6)	(165.9)	(176.8)
Other non-current liabilities	(4.5)	(13.1)	(12.3)	(12.3)	(12.3)	(12.3)	(12.3)
Total non-current liabilities	(450.6)	(946.7)	(1,361.4)	(1,375.8)	(1,448.4)	(1,466.7)	(1,477.6)
Interest bearing loans & borrowing	(38.7)	(36.4)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Other current liabilities	(27.1)	(41.5)	(59.3)	(66.4)	(71.6)	(76.4)	(78.8)
Total current liabilities	(65.8)	(77.8)	(64.3)	(71.4)	(76.6)	(81.4)	(83.8)
Net assets	715.4	1,136.5	1,326.0	1,402.3	1,525.9	1,637.9	1,718.2
Non-controlling interests	0.0	(67.6)	(227.6)	(239.1)	(249.2)	(259.5)	(270.1)
Shareholders' equity	715.4	1,068.9	1,098.4	1,163.2	1,276.7	1,378.4	1,448.1
Adjustments to EPRA:							
Add deferred tax liability	70.6	112.1	123.1	137.5	160.1	178.4	189.3
Deduct goodwill as a result of deferred tax	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)
Add negative fair value of interest rate swap	3.6	2.6	2.4	2.4	2.4	2.4	2.4
Other	0.0	(6.5)	(10.2)	(10.2)	(10.2)	(10.2)	(10.2)
EPRA NAV	783.8	1,171.5	1,207.9	1,287.2	1,423.2	1,543.3	1,623.8
Period end number of shares, fully diluted (m)	91.5	132.5	132.5	132.5	132.5	132.5	132.5
Basic NAV per share (€)	7.9	8.1	8.3	8.8	9.6	10.4	10.9
EPRA NAV per share (€)	8.6	8.8	9.1	9.7	10.7	11.6	12.3
<b>CASH FLOW</b>							
Net cash flows from operating activities	19.9	10.1	57.8	92.8	103.5	118.4	134.6
Cash flows from investing activities	(39.5)	(388.0)	(432.0)	(109.9)	(114.1)	(52.3)	0.0
Cash flows from financing	206.9	430.6	304.7	(85.3)	(39.8)	(94.1)	(103.6)
Change in cash	187.3	52.7	(69.5)	(102.3)	(50.4)	(27.9)	31.0
Opening cash	31.0	218.4	271.0	201.5	99.3	48.9	20.9
Closing cash	218.4	271.0	201.5	99.3	48.9	20.9	51.9
Adjustments to balance sheet cash	3.0	2.3	2.3	2.3	2.3	2.3	2.3
Balance sheet cash	221.3	273.3	203.7	101.5	51.1	23.2	54.1
Debt	(414.2)	(870.4)	(1,243.5)	(1,243.5)	(1,293.5)	(1,293.5)	(1,293.5)
Net (debt)/cash	(192.9)	(597.1)	(1,039.8)	(1,142.0)	(1,242.4)	(1,270.4)	(1,239.4)
Net LTV	19.7%	33.3%	43.0%	42.8%	42.6%	41.3%	39.5%

Source: Company data, Edison Investment Research



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**Contracted rental income by geography (standing assets)**

**Leadership team**
**Independent non-executive chairman: Geoff Miller**

Geoff Miller spent over 20 years in research and fund management in the UK, specialising in the finance sector, before moving offshore. He first moved to Moscow and from there to Singapore before becoming a Guernsey resident in 2011. Geoff is chief executive officer and co-founder of Afaafa, a business that provides investment and consultancy services to early-stage companies focused on the financials and technology sectors. He is also a director of a number of private companies.

**Founder and CEO: Ioannis Papalekas**

Founder of Globalworth, Ioannis Papalekas has nearly 20 years of real estate investment and development experience, predominantly in Romania. He has significant experience in the acquisition, master planning, development, reconstruction, refurbishment, operation and asset management of land and buildings across all major asset classes in Romania. Before founding Globalworth, Ioannis was responsible for the acquisition, development and successful disposal of more than 400,000sqm of commercial (office, retail and logistics) space and 1,000 residential units in Romania.

**Deputy CEO and CIO: Dimitris Raptis**

Dimitris Raptis joined Globalworth in November 2012, following 15 years of experience in the financial services and real estate investment management industries with Deutsche Bank. The last 12 years were spent as a senior member of the real estate investment management group of Deutsche Bank's Asset and Wealth Management division (RREEF). From 2000 to 2008 he was a senior member of the team responsible for originating and executing property investments, focused on France, Italy and SEE. From 2008 to 2012 he was managing director and head of portfolio management for RREEF Opportunistic Investments, overseeing pan-European property assets of more than €6bn.

**CFO: Andreas Papadopoulos**

Andreas Papadopoulos joined Globalworth in 2014. He is a chartered accountant with 27 years' experience in accounting and financial management, audit and transaction advisory. After becoming a member of the Institute of Chartered Accountants in England and Wales (currently a fellow member) while working in London for four years, he held key positions in big four audit firms including as partner with Ernst & Young in Romania and Slovenia, where he was responsible for a large number of engagements, mostly involving audits, but also transaction advisory.

**Principal shareholders**

	(%)
Growthpoint Properties	29.0
Ioannis Papalekas	18.3
York Capital	15.4
Oak Hill Advisors	9.9
Altshuler Shaham	7.4
European Bank for Construction and Development	4.3
Gordel Holdings	3.9

**Companies named in this report**

CA Immo (CAI), Growthpoint Properties (GRT), GTC (GTC), Immofinanz (IIA), NEPI Rockcastle (NRP)

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