Raven Property Group

Robust trading, rent receipt and occupation

20 July 2020

Raven's positive trading update was reassuringly robust, despite ongoing uncertainty regarding the long-term impact of Covid-19 on the Russian market.

We believe that kind of performance deserves attention, although we plan to reinstate detailed forecasts post (a) the General Meeting scheduled for 31 July, which will decide upon proposals designed to create a simplified capital structure (outlined below) and (b) the interim results due in August.

Raven derives its competitive positioning from a 1.9m sqm portfolio of logistics warehouses. These play a crucial role in Moscow's logistics networks and supply chains, allowing local supermarkets, their suppliers and e-commerce arms to continue to operate during lockdown.

- Rent collection reflects a tenant profile which has largely continued to operate during lockdown restrictions. Raven's warehouse portfolio is currently **93% leased** and it has collected on average **over 96%** of rent due in each month since March.
- Underlying portfolio resilience was confirmed by an independent appraisal carried out by JLL as at 31 May 2020, which recorded **no material movement** in underlying Rouble values vs 31 December 2019.

Market data

According to the statement, local real estate agents forecast continued demand for warehouse space in Moscow and occupancy rates to remain above 95%, as large occupiers seek to build their existing supply chains. That has put a floor under market ERVs (RUB 4,000-4,100 per sqm for dry warehouse space), underpinned by less speculative development (now expected to be below forecast due to the coronavirus).

Despite an unsurprisingly quiet H1 investment market, a 150 bp reduction in the key Central Bank of Russia interest rate (including a 100bps cut in June) should help valuations when investor demand returns.

The Russian government has introduced compulsory rental deferral schemes, mainly targeted at nonessential retail and hospitality industries. This has not materially impacted Raven's portfolio, and it will continue to work with any tenants having difficulty meeting their rent. Raven reported that 3% of rent due has been deferred for hardest hit tenants, with 1% overdue.

Outlook

Raven has tempered its own leasing expectations for the next 18 months. It assumes some sectors will delay planned investment/expansion but sees potential and indeed some evidence that the crisis will accelerate moves to create e-commerce supply chains.

Although its principal markets have eased lockdown restrictions, infection rates remain relatively high, so there remains a risk that restrictive measures may be reintroduced.

Company Data

EPIC (Ords)	RAV
Price	33.7p
52 weeks Hi/Lo	52p / 28p
Market cap	£165m

Share Price, p

Source: ADVFN

Description

Raven Property Group Ltd ('Raven') 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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General Meeting vote on proposal to simplify capital structure

To recap, in April 2020 Raven announced a proposal to re-designate all Convertible Preference Shares into New Ordinary Shares and New Preference Shares.

Management sought to find a structure that will ultimately benefit all i.e. ordinary, convertible and preference shareholders, and has received irrevocable commitments or indications to vote in favour of the resolution from holders of 70.56% of existing Ordinary Shares, and 71.9% of existing Convertible Preference Shares.

Its intention is to:

- Simplify the existing capital structure
- Create greater liquidity in the group's ordinary and preference shares
- Reduce potential dilution in the ordinary shares from future conversion of the convertible preference shares.

The terms of the proposed re-designation will result in materially lower dilution vs the existing conversion rights, which mature in July 2026. The proposal is that c 25% of the value of the convertible preference shares will be re-designated into Ordinary Shares, the balance into Preference Shares. Under current conversion rights, 100% of the value of the Convertible Preference Shares would convert into Ordinary Shares.

It will also remove concerns over any potential refinancing of the Convertible Preference Shares at maturity.

Convertible Bond holders are compensated via the combined value of new Ordinary and Preference shares received, ongoing income from both, and the potential for future market value growth.

According to the Prospectus, this re-designation will be accretive to IFRS Earnings per Ordinary Share.

Assuming the proposal is approved by shareholders at a General Meeting on 31 July, the re-designation will happen effective 30 September 2020, post which the entire Convertible Preference Share class will cease to exist.

If approved, it will also conserve group cash. A previous conditional agreement - announced initially in December 2019 – proposed the off-market purchase of c 42.12m of the group's Convertible Preference Shares from IAM. That will lapse with effect from 31 July 2020. Raven will re-assess the purchase agreements between it and IAM in respect of the potential purchase of 139.68m Ordinary Shares and 41.80m Preference Shares as market conditions settle and make an announcement in this regard when appropriate.

In its FY19 results statement and AGM circular Raven set out its intention to make a final distribution of 2.25p per Ordinary Share via a tender offer buy-back. It has explained that it was reviewing this position due to the uncertainty created by the coronavirus pandemic. It hopes to be able to update the market in this regard when it publishes its half year results in August and with respect to any interim distribution.

Investor Access

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