

Globalworth Real Estate Investments

Subscription for shares

Capital increase marks a step change

Globalworth (GWI) has announced that it is raising €200m via a subscription by two investors for 25m new shares priced at €8. As well as significantly increasing GWI's capital available for investment, the terms of the subscription introduce a new dividend policy similar to that of a REIT and strengthen corporate governance structures, in line with its institutional shareholder base. GWI will pay dividends equivalent to at least 90% of FFO and has indicated a total payment of €0.44 per share for 2017 (a yield of 7% on the current share price). We have suspended our forecasts pending shareholder approval of the proposals, expected by 20 December 2016.

Year end	NOI* (€m)	PBT** (€m)	EPS** (c)	EPRA NAV/ share (€)	DPS (c)	P/E (x)	Yield (%)
12/13	5.3	3.0	30.6	6.03	0.0	20.4	N/A
12/14	12.9	(9.4)	(21.0)	8.09	0.0	N/A	N/A
12/15	28.4	(4.0)	(7.6)	9.08	0.0	N/A	N/A

Note: *NOI is net operating income. **PBT and EPS are normalised, excluding valuation movements, bargain purchase gains and share-based payments, and using existing shares.

New institutional shareholder

The two investors are **Growthpoint Properties** (GRT) and **Oak Hill Advisors**. Growthpoint is the largest REIT in South Africa with a market cap of c ZAR65bn (c £4bn). It is one of the top five constituents of the EPRA NAREIT EM index and has a portfolio comprising 467 properties in South Africa and 63 in Australia as well as a 50% interest in the V&A Waterfront in Cape Town. GRT has identified GWI as a platform to pursue an investment strategy in Central and Eastern Europe (CEE) and this €183m investment marks its first commitment in the region. **Oak Hill** is a US-based alternative investment firm managing a portfolio of c \$30bn. It already owns 8.4m shares in GWI, 13.1% of the outstanding shares, and intends to invest a further €17m. Following the issue of all new shares, GRT would own 27.7% and Oak Hill 11.2% of the outstanding shares. The positions of the major shareholders now and immediately after the proposed subscription are shown in Exhibit 1.

€200m subscription

Subject to shareholder approval, GRT will subscribe for 23.3m shares and Oak Hill for 1.7m at €8 each, a 60% premium to the share price of €5 at the time of the announcement and a discount of 12.6% to the 30 September NAV per share of €9.15. Apart from the subscription shares, Globalworth is issuing an initial 1m free shares to GRT and 72,961 to Oak Hill, with a further 1m and 72,962 by 31 December 2017. Full details can be found on the company's [website](#), but other proposals agreed by the subscribing investors are described on the following pages of this report.

Valuation: Forecasts suspended

We have suspended our forecasts pending shareholder approval of the subscription and will update them following the result of the EGM, which will take place on 19 December 2016.

Real estate

6 December 2016

Price **€6.25**

Market cap **€402m**

€1.1886/£

Net debt (€m) as at 31 December 2015 367.3

Shares in issue 64.3m

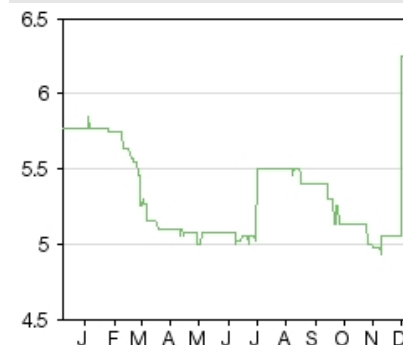
Free float 23.5

Code GWI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 25.6 15.7 8.2

Rel (local) 24.5 18.2 1.3

52-week high/low €6.2 €4.9

Business description

Globalworth Real Estate Investments is incorporated in Guernsey and listed on AIM. It is a real estate investment company focused on opportunities in South East Europe and the CEE region, primarily Romania, where all its current assets are.

Next events

EGM 19 December 2016

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Effects of the subscription

Below we list the salient points of the proposal in the shareholder circular on the subject of the subscription and their effects.

- GWI indicates that proceeds of the subscription will be used to fund the completion of the Globalworth Campus and invest in new assets (including an identified pipeline of €136m) within the existing investment policy (explained in detail in our [note of 8 August 2016](#)). The company also indicates that it is open to investing in assets in Central and Eastern Europe (CEE) outside Romania but, in any instance, within its investment policy of up to 50% of NAV.
- The dividend policy will be to pay out at least 90% of free funds from operations (FFO) in dividends twice each year. FFO is defined as EPRA earnings, ie IFRS profit after tax, less property revaluation gains and changes in the fair value of financial instruments.
- Two dividends of €0.22 per share are to be paid in respect of the six months to 30 June and 31 December 2017 and are to include the subscription and fee shares in issue.
- Warrants for 1.5m shares currently held by a company under the control of GWI's CEO and founder Ioannis Papalekas will be transferred to GRT.
- New relationship agreements between Globalworth and Mr Papalekas, and with GRT, confirm the objective that the company be managed for the benefit of all shareholders.
- Mr Papalekas, through Zakiono enterprises, and GRT will each appoint one non-executive director to the board for every 8% of the company's shares they hold, ie three each. Other directors will be appointed so that a majority of the board is independent. An investment committee will be created (investments were previously the responsibility of the board) and other existing committees will be strengthened.
- GRT and Mr Papalekas will offer any real estate investment opportunities they find in the region to GWI and will not invest in Romania on its own account.

This subscription and associated changes to GWI's shareholder structure, dividend and investment policy are material in terms of the scale of the business and the opportunity to pursue GWI's broader regional remit. Although we have suspended our forecasts, the directors, as outlined in the prospectus, believe that some of the likely benefits to GWI and its shareholders are as listed below:

- The subscription will inject a significant amount of capital into GWI, enabling investment in ongoing and new projects, and broadening the scope of GWI's future investments. A gearing level of c 40-50% LTV is expected to be maintained.
- The improved financial position and more diverse equity funding may enhance the company's ability to raise debt at attractive rates.
- Dividends will be paid twice yearly and amount to at least 90% of FFO, or 44c in 2017.
- The shareholder base will be wider and more balanced, which may increase liquidity.

If we apply all the new subscription and fee shares that will be issued by end FY17 (27.1m) to end-September NAV there would be pro forma dilution of NAV per share of c 6.3%. We note that the shares trade at a discount in excess of 30%, and traded at a discount of 45% before the announcement. We will issue new forecasts after the subscription has been completed, which is expected to be on 20 December 2016.

Exhibit 1: Major shareholdings before and after the subscription

Shareholder	Shares held on 1 December 2016	% of outstanding shares	Shares held after subscription	% of outstanding shares	Shares held on 31 December 2017*	% of outstanding shares
Growthpoint	0	0.0%	24,300,000	26.9%	25,300,000	27.7%
Ioannis Papalekas	23,247,028	36.1%	23,247,028	25.7%	23,247,028	25.4%
York	16,770,113	26.1%	16,770,113	18.6%	16,770,113	18.3%
Oak Hill	8,396,613	13.1%	10,169,574	11.2%	10,242,536	11.2%
Gordel	3,835,141	6.0%	3,835,141	4.2%	3,835,141	4.2%
Altshuler	2,645,603	4.1%	2,645,603	2.9%	2,645,603	2.9%
Other	9,429,489	14.7%	9,429,489	10.4%	9,429,489	10.3%
Total	64,323,987	100.0%	90,396,948	100.0%	91,469,910	100.0%
EPRA NAV/share**	€9.15		€9.00		€8.58	

Source: Globalworth Real Estate Investments, Edison Investment Research. Note: *Assuming no equity issues other than the fee and subscription shares. **Post-subscription NAVs use 30 September reported NAV/share of €9.15 and €196m of cash after costs raised through the subscription.

Exhibit 2: Financial summary

Year end 31 December, €000s	2013	2014	2015
INCOME STATEMENT			
Net operating income (NOI)	5,304	12,893	28,370
Administrative expenses	(1,856)	(11,654)	(10,440)
Acquisition and other costs	(229)	(2,967)	(1,185)
Other operating income	10,740	105,450	66,649
EBITDA (excluding fair value gains and bargain purchase)	3,219	(1,728)	16,745
Profit before financing cost (EBIT)	13,959	103,722	83,394
Finance cost	(255)	(8,322)	(21,407)
Finance income	2	327	526
Net finance (cost)/income	(253)	(7,995)	(20,881)
Profit before tax (PBT)	13,705	95,727	62,513
Income tax expense	(976)	(5,100)	(11,092)
Minorities	(39)	497	0
Attributable profit after tax (PAT)	12,691	91,124	51,421
Adjusted PBT	3,009	(9,389)	(4,011)
Les current tax	(778)	(64)	(245)
Adjusted profit after tax	2,232	(9,453)	(4,256)
Basic average number of shares (m)	7.3	45.1	55.9
Fully diluted average number of shares (m)	7.3	45.1	55.9
EPS - basic (c)	173.9	202.1	92.0
EPS - diluted (c)	173.9	202.1	92.0
EPS - adjusted and diluted (c)	30.6	(21.0)	(7.6)
DPS (c)	0.0	0.0	0.0
BALANCE SHEET			
Investment property	121,335	599,257	937,119
Other long-term assets	21,652	28,416	20,216
Total non-current assets	142,987	627,673	957,335
Cash & equivalents	9,506	21,957	37,036
Other current assets	13,056	19,066	25,767
Total current assets	22,562	41,023	62,803
TOTAL ASSETS	165,549	668,696	1,020,138
Interest bearing loans & borrowings	(165)	(143,814)	(261,287)
Other non-current liabilities	(12,482)	(49,169)	(76,138)
Total non-current liabilities	(12,647)	(192,983)	(337,425)
Interest bearing loans & borrowing	(20,296)	(61,187)	(143,024)
Other current liabilities	(12,327)	(21,785)	(40,008)
Total current liabilities	(32,623)	(82,972)	(183,032)
TOTAL LIABILITIES	(45,270)	(275,955)	(520,457)
NET ASSETS	120,279	392,741	499,681
Non-controlling interests	(588)	(6)	0
SHAREHOLDERS' EQUITY	119,691	392,735	499,681
EPRA NAV	126,158	434,149	568,332
Period end number of shares (m)	20.9	53.6	62.6
Basic NAV per share (€)	5.73	7.32	7.98
EPRA NAV per share (€)	6.03	8.09	9.08
LTV	16.9%	34.4%	43.1%
CASH FLOW STATEMENT			
PBT	13,705	95,727	62,513
Adjustments	(10,365)	(98,835)	(45,220)
Cash flows from operating activities before changes in working capital	3,340	(1,108)	17,293
Changes in working capital	(3,336)	2,659	4,148
Cash flows from operating activities	4	(32,327)	3,018
Cash flows from investing activities	(36,317)	(92,976)	(184,297)
Cash flows from financing	48,652	74,917	48,819
Other (increase)/decrease in net debt (including debt assumed on acquisition)	(23,294)	(121,702)	(52,771)
(Increase)/decrease in net debt.	(10,956)	(172,088)	(184,231)
Opening net (debt)/cash	0	(10,956)	(183,044)
Closing net (debt)/cash	(10,956)	(183,044)	(367,275)

Source: Globalworth Real Estate Investments

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