

Investment focus switching back to the portfolio

By repurchasing the stake held by its largest investor RAV has removed a perceived drag on its equity and source of uncertainty. That should enable attention to steer back towards the positive dynamics of its predominantly Moscow-based warehouse and logistics portfolio. We briefly recap the background and rationale and reinstate forecasts.

Background to the share repurchase

Raven has completed the £51.1m repurchase of a substantial share overhang held by its previously largest shareholder (IAM / Invesco Funds). It bought back and cancelled 9.85m ordinary shares and acquired 100m ordinary and 32.5m preference shares via a new JV (Raven Holdings), jointly owned by RAV and its executive management. In addition, the balance of the IAM holdings, 46.82m ordinary and 31.07m preference shares, were placed with new investors.

RAV recognised that IAM's ongoing desire to exit was a drag on the group share price, and the associated uncertainty affected its strategy and undermined opportunities for fundraising. **This deal, plus a simplified equity structure post redesignation of convertibles last year, helps return focus back to the core investment case and its two underlying drivers:**

- A highly resilient portfolio, well-located and focused upon one of the strongest real estate sectors currently, driven by demand from large supermarket and e-commerce players.
- The rebound in Russia's economy post lockdown and strength of key commodity markets which provides a potentially more stable outlook for the Rouble.

Valuation: inexpensive access to a high-quality warehouse portfolio

The FY20 results confirmed a robust underlying (local currency) operational outlook underpinned by an inherently resilient, stable asset base. Finances are benefiting from a progressive switch of the group's debt and leases from USD and EUR into RUB denomination over the last few years.

Forex remains the main imponderable. Local current asset valuations were broadly unchanged y-o-y, but results presented in sterling reflects gearing to RUB/GBP, and a weaker 12 months is visible in the fall in diluted end FY20 NAV/share to 41p (FY19: 75p).

Investors attracted by the core property case but concerned by short term currency and commodity price volatility, could consider the attractions of the Cumulative Preference Shares (RAVP). These currently yield an assured 10.5% vs the 6.8% prospective for the ordinary shares more vulnerable to forex shifts. The ordinaries should, however, deliver an attractive medium term total return, if a more stable political backdrop prompts RUB/GBP recovery.

Summary financials

Year end 31 Dec	2018A	2019A	2020A	2021E
Net Operating Income, £m	118.3	126.5	113.1	105.9
Adj. Pre-tax, £m	25.8	26.2	26.9	26.2
Adj. diluted EPS (p)	4.0	4.7	3.5	2.8
Distribution/ord. share (p)*	3.0	3.5	1.25	2.0
Yield*, %	10.2	11.9	4.2	6.8
Net asset value (p)	48	72	43	43

Source: Group report & accounts and ED estimates, *Distribution paid via tender offer share buy-back
**Adj. EPS is underlying, net of non-cash revaluations and forex

Company Data

EPIC (Ords)	RAV
Price (last close)	29.5p
52 weeks Hi/Lo	37.5p / 23p
Market cap	£170m

12% 1p Cum. Pref	RAVP
Price (last close)	115p
52 week Hi/Lo	125p / 106p
Market cap	£249m
Yield	10.5%

Share Price Ords, p



Source: ADVFN

Description

Raven Property Group Ltd is a Guernsey registered property company specialising in investment and development of high-quality Grade A warehouse complexes in major Russian cities. It leases to both Russian and international tenants.

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Brief recap of repurchase and its impact

This transaction has resolved issues related to IAM's intention to sell its entire holding in RAV. Management believed that IAM's position had created an overhang which had had a prolonged detrimental effect on the group share price. It also affected its strategic options, particularly opportunities for fundraising, adding perceived uncertainty to the outlook.

Effective 11 May 2021:

- RAV bought back and cancelled 9,850,350 ordinary shares (the Company Buyback)
- A new JV, Raven Holdings, owned 50:50 by the group and its executive management team acquired 100m ordinary shares and 32.5m preference shares (the Joint Venture Purchase)
- Another 46,824,074 ordinary shares and 31,071,616 preference shares) were acquired from IAM and placed with new investors (the Placing Shares).

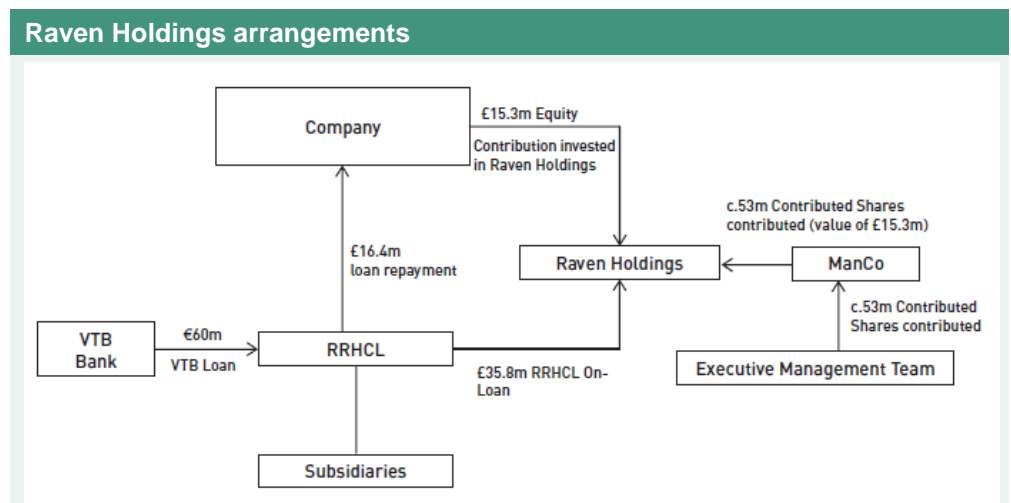
Acquisition funded by JV debt secured facility

RAV paid total consideration of £51.11m. To finance this its Cypriot subsidiary RRHCL secured a €60m loan from VTB Bank. The facility has a five-year term from 3 March 2021, at 5.65% over EURIBOR.

- £16.4m was applied to part repay an intercompany loan. RAV used this, plus part of cash holdings to finance both the Company Buyback and its equity contribution.
- The £35.73m balance was on-lent by RRHCL to the JV which, with the RAV equity contributed by executive management, covered the consideration to IAM under the JV Purchase Agreement.

New JV won't impact operational outlook

The new joint venture, Raven Holdings was established in December 2020. It is 50:50 owned by the group and a company owned by RAV's Executive Management Team and their related entities. The latter contributed equity in RAV in exchange for a 50% interest in the JV. The group provided a cash contribution for its equal share.



Source: RAV prospectus 19 April 2021

Raven Holdings acquired the shares from the Invesco Funds and granted security over the JV Purchase Shares. In total the JV holds 153,030,310 Ordinary and 32,500,000 Preference shares and modest working capital. RAV will be entitled to income generated by the JV purchase shares to cover the principal due and interest payable under the VTB Loan. The JV's exclusive purpose is to hold the shares passively.

The conclusion of the three elements of this transaction addressed the overhang without any material increase in gearing risk. An earlier purchase agreement in December 2019 would have added to group debt directly, but RAV renegotiated these arrangements post the onset of the COVID-19 pandemic. Market turmoil also pushed the market share price below the level contracted in that agreement.

The improved repurchase structure agreed in Autumn 2020 involved lower gearing risk, more acceptable in an uncertain backdrop post pandemic. This was underpinned by the JV structure, into which RAV's founder Executive Board members and senior management contributed ordinary shares.

Forecasts adjusted for JV and tender offer

We have adjusted our forecasts for FY21 to account for the new joint venture. RPG's income statement will reflect 50% of the JV's estimated £7.8m accounting profit 8m. The JV's income includes the 2p/share forecast dividend on 153m ordinary shares (£3.1m) and 12% on the 32.5m preference shares (£3.9m). Its cash expenses comprise the interest (£2.4m) due on the loan from the group.

Other non-cash movements are mark-to-market adjustments on the prefs (the ordinary shares are held at cost) and the debt.

RPG will receive the £2.4m interest due on the debt made available to the JV and 50% of its net profit . This will cover the estimated £2.9m pa interest payable on the €60m VTB loan at 5.65% pa.

The only other adjustment relates to the tender offer announced with the FY20 results. The terms are for the purchase of one in every 32 Ordinary Shares at 40p per share, which is equivalent to a 1.25p/share distribution.

- We have assumed full take up i.e., c 18.172m will be repurchased and cancelled at a cash cost of £7.3m, and adjusted returns from both the new JV and the group.
- We have also made a small adjustment to the JV forecasts to reflect the profit implicit in the repurchase of shares at 40p under the tender offer, vs the 21.6p price at which they were contributed.

EPS and NAV forecasts reflect the shares moved into the JV (held in Treasury).

Income statement					
12 months to end December, £m	2017	2018	2019	2020¹	2021e
Net rent and related income	129.7	118.3	126.5	113.1	105.9
Administrative expenses	(19.7)	(25.2)	(25.4)	(24.7)	(22.7)
	110.0	93.1	101.1	88.4	83.2
Long term incentives	(3.5)	(2.9)	(5.5)	(1.2)	(0.6)
Share of profit of JVs	1.6	1.6	1.3	1.1	4.0
Adj. Operating profit (excl. revaluations)	108.1	91.9	96.9	88.3	86.6
Net finance charge	(71.7)	(83.3)	(107.6)	(73.6)	(60.3)
Profit on redesignation of convertible prefs.				45.7	
One-off transaction costs				(1.1)	
Underlying PBT	36.4	8.6	(10.7)	14.7	26.2
Adj. PBT	41.4	25.8	26.2	26.9	26.2
Tax	(25.2)	(5.8)	(19.0)	(15.1)	(14.8)
Underlying profit after tax	11.2	2.8	(29.7)	(0.4)	11.4
Forex (losses)/gains	(2.5)	(2.5)	27.5	(53.7)	0.0
Unrealised profit/(loss) on revaluation	28.2	(121.0)	48.3	(5.6)	0.0
IFRS Reported pre-tax profit	68.3	(114.9)	65.1	1.3	26.2
Tax	(25.2)	(5.8)	(19.0)	(15.1)	(14.8)
Reported profit after tax	43.1	(120.7)	46.0	(13.9)	11.4
Adjusted EPS (p)	6.2	4.0	4.7	3.5	2.8
Distribution per share (p)	4.0	3.0	3.5	1.25	2.00

Balance sheet					
As at end December, £m	2017	2018	2019	2020¹	2021e
Non-current assets					
Investment property	1,159	1,175	1,338	1,090	1,100
Investment property under construction	29	31	34	27	27
Other - incl. JVs	11	32	9	12	53
Trade and other receivables	4	16	3	69	65
	1,202	1,254	1,384	1,198	1,246
Net cash/(debt)	(429)	(570)	(615)	(628)	(683)
Pref/Conv. Pref	(307)	(315)	(328)	(252)	(252)
	(736)	(885)	(943)	(880)	(934)
Deferred tax	(34)	(33)	(47)	(44)	(44)
Other adjustments - incl. net payables	(40)	(39)	(28)	(54)	(54)
	(811)	(957)	(1,018)	(978)	(1,032)
Net equity	392	296	366	220	213
NAV/share (p)	59	48	71	43	43

Source: Group results/ED forecasts ¹2020 proforma (unaudited)

Unaudited Pro-forma Balance Sheet

£m	As at 31 Dec 2020	VTB loan	Equity contrib. & RRHCL on-loan to JV	JV Purchase & accounting	Co. buyback of Ord Shs	Trans. costs	Unaudited Pro-Forma Group Balance Sheet
Non-current assets							
Investment property	1,090	0	0	0	0	0	1,090
Inv. property under constr.	27	0	0	0	0	0	27
Plant & equipment	5	0	0	0	0	0	5
Inv. In JV	0	0	15	(11)	0	0	5
Other receivables	3	0	36	0	0	0	39
Derivatives	3	0	0	0	0	0	3
Deferred tax assets	18	0	0	0	0	0	18
	1,145	0	51	(11)	0	0	1,185
Current assets							
Inventory	1	0	0	0	0	0	1
Trade and other receivables	31	(1)	0	0	0	0	30
Cash & short-term deposits	53	53	(51)	0	(2)	(1)	52
	85	52	(51)	0	(2)	(1)	83
Total assets	1,229	52	0	(11)	(2)	(1)	1,267
Current liabilities							
Trade and other payables	39	(1)	0	0	0	0	39
Interest bearing loans	30	0	0	0	0	0	30
	69	(1)	0	0	0	0	68
Non-current liabilities							
Interest bearing loans	598	53	0	0	0	0	651
Preference shares	252	0	0	0	0	0	252
Other payables	15	0	0	0	0	0	15
Deferred tax liabilities	62	0	0	0	0	0	62
	927	53	0	0	0	0	979
Total liabilities	995	52	0	0	0	0	1,048
Net assets	234	0	0	(11)	(2)	(1)	220
No. of ordinary shares, m	591.354						581.503
Less own shares held, m	(14.683)						(64.683)
	576.671						516.821
Basic NAV/ordinary share	41p						42p

Source: Group circular dated 19 April 2021

Unaudited Pro-forma Income Statement

£m	For y/e 31 Dec 20	VTB loan	JV Purchase & accounting	Forex gains and losses	Trans. costs	Unaudited Pro forma Group Income Statement
Gross revenue	154	0	0	0	0	154
Property op. expenses and c.o.s.	(41)	0	0	0	0	(41)
Net rent and related income	113	0	0	0	0	113
Administrative expenses	(25)	0	0	0	0	(25)
Share-based payments + other LTI	(1)	0	0	0	0	(1)
Forex losses	(54)	0	0	(7)	0	(60)
Share of profit of JVs	(0)	0	1	0	0	1
Unrealised loss on inv. prop. revaluations	(5)	0	0	0	0	(5)
Unrealised loss on reval. of inv. prop. under construction	(1)	0	0	0	0	(1)
Operating profit	28	0	1	(7)	(1)	21
Finance income	2	0	2	0	0	4
Finance expense	(75)	(3)	0	0	0	(78)
Profit on re-designation of conv. pref. shares	46	0	0	0	0	46
Pre-tax profit	1	(3)	4	(7)	(1)	(6)
Tax	(15)	0	0	0	0	(15)
Loss after tax	(14)	(3)	4	(7)	(1)	(22)
Foreign currency translation on consolidation	(147)	0	0	3	0	(143)
Total comprehensive loss for the year, net of tax	(161)	(3)	4	(3)	(1)	(165)

Source: Group circular dated 19 April 2021



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