EDISON

Raven Property Group

Increasing rents and property valuations

FY21 interim results

Real estate

With the Russian economy recovering to pre-pandemic levels and e-commerce activity continuing its strong pace of growth, the Russian warehouse market, in which Raven Property Group is a leading long-term investor, is performing strongly. Low vacancy, a lack of new supply and increased construction costs are driving accelerated rental growth, and this is supporting capital values, despite a significant rise in interest rates.

Year end	NOI* (£m)	PAT** (£m)	EPS*** (p)	DPS (p)	EPRA NRV/**** share (p)	Yield (%)	P/adj NAV (x)
12/19	126.5	15.8	7.7	3.50	83	11.3	0.37
12/20	113.1	19.0	(6.9)	1.25	49	4.0	0.63
12/21e	101.8	13.3	4.1	1.25	61	4.0	0.51
12/22e	104.2	8.3	1.6	1.25	64	4.0	0.49

Note: *Net rental and related income. **Underlying earnings excluding FX as defined in Exhibit 8. ***Fully diluted underlying earnings including FX. ****EPRA net reinstatement value (NRV).

Increasing rents and property valuations

Raven operates in roubles but reports in sterling. In underlying rouble returns, H121 performance was strong. Including high occupancy (93% at end-H121 and 96% today), and an increase in average rouble rents per square meter to RUB5,062 from RUB4,833 in H120, NOI increased from RUB5.2bn to RUB5.4bn. Although the rouble was stable during the period, the average rate versus H120 was c 15% lower, affecting the reported sterling results. In sterling, NOI was 13% lower although underlying earnings improved to £17.3m (H120: £10.4m loss). The balance sheet showed little FX impact and including a c 3% increase in rouble property values, driven by market rent growth, sterling denominated NAV increased by c 13%. NAV per share increased by 25%, further benefiting from accretive share repurchases. This included the ordinary and preference share repurchases from a major investor, removing a substantial share overhand, at 21.6p and 90.8p respectively.

Positive income outlook, tempered by debt costs

We expect a continuation of the positive operating environment, and our updated earnings forecasts include continuing growth in rents and rental income but more than offset by the increase in rouble debt costs. Rouble interest rates have increased from 4.25% to 6.5% ytd and our FY22e underlying earnings are reduced from £14.1m to £8.3m. Positively, rent growth should drive further valuation growth in a supply constrained market, and the shares are geared to this. However, conservatively we have not assumed this, nor that inflation may moderate and interest fall back, nor that higher interest rates may see the rouble strengthen. We provide a sensitivity analysis that indicates that each 1% increase (or fall) in underlying property values adds c 4% to our forecast NAV.

Valuation: Positive total returns the driver

While rising debt costs squeeze income, capital growth is likely to drive near-term returns. Strong growth in H121 net assets per share leaves the ordinary shares on a c 50% discount to our estimated H121 EPRA NRV of 61p per share despite the recent rise in the share price. The preference shares currently yield c 10%.

9 September 2021

Price	**31p**
Market cap	**£176m**
	RUB101/£
Net debt (£m) at 30 June 2021 (including preference shares)	872.3
Gross LTV at 30 June 2021 (secured debt only)	58%
Shares in issue	566.5m
Free float	65.3%
Code	RAV
Primary exchange	LSE
Secondary exchanges	MOEX, JSE

Share price performance

%	1m	3m	12m
Abs	11.3	5.5	2.2
Rel (local)	11.3	4.7	(17.0)
52-week high/low		36p	24p

Business description

Raven Property Group invests mainly in Class A warehouses in Russia let to large Russian and international companies. It also owns commercial office space in St Petersburg and a third-party logistics company in Russia (Rosogistics). The group runs its property investment portfolio with the objective of delivering progressive distributions to shareholders over the long term.

Next events

FY21 period-end	31 December 2021

Analyst

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

Edison profile page

Raven Property Group is a research client of Edison Investment Research Limited

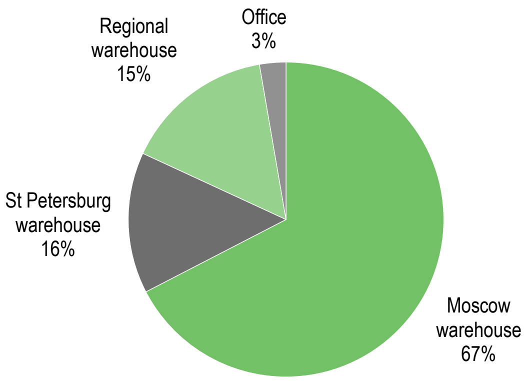
Company description: A leading investor in the Russian logistics warehouse sector

Raven Property Group is a self-managed, long-term investor in modern, Grade A, warehouse assets in Russia, where it has a leading position. At 30 June 2021, the portfolio comprised c 1.8m sqm of logistics warehouse property (of which c 70% is in the Moscow region) and 48k sqm of office property in St Petersburg, with a total portfolio market value of £1.13bn. End H121 portfolio occupancy was a strong 93% but has since increased to 96%. Warehouse tenants are predominantly large Russian or international companies operating mainly across the retail, distribution, manufacturing and third-party logistics sectors, with e-commerce growing quickly in line with market trends. The investment property division is the core of the group's operations, which also include a third-party logistics business in Russia (RosLogistics).[1]

The company's income-focused strategy has remained constant since IPO, but in recent years has adapted to meet the challenges of volatile economic and currency/oil market conditions as well as sanctions. The Russian warehouse market is now performing strongly, supported by strong demand-supply fundamentals, a recovering economy, and continued strong growth in e-commerce activity, in step with most other markets. With warehouse penetration and rents low in an international context we see strong opportunities for this to continue.

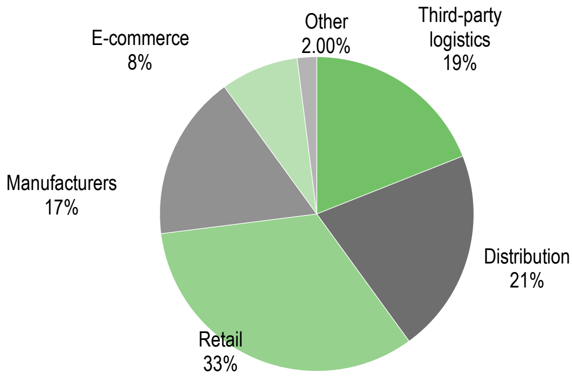
The ordinary shares are listed on the Main Market of the London Stock Exchange (LSE), with secondary listings on the Moscow and Johannesburg stock exchanges. The group also has preference shares that are listed on the LSE.

Exhibit 1: Portfolio split by area



Source: Raven Property Group. Note: At 30 June 2021.

Exhibit 2: Warehouse tenants by sector



Source: Raven Property Group. Note: At 30 June 2021.

Strong underlying H121 performance

With the Russian economy recovering to pre-pandemic levels[2] following stronger than expected Q221 growth, and e-commerce activity continuing its strong pace of growth, the Russian warehouse market is performing strongly. With occupancy at high levels (and increasing further in H221), Raven's underlying rouble performance was strong, with rents and property valuations both increasing. The pandemic had no impact on trading, with full rent recovery in the period and no material outstanding debtors or rent. Although the value of the rouble versus sterling changed little

1 The Raven Mount subsidiary, a UK residential property developer, is immaterial in a group context.

2 Russian GDP declined by 3.1% in 2020 due to the direct and indirect impacts of the COVID-19 pandemic, the sharpest correction since the global financial crisis 11 years ago but a resilient performance compared with many other economies. The Bank of Russia recently raised its 2021 GDP forecast range to 4.0–4.5% from 3.0–4.0%, with 2.0–3.0% over the next two years.

in the period, the average rate was much lower than in H120, masking this strong performance when translated into the sterling reporting currency. Little affected by FX, the balance sheet showed a strong improvement, with net asset value (NAV) increasing c 13% and NAV per share by c 25%, including the benefit of accretive share repurchases. This included a successful conclusion to the purchase of ordinary and preference shares from Invesco Asset Management, partly acquired by a new joint venture (Raven Holdings) between Raven and its senior management as explained on page 7.

Positive letting environment

Headline occupancy of 93% at 30 June was slightly below the 31 December level of 94% but was affected by a 59k sqm (3.3% of the total) lease maturity in May (DSV at Istra). We estimate that average occupancy during the period was higher, and Raven reports that the current occupancy level has already increased to 96% with the re-letting of the DSV space. Management is aiming for a further increase and aims for 'full' occupancy by the end of the year. Demand for space is strong from large e-commerce operators and retailers and existing vacant space or vacancies arising from lease maturities is being quickly re-let. In total, 209k sqm of new lettings were completed in the period with lease extensions amounting to 88k sqm. H221 sees 129k sqm of expiries, of which 72k sqm has already been extended or re-let. With minimal vacant space available in the portfolio, Raven is now in advanced negotiations to extend the larger maturities that will arise in 2022.

Exhibit 3: Warehouse portfolio leasing summary

000 sqm	2021	2022	2023	2024	2025–32	Total
Maturity profile at start of year	357	204	275	262	677	1,775
Breaks exercised	27	(15)	0	(4)	(8)	0
Renegotiated/extended	(48)	(18)	(5)	(9)	(8)	(88)
Maturity profile of renegotiations	0	6	1	8	73	88
Vacated/terminated	(229)	0	0	0	0	(229)
New lettings	22	3	1	23	160	209
Maturity profile at end of year	**129**	**180**	**272**	**280**	**894**	**1,755**
Maturity profile at year-end including breaks	**161**	**249**	**394**	**373**	**578**	**1,755**

Source: Raven Property Group

The much smaller office portfolio is effectively fully occupied, with 98% occupancy and performed in line with management's expectations in H121 with all tenants continuing to meet their rental obligations in full. There are no lease breaks in H221 but there are maturities of 17k sqm (of the total 48k sqm) in 2022, or 20k including lease breaks.

Rents are increasing

JLL estimates vacancy of 2.8% in Moscow, which represents c 70% of Raven's warehouse portfolio, and even lower in St Petersburg. It expects take-up 2021 take-up to exceed new completion (c 2.0m sqm versus c 1.1m sqm) as it has done each year since 2014. Given the tightness in the market, rental growth is accelerating and Moscow prime rents are forecast to increase towards RUB5,000 per square metre by year-end compared with c RUB4,500 currently. This would represent a similar nominal level to 2014 but still below the pre-financial crisis peak. Raven's average rouble rents increased to RUB5,062 per square metre at 30 June compared with RUB4,833 a year earlier and RUB4,973 at 31 December. The transition from legacy US dollar leases with above-market rents that has dragged on income is now largely complete such that increasing rouble rents should drive the top line. By area, US dollar leases now account for 3% of the total compared with 14% a year earlier and 8% at 31 December.

Market conditions are supporting valuation growth

Raven's portfolio value increased by c 3% in rouble terms in H121 driven by increasing market rents, and management is very optimistic that this will continue. Raven estimates that the cost of constructing a Grade A warehouse has risen by at least 15% in the last 12 months, affected by the rising cost of materials and a reduction in the foreign labour force due to COVID-19 lockdowns and the closing of Russia's international borders. Many foreign temporary construction workers returned to their homes in the middle of 2020 and are yet to return. This is having an impact on developer margins and is restricting new development activity despite continuing demand for space and high levels of occupancy. Valuation yields are high in Russia (JLL estimates Moscow prime yields at c 9.75%) compared with more developed markets, making it more likely for rent growth to drive valuation growth. In the long term, as the investment market in Russia develops, there is scope for yields to tighten.

Exhibit 4: Raven portfolio valuation yields*

	2020	2019
Moscow warehouse	8.50–11.60%	8.50–11.70%
St Petersburg warehouse	12.30–12.50%	12.20–12.30%
Regional warehouse	11.75–12.20%	11.75–12.20%
St Petersburg office	11.75–12.00%	11.75–12.00%

Source: Raven Property Group. Note: *The figures above represent the discount rates applied to the cash flows from the properties, derived from the prime cap rates published by JLL and adjusted for individual property factors.

The rouble stabilised but the lower average rate affected the sterling earnings presentation

To a very large extent, Raven is now a rouble-denominated operating business that reports in sterling and makes shareholder distributions (ordinary and preference share) in sterling at group level. At the level of the rouble-based operating subsidiaries, the main exceptions to this are the small number residual US dollar-denominated leases (now reduced to just 3% of total warehouse space) and euro-denominated secured debt (38% of total secured debt).

Against sterling, the end-H121 closing rate was little changed from end-FY20, while the H121 average rate was c 15% below H120. Comparing the rouble with the euro, the end-H121 closing rate was almost 6% higher, while the average rate was c 15% below H120.

Exhibit 5: Weaker average rouble negatively affects sterling earnings but with little balance sheet impact

	30-Jun-21	31-Dec-20		30-Jun-20	
Period end (balance sheet):	**H121**	**FY20**	**H121 vs H220**	**H120**	
Rouble/£	100.20	100.43	0.2%	86.36	
£/€	1.16	1.10	-5.1%	1.10	
Rouble/€	86.20	91.05	5.6%	78.68	
Period average (income statement):	**H121**	**FY20**		**H120**	**H121 vs H120**
Rouble/£	103.11	92.57		87.30	-15.3%
£/€	1.15	1.13		1.14	-0.7%
Rouble/€	89.54	82.38		76.31	-14.8%

Source: Raven Property Group data, Edison Investment Research

In the income statement, the impact of a weaker rouble in H121 was:

- At the subsidiary level, an increase in the cost of euro-denominated debt compared with H120, and;
- an unrealised foreign exchange gain arising from a decline in the rouble value of the euro debt compared with end-FY20.
- At the group level, a reduction in the sterling equivalent of the rouble income, partly offset by a similar reduction in rouble costs.

Due to the modest change in the rouble value versus sterling between end-H121 and end-FY20, there was only a modest impact on the sterling balance sheet.

Interest rate increases will weigh on H221 but may support the rouble

From a low point of 2.3% in February 2020, Russian inflation has climbed to 6.5% in July 2021 (unchanged on June) with indications that it is yet to peak.[3] The Russian Central Bank has responded with a 2.25% increase in its key rate from 4.25% at the beginning of the year to 6.5% today, including a significant 1.0% increase on 23 July. The impact of these rate increases will be more fully felt in H221, and beyond if inflation does not moderate, allowing rates to fall. The effect will in part be mitigated by indexation of rouble rents. We have assumed an unchanged 6.5% in our forecasts through to FY23. More positively, the rate increases demonstrate the flexibility that the central bank has in tackling inflation, having entered the pandemic with strong internal and external financial balances, providing room for fiscal stimulus, and foreign exchange and gold reserves at multi-year highs. The increase in interest rates as well as oil prices have seen the rouble stabilise versus sterling and even begin to strengthen. Any further strengthening would be beneficial to Raven's financial performance reported in sterling.

Exhibit 6: Rouble versus sterling

Source: Refinitiv, 3 September 2021

Exhibit 7: Brent crude oil price in US$

Source: Refinitiv, 3 September 2021

Details of the H121 financial results

In Exhibit 8 we provide a summary of the H121 underlying financial performance and a reconciliation to the statutory IFRS results.

[3] The Bank of Russia recently increased its 2021 inflation forecast to 5.7–6.2% but expects it to fall to 4.0–4.5% in 2022, close to the 4.0% forecast. Its forecast of an average 6.0–7.0% key rate in 2022 may be in part be seen as aimed at managing inflation expectations.

Exhibit 8: Summary of H121 financial performance

£m unless stated otherwise	H121			H120			H121/H120	
	Underlying	Capital & other	Reported IFRS	Underlying	Capital & other	Reported IFRS	Underlying	Adjustments
Investment property	49.5	0.0	49.5	55.8	0	55.8	-11.3%	
Roslogistics	2.3	0.0	2.3	3.8	0	3.8	-38.3%	
Net rental and related income	**51.9**	**0.0**	**51.9**	**59.6**	**0.0**	**59.6**	**-13.0%**	
Administrative expenses	(9.4)	(1.8)	(11.3)	(10.0)	(0.9)	(10.9)	-6%	Depreciation, abortive project costs
Share based payments and other long term incentives	(0.5)	(1.4)	(1.9)	0.0	0.0	0.0		Excludes non-cash settled
Share of profit of JV	(0.1)	2.1	2.0	(0.1)	0.0	(0.1)		
Net finance expense	(29.2)	(0.4)	(29.6)	(32.7)	(6.3)	(39.1)	-11%	Loan/issue fees & derivative value change
Profit before tax, FX, property revaluation, other non-recurring	**12.7**	**(1.5)**	**11.2**	**16.8**	**(7.2)**	**9.6**	**-26%**	
FX gain/(loss)	8.9	0.0	8.9	(23.8)	0.0	(23.8)		
Property revaluation	0.0	29.5	29.5	0.0	(12.5)	(12.5)		Unrealised revaluation gain
Profit on disposal of JV		0.2	0.2	0.0	0.0	0.0		
Profit before tax	**21.6**	**28.2**	**49.8**	**(7.0)**	**(19.7)**	**(26.7)**		
Tax	(4.3)	(4.3)	(8.6)	(3.4)	(1.6)	(5.1)		Tax in respect of adjustments
Profit after tax	**17.3**	**23.9**	**41.2**	**(10.4)**	**(21.3)**	**(31.7)**		
Profit after tax, excluding FX	**8.4**	**23.9**	**32.3**	**13.4**	**(21.3)**	**(7.9)**		
Per share items								
Basic EPS (p)	3.08		7.32	(2.16)		(6.59)		
Diluted EPS (p)	3.05		7.32	(2.16)		(6.59)		

Source: Raven Property Group data

We focus first on the company's underlying basis of earnings, which is the basis for its distribution policy. It adjusts IFRS earnings for a range of non-cash items including depreciation, unrealised valuation movements in respect of properties and derivative instruments, amortisation of the convertible preference share redemption premium, long-term incentive payments that are settled in shares, and non-recurring items.

Underlying profit after tax increased to £17.3m in H121 compared to a loss of £10.4m in H120. This included a significant positive swing in FX movements, relating primarily to translation of euro debt within the operating subsidiaries, from a negative £23.8m to a positive £8.9m. Excluding the operating subsidiary FX movement, the underlying profit, in sterling, was slightly lower in H121 (£8.4m) compared with H120 (£13.4m), largely reflecting group level FX translation into sterling. Within this:

- Although rouble denominated net rental and related income increased from RUB5.2bn in H120 to RUB5.4bn in H121, in sterling terms it was 13% lower (£51.9m versus £59.6m). In underlying terms, increasing rouble rents and higher average occupancy were partly offset by the unwinding of legacy US dollar-denominated leases (at above current market rents), a process that is now largely complete.
- Underlying administrative expenses were lower than in the prior year, in part benefiting from the translation of costs incurred in roubles.
- Underlying net finance costs also reduced, despite an increase in the weighted average cost of bank interest to 6.37% (2020: 5.48%), in part due to a positive translation of rouble debt costs into sterling. Having previously declined by more than 300bp, the key official Russian interest rate has increased from 4.25% at the beginning of 2021 to currently 6.5%, in response to rising inflation. The full impact of this increase will be seen in H221, as discussed below.

IFRS net earnings were £41.2m in H121 compared with a loss of £31.7m in H120. Compared with underlying earnings the main differences were:

- An increase in the value of the investment properties, from RUB110.3bn at end-FY20 to RUB113.7bn, or from £1.10m to £1.13m, generating a gain of £29.5m (H120: £12.5m loss).
- Share settled long-term incentive costs of c £1.8m and exceptional costs of £1.25m related to the share repurchase by the newly formed JV.
- Net finance cost adjustments including a positive fair value movement in respect of interest rate hedging instruments, non-cash amortisation of loan arrangement fees, and interest rate payments/receipts linked to the new joint venture Raven Holdings (RH).
- As all cash flows from RH will be used to pay down associated debt, Raven's share of the JV profit is excluded from underlying earnings but included within IFRS earnings. We discuss RH in more detail below.
- IFRS NAV per share increased very strongly, from 40p to 50p, of which around half was generated by the property revaluation gain (net of deferred tax), with a notable contribution from FX (predominantly within the operating subsidiaries), and a positive impact from the Invesco Asset Management (IAML) share repurchases. No update on the EPRA net asset position was provided with the interims but we estimate that EPRA net reinstatement value (EPRA NRV) increased by a similar order of magnitude to IFRS NAV, from 49p at end-FY20 to 61p.

Exhibit 9: Estimated reconciliation of H121 NAV movement

	£m	Pence per share
Opening shareholders' equity	**233.7**	**40.1**
H220 distribution paid	(5.1)	(1.3)
IAML repurchase for cancellation	(2.1)	0.3
Raven share of JV share repurchase	(10.8)	1.6
Revaluation of investment properties	29.4	5.6
Change in fair value of interest rate derivatives	3.6	0.7
FX movements	11.5	2.2
Other comprehensive earnings	(0.8)	(0.1)
Other	5.1	1.1
Closing shareholders' equity	**264.5**	**50.1**

Source: Edison Investment Research

- Raven intends to make one shareholder distribution in respect of FY21, as was the case in FY20, to be decided at year end.

Remaining stock overhang removed

Since 2019, Raven has worked to remove a stock overhang relating to two of its largest shareholders at the time, Woodford Investment Management and IAML.

In July 2019, using available cash resources, it repurchased 89.1m ordinary shares (14.8% of the outstanding at the time) at a significant discount to NAV. This comprised all of the shares owned by Woodford (72.1m/12%) and part of the ordinary shares owned by IAML (17.0m/2.8%), leaving IAML with more than 30% of the remaining ordinary shares, more than 40% of the preference shares and a significant holding in the convertible preference shares. All outstanding convertible preference shares were redesignated as new ordinary and new preference shares in **July 2020**, simplifying the capital structure. In **October 2019**, Raven repurchased an additional 10.0m ordinary shares from IAML, and in **December 2019** announced that it had conditionally agreed to repurchase all remaining ordinary shares held by IAML funds (28.5% of the outstanding at the time). Due to the market uncertainty created by the pandemic during 2020 this agreement lapsed, and Raven sought an alternative structure to remove any remaining stock overhang, allowing for the repurchase of all ordinary shares and preference shares owned by IAML funds.

Raven Holdings joint venture

H121 Raven reached an agreement with IAML that enabled it to dispose of all its remaining c 156.7m ordinary shares (c 27% if the pre-transaction total) at 21.6p (compared with the end-FY20 NAV per share of 40p) and c 63.5m preference shares (c 15% of the outstanding) at 90.8p. Raven first repurchased from IAML and cancelled 9.8m ordinary shares. Of the remaining ordinary and preference shares, the majority (100m ordinary shares and 32.5m preference shares) were acquired by a newly created joint venture vehicle, Raven Holding (RH), jointly owned by Raven and its executive directors and senior management. The balance of ordinary shares (c 46.8m) and preference shares (c 31.1m) were successfully placed in the market. Raven's investment in RH was funded from the proceeds of a new five-year €60m loan with VTB Bank priced at 5.65% over Euribor ('the VTB loan'); it acquired a 50% stake for £15.4m and issued a loan to RH ('the on-loan') of £35.7m at a 6.65% rate of interest. Raven's £15.4m stake was matched by the executive directors and senior management who contributed to the JV c 53m ordinary that they already owned.

Raven Holdings: Cash neutral but NAV enhancing

The RH repurchase has removed a significant share overhang, has limited the cash outlay for Raven and has a much smaller impact on group gearing than would be the case if the company had repurchased all the shares directly. The structure of the transaction and its accounting treatment is complex but the essential points are that RH is treated as a JV under IFRS accounting and Raven equity accounts for its share of the results. There is no cash flow impact on Raven as all the cash flows earned in relation to the entire 100m ordinary shares and 32.5m preference shares (by way of distributions or tender offers) are used to repay debt (with RH repaying the on-loan from Raven and Raven using the cash flow to repay its loan from VTB).

Within RH, the repurchased preference shares are carried at market value and the repurchased ordinary shares at book value. After 'day 1' accounting adjustments, and including its c £2m share of H121 JV profits, Raven's share of the RH net assets was c £17.4m and its balance sheet presentation includes:

- an 'Investment in JV' of c £7.0m (its share of the JV net assets less the cost of its share of the RH ordinary shares (50m), which for accounting reasons are included by Raven within treasury shares at cost (adjusted for the impact of participation in distributions by way of tender offers); this was £10.4m at end-H121;
- Raven's equity account is adjusted for the cost of the 50m treasury shares as above; an
- the outstanding balance of the on-loan to the JV is reflected in long-term debtors.

The JV has a five-year life, after which it will be unwound. Assuming no change in the market value of either the ordinary shares or preference shares, we forecast an 11–12% pa increase in the value of Raven's investment, with an additional final uplift if the market value of the ordinary shares is above the 21.6p book value. As the returns generated during the life of the JV are non-cash, they are excluded from Raven's calculation of 'underlying earnings'.

Ordinary shares strongly geared to increasing property values and earnings

Raven is funded by a mix of floating rate secured debt, unsecured perpetual fixed coupon cumulative preferred preference shares, and equity. With an equity/assets ratio of c 20%, the ordinary share NAV is geared to changes in investment property (88% of total assets) values, both positive and negative. This is particularly the case in relation to underlying (rouble denominated) asset values but also applies to FX driven changes in the sterling value, partly offset by sterling revaluation of rouble debt. This was seen clearly in H121 when a c 3% uplift in rouble property values contributed around half the c 25% increase in NAV per share. Meanwhile, although the equity/assets ratio is low, the average secured debt gross loan to value ratio (LTV) remains comfortably within the average banking covenant requirement of c 70%. A material cash balance (c £53m at end-H121) provides additional support. The ordinary shares would also fully benefit from a closing of the share price discount to NAV.

Given the fixed charge nature of the preferred shares, the ordinary shares also have a geared exposure to underlying earnings.

Exhibit 10: Funding structure as at 30 June 2021

	£m	
Secured debt	(673)	52%
Preference shares	(252)	19%
Equity	(264)	20%
Other liabilities	(117)	9%
Total equity and other liabilities	**(1,306)**	**100%**
Investment properties and properties under development	1,149	88%
Cash	53	4%
Other assets	158	8%
Total assets	**1,306**	**100%**
Secured debt loan to value ratio (LTV)*	59%	
Equity/assets ratio	20%	

Source: Raven Property Group data. Note: *The LTV calculation includes adjustment to the secured debt shown above in respect of unamortised loan arrangement fees and is based on investment properties at market value before the adjustment for lease incentives in the carried value shown above.

The further revaluation gains expected by management are not reflected in our forecasts

The further property revaluation gains expected by management would be expected to have a materially positive impact on NAV and capital value returns to ordinary shareholders. Given the difficulty in predicting revaluation movements with any accuracy, particularly given the relatively smaller size of the Russian property investment market, and because of the significant sensitivity of NAV to any change, we prefer to show the potential impact in a sensitivity analysis. Our published forecasts do not include assumed property revaluation and are thus potentially very conservative.

Exhibit 11: Sensitivity of end-FY21 EPRA NRV per share forecast to property revaluation

Like for like revaluation movement*	EPRA net reinstatement value per share (p)	% change in NRV versus forecast
+5%	72	18%
+4%	70	14%
+3%	68	11%
+2%	66	7%
+1%	64	4%
Forecast = unchanged	**61**	**0%**
-1%	59	-4%
-2%	57	-7%
-3%	55	-11%
-4%	53	-14%
-5%	50	-18%

Source: Edison Investment Research

Forecasts and valuation

Our forecasts are based on the end-H121 £/RUB rate

Our forecasts are based on the spot FX rates at 30 June 2021, from which there has subsequently been no material movement. We therefore assume no additional FX movements in H221 and beyond, in either the income statement or the balance sheet.

Net rental and related income

For the core property investment business, our forecasts for net rental and related income (NOI) are slightly increased, reflecting accelerating rent growth and a slightly increased occupancy rate, partly offset by a faster than previously assume run-off of US dollar-denominated warehouse rents. We forecast occupancy to increase from the current 96% to 97% by end-FY21 and to remain at this level through FY22 and FY23 (previously 96%). We assume an increase in average rouble rents from RUB5,062 per square metre at end-H121 to RUB5,150 at end-FY21 and rising steadily to c RUB5,800 by end-FY23, or c 6% pa, benefiting from reversion to increasing market rents and the indexation of existing rouble leases.

For Roslogistics we forecast slightly lower NOI than previously, reflecting a more selective approach to contracts, offset by a higher EBIT margin.

Exhibit 12: Net rental and related income

Period ending 31 December (£m)	Current forecast			Previous forecast*		Change	
	FY21e	FY22e	FY23e	FY21e	FY22e	FY21	FY22
Property investment gross revenues	126.3	128.5	133.9	124.2	126.1	1.7%	1.9%
Property investment net operating income	**97.0**	**99.4**	**103.6**	**95.5**	**97.0**	**1.5%**	**2.5%**
Roslogistics gross revenues	11.6	12.0	12.3	12.0	12.6	-3.2%	-4.7%
Roslogistics net operating income	**4.7**	**4.8**	**4.9**	**4.8**	**5.1**	**-1.8%**	**-4.7%**
Group total							
Group gross revenues	137.9	140.5	146.1	136.2	138.7	1.3%	1.3%
Group net rental and related income	**101.8**	**104.2**	**108.5**	**100.3**	**102.0**	**1.4%**	**2.2%**

Source: Edison Investment Research. Note: *FY23 not previously forecast.

Group underlying forecasts

In the income statement we expect the sharp increase in Russian interest rates and the average cost of borrowing to have a greater impact in H221 than it did in H121, more than offsetting the positive development in underlying operational performance. Management firmly expects this positive operating environment to further lift property valuations and NAV, and if this occurs our forecasts for NAV growth and total returns will be proven highly conservative.

We have assumed no increase from the current 6.5% central bank rate, nor have we assumed any decline in FY22 and FY23 as may be expected if inflation subsides in line with central bank expectations. Including a margin over bank rates, we assume an 8.25% cost of rouble debt and a 4.5% cost of euro debt, giving a blended average c 7.4%. Higher interest costs will weigh on near-term underlying net profit and cash flow and we have reduced our expectations distributions to c 1.25p per share (previously 2.5p), in line with FY20.

Largely reflecting the H121 uplift, our NAV forecasts are materially increased and may materially rise further if property valuations increase as management expects. As described above, we have not forecast any further growth in property valuations despite our expectation that rents will continue to rise.

Exhibit 13: Summary of underlying earnings and forecast changes

Period ending 31 December (£m)	Current forecast			Previous forecast*		Change	
	FY21e	FY22e	FY23e	FY21e	FY22e	FY21	FY22
Gross revenue	137.9	140.5	146.1	136.2	138.7		
Property operating expenditure & cost of sales	(36.2)	(36.3)	(37.7)	(35.9)	(36.7)		
Net rental and related income	**101.8**	**104.2**	**108.5**	**100.3**	**102.0**	**1.4%**	**2.2%**
Administrative expenses	(16.9)	(19.2)	(19.5)	(19.8)	(20.0)		
Share based payments and other long-term incentives	(0.5)	(0.5)	(0.5)	(1.0)	(1.0)		
Share of profit of joint ventures	(0.1)	0.0	0.0	0.0	0.0		
Operating profit before FX	**84.2**	**84.5**	**88.5**	**79.5**	**81.0**	**5.9%**	**4.4%**
Net finance expense	(62.6)	(68.1)	(69.6)	(59.0)	(59.0)	6.2%	15.5%
FX gain/(loss)	8.9	0.0	0.0	10.0	0.0		
Profit before tax	**30.5**	**16.4**	**18.9**	**30.5**	**22.0**	**-0.2%**	**-25.4%**
Tax	(8.3)	(8.1)	(8.1)	(7.6)	(7.9)		
Effective tax rate	27.1%	49.5%	43.0%	25.0%	35.8%		
Underlying profit after tax	**22.2**	**8.3**	**10.8**	**22.9**	**14.1**	**-3.0%**	**-41.3%**
Underlying profit after tax excluding FX	**13.3**	**8.3**	**10.8**	**12.9**	**14.1**	**3.2%**	**-41.3%**
Basic underlying EPS (p)	4.11	1.63	2.22	4.13	2.51	-0.3%	-34.8%
Diluted underlying EPS (p)	4.09	1.63	2.22	4.13	2.51	-0.8%	-34.8%
Basic NAV per share (p)	51	52	55	41	44	22.7%	19.0%
EPRA NRV per share (p)	61	64	67	51	55	18.9%	14.9%

Source: Edison Investment Research. Note: *FY23 not previously forecast.

Our IFRS earnings forecasts are shown in Exhibit 17 at the back of this report and also include a relatively small amount of depreciation, unrealised valuation movements in respect of properties and derivative instruments (we assume none prospectively), long-term incentive payments that are settled in shares (none assumed prospectively), the contribution from the RH JV and one-off items.

Our forecasts indicate a continuing healthy cash position and a stable LTV in respect of the secured debt. If property valuations increase, LTV should reduce, providing Raven with added flexibility to deploy its financial resources.

Secured debt funding

At the end of H121, secured bank borrowing amounted to £679m, including c £6.1m of unamortised loan arrangement fees carried on the balance sheet within payables. The borrowings comprised 18 different debt facilities, with an average cost of 6.37%, prior to the 1.0% increase in Russian official rates on 23 July 2021. The weighted average term to maturity was 3.8 years, with only 1% (one facility) maturing before end-2022 and 14% (three facilities) maturing before end-2023. Significant maturities (seven facilities/46% of total secured debt) occur in 2024. Compared with the investment property portfolio value (including properties under development) of c £1,134m, the gross LTV was 58%.

As Raven's property leases have transitioned towards rouble-denominated leases, so too has its secured debt funding. Dollar debt has been replaced initially with a mix of rouble- and euro-denominated debt, 62% and 38% respectively at end-H121. We expect a full transition to rouble debt over time although the recent rise in Russian interest rates will slow this process, particularly as the euro debt is hedged at a materially lower strike price. Secured debt amortisation (£12.3m in H121) is focused on the euro-denominated debt and represents an ongoing shift away from euro debt as it is refinanced.

The secured bank debt is floating rate, but Raven has entered a series of interest rate derivative financial instruments that cap its interest rate exposure to the underlying benchmark borrowing rates, before the lending margin. Rouble debt cost is hedged at a weighted average strike rate of 7.6% (a little more than 1.1% above current levels) with a weighted average term to maturity of 2.8 years; euro debt cost is hedged at a weighted average strike rate of 0.9% with a weighted average term to maturity of 3.7 years.

Valuation

The ordinary shares have responded strongly to the interim results, and rightly so in our view. However. the c 11% increase in the share price from c 28p per share to c 31p is less than the H121 increase in NAV. This leaves the shares at an almost 40% discount to H121 IFRS NAV per share and a c 50% discount to our estimate of H121 EPRA NRV.

The group strategy remains income focused and despite sometimes volatile economic and market conditions, it has consistently made distributions to ordinary shareholders. These are made through share repurchases effected by way of tender offers, providing shareholders with a choice of receiving cash (in return for shares tendered) or retaining their shareholding and benefiting from an increased ownership share in the company. Since listing, it has repurchased and cancelled more than 400m ordinary shares. Although the recent increase in Russian interest rates will squeeze near-term distributable cash flow, we expect continuing distributions at a reduced level, representing a prospective implicit yield of c 4%. Over the medium term we would expect cash flow and distributions to benefit from rental growth and/or a retracement of interest rates.

Raven has a high-quality portfolio of modern assets in a market where demand continues to outstrip supply. It is benefiting from similar retail and distribution trends, with a strong growth in e-commerce, as more developed international markets. Starting from a lower level of e-commerce penetration it is arguable that its growth prospects may be stronger, mitigating some of the risks that attach to an emerging market. While we would not attempt to draw a direct comparison between Raven and the UK quoted warehouse stocks listed below, mostly larger and operating in more developed markets, we do think it worth highlighting the strong share price performance of the group (all trading at close to 12-month highs) and the high P/NAV of the sector relative to the broader UK listed property sector (we estimate a little below 1.0x).

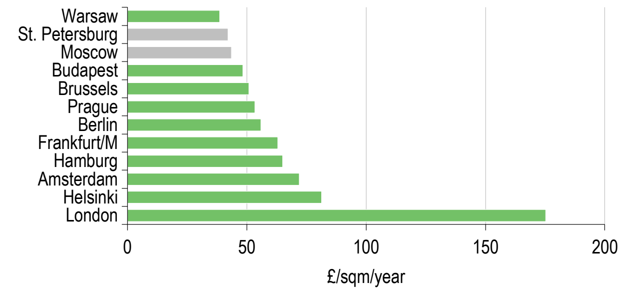
Exhibit 14: European warehouse stock valuation and performance data

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Tritax Big Box	233	4,002	1.20	2.8	7%	15%	50%	-4%
Tritax Eurobox	116	492	0.89	4.3	-4%	5%	35%	-7%
Segro	1271	15,139	1.40	1.8	2%	18%	34%	-3%
LondonMetric	254	2307	1.33	3.4	-1%	7%	10%	-4%
Raven Property	**31**	**176**	**0.50**	**4.1**	**13%**	**6%**	**4%**	**-16%**

Source: company data, Refinitiv prices as at 9 September 2021. Note: *Based on last reported EPRA NAV/NTA. **Based on trailing 12-month dividends declared.

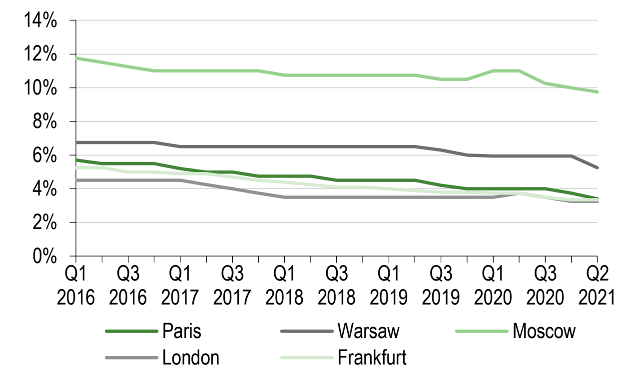
Compared with the wider European market, Russian warehouse rents remain at relatively low levels, while yields are significantly higher. Notwithstanding the relative lack of development of the Russian property investment market, this is a positive indicator for value creation over the medium to longer term. In the near term, against a positive fundamental sector backdrop and compared with international markets and local interest rates, Russian warehouse valuations appear very well underpinned with upside potential.

Exhibit 15: Selected European warehouse rents



Source: Raven Property Group H121 results presentation,

Exhibit 16: Selected European warehouse yields



Source: Raven Property Group H121 results presentation,

At a price of 113p, the yield on the cumulative non-redeemable preference shares is a little more than 10% based on the fixed yield of 12% on the nominal value of 100p. The preference shares have the added security of ranking ahead of the ordinary shares for distributions, but do not provide the upside exposure to underlying income, property valuations and any closing of the ordinary share discount to NAV.

Sensitivities: The economy and geopolitics

The global economy is in a period of recovery from the impacts of the COVID-19 pandemic, but there is significant uncertainty about the durability of that recovery amid a general increase in inflationary pressures. The Russian economy is particularly sensitive to oil prices (recently improving) and faces continuing political and economic tension with the United States. Although US-led sanctions have continued to increase, the Russian economy has significantly adapted and this may also mitigate the effects of external economic events. These country-specific risks have the impact of reinforcing normal sector risks including occupancy and rent levels, funding access and cost, and property valuations. We highlight the following:

- **Warehouse supply-demand**. Although supported by long-term structural shifts in distribution, and a strengthening economy supporting a positive demand supply balance in the Russian warehouse market, positive for rents and property valuations, this could change.
- **Volatility in FX markets.** As discussed above, as a primarily rouble-operating business reporting in sterling, changes in the value of the rouble have a negative impact on reported income. NAV. A significantly weaker rouble would negatively affect the company's ability to service its remaining euro-denominated secured debt and sterling-denominated preference shares.
- **Gearing.** The gross LTV of the secured borrowings is c 58%, although property valuations are relatively low by international standards, yields high and rents increasing. Given the significant funding provided by fixed-rate, sterling-denominated preference shares, the asset and income gearing of ordinary shareholders is significantly increased.
- **The Russian legal system and its laws and practice** in respect of taxation, foreign investment and trade, and legal ownership may be subject to changes or to changes in interpretation in ways that cannot be anticipated.

Exhibit 17: Financial summary

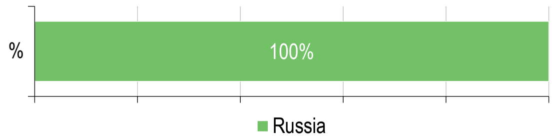
Period ending 31 December (£m)	2017	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Gross revenue	177.0	162.6	175.4	153.8	137.9	140.5	146.1
Property operating expenditure & cost of sales	(47.3)	(44.4)	(48.9)	(40.7)	(36.2)	(36.3)	(37.7)
Net rental and related income	129.7	118.3	126.5	113.1	101.8	104.2	108.5
Administrative expenses	(22.1)	(25.2)	(25.4)	(24.7)	(19.5)	(20.7)	(20.9)
Share based payments and other long-term incentives	(3.5)	(2.9)	(5.5)	(1.2)	(2.3)	(1.5)	(1.0)
FX gains/(losses)	6.1	(2.5)	27.5	(53.7)	8.9	0.0	0.0
Share of profit of joint ventures	1.6	1.6	1.3	(0.1)	3.2	2.1	2.2
Operating profit/(loss) before realised/unrealised property gains (EBIT)	111.8	89.4	124.3	33.4	92.1	84.2	88.8
Realised/unrealised gains on investment property	28.2	(121.0)	48.3	(5.6)	29.5	0.0	0.0
Operating profit	140.1	(31.6)	172.6	27.8	121.6	84.2	88.8
Net finance expense	(71.7)	(83.3)	(107.6)	(72.6)	(64.6)	(71.3)	(72.8)
Gain on cancellation of Convertible Preference shares				45.7			
Profit before tax	68.3	(114.9)	65.1	1.0	57.0	12.9	16.0
Tax	(25.2)	(5.8)	(19.0)	(15.1)	(12.6)	(8.1)	(8.1)
Profit after tax	43.1	(120.7)	46.0	(14.2)	44.4	4.8	7.9
Company underlying profit after tax	43.4	20.0	43.2	(34.7)	22.2	8.3	10.8
Company underlying profit after tax, excluding FX	37.2	22.5	15.8	19.0	13.3	8.3	10.8
Basic IFRS EPS (p)	6.50	(18.81)	8.16	(2.80)	8.23	0.94	1.62
Fully diluted IFRS EPS (p)	6.27	(18.81)	7.50	(2.80)	8.19	0.94	1.62
Basic company underlying EPS (p)	6.54	3.12	7.67	(6.86)	4.11	1.63	2.22
Fully diluted company underlying EPS (p)	5.68	3.08	6.35	(6.86)	4.09	1.63	2.22
Distributions per ordinary share (p)	4.00	3.00	3.50	1.25	1.25	1.25	1.25
Period end number of shares exc own held (m)	655.4	612.5	480.8	576.7	517.1	495.5	474.9
Average number of shares (m) - basic	663.5	641.6	563.9	506.3	539.6	506.3	485.2
Average number of shares (m) - fully diluted	936.4	649.4	876.7	506.3	542.1	506.4	485.3
BALANCE SHEET							
Investment property	1,159.2	1,175.4	1,337.7	1,089.8	1,124.0	1,129.0	1,134.0
Other non-current assets	74.7	102.6	70.5	54.8	99.5	98.6	97.6
Total non-current assets	1,233.9	1,278.0	1,408.2	1,144.5	1,223.5	1,227.6	1,231.6
Cash & equivalents	197.1	73.5	68.1	53.1	47.1	39.2	34.5
Other current assets	59.0	44.4	42.0	31.5	30.6	32.2	33.6
Total current assets	256.2	117.8	110.1	84.6	77.7	71.5	68.1
Interest bearing loans & borrowings	(78.9)	(75.6)	(60.2)	(29.6)	(26.0)	(26.0)	(26.0)
Other current liabilities	(79.5)	(66.2)	(51.7)	(39.2)	(34.9)	(36.8)	(38.4)
Total current liabilities	(158.3)	(141.8)	(111.9)	(68.8)	(60.9)	(62.8)	(64.3)
Interest bearing loans & borrowings	(547.4)	(567.9)	(623.2)	(597.8)	(645.0)	(642.0)	(638.8)
Preference shares	(108.3)	(109.3)	(110.3)	(251.5)	(252.6)	(253.0)	(253.4)
Convertible preference shares	(198.9)	(206.1)	(217.5)	0.0	0.0	0.0	0.0
Other non-current liabilities	(85.4)	(75.2)	(89.6)	(77.3)	(81.4)	(81.4)	(81.4)
Total non-current liabilities	(939.9)	(958.4)	(1,040.6)	(926.6)	(979.0)	(976.4)	(973.6)
Net assets (and shareholders' equity)	391.8	295.6	365.8	233.7	261.3	259.9	261.8
Adjust for:							
Fair value adjustment in respect of interest rate derivatives	N/A	N/A	(2.6)	(2.5)	(2.5)	(2.5)	(2.5)
Deferred tax in respect of investment properties	N/A	N/A	64.6	56.5	56.5	56.5	56.5
EPRA net reinstatement value (NRV))			427.8	287.7	315.3	313.9	315.8
IFRS NAV per share (p)	60	48	76	41	51	52	55
Fully diluted IFRS NAV per share (p)	59	48	75	40	51	52	55
EPRA net reinstatement value (NRV) per share	N/A	N/A	83	49	61	64	67
CASH FLOW							
Net cash generated from operating activity	98.0	96.1	93.1	77.6	75.7	75.7	80.1
Property investment	(161.3)	(86.5)	(24.0)	(14.3)	(5.6)	(5.0)	(5.0)
Other investing activity	7.3	14.3	7.8	4.3	(46.7)	6.0	5.3
Net cash generated from investing activity	(154.0)	(72.2)	(16.2)	(9.9)	(52.3)	1.0	0.3
Bank borrowing costs paid	(49.5)	(50.0)	(54.7)	(43.1)	(44.4)	(49.5)	(50.0)
Preference/convertible preference share dividends paid	(21.0)	(24.0)	(23.8)	(24.6)	(25.7)	(25.9)	(25.9)
Net own shares (acquired)/disposed	(11.3)	(28.3)	(53.3)	(9.2)	(13.7)	(6.2)	(5.9)
Debt drawn/(repaid)	78.8	(20.8)	50.9	8.9	56.7	(3.0)	(3.2)
Other financing activity	97.5	(16.7)	0.8	(2.2)	(2.5)	0.0	0.0
Cash flow from financing activity	94.5	(139.8)	(80.1)	(70.1)	(29.6)	(84.5)	(85.0)
Change in cash	38.5	(115.9)	(3.2)	(2.3)	(6.2)	(7.9)	(4.7)
Opening cash	160.6	197.1	73.5	68.1	53.1	47.1	39.2
FX/other	(2.0)	(7.7)	(2.1)	(12.7)	0.1	0.0	0.0
Closing cash	197.1	73.5	68.1	53.1	47.1	39.2	34.5
Secured bank debt	(626)	(643)	(683)	(627)	(671)	(668)	(665)
Preference shares & Convertible Preference shares	(307)	(315)	(328)	(252)	(253)	(253)	(253)
Net (debt)/cash, including Pref. & Conv. Pref.	(736.2)	(885.4)	(943.0)	(825.8)	(876.4)	(881.7)	(883.6)
LTV on secured debt	52.6%	53.3%	50.1%	56.1%	58.3%	57.8%	57.3%

Source: Raven Property Group historical data, Edison Investment Research forecasts

Contact details

La Vieille Cour
La Plaiderie
St. Peter Port
Guernsey
GY1 6EH
+ 44 (0) 1481 712955
www.ravenpropertygroup.com

Revenue by geography*



*Non-Russian revenues are immaterial.

Leadership team

Non-executive chairman: Sir Richard Jewson

Sir Richard is a former managing director of the Jewson timber and building merchant and was chairman of its holding group, Meyer International, until 1993. He has since served as a non-executive director and chairman on a number of public companies, including Savills, Anglian Water and currently Tritax Big Box REIT (as chairman) and Temple Bar Investment Trust (NED).

Executive deputy chairman: Anton Bilton

Anton Bilton was the founder of The Raven Group. He has also been founder and director of three other companies that have floated on the AIM market of the LSE. He is non-executive chairman of Sabina Estates. Anton is an economics graduate from City University in London.

Group chief executive: Glyn Hirsch

Glyn Hirsch qualified as a chartered accountant with Peat, Marwick Mitchell & Co in 1985 and, until 1995, he worked in the corporate finance department of UBS (formerly Phillips & Drew), latterly as an executive director specialising in UK smaller companies. From 1995 until 2001, he was chief executive of CLS Holdings, the listed property investment company, a former director of Citadel Holdings, the specialist French property investor and former chairman of Property Fund Management, the listed property fund management business. He is a non-executive director of Sabina Estates.

Group chief financial officer: Mark Sinclair

Mark Sinclair is a chartered accountant and spent 18 years at BDO Stoy Hayward, a leading professional services firm in the UK. He was a partner in the London Real Estate Group, responsible for a portfolio of large property companies, both listed and private. He joined Raven Mount in June 2006 as finance director of Raven Russia Property Management, the former property adviser to the company, and joined the board of Raven Property Group (formerly Raven Russia) in March 2009.

Chief operating office: Colin Smith

Colin Smith qualified as a chartered accountant with BDO Stoy Hayward and, prior to joining the company, was a director in the audit and assurance division of the chartered accountant practice of BDO in Guernsey, having joined BDO in 1994. Colin has also been a non-executive director of a number of investment funds and companies.

Principal ordinary shareholders (at 30 July 2021)	(%)
Raven Holdings, directors and related parties*.	29.13
Quilter Investors	23.46
Schroder Investment Management	10.96
JO Hambro	8.15
Progressive Capital Partners	3.58
BlackRock Investment Management	1.54
Legal & General Investment Management	1.38
Dowgate Capital	1.08
Hargreaves Lansdown Asset Management	1.02
Fidelity Clearing Canada	0.92
Credit Suisse	0.79

*Raven Holdings is jointly owned by the company and six executives and senior managers of the group.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia