

## Successfully navigating choppy seas

1 September 2020

The interims to end June 2020 reveal operational resilience in a challenging period: 99% collection of rent due during the period plus increases in average and period end occupancy rates. That strong, steady performance by the portfolio during Russia's lockdown confirms growing demand for exactly the kind of logistics space RAV offers. Indeed, that is a resource in relatively short supply due to limited recent development.

### Interim results: underlying performance on track

Headline figures are skewed by forex shifts. Underlying revenues and overheads are mainly RUB, so a fall in average RUB/GBP vs the prior period makes material difference to reported results. Strip out unrealised forex related adjustments taken through the P&L and the picture revealed is a 4.7% fall in underlying pre-tax profit. That shows far more stability and is in line with both forecasts and the ongoing strategy to simplify the group's finance and equity structure.

RAV has already reduced operational exposure to exchange rate volatility by moving the denomination of much of its debt and tenant leases from USD to RUB, its functional currency. Its decision to re-designate its convertibles into new ordinary and preference shares has been approved and will remove any potential for future dilution for ordinary shareholders as well as removing a layer of complexity from the capital structure.

### Valuation: 63p proforma NAV/share

The currency effect is not entirely cosmetic, but its operational impact will diminish as RAV converts the remainder of its leases and debt leases into RUB. At current borrowing rates, the latter could, potentially, also reduce debt service costs.

**As RAV builds resilience into its finances and reduces exposure to forex shifts, the core focus for the valuation can shift back to its warehouse/logistics asset base. That looks exceptionally well-placed in a fast-evolving economy in which eCommerce becomes more influential every year.**

**The H1 portfolio performance would also have been well received in a more 'normal' year. We estimate proforma NAV/share at 63p, post new shares and adverse forex. In a low interest rate environment, reliable income from high-quality assets should progressively be reflected in NAV uplifts.**

### Summary financials

Year end 31 Dec	2017A	2018A	2019A	2020E
Net Operating Income, £m	129.7	118.3	126.5	117.0
Adj. Pre-tax, £m	41.4	25.8	26.2	24.3
Adj. diluted EPS (p)	6.2	4.0	4.7	4.7
Distribution/ord. share (p)*	4.0	3.0	3.5	2.5
Yield* %	13.4	10.1	11.7	8.4
Net asset value / share (p)	59	48	72	63

Source: Group report & accounts and ED estimates \*Distribution paid by tender offer share buy-back  
\*\*Adj. EPS is underlying/operational, shown net of non-cash items including revaluations and forex

### Company Data

EPIC (Ords)	RAV
Ordinary 1p shares, p	29.8
52 weeks Hi/Lo, p	51.8/25.8
Market cap*	£182m

12% 1p Cum. Pref	RAVP
Share price, p	121.5
52 weeks Hi/Lo, p	136 / 82
Issued share cap m	216.19m
Market cap*	£263m

\*Market caps are proforma i.e. include new shares to be issued 30 Sep 2020

### Share Price Ords, p



Source: ADVFN

### Description

Raven Property Group Ltd (RAV) is a Guernsey registered property company specialising in investment and development of high-quality Grade A warehouse complexes in major Russian cities. Its portfolio is let to both Russian and international tenants.

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## Steady as she goes

The interim statement confirms that, despite initial concerns over potential tenant distress as lockdown kicked-in, RAV's portfolio performed broadly as expected in the first six months. Rental receipts were not materially affected, and few tenants ultimately sought assistance from the Russian government's rent deferral scheme. Occupiers whose businesses were hard hit have since resumed paying rent as it falls due.

### Portfolio update

RAV owned 1.89m sqm of warehouse space at the end of June 2020, 49,000sqm of offices, which makes it the leading provider of prime warehouse space in Russia.

#### Asset Locations



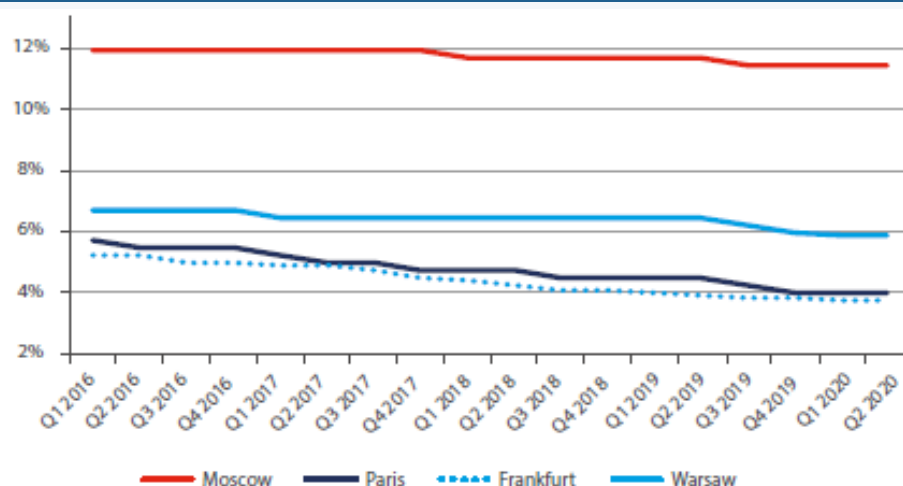
Source: RAV investor presentation

Although the ongoing impact of the coronavirus remains a source of sensitivity, the portfolio continues to perform well. Average H1 occupancy was 92% vs 90% in H1 19, and the actual figure was **93% at the period end**. Market rents remain firm and demand is reflected in the decision by a major tenant like food retailer **X5 Retail Group** to lease another 25,000sqm.

These back up market intelligence which identifies strong domestic demand, but an increasingly limited supply of sophisticated modern warehouse and logistics space.

Rents for dry warehouse space are steady at c RUB 4,000-4,100psm and prime yields remain between 11% and 12%, well above those for comparable markets.

### Warehouse Yields



Source: JLL Research H1 2020

New lettings secured in H1 are set out below:

### Portfolio occupancy – H1 performance / H2 outlook

	SQM	% of total
<b>Aggregate lettable warehouse space</b>	<b>1,891,000</b>	
<b>Activity in H1</b>		
New lettings	140,649	7.44%
Tenants vacated	(66,243)	(3.50%)
Lease renegotiations and extensions	172,419	9.12%
<b>Outlook for H2 (potential)</b>		
Leases due to mature	(141,896)	(7.50%)
Potential lease breaks	(92,018)	(4.87%)
Re-lettings secured on short term basis	43,693	2.31%
Other re-lettings to date	8,777	0.46%
Leases agreed, subject to Letter of Intent or lease renewal negotiations	18,700	0.99%

Source: RAV interims

### Offices also holding up well

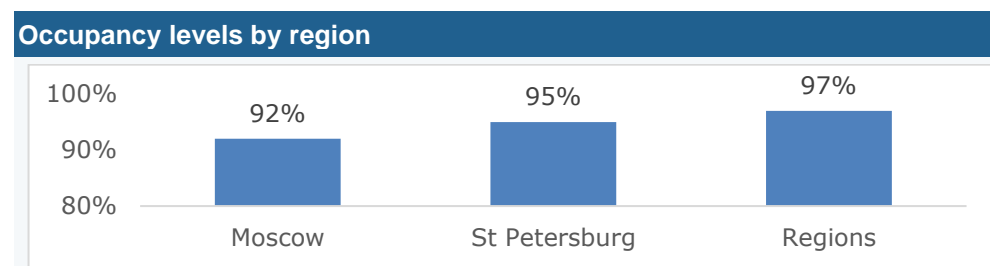
The group's office portfolio in St Petersburg also performed well in H1. RAV let 1,169 sqm of vacant space during the period vs 2,631 sqm of reported tenant exits. It has since let another 3,437sqm of vacant office space post the period end, to a single tenant for ten years.

**Occupancy is currently 98%** and average Rouble rents at end June were RUB 14,641/sqm (FY19: 13,988/sqm).

## Interim results

RAV's headline results were again skewed by translation of RUB revenues/expenses into GBP. Although the pandemic did not significantly affect receipts - over 99% of rents due were received in the first six months - it adversely impacted the oil price and Rouble, with the net impact exacerbated by Euro strength and perceived heightened risk of US sanctions.

Portfolio occupancy was nonetheless strong, revealing strong occupier demand for space within the group's portfolio.



Source: RAV interim presentation

## Underlying performance remains stable

Weaker period end RUB/GBP vs 30 June 2019 generated a £12.5m (unrealised) fall in the portfolio valuation, taken through the P&L. That is not a reflection of underlying performance. Another £23.8m unrealised forex loss (H1 2019: £18.9m profit) related principally to the carried value of the group's Euro denominated debt.

The table below shows adjusted figures before the major impacts of forex movements and shows a more stable underlying performance. On that basis, underlying PTP was £16.8m (H1 19: £17.6m), the margin benefiting from lower overheads and debt service costs. Underlying administrative costs were £10.0m (H1 19: £11.4m). Employee overheads were lower as no bonus was expensed during the period.

Summary Income Statement		
Six months ended 30 June, £m	H119	H120
Net Rent & Related Income	64.3	59.6
Administrative expenses	(11.4)	(10.0)
Share of profits of joint ventures	0.7	(0.1)
<b>Adj. operating profit</b>	<b>53.6</b>	<b>49.5</b>
Net finance charge	(35.9)	(32.7)
<b>Underlying pre-tax profit</b>	<b>17.6</b>	<b>16.8</b>
Share based payments	(0.9)	0.0
Foreign exchange gains/(losses)	18.9	(23.8)
Revaluation surplus/(deficit)	18.2	(12.5)
Other fair value adjustments	(19.3)	(6.3)
Other capital adjustments	(1.0)	(0.9)
<b>Pre-tax profit</b>	<b>33.6</b>	<b>(26.7)</b>
Underlying EPS (p)		
- basic	5.3	(2.2)
- diluted	4.2	(2.2)

Source: RAV interims

The decline in net rent reflects the continued unwinding of foreign currency leases. These related to 17% of portfolio space at end H1 - 22% a year earlier - and the weaker average Rouble exchange rate at 87.3 (H1 19: 84.5).

The underlying net finance cost was £32.7m (H1 19: £35.9m). RUB/EUR weakness increases the cost of servicing outstanding Euro debt, but the proportion of RUB denominated facilities is growing sufficiently fast to fully offset that impact.

### Operational impact of forex volatility is reducing

The functional impact of forex shifts on RAV's underlying business has diminished significantly over the last two to three years. It continues to replace debt with RUB denominated facilities - 59% at end June 2020 from 37% a year ago. The ongoing pace will reflect factors such as facility maturity and RUB strength. In addition, the Central Bank of Russia has reduced its key rate to 4.25% currently (H119: 7.5%). RAV's current average debt service cost is 5.77%.

#### Currency Mix – Total Warehouse Space

	End Jun 2020			End Dec 2019		
	RUB	USD	EUR/ Vacant	RUB	USD	EUR/ vacant
Leases	76%	14%	10%	71%	16%	13%
Average rent per sqm	4,833	160		4,922	158	
Average term years to maturity	4.2	1.6		4.1	1.9	

Source: RAV interims

## Valuation

RAV confirmed its intention to make the final 2019 distribution to ordinary shareholders. A dividend equivalent to 2.25p/share will be distributed by way of 1 for 16 tender offer at 36p per share. **That attractive yield is underpinned by proforma 63p NAV/share**, the reduction vs FY19 reflecting the forex related impact on the balance sheet discussed above, and the broadly neutral capital restructuring effective at the end of September.

Forex remains an important component of any assessment of the group's ability to service its sterling preference shares and cover its distribution to holders of the ordinary shares. An adverse movement may also mean that strong portfolio underlying portfolio performance, including future uplifts in value post increases in ERVs, or declines in investment yields, may not be reflected in GDP NAV/share.

## Simplified equity structure, 8.4% yield, 63p NAV/share

We see RAV's attractions as compelling and relatively simple to define. Their appeal has been somewhat obscured by exposure to both external and stock specific issues over the last few years. With these falling away, the valuation deserves reappraisal.

**Fundamentally, we see significant upside potential from a proven source of reliable rental yields, backed by medium to long term leases in a low interest environment.**

### Warehouse Portfolio Maturities

'000sqm	2020	2021	2022	2023	2024-32	Total
Maturity profile at 1 January 2019	235	316	253	262	633	1,699
Renegotiated and extended	(64)	(89)	(14)	(1)	(5)	(173)
Maturity profile of lease extns	5	17	2	10	139	173
Breaks exercised	11	-	-	(3)	(8)	0
Vacated/terminated	(63)	(1)	(3)	-	-	(67)
New Lettings	18	52	2	1	68	141
Maturity profile as at 30 Jun 2020	142	295	240	269	827	1,773
Maturity profile with breaks	234	538	204	289	508	1,773

Source: Company

In that context, there is potential for independent appraisers to reconsider whether a current valuation yield of c 11% for quality assets in high demand is too generous. **Any uptick in asset values will immediately be reflected in RUB NAV/share.**

The portfolio is heavily (97.5%) weighted towards the property class in highest demand worldwide, with a fifteen-year track record of reliable cash flows. Leases will progressively shift to 100% RUB denomination, with rent subject to annual indexation currently around 5%.

## Largely de-risked business and financial model

RAV has significantly de-risked its business model over the past five years, to the extent that the issues posed by this year's pandemic have arguably been more manageable than those presented during the 2015 currency crisis.

Initiatives to reposition finances have gradually reduced exposure to factors beyond RAV's control and left sufficient working capital to provide flexibility for decisions related to repositioning its leases and debt facilities.

Over the last few years, it has rebalanced the currency exposure of its portfolio and loan book and shored up its finances via the issue of new classes of capital.

The latter left an overly complex equity structure, including potential for significant dilution of ordinary share capital, or the requirement to divert substantial cash to meet an obligation to redeem convertible preference holders at maturity.

Much of that complexity and potential burden will shortly be removed. RAV has obtained approval to re-designate its convertibles and will exchange them for new ordinary and preference shares at the end of September. That will simultaneously enlarge both its ordinary and preference share categories. The latter are both listed on the Official List and admitted to trading on the LSE Main Market.

Approximately 25% of the value of the CPS has been re-designated into Ordinary Shares, the balance into preference shares. The transaction removes concerns regarding potential refinancing of the CPS upon their maturity in July 2026. It also materially simplifies RAV's existing capital structure and reduces potential for dilution upon CPS conversion.

Unlike the CPS the preference shares have no fixed redemption date, and the related dividend entitlement has no fixed end date. The re-designation will have a broadly neutral impact on NAV (set out below). It is however accretive to IFRS measures of EPS.

#### Net Asset Value and sharecount

	31 Dec 2019			30 June 2020			Proforma H1 20		
	NAV £'000s	No. '000s	NAV/ share (p)	NAV £'000s	No. '000s	NAV/ share (p)	NAV £'000s	No. '000s	NAV/ share (p)
Net asset value per share	365,798	480,828	76	279,307	480,828	58	368,904	601,874	61
Convertible pref. shares	217,482	297,225							
<b>Fully diluted NAV per share</b>	<b>583,280</b>	<b>778,053</b>	<b>75</b>	<b>279,307</b>	<b>480,828</b>	<b>58</b>	<b>368,904</b>	<b>601,874</b>	<b>61</b>

Source: RAV interims and Convertible Re-designation Prospectus, Equity Development

Another initiative to remove a perceived share overhang has however lapsed. This was a conditional agreement to repurchase the ordinary (28.5% of total issued as at 31 March 2020) and preference shares (38.9%) held by Invesco Perpetual Asset Management.

The decision not to proceed is a knock-on effect of the uncertainty resulting from Covid-19 and a preference for cash preservation. RAV's dialogue with Invesco continues and it remains keen to find a solution to this perceived stock overhang. The interim statement refers to a possible acquisition by a syndication of the Group and its Executive Management.

## Summary Financials

### Income statement (£m)

12 months to end December	2017	2018	2019	2020e
Net rent and related income	129.7	118.3	126.5	117.0
Administrative expenses	(19.7)	(25.2)	(25.4)	(21.0)
	<b>110.0</b>	<b>93.1</b>	<b>101.1</b>	<b>96.0</b>
Long term incentives	(3.5)	(2.9)	(5.5)	(2.0)
Share of profit of JVs	1.6	1.6	1.3	0.0
<b>Adj. Op. profit (excl. revaluations)</b>	<b>108.1</b>	<b>91.9</b>	<b>96.9</b>	<b>94.0</b>
Net finance charge	(71.7)	(83.3)	(107.6)	(82.0)
<b>Underlying PBT</b>	<b>36.4</b>	<b>8.6</b>	<b>(10.7)</b>	<b>12.0</b>
Tax	(25.2)	(5.8)	(19.0)	(10.0)
Underlying profit after tax	11.2	2.8	(29.7)	2.0
Forex (losses)/gains	(2.5)	(2.5)	27.5	(25.0)
Unrealised profit/(loss) on revaluation	28.2	(121.0)	48.3	(12.5)
IFRS Reported pre-tax profit	68.3	(114.9)	65.1	(25.5)
Tax	(25.2)	(5.8)	(19.0)	(10.0)
Reported profit after tax	43.1	(120.7)	46.0	(35.5)
<b>Adj. PBT*</b>	<b>41.4</b>	<b>25.8</b>	<b>26.2</b>	<b>24.3</b>
<b>Adjusted EPS (p)</b>	<b>6.2</b>	<b>4.0</b>	<b>4.7</b>	<b>4.7</b>
<b>Distribution per share (p)</b>	<b>4.0</b>	<b>3.0</b>	<b>3.5</b>	<b>2.5</b>

### Balance sheet (£m)

As at 31 December 2018	2017	2018	2019	2020e
Non-current assets				
Investment property	1,159	1,175	1,338	1,230
Inv. property under construction	29	31	34	31
Other - incl. JVs	11	32	9	9
Other receivables	4	16	3	3
	<b>1,202</b>	<b>1,254</b>	<b>1,384</b>	<b>1,273</b>
Net cash/(debt)	(429)	(570)	(615)	(592)
Pref/Conv. Pref	(307)	(315)	(328)	(247)
	<b>(736)</b>	<b>(885)</b>	<b>(943)</b>	<b>(839)</b>
Deferred tax	(34)	(33)	(47)	(49)
Other adjustments - incl. net payables	(40)	(39)	(28)	(28)
	<b>(811)</b>	<b>(957)</b>	<b>(1,018)</b>	<b>(916)</b>
Net equity	392	296	366	357
<b>NAV/share (p)</b>	<b>59</b>	<b>48</b>	<b>72</b>	<b>63</b>

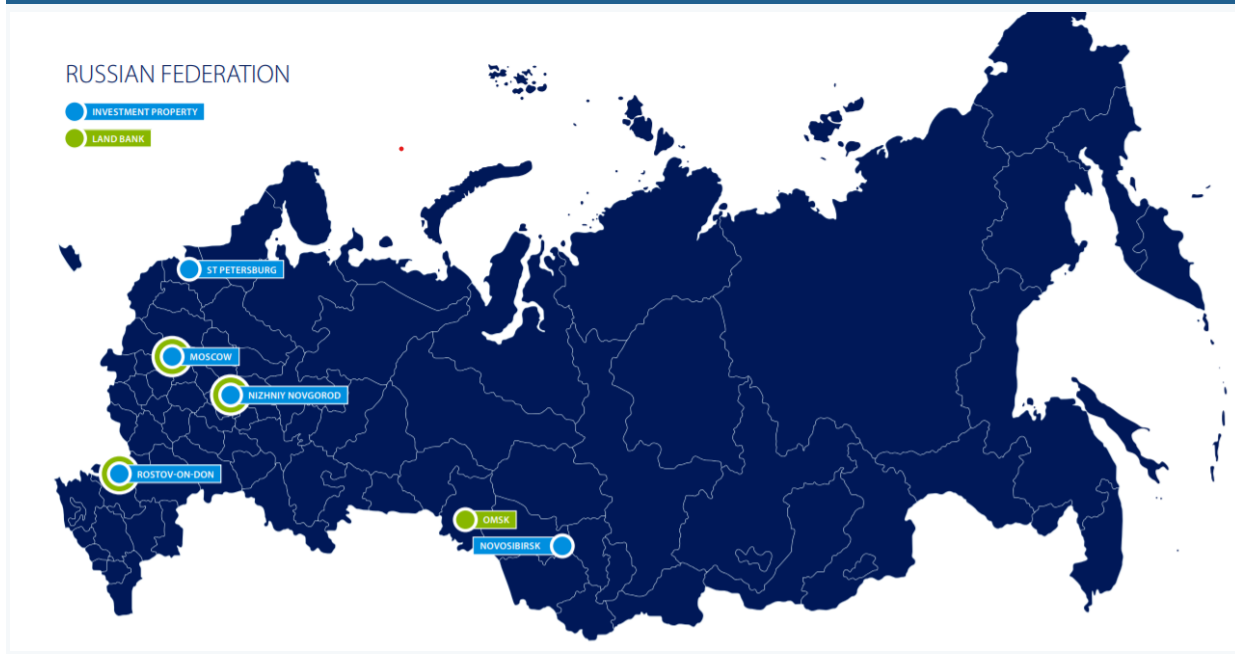
Source: RAV annual reports, ED forecasts

\*Adj. PBT is based on RAV Underlying Earnings. It is net of non-cash movements in portfolio value, forex and derivatives, in order to provide a guide to PBT from ongoing operations



## PORTFOLIO

### Highly selective locations



Source: Company

**Example warehouse: Sever, Moscow 254,000 sqm**



Source: Company

**Example office: Kellermann, St Petersburg 22,000 sqm**



Source: Company



## Investor Access

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