

Raven Property Group

Positive developments obscured by FX

FY20 interim results & outlook

Real estate

10 September 2020

Price **30p**

Market cap **£146m**

£/RUB95

Net secured debt (£m) at 30 June 2020 (including preferred and convertible preferred shares) 944.2

Gross LTV at 30 June 2020 (secured debt only) 54.3%

Shares in issue 489.7m

Free float 89%

Code RAV

Primary exchange LSE

Secondary exchange MOEX/JSE

Share price performance



% 1m 3m 12m

Abs (6.1) (19.4) (26.6)

Rel (local) (5.8) (15.8) (13.1)

52-week high/low 52p 28p

Business description

Raven Property Group (formerly Raven Russia) invests mainly in Class A warehouses in Russia let to large Russian and international companies. It also owns three office buildings in St Petersburg, a third-party logistics company in Russia (RosLogistics) and a very small residential development company in the UK (Raven Mount).

Next events

Share re-designation effective 30 September 2020

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

While headline figures are again affected by FX movements, underlying performance was robust in H120 against the backdrop of a challenging operating environment. As a growing and essential part of the supply chain, all of Raven's warehouse properties continued to operate during COVID-19, occupancy increased and more than 99% of rents were collected. Although the pandemic continues to cloud the economic outlook, warehouse demand-supply fundamentals continue to be robust.

Year end	Net revenue* (£m)	Adj earnings** (£m)	Adj EPS** (p)	DPS (p)	NAV/share (p)	Yield (%)	P/NAV (x)
12/18	118.3	20.0	3.1	3.00	48	10.2	0.61
12/19	126.5	43.2	7.7	3.50	76	11.9	0.39
12/20e	113.3	(19.3)	(4.0)	2.25	44	7.6	0.67
12/21e	106.4	14.0	2.7	2.25	45	7.6	0.66

Note: *Net rental and related income. **Adjusted earnings and EPS excluding valuation movements, depreciation, share-based payments and exceptional items.

Robust H120 performance

Raven is now primarily a rouble operating business, but continues to report in sterling. While rouble weakness had a negative impact on reported financials in H120 and has continued since, the underlying performance was very robust. Occupancy increased to 93% from 90% at end FY19, offsetting in rouble terms the expected continuing drag from the run-off of legacy US dollar leases. Rouble property valuations were stable despite the continuing decline in Russian interest rates, and with the key interest rate at 4.25%, prime yields of 11–12% look increasingly attractive. In sterling terms, underlying PBT before FX movements was £16.8m (H119: £18.9m), but IFRS net earnings swung to a loss of £31.7m from a profit of £26.2m. NAV per share was 58p compared with 76p at end FY19. The company will now proceed with the final FY19 distribution of 2.25p by way of a tender offer on the basis of one in 16 shares at 36p a share.

Uncertain forecasting environment

Changes to our forecasts primarily reflect continued rouble weakness and allow for the re-designation of convertible preferred shares into new ordinary and preference shares, effective 30 September. We assume the current spot rate of £/RUB98 giving a H220 average of £/RUB97 vs £/RUB87.3 in H120. In underlying terms, we expect further modest occupancy gains to end-FY21, stable rouble net revenue (despite further US dollar lease run-off), well contained costs and a benefit from lower borrowing costs. We have assumed no property revaluation movements, but believe the prospects are positive based on market fundamentals and the decline in Russian interest rates. Using the end-H120 £/RUB rate would lift our FY21e adjusted earnings by more than 70% to £35.3m and NAV per share to 66p.

Valuation: High yield and discount to NAV

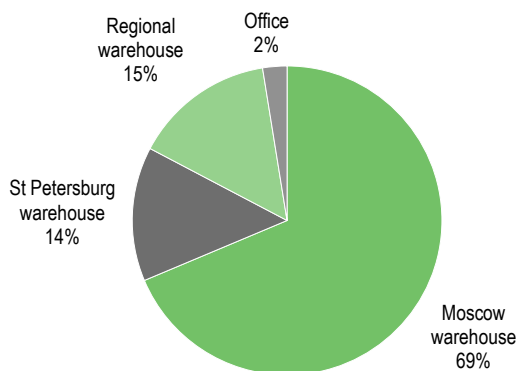
Based on the FY21e distribution, the ordinary share yield is 7.6% and benefits fully from any narrowing of the significant discount to NAV/share, while being highly geared to NAV changes. The preference shares (RAVP) yield is c 10%.

Leading investor in Russian logistics warehouse sector

Raven Property Group, founded in 2005, is a self-managed investor in modern, Grade A, Russian warehouse assets through acquisition and development. At 30 June 2020, the portfolio comprised c 1.9m sqm of logistics warehouse property (of which c 70% is in the Moscow region) and c 50k sqm of office property in St Petersburg and is valued at £1.3bn. At end H120, the portfolio was 93% let to predominantly large Russian or international companies operating mainly across the retail, distribution, manufacturing and third-party logistics sectors, with e-commerce growing quickly from a small base and representing an increasing share (6% at H120 v 4% at end-FY19). The group comprises the core investment property division, a third-party logistics business in Russia (RosLogistics) and an immaterial UK residential property developer (Raven Mount).

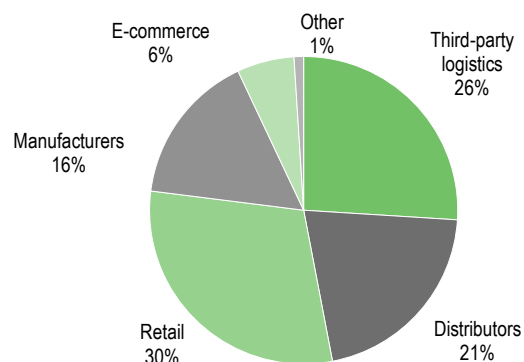
The ordinary shares are listed on the main market of the London Stock Exchange (LSE), with secondary listings on the Moscow and Johannesburg stock exchanges. The group also has preference shares and redeemable convertible preference shares listed on the LSE. Shareholders recently voted to re-designate the convertible preference shares into new ordinary and new preference shares, effective 30 September 2020. This simplification of the capital base should be positive for liquidity in the ordinary and preference shares, and removes uncertainty surrounding conversion.

Exhibit 1: Portfolio split by area



Source: Raven Property Group. Note: At 30 June 2020.

Exhibit 2: Warehouse tenants by sector



Source: Raven Property Group. Note: At 30 June 2020.

Income-focused strategy

Raven is the leading long-term investor in Grade A logistics warehouses with the aim of growing rental income and progressive shareholder distributions. Warehouse space per capita in the large Russian market remains relatively low by European standards, while logistics demand is benefiting from similar modern retailing trends that have been seen globally, with e-commerce demand continuing to expand. The property investment market in Russia is fragmented and immature, but the total value of transactions increased by 41% to \$4.1bn in 2019. Domestic buyers remained the largest part of the market, with western capital almost non-existent, foreign investment instead coming from China and the Middle East. A broadening and deepening of the investment market would be a welcome development that could be expected to support valuations. Prime Russian warehouse yields of 11–12% are well above more developed international markets and compare favourably with Russian official interest rates at 4.25% and on a declining trend. 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. Most significantly, the group has effectively completed its transition to a rouble-denominated business model with legacy US dollar leases accounting for just 14% of warehouse space at end FY19 and US dollar-denominated debt completely refinanced.

Robust H120 performance

While headline figures are again affected by FX movements, underlying performance was robust in H120 against the backdrop of a challenging operating environment. As a growing and essential part of the supply chain, all of Raven's warehouse properties continued to operate during COVID-19, occupancy increased and more than 99% of rents were collected. Although the pandemic continues to cloud the economic outlook, warehouse demand-supply fundamentals continue to be robust.

Rouble weakness impacted on sterling 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 residual US dollar-denominated leases (14% of the warehouse total by space, but more by gross rental income; we estimate c 25%) and euro-denominated secured debt (41% of total secured debt), both of which we expect to decline further. As a result, changes in the value of the rouble impact on reported earnings and net asset value as reported in sterling. During FY19, the strength of the rouble versus sterling had a positive impact on income and NAV, but the subsequent COVID-19 inspired financial market volatility, oil price weakness and continuing geopolitical tensions have seen the rouble weaken significantly, during H120 and since.

Against sterling, the end-H120 closing rate was c 6% below end FY19, while the H120 average rate was c 3% below H119. Compared with the euro, the end-H120 closing rate was c 12% lower than end FY19, while the average rate was c 3% below H119.

Exhibit 3: Rouble weakness affected the results presented in sterling

	H119	FY19	H120
Period end (balance sheet):			
US\$/£	1.27	1.31	1.23
Rouble/£	79.91	81.15	86.36
£/€	1.11	1.17	1.10
Period average (income statement):			
US\$/£	1.29	1.26	1.26
Rouble/£	84.51	80.75	87.30
£/€	1.14	1.13	1.14

Source: Raven Property Group

In the income statement, the impact of rouble weakness was:

- At the subsidiary level, an increase in the cost of euro-denominated debt and an unrealised foreign exchange loss on the value of that debt.
- At the group level, a reduction in the sterling equivalent of the rouble income, substantially offset by a similar reduction in rouble costs.

In the balance sheet, the main impact is on the translation into sterling value of rouble-denominated net assets, primarily the investment property portfolio and rouble-denominated debt.

Key H120 financial highlights

Exhibit 4: Summary of H120 financial performance

£m unless stated otherwise	H120			H119			FY19/FY18	Adjustments
	Underlying	Adj	Reported IFRS	Underlying	Adj	Reported IFRS	Underlying	
Investment property	55.8	0	55.8	60.2	0	60.2	-7%	
RosLogistics	3.8	0	3.8	4.1	0	4.1	-6%	
Net rental and related income	59.6	0.0	59.6	64.3	0.0	64.3	-7%	
Administrative expenses	(10.0)	(0.9)	(10.9)	(11.4)	(1.0)	(12.4)	-12%	Depreciation, abortive project costs
Share based payments and other long-term incentives	0.0	0.0	0.0	0.0	(0.9)	(0.9)		Excludes non-cash settled
Share of profit of JV	(0.1)	0.0	(0.1)	0.7	0.0	0.7		
Gain on disposal of JV	0.0	0.0	0.0	0.0	0.0	0.0		Disposal gain
Net finance expense	(32.7)	(6.3)	(39.1)	(35.9)	(19.3)	(55.2)	-9%	Loan/issue fees & derivative value change
Profit before tax, FX, and property revaluation	16.8	(7.2)	9.6	17.6	(21.1)	(3.5)	-5%	
FX gain/(loss)	(23.8)	0.0	(23.8)	18.9	0.0	18.9		
Property revaluation	0.0	(12.5)	(12.5)	0.0	18.2	18.2		Unrealised revaluation gain
Profit before tax	(7.0)	(19.7)	(26.7)	36.6	(3.0)	33.6		
Tax	(3.4)	(1.6)	(5.1)	(4.2)	(3.2)	(7.4)		Tax in respect of adjustments
Profit after tax	(10.4)	(21.3)	(31.7)	32.4	(6.2)	26.2		
Per share items								
Basic EPS (p)	(2.16)		(6.59)	5.31		4.30	-141%	
Diluted EPS (p)	(2.16)		(6.59)	4.16		3.89	-152%	
Distribution per share (p)			0.00			1.25	-100%	
Basic NAV per share (p)			58			67	-13%	
Diluted NAV per share (p)			58			67	-13%	

Source: Raven Property Group data

On the company's underlying earnings basis, H120 performance was robust before the negative year-on-year impact of unrealised foreign exchange movements, comprising:

- Net rental and related income was c 7% lower in H120 compared with H119 (£59.6m versus £64.3m), with the continued unwinding of legacy US dollar-denominated leases (at above current market rents) accounting for around half of the decrease and the translation impact into sterling for the balance.
- Rent collection remained high with more than 99% of rents due collected in the period. A small amount of rent is subject to agreed deferral (RUB119m compared with H120 gross rents of c £5,000m), most of which is expected to be collected by the end of the year, and in a very few cases, discounts have been provided to struggling tenants that will amount to RUB22.8m for the year.
- Lower administrative expenses were driven by lower employment costs, with no bonuses accrued in H120.
- Underlying net finance costs reduced to £32.7m from £35.9m in H119, benefiting from an increasing share of rouble-denominated debt and falling rouble interest rates, with a positive translation effect into sterling, partly offset by a negative translation effect on remaining euro-denominated debt costs. The key official Russian interest rate has fallen by 3.25% over 12 months and 1.5% over six months to the current 4.25%.
- Underlying profit before tax and unrealised foreign exchange movements were c 4.5% lower at £16.8m (H119: £17.6m), with the drop in income substantially offset by lower administrative expenses and financing costs.
- The unrealised foreign exchange loss of £23.8m (H119: profit of £18.9m) mainly relates to the movement in the carrying value of the euro-denominated debt in the Russian subsidiaries. As a

result of the £42.7m swing in the unrealised FX result, there was an underlying loss before tax of £7.0m in H120 compared with a profit of £36.6m in H119.

Compared with IFRS earnings, the main adjustments to underlying earnings relate to 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 (no impact in H120), and other non-recurring items.

- In rouble terms, there was little underlying movement in property valuations (-0.3%). Including this underlying movement (the negative translation effect of £83.7m is captured within the other comprehensive income adjustment), property improvement investment of £8.8m and movements in lease incentive adjustments, the reported revaluation loss was £12.5m (H119: profit of £18.2m).
- The underlying tax charge of £3.4m primarily relating to the operations of the Russian subsidiaries and withholding tax payments on overseas transfers within the group, while the IFRS tax charge of £5.1m also includes deferred tax movements in relation to property valuation movements.
- The IFRS net loss was £31.7m (FY19: profit of £26.2m), while other comprehensive income also included a net foreign currency translation adjustment of negative £54.8m resulting from rouble weakness. Sterling net assets were £279.3m (end FY19: £365.8m) and basic and diluted NAV per share was 58p (end FY19: 76p basic and 75p diluted; H119: 67p).
- The cash position remained strong, increasing to £85.0m from £68.1m at end FY19, including additional bank debt drawdown of c £20m, net of repayments and loan amortisation. The loan to value ratio for the secured bank debt was 54.3%.
- The H219 distribution of 2.25p per share, payment of which was deferred by the company due to the global uncertainty, will now proceed by way of a tender offer on the basis of one in 16 shares at 36p per share.
- Discussed in detail below, the re-designation of convertible preference shares into new ordinary and new preferred shares, approved by shareholders in July, will take effect on 30 September 2020.

Key operational developments

Raven Property's portfolio of 1.89m sqm of Grade A warehouse space (and 40,000 sqm of office space) operated successfully in H120 despite the COVID-19 pandemic and lockdown. With logistics networks being an essential part of the supply chain, all the warehouse assets remained in operation and, as noted above, cash rent collection was not significantly affected. Portfolio occupancy and average occupancy improved further during the half, with occupier demand benefiting from the shift towards e-commerce, while speculative development activity has in many cases been deferred.

- **Portfolio occupancy increased to 93% from 90% at the end of 2019**, while average occupancy was 92% in H120 compared with 90% in H119. New lettings of warehouse space in H120 amounted to 141k sqm with a further c 173k sqm of existing leases renegotiated and extended, including a renewal of c 66k sqm and simultaneous new letting of 25k sqm, both for 10 years, to X5 Retail Group (the leading Russian food retailer) in Moscow. Vacated space amounted to c 67k sqm, including one significant tenant in March (18.3k sqm). H220 lease maturities amount to 142k with 92k sqm of potential lease breaks. Management is expecting c 121k sqm of maturing tenants and c 10k sqm of breaks to vacate, but hopes to further increase occupancy by year end. It has already successfully re-let c 44k sqm of the space to be vacated to Wildberries (the largest Russian online retailer) on a short-term basis for e-commerce fulfilment, while an additional c 21k sqm of new lets and lease extensions have been completed and more than 17k sqm is the subject of letters of intent.

Exhibit 5: Warehouse leasing summary

000 sqm	2020e	2021e	2022e	2023e	2024–32e	Total
Maturity profile at 1 January 2020	235	316	253	262	633	1,699
Renegotiated/extended	(64)	(89)	(14)	(1)	(5)	(173)
Breaks exercised	11	17	2	10	139	
Maturity profile of renegotiations	5	0	0	(3)	(8)	(6)
Vacated/terminated	(63)	(1)	(3)	0	0	(67)
New lettings	18	52	2	1	68	141
Maturity profile at 30 June 2020	142	295	240	269	827	1,773
Maturity profile with breaks	234	538	204	289	508	1,773

Source: Raven Property Group

- **Rouble-denominated leases now account for 76% of total warehouse space**, up from 71% at end 2019, with the share of US dollar-denominated rents reducing to 14% of the total (end FY19: 16%). Voids and a small amount of space let on euro-denominated leases account for the balance. The average rouble warehouse rent is RUB4,833 per sqm, with a weighted average term to maturity of 4.2 years. The average US dollar rent is \$160 per sqm with a weighted average term to maturity of 1.6 years.

Both the warehouse and office markets in which Raven operates are now effectively rouble markets and we expect Raven's remaining US dollar leases to fully unwind over the next three years (1.6 years is an average of longer and shorter maturities). At the period-end exchange rate, the average US dollar rent is equivalent to c RUB11,200, more than double the average rouble-denominated rent. In part, this premium reflects the high-spec nature of much of the space (eg cold store units) and so a direct comparison is not entirely valid. Nevertheless, the continued unwinding of long-term dollar contracts will act as a drag on revenues which management seeks to mitigate through void reduction and indexation of rouble leases, and possibly acquisitions, with the potential for market rent growth to provide additional support. Rouble leases are indexed to Russian CPI, but may also specify a minimum level. The average indexation of Raven's rouble-denominated leases at end FY19 was c 5% pa, above the c 3.4% year-on-year increase in CPI reported in July 2020.

- The St Petersburg office portfolio performed well in the context of the pandemic and lockdown. End-period occupancy was lower at 90% compared with 93% at end FY19, although c 1.2m sqm of vacant space was successfully let with maturities of c 2.6m sqm. Average rouble rent per sqm increased to 14,641 from 13,988 at end FY19.
- The portfolio (including properties under development) was externally valued by Jones Laing LaSalle (JLL) at £1.3bn. As noted above, there was little change in the underlying rouble valuation of the portfolio (-0.3%) despite the significant reduction in Russian official benchmark interest rates (by 3.5% to 4.25% over 12 months, of which 1.5% was in H120). JLL notes the uncertain market conditions resulting from the pandemic and that pending more certainty and market transaction evidence it has taken a prudent approach.

Exhibit 6: Selected warehouse valuation inputs

Selected valuation inputs	Cap rates		ERV (rouble per sqm)*	
	H120 & 2019	2018	H120 & 2019	2018
Moscow warehouse	10.25–11.25%	10.5–11.50%	3,700–4,500	3,500–3,800
St Petersburg warehouse	11.50%	11.75%	3,900–4,150	3,800
Regional warehouse	11.50%	11.75%	3,800–4,200	3,800
St Petersburg office	11.0–12.0%	11.25–12.25%	11,789–12,491	10,976–12,366

Source: Raven Property Group. Note: *Estimated rental value.

The Russian economy and warehouse market

Economy relatively well positioned to manage challenge

Although Russian GDP growth was a modest 1.3% in 2019 (2018: 2.5%) it was accelerating towards year end. Q120 growth was 1.6%, reinforcing hopes that 2020 would see a revival on the back of large infrastructure modernisation projects. Those hopes were dashed by the COVID-19 pandemic, which first affected the economy in February/March through a sharp reduction in the value of Russian exports, particularly linked to the collapse in oil prices. This was followed in April/May by the domestic shutdown in an effort to control the spread of the virus. Preliminary reports indicate an 8.5% contraction in Q220 GDP, within the range of official expectations. Compared with the last oil price crash, the Russian financial position appears to be in a significantly better position, entering the pandemic with twin budget and external surpluses, and foreign exchange and gold reserves at multi-year highs. While the floating rouble has seen the currency decline to mitigate the effects of the external economic shock, strong internal and external financial balances have provided room for fiscal stimulus and for interest rates to decline. Inflation has picked up a little from a year-on-year low of 2.3% in February to 3.6% in August, but the key policy interest rate has fallen 3.25% over a year to the current 4.25%.

Exhibit 7: Rouble versus sterling



Source: Bloomberg, 7 September 2020

Exhibit 8: Brent crude oil price in US\$



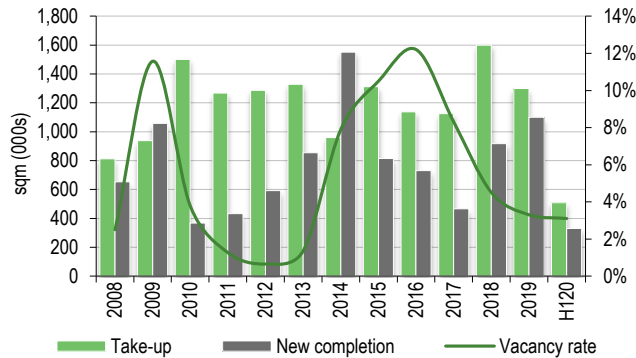
Source: Bloomberg, 7 September 2020

Warehouse market

Russia is a large economy with good potential for long-term growth. In that context, warehouse space per capita remains relatively low by European standards, while logistics demand is benefiting from similar modern retailing trends that have been seen globally, with e-commerce demand continuing to expand.

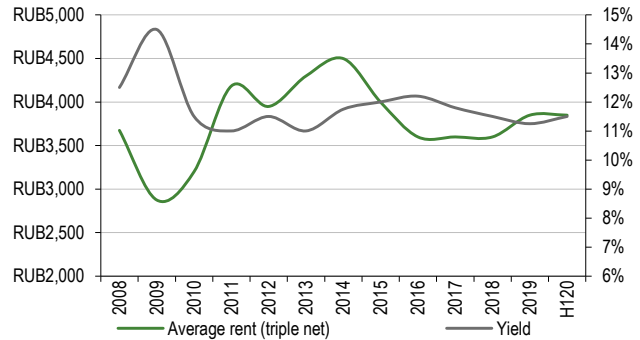
After continuing to improve through 2019 and into the early part of 2020, demand-supply conditions in the warehouse market appear to have remained robust, despite the impact of the pandemic, with a good level of occupier demand and an increasingly tight supply of good-quality, modern logistics and warehouse space. In both the Moscow and St Petersburg markets, vacancy has reduced and prime warehouse rents have improved over the past three years. Prime rents sit at around the RUB4,000–4,100 per sqm level, while prime yields remain in the region of 11–12%. Despite the economic shock of the pandemic, occupier demand for warehouse space appears to have remained robust, while speculative developments have in many cases been deferred.

Exhibit 9: Moscow warehouse supply vs demand and vacancy



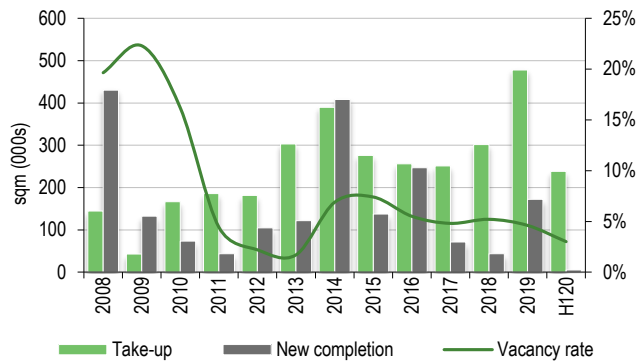
Source: Raven Property Group H120 results presentation. JLL Research

Exhibit 10: Moscow prime warehouse rents and yields



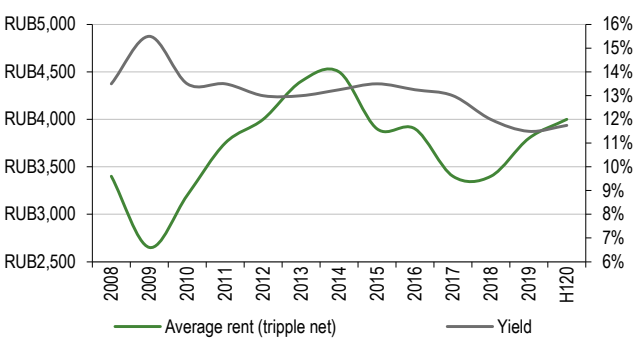
Source: Raven Property Group H120 results presentation. JLL Research

Exhibit 11: St Petersburg warehouse supply vs demand and vacancy



Source: Raven Property Group H120 results presentation. JLL Research

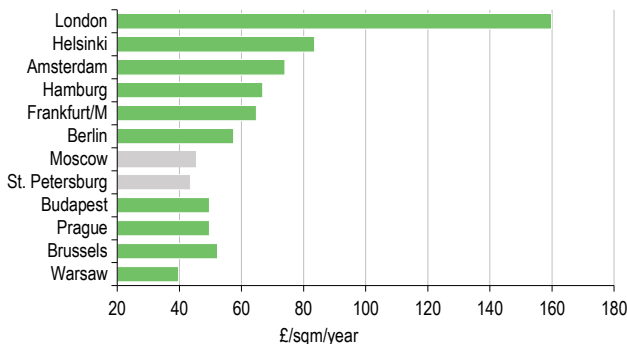
Exhibit 12: St Petersburg prime warehouse rents and yields



Source: Raven Property Group H120 results presentation. JLL Research

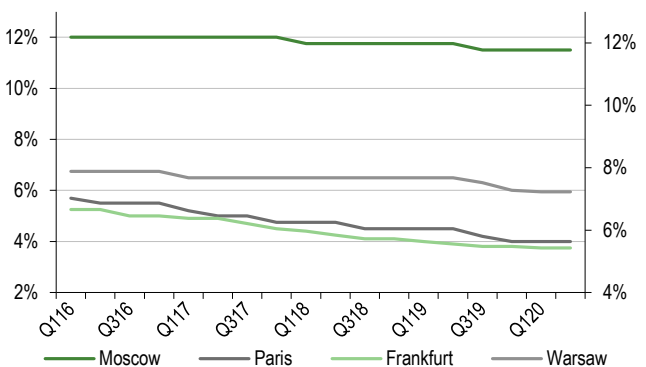
Compared with the wider European market, Russian warehouse rents remain at relatively low levels, while yields are significantly higher. Notwithstanding the relative lack of development of the Russian property investment market, this is a positive indicator for value creation over the medium to longer 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 13: Selected European warehouse rents



Source: Raven Property Group H120 results presentation. JLL Research

Exhibit 14: Selected European warehouse yields



Source: Raven Property Group H120 results presentation. JLL Research

Re-designation of convertible preference shares

On 31 July 2020, shareholders approved the re-designation of the company's convertible preference shares into new ordinary shares and preference shares, and this will take effect on 30 September 2020. Holders of the 198.2m convertible preference shares will for each receive 0.6108 new ordinary share and 0.5849 new preference share. This will result in the issue of c 121.0m new ordinary shares (c 26% of the existing number), and c 115,9m new preference shares (c 16% of the existing number).

In financial terms, the re-designation is slightly accretive of the H120 basic IFRS NAV per share, will increase IFRS earnings on a recurring basis, and is slightly accretive to basic IFRS EPS. Because the company's underlying earnings measure excludes non-cash amortisation of the redemption premium on the convertible bonds (but includes interest payments), there is only a small uplift.

The company notes the following benefits to shareholders resulting from re-designation:

- A simplification in the capital structure that should improve liquidity in the ordinary and preference shares.
- A reduction in the potential dilution in the ordinary shares resulting from a future conversion of the convertible preference shares that was possible at any time until maturity in 2026.
- The removal of uncertainty concerning the refinancing of the convertible preference shares on their maturity in 2026.

The financial effects of the re-designation on the FY19 financial statements are set out in detail in the [prospectus](#). The partial replacement of the convertible preference liability with new equity generates an uplift in group equity. Compared with the H120 balance sheet, we expect a slightly larger uplift in equity, primarily because the convertible preference share liability to be retired has increased with H120 amortisation of the redemption premium, resulting in c 4% accretion to H120 basic IFRS NAV per share.

IFRS accounting sees a part of the uplift in equity pass through the income statement as a one-off accounting gain (based on the H120 balance sheet and recent share prices, we estimate c £47.8m), partly offset by transaction costs of c £1m. The recurring benefit to the income statement is c £6m pa, representing the net benefit of the convertible preference share finance costs saved (c £19.7m including c £7.2m of redemption premium amortisation) less additional interest expense on the new preference shares issued.

Changes to shareholder base resulting from re-designation

On a pro forma basis, as a result of existing investment in the convertible preference shares, the composition of the ordinary shareholder base is expected to change as shown in Exhibit 15.

Exhibit 15: Changes to ordinary shareholder structure

	Post re-designation*	Pre re-designation*
Invesco Asset Management	27.1%	28.5%
Quilter Investors	16.0%	8.3%
Schroder Investment Management	9.7%	12.1%
JO Hambro Capital Management	8.8%	11.0%
Anton Bilton	7.1%	8.5%
Raven Property Group, EBT, subsidiaries, directors	3.9%	4.1%
Progressive Capital Partners	3.5%	3.1%
	610,792,446	489,746,016

Source: Raven Property Group Prospectus. Note: *As per prospectus dated 14 July 2020 based on information available at the time.

Invesco Asset Management (IAML), which owns c 42.1m convertible preference shares, will continue to be the largest ordinary shareholder with a stake of c 27%. On a pro forma basis, its

holding of preference shares will also increase by c 24.6m to 63.6m shares (29.4% of the total). Due to market volatility, a conditional agreement between the company and IAML for the off-market repurchase by the company of IAML's ordinary and preference shares, entered into in December 2019, was not executed and has now lapsed. Raven says that it remains in dialogue with IAML and is still keen to find a solution to the perceived stock overhang.

In a similar exercise, during FY19, with shareholder approval, Raven repurchased and immediately cancelled 99.1m ordinary shares (16% of the outstanding from funds managed by Woodford Investment Management and IAML). The shares were acquired using the company's existing cash resources, for an average 36.4p per share, a significant discount to net asset value, materially enhancing NAV per share.

Forecast and financials

Our forecasts are based on the current £/RUB rate

As noted above, changes in the value of the rouble impact on reported earnings and net asset value as reported in sterling, and the continuing rouble weakness since end H120 is substantially allowed for in our forecasts. Despite the Russian national balance sheet being relatively well positioned, with internal and external debt levels among the lowest globally and financial reserves at an historically high level, we have not assumed any meaningful recovery and have based our estimates on current rates (£/RUB98 at the time of writing compared with £/RUB86.4 at the end of H120). We estimate an average H220 rate of £/RUB97 compared with a H120 average of £/RUB87.3.

As a result we expect a further unrealised negative impact on the income statement NAV in H220, relating to the translation of euro-denominated debt into roubles within the operating subsidiaries, and also at group level, within other comprehensive income, in respect of the reduction in the sterling-equivalent value of the rouble net assets. We estimate the aggregate effect of these at c £102m compared with end-H120 net assets of £279.3m. This is substantially offset by the gain that will be recorded on cancellation of the convertible preferred shares and including retained earnings.

We estimate that a 1% strengthening/(weakening) of the rouble versus sterling compared with our forecast increases/(decreases) net assets by c 1.7%.

Net rental and related income

For the core property investment business our forecasts allow for a continued run-off of the remaining US dollar-denominated rents offset by indexation of rouble-denominated rents and improving occupancy. For occupancy, we assume a further slight improvement in H220 (to c 94% from 93% at end H120) with a further increase to 96% in FY21. In rouble terms, we expect net rental income to be broadly flat (c RUB9.7bn) over FY20/21, at a similar level to FY19, but at our assumed FX rates there is a downward trend in the sterling presentation due to rouble weakness.

There is a similar FX effect on our forecasts for RosLogistics. In rouble terms, we expect a relatively modest 4% decline in net rental and related income in FY20, with some impact on logistics shipping volumes from the pandemic, with modest c 2% growth in FY21.

Exhibit 16: Net rental and related income

(£m)	FY19	FY20e	FY21e
Property investment gross revenues	158.5	141.5	132.1
Property investment net rental and related income	117.9	106.1	99.4
RosLogistics gross revenues	16.7	13.8	13.6
RosLogistics net rental and related income	8.4	7.2	6.9
Raven Mount gross revenues	0.2	0.0	0.0
Raven Mount net rental and related income	0.2	0.0	0.0
Group total			
Gross revenues	175.4	155.3	145.8
Net rental and related income	126.5	113.3	106.4

Source: Raven Property Group data, Edison Investment Research forecasts

A c 10% improvement in the value of the rouble would add c £10m to group net rental and related income (with a similar impact from a further rouble decline), while each 1% change in occupancy compared with our assumptions affects net rental and related income and underlying earnings by c £1m.

Exhibit 17 shows our revised forecasts for FY20 and FY21. Due to the pandemic and capital activity, our last forecasts were published in August 2019 and reflect a rouble exchange rate of £/RUB80. If we were to apply a similar £/RUB80 on a full-year basis to our FY21 revised forecast for underlying profit before tax excluding FX, this would increase to £42.2m. The underlying (ex-FX) improvement in our FY21 forecast in sterling terms is driven by lower expenses and finance costs, the latter reflecting significantly reduced interest rates.

Exhibit 17: Summary of underlying earnings and forecast changes

£m unless stated otherwise	New estimates @ £/RUB98 spot		Last published (August 2019 @ £/RUB80 spot)	
	FY20e	FY21e	FY20e	FY21e
Gross revenue	155.3	145.8	175.8	170.3
Property operating expenditure & cost of sales	(42.0)	(39.4)	(48.7)	(47.4)
Net rental & related income	113.3	106.4	127.1	122.9
Administrative expenses	(19.9)	(19.9)	(25.6)	(26.2)
Share-based payments and other long-term incentives	(0.3)	(1.0)	0.0	0.0
Share of profit of joint ventures	(0.1)	0.0	1.0	1.0
Underlying operating profit before FX gains/(losses)	93.0	85.5	102.4	97.7
Net finance expense	(63.6)	(60.6)	(73.7)	(73.9)
Underlying profit before tax (excluding FX)	29.4	24.9	28.7	23.8
FX losses	(40.2)	0.0	0.0	0.0
Underlying profit before tax	(10.7)	24.9	28.7	23.8
Tax	(8.5)	(10.9)	(6.5)	(5.8)
Effective tax rate	N/M	43.9%	22.5%	24.5%
Underlying profit after tax	(19.3)	14.0	22.3	18.0
Basic underlying eps (p)	(4.01)	2.66	4.72	3.93
Fully diluted underlying EPS(p)	(4.01)	2.66	4.72	3.93

Source: Edison Investment Research forecasts

Taxation

In part, the underlying increase in our forecast PBT is offset by an increase in assumed tax. We have applied the standard 20% Russian tax rate to underlying PBT excluding FX movements and preference share interest, the former being non-tax deductible (until realised) and the latter reflecting the distribution nature of the preference share payment (rather than a tax-deductible cost), subject to local withholding tax. At the (unadjusted) group level, on an IFRS basis, the tax charge also includes deferred tax in respect of the investment property valuation movement. Our forecasts do not assume an underlying movement other than to factor in FX effects. Raven is registered in Guernsey, where it is tax exempt, but is liable for tax on its operations in Russia (its main operating subsidiaries) and the UK, as well as in its Cyprus (holding company). Russia is a relatively low tax jurisdiction, but changes to the tax code in respect of certain overseas tax treaties

are possible and the group structure is designed to deal with the commercial risks of operating in Russia rather than to take advantage of tax benefits offshore.

Reconciliation to IFRS earnings

As noted above, our IFRS earnings forecasts shown in Exhibit 22 on page 16 of this note also include a relatively small amount of depreciation, unrealised valuation movements in respect of properties and derivative instruments, amortisation of the convertible preference share redemption premium (until re-designation on 30 September), and long-term incentive payments that are settled in shares (no impact in H120).

We have not assumed any changes in the value of interest rate derivatives used to manage interest rate exposure, nor do we assume any underlying change in the value of investment properties, denominated in roubles. Given the positive fundamentals in the Russian warehouse market and the wide gap between valuation yields and interest rates, especially compared with more developed markets elsewhere, the prospects for valuation gains appear favourable. We estimate that a 1% increase/(decrease) in the value of the portfolio is equivalent to c 1.8p increase/(decrease) in our forecast end-FY20 NAV per share, assuming no change in the £/RUB exchange rate and after deferred tax.

Raven currently operates two share schemes to reward and incentivise executives and senior staff in addition to discretionary bonus payments. While no accruals were made in H120, the FY19 charge was £5.5m. The annual performance incentive (API) is payable in cash or shares (ordinary and preference) based on performance against a range of financial and operating targets set annually. The maximum amount payable to an individual is capped at 50% of basic salary if paid in cash or 175% of basic salary if paid in shares, which are required to be held for three years. As a condition of the scheme there was no API payable for 2018. The FY19 API accrual was £4.3m, representing 89.5% of the total potential award. The five-year performance plan (FYPP) is a long-term incentive scheme which is open to the executive directors and other senior managers, allowing participants to invest into the FYPP a number of existing holdings in the company. These must continue to be retained for five years from the commencement of the plan (until 31 March 2023), at which point the company will match the investment with up to three times the value of the shares held based on annual compound total shareholder returns ('TSR') of between 4% and 12% over the period. Any award under the plan will be settled by the issue of ordinary shares. No accrual was made in FY19 or H120.

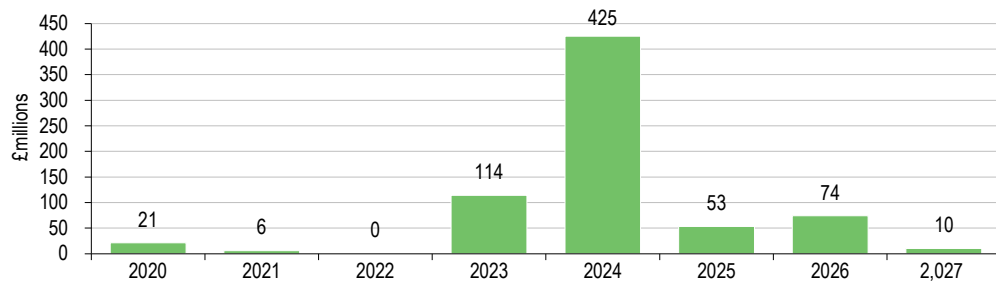
The FY19 charge also included £0.6m of other staff bonuses and £0.5m in respect of the now lapsed 2016 retention scheme. FY19 underlying earnings included a charge of £4.9m in respect of assumed cash settlements and the IFRS charge also included the non-cash settlement of the 2016 retention scheme.

In our forecasts we have allowed for bonus payments of £0.3m in H220 and £1.0m in FY21, all within underlying earnings.

Debt funding

At the end of H120, FY19 secured borrowing amounted to £703m (FY19: £689m), including c£6m of unamortised loan arrangement fees carried within payables. The borrowings comprised 17 different debt facilities, with an average cost of 5.7%. The weighted average term to maturity was 4.3 years, with only 4% (two facilities) maturing before 2023. Compared with the investment property portfolio value (including properties under development) of £1,253m, the gross loan to value ratio (LTV) was 54.3%.

Exhibit 18: Debt maturity profile



Source: Raven Property Group

Historically, the portfolio had been funded by US dollar debt to match US dollar-denominated rents. With the market-led move to rouble-denominated leases, Raven has been transitioning its funding towards rouble-denominated debt, removing a structural FX mismatch. US dollar debt has been replaced initially with a mix of rouble- and euro-denominated debt, the latter recognising the slow decline in rouble borrowing rates despite falling inflation. The end-H120 mix was 59% rouble debt and 41% euro debt compared with 58%:42% at end FY19. Given the significant reduction in rouble interest rates over the past year, we expect a further significant shift towards rouble debt. Secured debt amortisation (£16.2m in H120) 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) at a weighted average 5.36%, leaving the group positively exposed to the decline in market rates.

Cash flow and distributions

Exhibit 19 shows our forecasts for net operating income/cash flow after interest on secured and unsecured debt. We forecast c £11m pa in FY20 and FY21, supporting our distribution per share assumption of 2.25p in each year. From September 2020, the permanent capital structure will comprise the enlarged base of ordinary shares and preference shares, while the redeemable convertible preference shares will disappear. The (non-convertible) preference shares earn a cumulative 12% dividend on the fixed issue amount per share of 100p and rank ahead of the ordinary shares. This fixed charge in respect of preference and convertible preference shares provides ordinary shareholders with significant asset and income gearing. The total 'fixed' charge on cash flows from preference shares will not change materially following the re-designation of the convertible preference share element, and the prospects for ordinary share distributions will remain sensitive to sterling movements in net cash generated from operations, and the £/RUB exchange rate. A c 1% increase/(decrease) in operating cash flow increases/(decreases) total net operating income after interest (and ordinary shareholder distribution capacity) by more than 5%. Using H120 exchange rates, we estimate that net operating income/cash flow after interest would be c £16m in FY20 and c £22m in FY21.

Exhibit 19: Net operating income after interest

£m unless stated otherwise	FY18	FY19	FY20e	FY21e
Net cash generated from operating activities	96.1	93.1	79.2	74.8
Interest received	3.3	2.0	2.2	1.6
Bank borrowing costs paid	(50.0)	(54.7)	(44.8)	(39.3)
Pref dividends	(11.3)	(11.3)	(15.3)	(25.9)
Convertible preference dividend	(12.7)	(12.5)	(9.5)	0.0
Total net operating income after interest	25.3	16.6	11.7	11.1
Per share total net operating income after interest (p)	3.9	2.9	2.4	2.1
Distribution per ordinary share (p)	3.00	3.50	2.25	2.25

Source: Raven Property Group data, Edison Investment Research forecasts

Equity gearing

Although the convertible preference share re-designation increases the equity base, at current exchange rates this is more than offset by unrealised FX losses. As a result, we expect the gearing of ordinary shareholders to changes in asset values to remain relatively high. We estimate that a 1% increase/(decrease) in the sterling value of the portfolio is equivalent to a c 1.8p increase/(decrease) in NAV per share after allowance for deferred tax.

Exhibit 20: Asset gearing

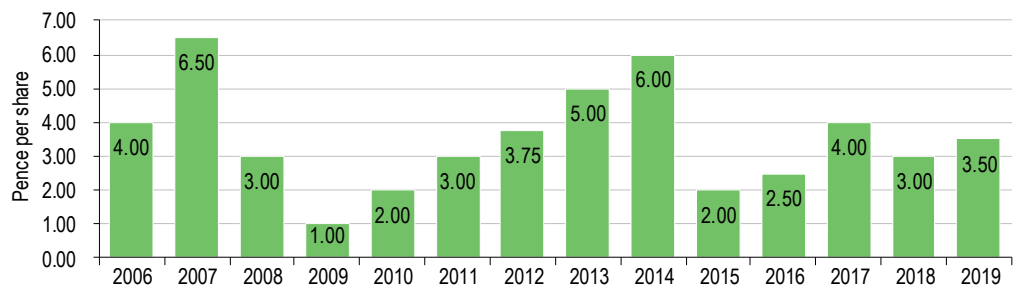
£m	FY19	FY20e	FY21e
Total assets	1,518	1,282	1,272
Preference shares	(110)	(254)	(254)
Convertible preference shares	(217)	0	0
Other liabilities	(825)	(778)	(778)
Ordinary shareholders' equity	366	250	241
Equity/assets	24%	20%	19%

Source: Raven Property Group historical data, Edison Investment Research

Valuation

Investors in the ordinary shares are fully exposed to share distributions and NAV movements, and would benefit from a closing of the wide discount to NAV.

Despite sometimes volatile economic and market conditions, Raven has consistently made distributions to shareholders through share repurchases effected by way of tender offers. Since listing, it has repurchased and cancelled more than 280m ordinary shares. After a delay during the uncertainty created by the COVID-19 pandemic, Raven will now proceed with the final distribution in respect of FY19 of 2.25p (making 3.5p for the year). Because of the delay, rather than two distributions in respect of FY20, management says it will make one payment to be determined at the end of the year.

Exhibit 21: Distributions to ordinary shareholders


Source: Raven Property Group.

Our forecast 2.25p distribution for FY20 represents a yield of c 7.6%, while the shares are trading at a c 40% discount to FY20e NAV per share.

At a price of 124p, the yield on the (non-convertible) preference shares is just under 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 underlying income, property valuations and a recovery in the rouble versus sterling.

Sensitivities: The economy and geopolitics

The global economy has entered a highly uncertain stage, triggered by the spread of COVID-19. The Russian economy faces specific challenges from its sensitivity to oil prices, and continuing political and economic tension with the US resulting in continuing economic sanctions. However, there has been a significant adaptation to sanctions and this may 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, weaker economic growth, lower investment and consumer demand would negatively affect the demand for warehouse space. Occupancy and market rent levels could fall.
- **Volatility in FX markets.** As discussed above, as a primarily rouble-operating business reporting in sterling, rouble weakness has a negative impact on reported income and NAV, and weakens the company's ability to service its remaining euro-denominated secured debt and sterling-denominated preference shares.
- **Rent reversion.** The 14% of remaining legacy US dollar-denominated leases are an average \$160 per sqm, approximately twice the average level of Raven's rouble-denominated leases. The run-off of these leases over the next three years will act as a drag on rental income.
- **Gearing.** The LTV of the secured borrowings is c 54%, although property valuations are relatively low by international standards and yields high. 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.

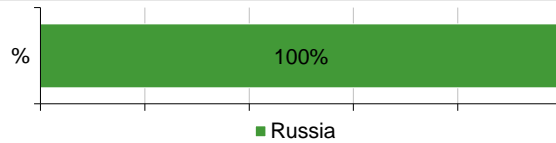
Exhibit 22: Financial summary

Period ending 31 December. (£m)	2017	2018	2019	2020e	2021e
INCOME STATEMENT	IFRS	IFRS	IFRS	IFRS	IFRS
Gross revenue	177.0	162.6	175.4	155.3	145.8
Property operating expenditure & cost of sales	(47.3)	(44.4)	(48.9)	(42.0)	(39.4)
Net rental and related income	129.7	118.3	126.5	113.3	106.4
Administrative expenses	(22.1)	(25.2)	(25.4)	(22.4)	(21.0)
Share based payments and other long-term incentives	(3.5)	(2.9)	(5.5)	(0.3)	(1.0)
FX gains/(losses)	6.1	(2.5)	27.5	(40.2)	0.0
Share of profit of joint ventures	1.6	1.6	1.3	(0.1)	0.0
Operating profit/(loss) before realised/unrealised property gains (EBIT)	111.8	89.4	124.3	50.4	84.4
Realised/unrealised gains on investment property	28.2	(121.0)	48.3	(12.5)	0.0
Operating profit	140.1	(31.6)	172.6	37.9	84.4
Net finance expense	(71.7)	(83.3)	(107.6)	(73.4)	(64.0)
Gain on cancellation of Convertible Preference shares				44.9	
Profit before tax	68.3	(114.9)	65.1	9.4	20.4
Tax	(25.2)	(5.8)	(19.0)	(10.2)	(10.9)
Profit after tax	43.1	(120.7)	46.0	(0.8)	9.5
Company underlying earnings	43.4	20.0	43.2	(19.3)	14.0
Basic IFRS EPS (p)	6.50	(18.81)	8.16	(0.16)	1.81
Fully diluted IFRS EPS (p)	6.27	(18.81)	7.50	(0.16)	1.81
Basic company underlying EPS (p)	6.54	3.12	7.67	(4.01)	2.66
Fully diluted company underlying EPS (p)	5.68	3.08	6.35	(4.01)	2.66
Distributions per ordinary share (p)	4.00	3.00	3.50	2.25	2.25
Period end number of shares exc own held (m)	655.4	612.5	480.8	570.4	535.9
Average number of shares (m) - basic	663.5	641.6	563.9	480.5	525.3
Average number of shares (m) - fully diluted	936.4	649.4	876.7	554.8	525.3
BALANCE SHEET					
Investment property	1,159.2	1,175.4	1,337.7	1,106.3	1,111.3
Other non-current assets	74.7	102.6	70.5	61.1	61.1
Total non-current assets	1,233.9	1,278.0	1,408.2	1,167.4	1,172.4
Cash & equivalents	197.1	73.5	68.1	76.5	62.3
Other current assets	59.0	44.4	42.0	37.8	37.4
Total current assets	256.2	117.8	110.1	114.2	99.7
Total assets	1,490.1	1,395.8	1,518.3	1,281.6	1,272.1
Interest bearing loans & borrowings	(78.9)	(75.6)	(60.2)	(53.7)	(53.7)
Other current liabilities	(79.5)	(66.2)	(51.7)	(45.1)	(44.7)
Total current liabilities	(158.3)	(141.8)	(111.9)	(98.8)	(98.4)
Interest bearing loans & borrowings	(547.4)	(567.9)	(623.2)	(594.2)	(594.2)
Preference shares	(108.3)	(109.3)	(110.3)	(253.6)	(253.9)
Convertible preference shares	(198.9)	(206.1)	(217.5)	0.0	0.0
Other non-current liabilities	(85.4)	(75.2)	(89.6)	(85.1)	(85.1)
Total non-current liabilities	(939.9)	(958.4)	(1,040.6)	(932.9)	(933.2)
Total liabilities	(1,098.2)	(1,100.2)	(1,152.5)	(1,031.6)	(1,031.6)
Net assets (and shareholders' equity)	391.8	295.6	365.8	250.0	240.5
IFRS NAV per share (p)	60	48	76	44	45
Fully diluted IFRS NAV per share (p)	59	48	75	44	45
CASH FLOW					
Net cash generated from operating activity	98.0	96.1	93.1	79.2	74.8
Property investment	(161.3)	(86.5)	(24.0)	(7.2)	(5.0)
Other investing activity	7.3	14.3	7.8	1.3	0.2
Net cash generated from investing activity	(154.0)	(72.2)	(16.2)	(5.9)	(4.8)
Bank borrowing costs paid	(49.5)	(50.0)	(54.7)	(44.8)	(39.3)
Preference/convertible preference share dividends paid	(21.0)	(24.0)	(23.8)	(24.8)	(25.9)
Net own shares (acquired)/disposed	(11.3)	(28.3)	(53.3)	(10.8)	(19.0)
Debt drawn/(repaid)	78.8	(20.8)	50.9	20.5	0.0
Other financing activity	97.5	(16.7)	0.8	(2.1)	0.0
Cash flow from financing activity	94.5	(139.8)	(80.1)	(62.0)	(84.2)
Change in cash	38.5	(115.9)	(3.2)	11.3	(14.2)
Opening cash	160.6	197.1	73.5	68.1	76.5
FX/other	(2.0)	(7.7)	(2.1)	(2.9)	0.0
Closing cash	197.1	73.5	68.1	76.5	62.3
Secured bank debt	(626)	(643)	(683)	(648)	(648)
Preference shares & Convertible Preference shares	(307)	(315)	(328)	(254)	(254)
Net (debt)/cash, including Pref. & Conv. Pref.	(736.2)	(885.4)	(943.0)	(825.0)	(839.5)
LTV on secured debt	52.6%	53.3%	49.8%	57.1%	56.9%

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
<http://www.ravenrussia.com>

Revenue by geography*


*Non-Russian revenues are non-recurring and immaterial.

Management team
Non-executive chairman: Richard Jewson

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 is an international property entrepreneur and founder of the Raven Group, which became a part of Raven Property Group, of which he is a co-founder, in 2009. He has also been founder and director of three other companies that have floated on the AIM market of the LSE and is non-executive chairman of Sabina Estates. Anton is an economics graduate from City University in London.

Chief executive officer: Glyn Hirsch

Glyn is an entrepreneur and co-founder of Raven Property Group. He qualified as a chartered accountant with Peat, Marwick Mitchell & Co in 1985, and until 1995 worked in the corporate finance department of UBS (formerly Phillips & Drew). 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 also non-executive chairman of Belasko Administration and is a director of Sabina Estates.

Chief financial officer: Mark Sinclair

Mark is a Guernsey resident. He 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 Russia in March 2009.

Principal shareholders (as listed in Prospectus dated 14 July 2020)

	(%)
Invesco Asset Management	28.50
Schroder Investment Management	12.09
JO Hambro Capital Management	10.96
Anton Bilton	8.49
Quilter investors	8.25
Raven Property Group employee benefit trust, subsidiaries, directors	4.11
Progressive Capital Partners	3.14

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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